DS Smith

DELIVERING MORE

ANNUAL REPORT AND ACCOUNTS 2014

The Power of Less®

DELIVERING MORE

Once we were packaging manufacturers with additional businesses in paper, plastic and recycling. Today we are bringing our thinking together to form one unified company, focused on **delivering more with less**.

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Explore our website www.dssmith.com

At a glance

DS Smith is a leading provider of corrugated packaging in Europe and of specialist plastic packaging worldwide. We operate across 25 countries and employ around 21,500 people.

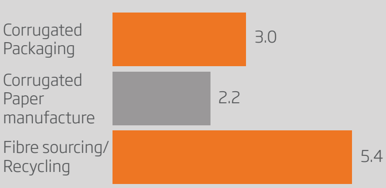
In order to support our corrugated packaging operations, we have a recycling business that collects used paper and corrugated cardboard, from which our paper manufacturing facilities make the recycled paper used in corrugated packaging. We also design and manufacture certain types of plastic packaging.

Our story can be traced back to the box-making businesses started in the 1940s by the Smith brothers in east London. Since then, the Group has grown organically and through a series of acquisitions, including Otor in 2010, and SCA Packaging in 2012.

Our customers want broader reaching solutions to their packaging needs; innovation and processes that will help them reduce waste, cost and complexity from their supply chains. By using our expertise from design to production and supply to recycling, we can offer high quality, environmentally friendly, innovative solutions and great service that looks at the whole of our customers' packaging needs, not just one part.

We call this 'Supply Cycle Thinking'. It is a unified approach to remove complexity from, and simplify, our customers' supply chains.

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



OUR VALUES

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

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

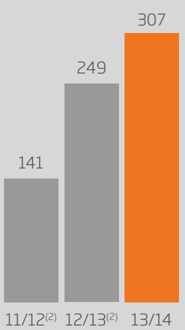
Be trusted
We can always be trusted to deliver on our promises.

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

Be tenacious
We get things done.

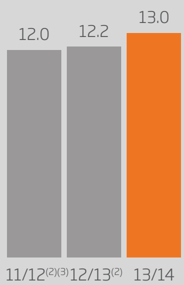
KEY FINANCIAL HIGHLIGHTS

Operating profit (£m)[1]



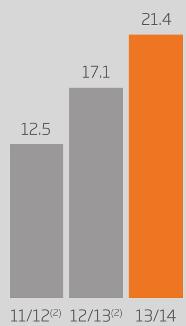
£307m

Return on average capital employed (%)[1]



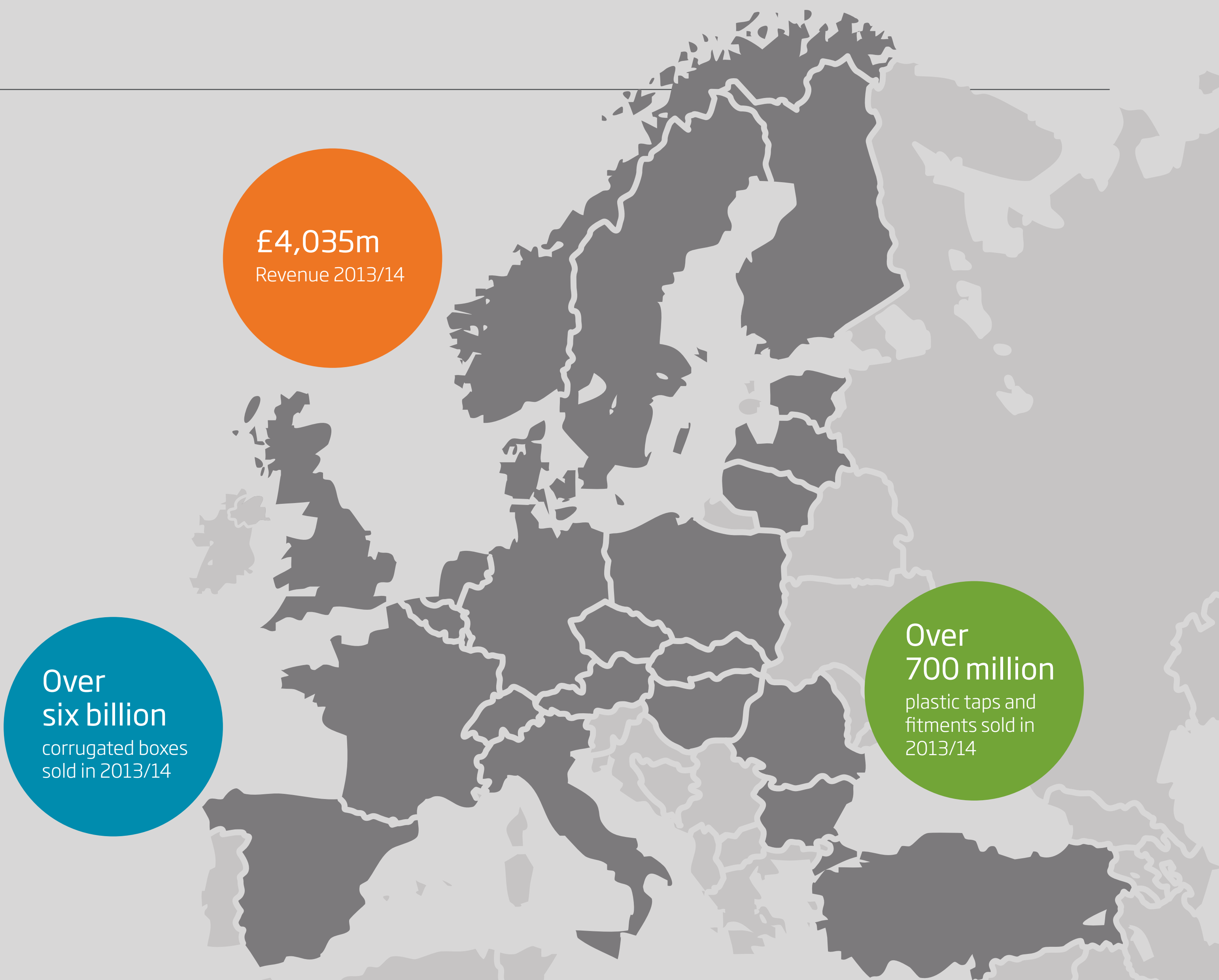
13.0%

Earnings per share (p)[1]



21.4p

1 Adjusted for amortisation and exceptional items.
2 Restated for IAS 19 (Revised 2011).
3 Pro forma to include SCA Packaging acquisition.



See page 17 for our Operating review.

UNITED KINGDOM

In the UK we have 31 corrugated manufacturing sites , 13 recycling depots, one large and one small paper mill. We are the largest supplier of corrugated packaging in this market.

WESTERN EUROPE

France, Belgium, Netherlands, Spain

In this region we have 33 corrugated manufacturing sites, one recycling depot and one large and three small paper mills. We are the second largest corrugated supplier in France and Netherlands.

DACH AND NORTHERN EUROPE

Germany, Austria, Switzerland, Denmark, Sweden, Finland, Norway

In this region we operate 46 corrugated manufacturing sites and two large paper mills.

CENTRAL EUROPE AND ITALY

Poland, Czech Republic, Romania, Hungary, Slovakia, Latvia, Lithuania, Estonia, Italy

In this region we operate 53 corrugated manufacturing sites and one paper mill, which is in Italy. We are the largest supplier of corrugated packaging in Italy, the second largest market for corrugated in Europe.

PLASTICS

Our plastics business comprises a flexible packaging and dispensing business, which is global, and a returnable transit packaging business, which is based in Europe. We have 26 manufacturing sites in the US, Europe, Turkey, Israel, Thailand and New Zealand.

We also have joint ventures and associate operations in Spain, Greece, Russia, Turkey and Ukraine, in aggregate totalling 18 sites.

Chairman's Statement

"A YEAR OF DELIVERY."

I am very pleased to report that 2013/14 has been another successful year for DS Smith, with the management team delivering market share gains, and significant profit and earnings per share growth. This has been achieved despite the economic situation across Europe as a whole remaining challenging. I am particularly proud of the way that previous acquisitions are now fully integrated and the Group now moves forward as a united organisation. The re-positioning under a single and updated DS Smith brand has helped to underline that transformation.

GOVERNANCE

As announced last year, in September 2013, Adrian Marsh joined the Board as Group Finance Director, having previously undertaken a range of senior finance roles at Tesco PLC, Astra Zeneca plc and Pilkington plc. These are his first set of results at DS Smith and his breadth of experience, internationally and in retail and manufacturing, is making a positive impact across the business.

At the Board level, we have continued to renew our Board to ensure that management have the support and challenge needed for a company of our size. Chris Bunker and Philippe Mellier have both retired from the Board, as planned, in September 2013 and February 2014 respectively. I am delighted to welcome Ian Griffiths and Louise Smalley to the Board, who both joined on 23 June 2014. Ian is Finance Director of ITV Plc, the commercial TV producer and broadcaster. Louise is on the board of Whitbread PLC, the leisure business, as HR Director.

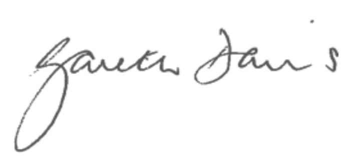
DIVIDEND

The Board considers the dividend to be an important component of shareholder returns and as such, has a policy to deliver a progressive dividend, where dividend cover is between 2.0 and 2.5 times through the cycle. For the year 2013/14, the Board recommends a final dividend of 6.8 pence, which together with the interim dividend of 3.2 pence per share gives a total dividend for the year of 10.0 pence per share (2012/13: 8.0 pence per share). This represents an increase of 25 per cent on the prior year and a cover of 2.1 times in relation to adjusted[1] earnings per share, in line with our policy.

While the year-on-year dividend is important, I am particularly pleased when I look at the total returns delivered to shareholders over the last five years. Total shareholder return is a measure that combines the benefit of dividends with share price growth. Taking a five year view, an investment in DS Smith has outperformed the FTSE 250 on this measure, by over four times.

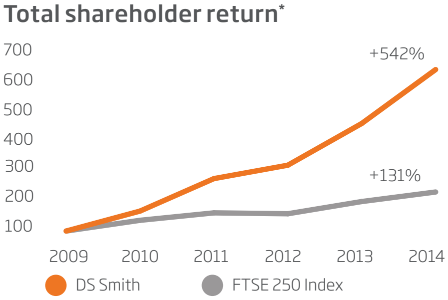
LOOKING AHEAD

As always, on behalf of the Board, I would like to thank all my colleagues throughout DS Smith for their relentless hard work, delivering on their commitments, which has combined to produce these excellent results. We continue to invest in our business and are confident in the prospects for DS Smith.



Gareth Davis
Chairman

Total shareholder return*



Source: Thomson Reuters

1 Before amortisation and exceptional items.

Dividend per share

10.0p

2013: 8.0p

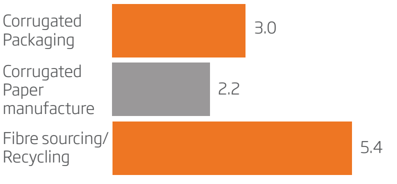
* This graph shows the value, at 30 April 2014, of £100 invested in DS Smith over the last five financial years compared with that of £100 invested in the FTSE 250 Index.

Our Business Model

Delivering value by bringing our packaging, paper, recycling and plastics operations together, letting us see the bigger picture.

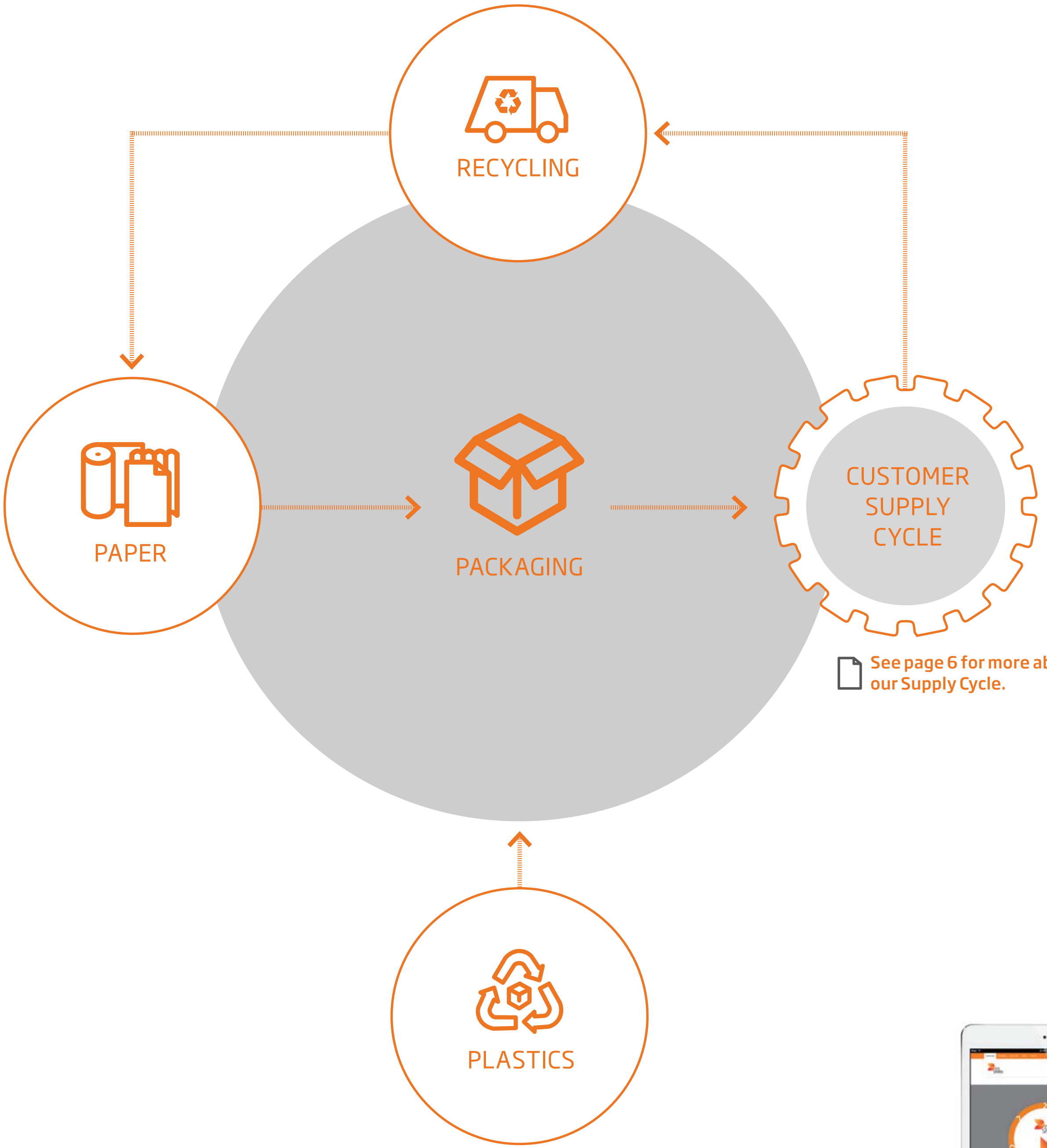
Our business model is simple – we design and manufacture corrugated packaging. In order to support that model, we have a recycling business that collects used paper and corrugated cardboard, from which our paper manufacturing facilities make the recycled paper used in corrugated packaging. We also design and manufacture certain types of plastic packaging, in particular, the plastic bags and taps for bag-in-box packaging and rigid crates for bottled liquids.

Balance of our combined businesses (million tonnes)

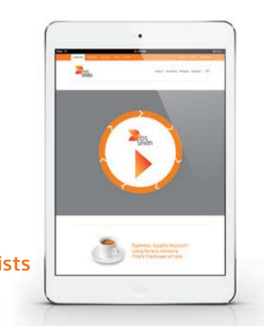


OUR BUSINESS MODEL

See page 4 for an in-depth look into our business model.



See page 6 for more about our Supply Cycle.



View our 'Supply Cycle Thinking' at www.dssmith.com/company/who-we-are/supply-cycle-strategists

Our Business Model continued

We work to leverage our scale and geographic footprint to supply our customers with the innovative products they need, with a level of service and quality that they demand, to optimise the efficiency of their supply chains.

	MARKET CONTEXT	OUR BUSINESS
RECYCLING	The collection of old corrugated card (OCC) is part of the waste and recycling industry. In the UK, 7.9 million tonnes of used fibre are collected annually (Source: CPI), of which DS Smith handles c. 3.1 million tonnes, the largest participant in this part of the market. In Europe the market size for used fibre is 57 million tonnes (Source: CEPI) of which DS Smith handles 5.4 million tonnes. OCC is traded within Europe and exported around the world. OCC makes up approximately half of the total market volumes for used fibre.	DS Smith's recycling business sources used paper and OCC direct from retailers and also from traders. It is primarily used by our own paper mills to make recycled paper, with the remainder sold to other paper manufacturers or traders. For some recycling customers, we extend our service by also collecting other used products (e.g. glass or food waste) and recycle them in partnership with subcontractors. DS Smith is different to other recyclate collectors because we do not operate landfill sites – we are solely focused on recycling.
PAPER	The European market for corrugated case material (CCM) is c. 26 million tonnes per annum (Source: CEPI) of which 21 million tonnes is testliner (CCM from recycled material) and the remainder is principally kraftliner (CCM from virgin fibre). DS Smith manufactures 2.2 million tonnes of testliner per annum. Paper is readily transportable and is traded globally.	DS Smith manufactures recycled paper, primarily CCM which is the paper grade used to make corrugated board. We also manufacture c. 360 thousand tonnes of other paper grades such as core board and plasterboard liner, which are sold externally. The majority of the recycled CCM we make is used by our packaging manufacturing operations with some sold externally.
PACKAGING	The European market for corrugated packaging is 22 million tonnes (Source: FEFCO 2012). Germany is the largest market, at c. 21 per cent of the European total, followed by Italy, France, Spain and the UK. The market for corrugated packaging is fragmented with a large number of local suppliers. Due to the bulky nature of corrugated packaging and the customer requirements for short lead times, it is typically transported no further than 200km.	DS Smith designs and manufactures corrugated packaging for customers across Europe. In a fragmented industry, we are able to offer our customers a pan-European solution for their packaging needs using our network of 163 manufacturing sites across 20 countries. We also have the scale to invest in research and development, and to support a network of 15 design centres plus three innovation centres, which we expect to expand to at least 30 design centres and 10 innovation centres over the next two years.
PLASTICS	The plastic packaging market is highly fragmented, comprising numerous niche plastic packaging products. In our core business of Flexible Packaging and Dispensing we have a particularly strong position in the US. Plastic packaging is readily transportable and has a global market.	Our Plastics business comprises two separate businesses: **Flexible Packaging and Dispensing** We design and manufacture plastic bags and taps/fitments for use in bag-in-box packaging for liquids. Our products are used for the transportation of beverages, concentrates, chemicals and pharmaceuticals. Bag-in-box packaging ranges from industrial containers, units for dispensing in a retail outlet, to units designed to be purchased by the end consumer. We also have a modified atmosphere packaging business for transporting fresh food produce. **Rigid Packaging** We design and manufacture a range of rigid plastic packaging typically used for the transit of beverages, healthcare products, automotive products and in retail. This business is largely based in Europe.

HOW WE CREATE VALUE

We add value to our customers by helping them to improve their recycling rates and maximise the revenue they receive by maintaining clean and well segregated used paper, board and other recyclates. This then assists our customers achieve their environmental goals. We make our profit through the efficiency and scale of our fibre sourcing operations and value added services we provide to our customers.

In addition to sourcing paper fibre, the Recycling business is important to our Packaging business because it gives us a direct point of contact with retailers, who set the requirements for the packaging of the products they sell.

Operating in the UK, France, Germany, Benelux, Poland and Czech Republic

c. 600 employees

We seek to integrate our paper manufacturing operations with our packaging operations as much as practicable. We are therefore investing in recycled paper best suited for high quality recycled packaging, such as white-top and light-weight CCM grades. Nearly half of our recycled CCM produced is either light-weight, high performance or white-top grades, and production of value-adding grades has increased by 35 per cent versus the prior year. By using this type of paper, in combination with design changes, we are able to reduce the amount of virgin fibre used in our corrugated products.

5 major mills in the UK, Netherlands, Germany and Italy

c. 2,000 employees

Good packaging is more than just a box. We work with our customers, analysing every point in their supply chain touched by packaging. We look at each stage and consider how to maximise the value for our customer through the design of the packaging. We then manufacture and deliver the packaging with high quality and service leading standards.

Our customers are principally fast-moving consumer goods companies, who require packaging for the grocery goods supplied to supermarkets across Europe. We also serve the industrials market, for example, supplying packaging for the transportation of car parts, or for wholesale quantities of chemicals.

The customer then sells its product to the retailer, delivered in our packaging. The product is then either unpacked on to the retailers shelf immediately, and the packaging recycled, or the packaging is converted to its retail-ready form on the shelf.

We have a presence in 20 countries and 163 manufacturing sites

c. 16,700 employees

Specialist plastic packaging applications are developed in collaboration with our customers and can include significant intellectual property. We own hundreds of patents covering our plastics products. Where we have a design that fulfils a customer's particular requirement, we can then roll out across wide geographic areas from our existing manufacturing sites as the product is easily transported.

26 manufacturing sites

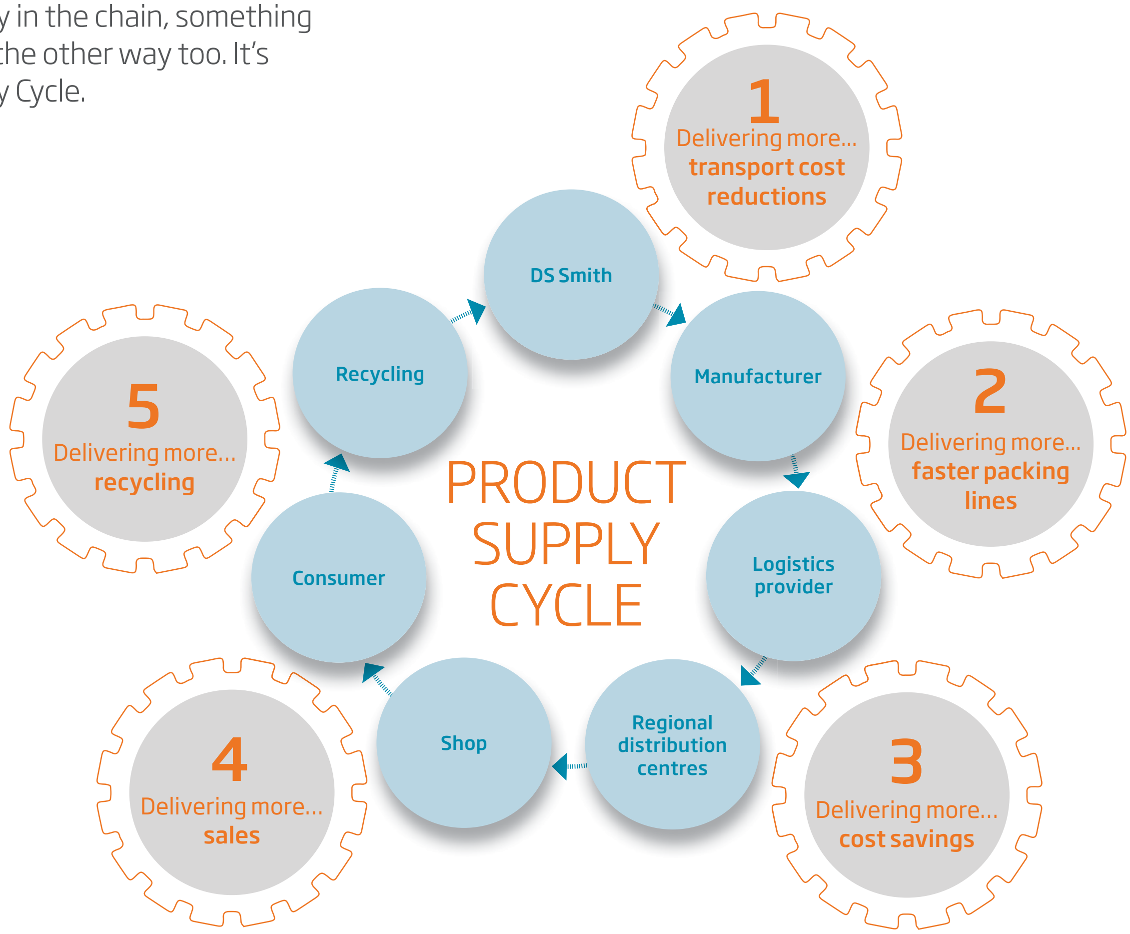
14 countries

c. 2,200 employees

Our Supply Cycle

Delivering more than a box.
Our Supply Cycle touches every part of our customers' operations.

'Supply chain' only tells half the story and misses the bigger picture. For everything that goes one way in the chain, something moves the other way too. It's a Supply Cycle.



WE ARE SUPPLY CYCLE STRATEGISTS

We're driven by anticipating and solving our customers' problems. By using our expertise from design to production and supply to recycling, we can offer high quality, innovative solutions and great service that looks at the whole of their packaging needs, not just one part.

We call this **Supply Cycle Thinking**. It is a unified approach for every area of our business. It makes our customers' lives easier by creating simplicity in otherwise complicated supply chains.

1 Delivering more... **transport cost reductions**

Our customers are looking to DS Smith to support them in reducing freight costs within their increasingly global and complex supply cycles. We have developed a packaging module for one of the top 10 global automotive parts manufacturers which generates substantial supply chain cost savings. The solution eliminates staples and strapping operations, reducing injury risks and labour costs, whilst also reducing recycling costs with a single material design. However, the biggest saving is in transportation costs, with our customer shipping c. 200,000 modules per year from Europe to Brazil. The packaging solution offers freight savings amounting to c. 15 per cent of their annual shipment costs, with 76 thousand tonnes of packaging materials no longer being shipped across oceans, and our customer's CO_2 footprint improved at the same time.

15% saving in shipping costs

Our Supply Cycle continued

2 Delivering more... faster packing lines

The point at which a box is filled with the primary product on our customers' packing lines can slow up the packing line process. We have patented technology that means that our customers' packing lines run faster and with fewer breakdowns. One of our largest customers finds that this delivers them such benefits, we now license this technology to manufacturers in the US and Japan, where we do not operate, so that our customer benefits globally.

20% faster packing lines
with DS Smith technology

3 Delivering more... cost savings

We look at the whole supply chain. One customer, Nestlé, was looking for savings in relation to its display packaging unit for their Purina cat-food range. One point of expense was co-packing, where the packs coming from the factory were being manually unpacked and re-assembled into the display for the retailer. Working with Nestlé, we helped them re-design the packaging so that the whole process was automated. In doing so, our customer achieved savings worth approximately 50 per cent of their expenditure on this type of packaging.

4 Delivering more... sales

Retail-ready packaging is packaging that serves a dual purpose, both protecting the product during transportation, then transforming into part of the consumer display at the point of sale at the retailer. This saves the retailer time and reduces their costs as the products slide directly onto the shelf rather than requiring unloading and stacking.

Advanced retail-ready packaging may also feature "self merchandising" mechanisms that push product to the front of the display, which are shown to improve the rate of sales. Once used, retailers then collect the corrugated packaging used in store which can then be recycled.

2.2% volume growth
in corrugated box sales 2013/14

#1 packaging supplier to Nestlé 2013

5 Delivering more... recycling

In Poland, Tesco uses its logistics network to return used cardboard from stores to their distribution centres, where DS Smith have installed balers to facilitate the collection of baled material to be delivered into DS Smith Paper mills in Germany and local Polish partner mills. This has resulted in 67 per cent of cardboard being sent direct to the mill.

Similarly, in the Czech Republic DS Smith worked with Tesco to improve the efficiency of used cardboard collection, using the retailer's own delivery vehicles to take recyclate to its purpose built recycling facility. Since October 2013 over 83 per cent of cardboard collected has gone direct to mill.

By joining up processes and adopting DS Smith's Supply Cycle Thinking, this has resulted in a significant uplift in income from waste across Tesco's estate in Poland and Czech Republic.

5.4 million
tonnes recovered fibre handled by DS Smith per annum

Our Strategy

Delivering growth through offering great service, quality, innovation and environmental solutions to our customers.

Miles Roberts
Group Chief Executive

Building a sustainable business model to deliver sustainable returns is core to our strategy – what do we mean by this?

A sustainable business is one that consistently delivers returns on capital above its cost of capital year-in, year-out. That is why return on average capital employed (ROACE) is our most important key performance indicator. ROACE above the cost of capital means that a business is able to pay for its capital expenditure, service its debt and deliver acceptable returns to equity providers. If ROACE falls beneath the cost of capital then, medium-term, there will be pressure on these areas and the business would not be sustainable. In a capital-intensive business such as the manufacture of paper and packaging, return on capital is, therefore, key.

What does that mean in practice? First, we focus on where we have the opportunity to deliver good returns on capital. Second, we focus on businesses where the returns are consistent – because it is not enough to deliver on our targets some years and not others.

Our Recycling, Packaging and Plastics businesses deliver higher returns on capital on a more consistent basis compared to the manufacture of paper and, therefore, it is part of our strategy to be a net purchaser of paper rather than a fully integrated operator.

Within our packaging business, we focus in particular on fast-moving consumer goods (FMCG) customers – businesses that produce everyday consumer goods such as food, drink and household products. The demand for these products is relatively consistent, even in difficult economic times, which means that the demand for packaging for these products is also steady. It is a strategic aim to increase our proportion of revenue from FMCG customers in the medium-term.

By focusing on our strategic goals, as set out in more detail on the following pages, we are confident we will build a successful and sustainable business.

Miles Roberts
Group Chief Executive

OUR VISION

To become the leader in recycled packaging for consumer goods.

OUR STRATEGIC GOALS

To delight our customers by:

- Delivering on all our commitments
- Further improving our quality standards
- Driving innovation
- Building industry-leading customer services

To realise the potential of our people by:

- Creating a place where people are proud to work and give their best
- Building a common culture
- Ensuring the safety of all

To deliver consistent shareholder value by:

- Winning market share and expanding into new markets
- Building a resilient and sustainable business model

To lead the way in recycling by:

- Building sustainability into our decisions
- Growing our recycling platform across Europe

STRATEGIC GROWTH AREAS

Pan-European and FMCG customers

We plan to grow our revenues from pan-European customers and from FMCG customers. We expect to grow with our pan-European customers, who are predominantly FMCG businesses, by expanding our service to these customers across their European base, with consistent high standards of service, quality and innovation.

Germany, Central & Eastern Europe

We expect these regions to deliver volume growth in excess of the Group growth rate by organic growth, driven by the opportunity to serve customers on a pan-European basis and, in the case of Central and Eastern Europe, strong market growth.

Service and product innovation

We invest significantly in research and development, with substantial further investment at the product design and development level which takes place throughout the business. We are investing in our network of design centres, where our packaging technicians work with customers to design packaging, using our technical database of designs in conjunction with retail simulation tools. We are extending our network of design centres from 15 to 30 and impact and innovation centres, from three to 10, by the end of 2015.

See pages 12-13 to see how we measure our performance against each of our strategic goals.

Key Performance Indicators

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

To delight our customers

On-time, in-full delivery

1 Not pro forma therefore does not include a full 12 month contribution from SCA Packaging.

Target

97%

Definition

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

Why is it a KPI?

This measures our commitment to high standards of service to customers. It is part of our aim to provide "more than a box".

Performance

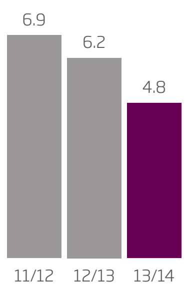
Service levels have remained relatively flat year-on-year. Quality, measured by defects parts per million, has improved by 19 per cent. We are committed to continuing improvement in our service and quality.

Link to our Values

Be trusted
Be responsive
Be tenacious

To realise the potential of our people

Accident Frequency Rate (AFR)



Target

Nil

Definition

The number of lost time accidents per million hours worked.

Why is it a KPI?

Safety is our highest priority. We aim to provide employees with a safe, productive and rewarding workplace.

Performance

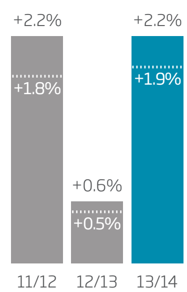
We are very pleased to have reduced AFR by a further 22 per cent this year. Any accident is one too many, and we are pleased that 70 per cent of our sites had no lost time accidents in the year. We continue to strive to achieve our target of no accidents, across the entire Group.

Link to our Values

Be caring
Be challenging
Be trusted

To deliver consistent shareholder value

Like-for-like corrugated volume growth



Weighted GDP+1% target.

Target

GDP+1%

Definition

Volume of corrugated box products sold (excluding the effect of acquisitions and disposals) measured by area.

Why is it a KPI?

We target volume growth above GDP because we expect the market to favour recycled packaging and because we aim to win market share by delivering value to our customers across their supply chain.

Performance

For 2013/14, GDP for our regions, weighted by our sales in those regions, is estimated at 0.9 per cent (Source: Eurostat).

Volume growth in 2013/14 has exceeded our target of GDP+1 per cent, driven particularly by growth in Germany and eastern Europe, both areas identified as strategic priorities.

Link to our Values

Be responsive
Be tenacious

Return on sales

1 Restated for IAS 19 (Revised 2011).
2 Pro forma for SCA Packaging acquisition.

Target

7-9%

Definition

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

Why is it a KPI?

The margin we achieve is a reflection of the value we deliver to our customers and our ability to charge for that value. It is also driven by our scale. We aim to maintain our margin in this range at all points in the economic cycle, not only on average.

Performance

Our margin has improved year-on-year reflecting the benefit of synergies and the value delivered to customers. This has been achieved despite a headwind from rising input costs.

Link to our Values

Be challenging
Be trusted
Be responsive
Be tenacious

See page 58 to read more about how our Executive Directors are rewarded against our financial performance.

To lead the way in recycling

Return on average capital employed (ROACE)

1 Restated for IAS 19 (Revised 2011).
2 Pro forma for SCA Packaging acquisition.

Target

12-15%

Definition

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

Why is it a KPI?

ROACE is our key measure of financial success and sustainability. With a cost of capital of c. 9.5 per cent, our target of 12–15 per cent throughout the economic cycle is above this. See page 10 for further explanation.

Performance

This year we have sustained our focus on ROACE which has benefited both from synergies driving our profitability, but also continued reductions in our working capital, which liberates capital to be used elsewhere in the business.

Link to our Values

Be challenging
Be trusted
Be tenacious

Net debt/EBITDA

Target

< 2.0x

Definition

Net debt at the period end, over earnings before interest, tax, depreciation, amortisation and exceptional items for the preceding 12 month period.

Why is it a KPI?

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

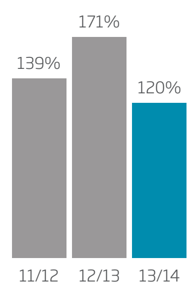
Performance

Our net debt/EBITDA ratio is in our target range.

Link to our Values

Be challenging
Be tenacious

Cash conversion



Target

> 120%

Definition

Free cash flow before tax, net interest, growth capex, pension payments and exceptional cash flows as a percentage of earnings before interest, tax, amortisation and exceptional items.

Why is it a KPI?

We focus on cash conversion because this ensures we are able to sustain our progressive dividend policy.

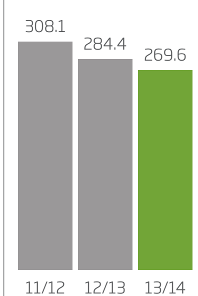
Performance

Cash conversion remains our target reflecting further year-on-year improvement in working capital.

Link to our Values

Be challenging
Be tenacious

CO_2 emissions



Target

20%

reduction over the 10 years to 2020

Definition

Total CO_2 emissions per tonne of production (ktonnes).

Why is it a KPI?

We actively play our part in the drive to reduce CO_2 emissions through investment in energy and material efficiency projects.

Performance

Increased production volumes and even greater efficiency in our processes per unit of energy input has resulted in a reduction in our intensity ratio of CO_2 per tonne of production. This trend has also been aided by investments in fuel switching and combined heat and power technology increasing the energy yield per tonne of CO_2 emitted.

Link to our Values

Be caring
Be tenacious
Be challenging

Chief Executive's Review

A trusted and strategic partner to our customers, delivering innovative packaging solutions for all their needs.

Miles Roberts
Group Chief Executive

OVERVIEW

The financial year 2013/14 has been a year in which DS Smith has delivered on its targets, with strong growth in profits, returns and dividends. Integration of the business acquired from SCA, in the first full year of ownership, is now well established and we continue to be extremely excited by the opportunities for the combined business. We have delivered on our synergy targets for the year and on our broader key performance indicators, which apply to the whole business. We have gained market share, further improved our health and safety performance and continued to reduce our environmental impact. We are investing further in the business to underpin future growth.

In 2013/14 the Group's corrugated box volumes grew 2.2 per cent, ahead of the corrugated packaging market and ahead of our target of volume growth of GDP+1 per cent. Volume growth has been particularly strong in our Central Europe and Italy region, benefiting from new customer wins and expanded service to existing customers, in fast-moving consumer goods (FMCG), on-line retail and the automotive sectors. Our DACH and Northern Europe region has also shown strong growth as we have been able to offer customers a wider geographic reach, with volume growth across a range of sectors.

Average working capital to revenue

3.4%

2012/13: 4.5%

Earnings per share

21.4p

2012/13: 17.1p

All numbers within this review are based on continuing operations before amortisation and exceptional items, unless otherwise stated. Comparatives have been restated for the impact of IAS 19 *Employee Benefits* (Revised 2011).

Revenues grew by 10 per cent, due to organic growth and the contribution from the legacy SCA Packaging business for a full 12 months in this year versus 10 months in the prior year. Operating profit increased 23 per cent to £307 million (2012/13: £249 million), including the benefit of €40 million of cost synergies, which we have delivered as expected. A further €40 million benefit is expected from synergies in 2014/15, as previously announced, completing the overall three year cost synergy programme. Earnings per share increased 25 per cent to 21.4 pence (2012/13: 17.1 pence), building on the substantial growth of the prior two years of 37 per cent and of 29 per cent.

These results have been achieved despite economic conditions across Europe remaining challenging, with the significant pressure on household budgets impacting the entire supply chain. Paper costs comprise approximately half the total cost of corrugated packaging, and paper prices have increased substantially over the period, requiring us to recover those costs from our customers. Our focus on innovation and, in particular, performance packaging, has put us in a good position to help mitigate the impact for our customers, delivering packaging solutions with the performance qualities that they need, while using smart design to reduce the cost of materials used.

Sustainability is at the heart of our business model, meaning that not only is our product fully recyclable, but that our financial performance is equally sustainable. During the year we have taken action to make the business more efficient and able to take advantage of a range of commercial opportunities that are now open to our pan-European business. We expect the benefits of this work to underpin future growth.

DELIVERING ON OUR KEY PERFORMANCE INDICATORS

Our performance this year has delivered progress on our key performance indicators. As set out above, corrugated box volumes grew by 2.2 per cent. This exceeded our target of GDP+1 per cent, with year-on-year GDP growth, weighted by our sales in the markets in which we operate, estimated at 0.9 per cent (Source: Eurostat). DS Smith has been gaining market share across our regions, where the overall corrugated packaging market has shown volume growth of 1.2 per cent (Source: FEFCO, April 2013 – March 2014). These gains have been driven by the success of our commercial offering, in particular our ability to serve customers across Europe and to offer high standards of service, quality and innovation.

In the year 2013/14, we owned SCA Packaging for a full 12 months compared to 10 months in the prior year. The improvements made in our key performance indicators this year has therefore been achieved despite owning SCA Packaging for an additional two months compared to the prior period. This would have had an underlying negative impact, given the relatively poor historic performance of SCA Packaging compared to DS Smith.

See pages 10-13 for more information on our strategy and key performance indicators.

Return on sales has increased by 80 basis points to 7.6 per cent (2012/13: 6.8 per cent), within our target range of 7 to 9 per cent, reflecting the improvement in profitability driven by our strong focus on costs and the on-going delivery of planned synergies. This margin increase has been achieved despite the substantial short-term headwind on operating profit presented by the continued lack of growth in European consumer spending and a significant increase in input costs due to rising paper prices which, as expected, have been partially recovered in the financial year.

Return on average capital employed has improved by 80 basis points to 13.0 per cent (2012/13: 12.2 per cent), within our medium-term target range of 12 to 15 per cent and well above our cost of capital of c. 9.5 per cent. The improvement is driven by our improved profitability and continual focus on capital allocation within the business, including working capital, which has again shown further improvement this year. Return on average capital employed is our primary financial measure of success, with all senior management having part of their remuneration package linked to this measure.

Net debt/EBITDA (calculated in accordance with our banking covenant requirements) was 1.96x (2012/13: 1.97x), in line with our target of a ratio of 2.0x or below.

During the year the Group generated free cash flow of £140 million (2012/13: £270 million). Our underlying cash flow remains strong with further good management of working capital, following the exceptional performance in the prior year. Cash conversion was 120 per cent, in line with our target.

Chief Executive's Review continued

> " While we expect a difficult consumer economic environment to remain, our focus on delivery, capital discipline and continued investment in the business provides us with confidence in the sustainability of our business model."

The Group has a target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved 93.1 per cent, which was adversely impacted by the inclusion of a full 12 month contribution from SCA Packaging. At the same time, our quality measure (defects parts per million) has improved by 19 per cent. These measures are critical to us as they reflect our commitment to be a trusted business partner and are part of our overall vision to deliver high standards of service, quality and innovation in packaging solutions for our customers. Our service levels remain a strategic priority and a clear area of differentiation in a very fragmented market.

DS Smith is committed to providing all employees with a safe and productive working environment. We are pleased to report a further substantial improvement in our safety record, with our accident frequency rate reduced a further 22 per cent from 6.2 to 4.8. This reflects the on-going commitment to best practice in health and safety, which is supported by investment. Our target is for zero accidents, which we are proud to report that 70 per cent of sites achieved this year. We continue to strive to achieve zero accidents for the Group as a whole.

DS Smith is part of the sustainable economy, with our principal product of corrugated packaging fully recyclable, from recycled material. Our Recycling business works uniquely with customers across Europe to improve their recycling operations and overall environmental performance. During 2013/14 we have implemented significant new systems to track our own environmental performance. We are pleased to say that we estimate that our CO_2 emissions, relative to production, have reduced a further 5 per cent, meaning that we are well on target to achieve our 2010 commitment to a 20 per cent reduction by 2020.

INVESTING IN THE BUSINESS

Alongside on-going delivery of operating performance, we continue to invest in the business. Net capital expenditure of £156 million has been spent in the year, of which 74 per cent has been spent within the corrugated packaging side of the business, reflecting a wide range of opportunities for growth in this business. When considering growth capital expenditure and restructuring expenditure, our primary measures of return are cash payback, and a return on capital well in excess of the Group target. Specific returns are varied according to the risk profile of the investment.

We have now owned the SCA Packaging business for about two years and the integration programmes are now business as usual. We continually seek to optimise the business for both future growth and competitiveness. As a result, a number of restructuring exercises are taking place across the business. We are implementing this investment which, combined with our targeted capital expenditure programme, is designed to optimise our footprint, drive greater efficiency and further improve our customer offering. The total cost of these investments is expected to be approximately £60 million, of which £29 million has been incurred in 2013/14. The benefits from the investment will be progressively realised, substantially from 2015/16 and underpin our confidence in our financial performance and support our future growth expectations.

Growth capital expenditure in 2014/15 is focused on our market leading display packaging business, particularly in Germany, where our pan-European customers both demand and reward innovation. We continue to invest in digital printing to offer high quality packaging that helps our customers to differentiate their products and explore further developments in shelf ready packaging.

FOREIGN EXCHANGE TRANSLATION

Approximately 65 per cent of the Group's EBITA is earned in euros. The results for the year 2014/15 will be influenced by foreign exchange translation, where the euro is currently weaker than the average rate over 2013/14 of 1.19. A change of 1c impacts EBITA by approximately £1.6 million and profit before tax by approximately £1.2 million.

OUTLOOK

The current year has started well and is in line with our expectations. While we expect a difficult consumer economic environment to remain, our focus on delivery, capital discipline and continued investment in the business provides us with confidence in the sustainability of our business model. Looking ahead we remain excited about further growth opportunities for the Group.

Miles Roberts
Group Chief Executive

Operating Review

Delivering innovative packaging products and services in 25 countries.

The divisional results set out below include a full 12 month contribution from the SCA Packaging business versus 10 months in the comparative prior period. The revenue and operating profit uplift from this acquisition effect is most pronounced in DACH and Northern Europe, where DS Smith previously had relatively little operational presence, and also in Western Europe and in Central Europe and Italy, where the acquired business has materially expanded our presence in these regions.

UK

The UK has seen good volume growth, broadly consistent with that of the Group as a whole, as the corrugated packaging business has led the move to performance-driven specification.

	Year ended 30 April 2014	Year ended 30 April 2013** (restated)
Revenue – £m	**929**	961
Operating profit* – £m	**64**	46
Return on sales* – %	**6.9**	4.8

* before amortisation and exceptional items.

** prior year restated for the impact of IAS 19 (Revised 2011).

The business has succeeded in generating increased sales by offering innovative corrugated packaging solutions for products previously packaged in other materials. We have also gained sales through our retail-ready packaging focus, designed to drive more sales for both the FMCG customer and the retailer. At the same time, the packaging business has worked consistently to recover rising input costs driven by paper prices.

Revenues, which have fallen by 3 per cent, have been impacted by the sale of non-core businesses. Profitability has improved due to the benefit of cost synergies, and an improved performance from the Kemsley mill in Kent. Here, management has benefited from applying best practice from mills acquired from SCA, resulting in a significant improvement in efficiency and profitability at this site. The Recycling business has continued to grow in line with our strategy to expand our service offering to more European customers, with additional business won in France, Germany and Poland. At the same time, we have rationalised our recycling depot network in the UK from 23 to 13, benefiting from the sites acquired with the SCA Packaging acquisition and resulting in a better geographic spread across the UK.

Operating Review continued

WESTERN EUROPE

Revenue has increased 5 per cent, reflecting the additional two month contribution from the acquired business and a slight benefit from foreign exchange translation.

	Year ended 30 April 2014	Year ended 30 April 2013** (restated)
Revenue – £m	**1,017**	966
Operating profit* – £m	**67**	73
Return on sales* – %	**6.6**	7.6

* before amortisation and exceptional items.
** prior year restated for the impact of IAS 19 (Revised 2011).

Market conditions in this region have been very challenging with volume growth lower than the Group average. Operating profit has fallen 8 per cent and return on sales has decreased 100 basis points, reflecting the difficult economic and trading conditions in the region. The region has benefited from the combined business being able to offer a wider product range to its customers.

DACH AND NORTHERN EUROPE

DACH and Northern Europe, which is a region that DS Smith's corrugated businesses did not operate in prior to acquiring the SCA Packaging business, has grown revenue 23 per cent and operating profit by 52 per cent, with the growth driven by the full 12 month contribution from the acquired business and organic growth.

	Year ended 30 April 2014	Year ended 30 April 2013** (restated)
Revenue – £m	**1,029**	836
Operating profit* – £m	**96**	63
Return on sales* – %	**9.3**	7.5

* before amortisation and exceptional items.
** prior year restated for the impact of IAS 19 (Revised 2011).

The growth in margin of 180 basis points principally reflects the benefit of synergies being realised, together with the organic growth within the region and the strong paper pricing benefiting the two mills. Volumes have been strong as a result of a good performance, particularly in Germany. DS Smith was the clear innovation leader in the region, winning six Design Awards, two World Star awards, two German Packaging Prizes, one Superstar and one Popai Award. DS Smith Germany also won the Nestlé Supplier Award in Gold for outstanding customer service, out of 16,000 suppliers.

CENTRAL EUROPE AND ITALY

Revenue and operating profit have increased by 23 per cent and 29 per cent respectively, reflecting the full 12 month contribution from the acquired business and some benefit from organic growth.

	Year ended 30 April 2014	Year ended 30 April 2013** (restated)
Revenue – £m	**739**	601
Operating profit* – £m	**53**	41
Return on sales* – %	**7.2**	6.8

* before amortisation and exceptional items.
** prior year restated for the impact of IAS 19 (Revised 2011).

As described in the Financial Review, towards the end of the financial year, the power plant adjacent to the paper mill in Italy was acquired. Volumes in the corrugated packaging business have been excellent, driven by Central Europe, substantially above the Group average. This reflects the benefit of developing sales with existing strategic FMCG and industrial customers and new large and medium size accounts, with a large part of this growth supported by our strength in innovation as well as our enhanced footprint.

PLASTICS

Plastics has delivered revenue growth of 5 per cent and operating profit growth of 4 per cent, resulting in a modest reduction in operating margin of 10 basis points.

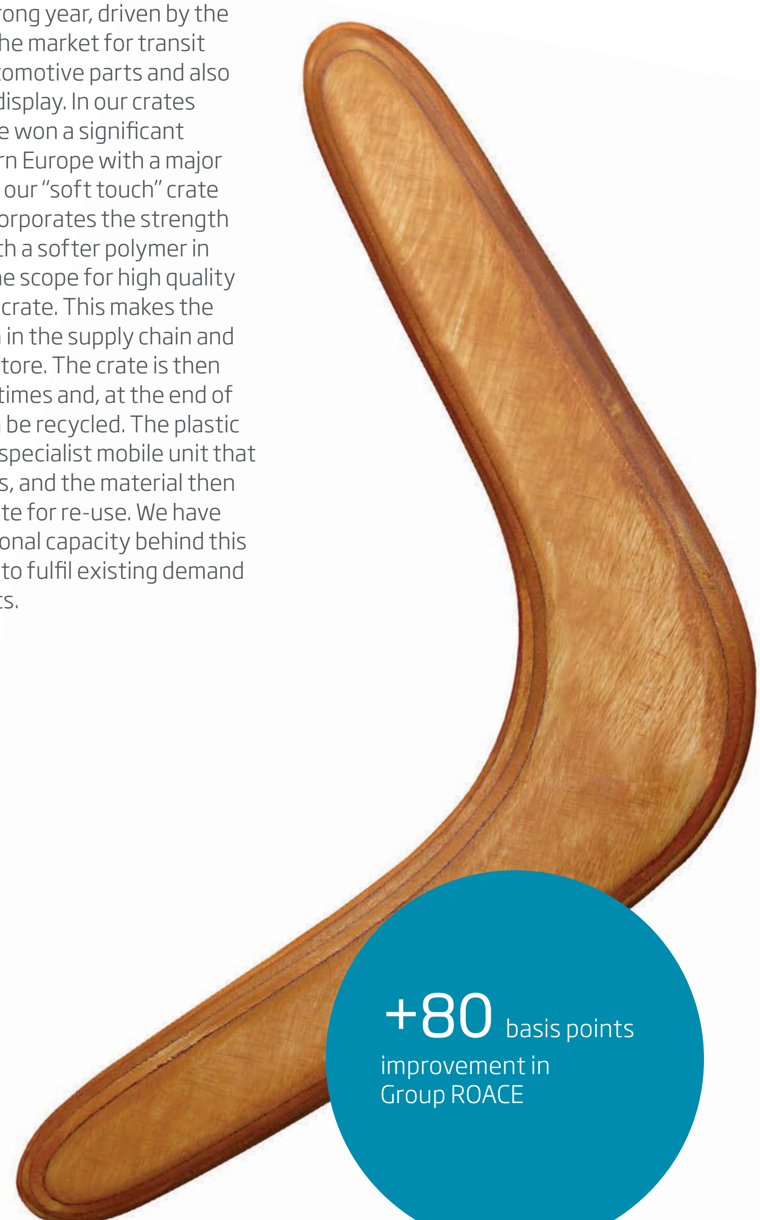
	Year ended 30 April 2014	Year ended 30 April 2013** (restated)
Revenue – £m	**321**	305
Operating profit* – £m	**27**	26
Return on sales* – %	**8.4**	8.5

* before amortisation and exceptional items.

** prior year restated for the impact of IAS 19 (Revised 2011).

The Plastics business comprises two elements, flexible packaging and dispensing (FP&D) and returnable transit packaging (RTP). The FP&D business in the US has had a very good year, delivering good profit growth as the business has seen continued success of its Trutap product and of tea-urn liners. In the European FP&D business, it has been a year of investment, with a substantial reorganisation in our European operations. Manufacturing has been transferred to eastern Europe, to sites with greater efficiency and with scope for increased production and which are closer to the customers they serve. There has been disruption to the business during this transfer, which is on track to be substantially completed by December, and this has limited the growth from this business during the year.

The RTP business, which is based in Europe, has had a very strong year, driven by the improvement in the market for transit packaging for automotive parts and also plastic board for display. In our crates business, we have won a significant contract in eastern Europe with a major brewer, driven by our "soft touch" crate design, which incorporates the strength of rigid plastic with a softer polymer in the handle and the scope for high quality printing onto the crate. This makes the crate usable both in the supply chain and also in the retail store. The crate is then re-used multiple times and, at the end of its useful life, can be recycled. The plastic is ground up by a specialist mobile unit that DS Smith provides, and the material then returned to our site for re-use. We have invested in additional capacity behind this business in order to fulfil existing demand for these products.



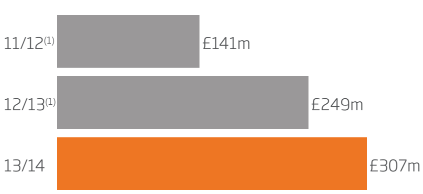
+80 basis points improvement in Group ROACE

Financial Review

Delivering strong financial performance.

Adrian Marsh
Group Finance Director

Operating profit²



Return on sales²

ROACE²

OVERVIEW

The Group's strong performance in 2013/14 was achieved against a continuing backdrop of challenging economic and market conditions. Good progress has been made integrating SCA Packaging and the business has continued to focus on the restructuring necessary to prepare for the next stage of development.

Despite these challenges, the Group again delivered against its financial measures:

- Earnings before interest, tax exceptionals and amortisation up 23 per cent at £307 million (2012/13: £249 million)
- Like-for-like corrugated box volume growth of 2.2 per cent
- Return on sales[2] of 7.6 per cent (2012/13: 6.8 per cent)
- Return on average capital employed[2] of 13.0 per cent (2012/13: 12.2 per cent)
- Net debt/EBITDA of 1.96x (2012/13: 1.97x).

TRADING RESULTS

All numbers within this review are based on continuing operations before amortisation and exceptional items, unless otherwise stated. Comparatives have been restated for the impact of IAS 19 *Employee Benefits* (Revised 2011).

Revenue of £4,035 million represents an increase of 10 per cent (2012/13: £3,669 million).

The growth in revenue includes the effect of a full year of SCA Packaging (compared to ten months in 2012/13) and was underpinned by corrugated box volume

Income statement

	2013/14 £m	2012/13 £m[1]
Revenue	**4,035**	3,669
Operating profit[2]	**307**	249
Return on sales[2]	**7.6%**	6.8%
Net financing costs	**(48)**	(44)
Profit before tax[2]	**259**	205
Share of profit/(loss) of equity accounted investees, net of tax	**-**	1
Income tax expense[2]	**(59)**	(48)
Profit after tax[2]	**200**	158
Minority interest	**(1)**	-
Adjusted earnings[2]	**199**	158
Basic adjusted earnings per share[2]	**21.4p**	17.1p
Amortisation of intangible assets, before tax	**(51)**	(45)
Exceptional items, before tax	**(41)**	(79)

1 Restated for IAS 19 (Revised 2011) (note 1a, page 84).
2 Adjusted for amortisation and exceptional items.
3 Pro forma for SCA Packaging acquisition.

growth across Europe of 2.2 per cent. Plastics delivered revenue growth of 5 per cent whilst implementing a significant programme of restructuring.

Adjusted operating profit rose by 23 per cent to £307 million (2012/13: £249 million). The improvement in profit reflects the additional two months of SCA Packaging, together with synergy benefits of £33 million (€40 million) arising from the integration.

In the prior year, the Group's measures of return on sales and return on average capital employed were both negatively impacted by the acquisition of SCA Packaging, but have seen improvements in the current year as the benefits of the combined businesses flow through. Return on sales of 7.6 per cent is back within the target range of 7-9 per cent, whilst return on average capital employed of 13.0 per cent in 2013/14 strengthened within the range of 12-15 per cent and is significantly above the Group's cost of capital.

EXCEPTIONAL ITEMS

Exceptional items before tax and share of results of associates were £38 million (2012/13: £79 million).

The major exceptional costs associated with the SCA Packaging integration programme have now been incurred. The total costs of the programme are in line with original estimates of £100 million with £42 million in 2013/14. The business is now operating as a pan-European supplier with consistent messaging and common customer interfaces which creates an excellent platform for growth. Having successfully completed the business integration the business is now focusing on the next stage of the process which is to rationalise the asset footprint and ensure the cost base is fit for the future. The Plastics business in Europe commenced an ambitious restructuring plan involving a detailed analysis of both its cost base and future opportunities. This review resulted in the closure of a number of sites in the more established parts of Europe and investment in new facilities in higher growth markets in eastern Europe and an optimisation of the remaining asset base. This methodology has also been applied to Recycling and Packaging divisions and further investments are planned for 2014/15. The exceptional charge for 2013/14 for this rationalisation programme was £29 million and there are plans for a similar level of investment in 2014/15.

Following the conclusion of the SCA Packaging completion process in December the Group acquired the Lucca power plant in Italy. This resulted in a detailed balance sheet review and an exceptional credit was released which included amounts for an onerous energy contract in Italy.

Profits on sales of businesses amounted to £4 million and other exceptionals, including employee compensation and pension settlements, offset by the set up costs of the UK shared service program, benefited income by £3 million.

INTEREST, TAX AND EARNINGS PER SHARE

Net interest expense increased from £37 million in 2012/13 to £41 million in 2013/14, principally due to the interest payable on the financing of the SCA Packaging acquisition.

The employment benefit net finance expense was £7 million (2012/13: £7 million). The adoption of the revisions to IAS 19 *Employee Benefits* increased this cost by £3 million; the prior year has been restated.

Profit before tax (excluding amortisation, exceptional items and share of profit of associates) was £259 million (2012/13: £205 million), an increase of 26 per cent.

The share of the results of equity accounted investments includes an exceptional exchange loss of £3 million on US dollar denominated debt in the Ukrainian associate.

The Group's effective tax rate from continuing operations, excluding amortisation, exceptional items and associates was 23.0 per cent, compared to a rate in the previous year of 23.6 per cent. The reduction in the effective tax rate reflects a further reduction in the UK rate of corporate income tax (2013/14: 22.8 per cent, 2012/13: 23.8 per cent) and changes in the mix of taxable profits and tax rates across the regions in which the enlarged Group holds its subsidiaries and operates its businesses. The exceptional tax credit was £22 million.

Cash flow

	2013/14 £m	2012/13 £m
Cash generated from operations before exceptional cash items	**394**	504
Capital expenditure (net of disposal of fixed assets)	**(156)**	(157)
Tax paid	**(55)**	(42)
Interest paid	**(43)**	(35)
Free cash flow	**140**	270
Cash outflow for exceptional items	**(78)**	(112)
Dividends	**(74)**	(37)
Acquisition/divestments of subsidiary and associate businesses	**(15)**	(1,230)
Net cash flow	**(27)**	(1,109)
Other movements	**21**	(37)
Net debt movement – continuing operations	**(6)**	(1,146)
Net debt movement – discontinued operations	**(4)**	7
Opening net (debt)/cash	**(817)**	322
Closing net debt	**(827)**	(817)

Financial Review continued

Reported profit after tax from continuing operations after amortisation and exceptional items was £144 million (2012/13: £67 million).

Adjusted earnings per share were 21.4 pence (2012/13: 17.1 pence), an increase of 25 per cent. Total earnings per share were 15.0 pence (2012/13: 8.0 pence).

Discontinued operations in the current and prior year represent tax and the final settlement, respectively, in respect of the Office Products Wholesaling Division sold in December 2011.

DIVIDEND

The proposed final dividend is 6.8 pence (2012/13: 5.5 pence), giving a total dividend for the year of 10.0 pence (2012/13: 8.0 pence). Dividend cover before amortisation and exceptional items was 2.1 times in 2013/14 (2012/13: 2.1 times).

CASH FLOW

Net debt ended the year broadly similar year-on-year as we sought to balance the use of the free cash that the Group generated between accelerating investment in restructuring within the Group earlier than originally planned, continuing to invest in fixed assets to grow the business, and providing returns to shareholders.

Management of working capital remained a priority, with a further benefit of £3 million being realised in the year. This continued improvement was achieved despite the challenging market conditions, growth in revenues, higher paper prices throughout the year and an exceptional performance in the prior year following the acquisition of SCA Packaging. Cash generated from operations at £394 million was £110 million lower than 2012/13 (£504 million) given the significant one off improvement in working capital the previous year. In total, interest and tax payments were £21 million higher than the prior year. Net capital expenditure was broadly flat to the prior year and was balanced to allow significant investments in growth and efficiency projects, as well as recurring renewal and maintenance.

The cash costs of the integration programme (£43 million) and the restructuring programme (£26 million) are reflected as exceptional cash flows.

Acquisitions and divestments comprise the purchase of the power plant adjacent to the paper mill in Italy, less the receipts from the disposals of non-core businesses.

The dividend payout has doubled year on year to £74 million, reflecting the payment in 2013/14 of the interim and final dividend for 2012/13, versus, in the prior year, the payment in year of the final dividend for 2011/12.

Statement of financial position

	2013/14 £m	2012/13 £m
Intangible assets	**961**	1,044
Property, plant and equipment	**1,372**	1,371
Inventories	**272**	285
Trade and other receivables	**653**	647
Cash and cash equivalents	**98**	116
Other	**179**	143
Total assets	**3,535**	3,606
Bank overdrafts	**(34)**	(38)
Interest bearing loans and borrowings	**(882)**	(924)
Trade and other payables	**(934)**	(966)
Provisions	**(72)**	(93)
Employee benefits	**(151)**	(214)
Other	**(331)**	(286)
Total liabilities	**(2,404)**	(2,521)
Shareholders' funds	**1,131**	1,085
Net debt	**(827)**	(817)
Net debt to EBITDA ratio	**1.96x**	1.97x

STATEMENT OF FINANCIAL POSITION

Shareholders' funds of £1,131 million at 30 April 2014 have increased from £1,085 million at 30 April 2013, principally due to retained profit for the year. Profit attributable to shareholders (including discontinued operations) was £141 million (2012/13: £74 million) and dividends of £74 million (2012/13: £37 million) were paid during the year. In addition, actuarial gains of £57 million from the Group's employee benefit schemes were credited to reserves. Other items recognised directly in reserves include currency translation losses of £55 million, adverse movements on cash flow hedges of £16 million and the related tax charge of £22 million.

At 30 April 2014, the Group's net debt was £827 million (2012/13: £817 million). The Group improved its net debt to earnings before interest, tax, depreciation and amortisation (EBITDA), ratio from 1.97 times at 30 April 2013 to 1.96 times at 30 April 2014 and complied with all the covenants in its financing agreements. The Group's financial covenants for the syndicated committed bank facilities specify an EBITDA to net interest payable ratio of not less than 4.5 times, a maximum ratio of net debt to EBITDA of 3.25 times and net assets to exceed £360 million. The covenant calculations exclude from the income statement exceptional items and any interest arising from the defined benefit pension schemes. The calculation of net assets excludes the net asset or liability arising from the defined benefit pension schemes. At 30 April 2014, the Group had substantial headroom under its covenants; the most sensitive covenant is net debt to EBITDA and this had an EBITDA headroom of £171 million.

Subsequent to the year end, we have reached agreement to dispose of our Scandinavian foam business for £24 million, subject to working capital adjustments and competition clearance. No material gain or loss is expected to arise.

ENERGY COSTS

Energy continued to be a significant cost for the Group in 2013/14. The Group's total costs for gas, electricity and diesel decreased slightly from £248 million in 2012/13 to £241 million in 2013/14 through a combination of risk management activities and energy efficiency programmes and incentives. The Group manages the risks associated with its purchases of energy through its Energy Procurement Group. By hedging energy costs with suppliers and financial institutions we aim to reduce the volatility of energy costs and to provide the Group with a degree of certainty over future energy costs.

CAPITAL STRUCTURE AND TREASURY MANAGEMENT

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

The Group's overall treasury objectives are to ensure sufficient funds are available for the Group to carry out its strategy and to manage certain financial risks to which the Group is exposed, details of which are provided in note 21 to the financial statements. The Group's treasury strategy is controlled through the Balance Sheet Committee, which meets regularly and is chaired by the Group Finance Director and includes the Group General Counsel and Company Secretary, the Group Financial Controller, the Group Treasurer and the Group Head of Tax. The Group Treasury function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. The function arranges funding for the Group, provides a service to operations and implements strategies for financial risk management.

The Group regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a business plan, determining the level of debt facilities required to fund the business, planning for repayments of debt at maturity and identifying an appropriate amount of headroom to provide a reserve against unexpected funding requirements. The Group's borrowing facilities are shown here. At 30 April 2014, the Group's committed borrowing facilities totalled c. £1.4 billion of which £496 million were undrawn. Total gross borrowings at 30 April 2014 were £882 million. At 30 April 2014, the Group's committed borrowing facilities had a weighted-average maturity of 3.3 years (30 April 2013: 4.4 years).

Borrowing facilities at 30 April 2014

Facility	Committed funds million	Maturity	£ million equivalent
Syndicated bank loan facility	€380	2016	313
Syndicated revolving credit facility	£610	2016	610
Private placement	US$200	2014-16	126
Private placement	€118	2018-20	97
Private placement	US$400	2017-22	262
			1,408

Financial Review continued

Since the year end, the Group has refinanced its committed bank borrowing facilities which were put in place to finance the acquisition of SCA Packaging. The syndicated bank loan facility, under which €380 million was outstanding at 30 April 2014, was repaid on 23 May 2014, and replaced with a €300 million syndicated bank term loan facility maturing in May 2017. In addition, on the same date, the £610 million syndicated revolving credit facility was also repaid and replaced with an £800 million syndicated bank revolving credit facility maturing in 2019, but with options to extend to 2021. The increase in the amount of borrowing facilities provides additional headroom to cover the scheduled maturity of private placement debt in August 2014, US$ 105 million (£63 million as at 30 April 2014). The new facilities will provide interest cost savings in 2014/15, notwithstanding the exceptional write-off of £4 million of the remaining unamortised arrangement fees in connection with the old facilities.

Following the acquisition of SCA Packaging, the Group has substantial investments in foreign currency assets of its subsidiary companies based overseas, a large proportion of whose functional currency is the euro. In addition, the Group's financial covenant ratios are exposed to the extent that earnings in foreign currency contribute to the Group's total EBITDA. In order to manage these exposures, the Group's policy is to hedge its EBITDA with proportionally a similar amount of net debt held in foreign currencies.

The Group's foreign currency debt may be held either in the currency itself or through the use of cross-currency swaps. The Group applies hedge accounting under IAS 39 *Financial Instruments: Recognition and Measurement*, to its hedges of its net investment of foreign currency subsidiaries and records exchange differences arising on the net investments and the related foreign currency borrowing directly in equity.

IMPAIRMENT

When applying IAS 36 *Impairment of Assets*, the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value-in-use to determine whether an impairment exists. The value-in-use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for impairment. During April 2014 tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets. The key assumptions behind the calculations are based on the regional long-term growth rates and a pre-tax discount rate of 9.5 per cent combined with the appropriate country risk premiums. No impairments were identified as a result of the testing.

The net book value of goodwill and other intangibles at 30 April 2014 was £961 million (30 April 2013: £1,044 million).

PENSIONS

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

The Group's principal funded, defined benefit pension scheme is in the UK and is now closed to future accrual. The Group also operates various local post-retirement and other employee benefit arrangements for overseas operations, as well as a small UK unfunded scheme. The aggregate gross assets of the schemes at 30 April 2014 were £908 million and the gross liabilities at 30 April 2014 were £1,059 million, resulting in the recognition of a gross balance sheet deficit of £151 million (30 April 2013: £214 million), a net deficit of £111 million (30 April 2013: £158 million) after a deferred tax asset of £40 million (30 April 2013: £56 million).

A triennial valuation of the main UK scheme was carried out at 30 April 2010 at which point the Group agreed that cash contributions would be £14.8 million per annum, rising by 2 per cent per annum for the remaining 10 years, with a view to closing the deficit within a 10 year recovery period. Cash contributions into the Group pension schemes were £19 million in 2013/14 (2012/13: £23 million), principally comprising £15.1 million in respect of the agreed contributions to the pension scheme deficit (for the future financing of the pension scheme) and are included in cash generated from operations.

The process of completing the 30 April 2013 triennial is ongoing and is expected to conclude in July 2014.

The decrease in the gross balance sheet deficit of £63 million is principally attributable to an increase in the discount rate. The main factor behind this increase is the rise in corporate bond yields over the period.

Adrian Marsh
Group Finance Director

Sustainability

Our Approach to Sustainability.

The DS Smith business model is based on providing inherently sustainable packaging solutions for our customers. Our corporate vision, to become the leader in recycled packaging for consumer goods, has at its heart a social purpose which emphasises the role that **recycling** has to play within a sustainable supply cycle, the **leadership** position that DS Smith has the opportunity to take, and the development of a comprehensive understanding of the issues that matter to **consumers** and the **communities** in which we operate.

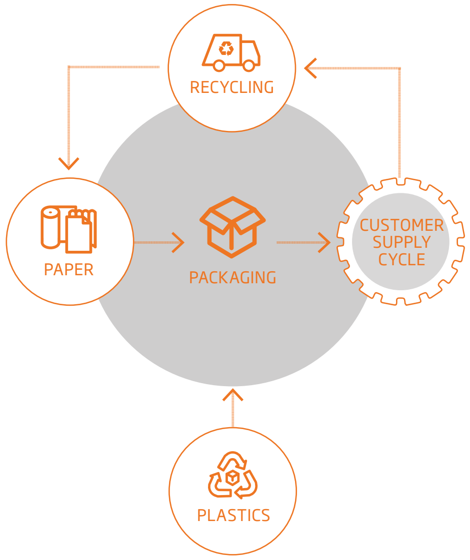
Our core business is the design and manufacture of recycled packaging for consumer goods. We recognise that our factories and production facilities have a direct environmental impact through the running of our operations, but also that our business has an indirect impact upstream through our sourcing activities, and downstream in the way our customers use and dispose of our products. However, corrugated packaging has many beneficial environmental characteristics. All the paper we make is made from recycled materials and all our packaging products are fully recyclable.

We work closely with our customers, not only to reduce the carbon footprint of the packaging they use, but also to help them reduce the carbon footprint of their products by ensuring the right packaging solution is provided.

We look at the cost and carbon impact of the whole supply cycle, taking into consideration the demands of the packing line, loading, transport, distribution, warehousing and the 'last five yards' as goods arrive in the back of store, as well as the consumer experience in store. We optimise the materials used in each packaging solution in order to achieve the best outcomes at each stage in the supply cycle, thus minimising the overall environmental impacts.

DS Smith has been developing lightweight packaging solutions for a long time. For example, we developed R-Flute®, a type of corrugated board which significantly improved the carbon footprint of corrugated packaging and it continues to be an industry-leading product. We continue to innovate in this area and are constantly improving the performance of our packaging, delivering more with less.

OUR BUSINESS MODEL



In our recycling operations we are the only integrated provider to pledge zero waste. We stay true to the waste hierarchy with the aim of making 100 per cent of resources into something useful once more.

We do not invest in landfill – only in innovative business processes that promote the Power of Less®, a mantra that helps our customers achieve more with minimal impact to the environment, while realising maximum efficiency and cost benefits.

Our plastics products are reusable and recyclable and only require small amounts of energy and raw material to be manufactured. Our portfolio includes lightweight and space-efficient products and solutions such as bag-in-box packaging, reusable containers and plastics components with green credentials that include improved fuel efficiency and reduced carbon emissions.

Sustainability continued

FTSE Group confirms that DS Smith has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practice.

FTSE4Good

OUR PRINCIPLES

At DS Smith we are committed to conducting our business in a responsible manner. That is the foundation of a sustainable company, and it is an essential component of our licence to operate.

We believe that delighting our customers and ensuring our employees operate in a safe and productive workplace is the only sustainable route to the long-term creation of value for our shareholders.

DS Smith subscribes to a number of international standards and guidelines relevant to corporate responsibility and business conduct, including:

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

SUSTAINABILITY GOVERNANCE

The **Board** considers risks arising from sustainability issues as part of its regular review of the key risks to the Group's operations. It ensures that the Group has in place effective policies and procedures for managing any significant sustainability risks and it receives regular reports on performance.

The **Group Chief Executive** is the Executive Director responsible for sustainability issues and he regularly reviews potential risks. Through the Group Management Team, he communicates and cascades the Group's sustainability policies, procedures and objectives to the heads of each business unit, and he monitors compliance through regular trading meetings.

The **Group Sustainability Committee** oversees the management processes, targets and strategies designed to manage environmental and social risks and opportunities, and to ensure compliance with the Group's environmental and social responsibilities and commitments.

Supporting the Group Sustainability Committee are two working groups with representation from across the business. These working groups cover environmental technical issues and social responsibility issues.

See page 38 for more about Governance.

OUR POLICIES

Following a review during 2013, the Board directed that our approach to sustainability should be focused on the following areas:

- our impact on the natural **environment**;
- our **economic** relationships; and
- **social responsibility** as expressed through our relationships with people and communities.

During 2013, DS Smith published a series of Group-wide policies to support its objectives in the sphere of corporate responsibility:

The Operating Framework

Our Operating Framework sets out the way DS Smith is governed and managed. It describes the Group's values, strategy, and structure and explains the role of the corporate functions and the associated company policies and levels of authority that apply across the Group. It is a valuable resource for managers and is compulsory reading for new joiners.

The Code of Conduct

Through our Code of Conduct we set the standards for the ethical behaviours we expect from all our managers and employees. This document was translated into 22 languages and distributed to all sites across the Group. It is also available via the Group intranet, and a summary has been published on the Group's website.

View a summary of our Code of Conduct at www.dssmith.com/people/culture/code-of-conduct

In addition, the Group has a **Workplace Malpractice Policy**, "Speak Up!", under which employees may report in confidence any perceived wrongdoing within the Group on matters relating to safety, the environment, unethical business conduct or breaches of Group policies, the law or other regulations. This policy is reinforced by a confidential Employee Concern Helpline and e-mail facility. Any concerns reported are appropriately investigated.

THE MATERIAL ISSUES

Sustainability is a large and varied field with many agendas competing for primacy. We conducted a formal materiality analysis during 2013, facilitated with external expertise. From this the Group Sustainability Committee decided that our approach to sustainability should be focused on the following areas of greatest impact, risk or opportunity:

See page 34 for more about Risk.

Issue	Description	More information
Packaging reputation	Our customers will demand greater integration of sustainability indicators with their own agendas and reporting requirements, and specifically they will require evidence and examples of the positive role packaging can play in reducing waste and damage in order to inform and influence public perceptions on a wide variety of issues, from litter to landfill.	Read more in our 2014 Sustainability Review.
Carbon footprint	The direct correlation between energy usage, cost and carbon emissions continues to drive a focus on energy efficiency, which also delivers improvements in the carbon footprint of our products. Investment and innovation by manufacturers of capital equipment, plant and machinery continues to provide opportunities to improve. Nevertheless, other factors such as greater automation in our factories, light-weighting and our performance packaging programme, and a more specialised product mix in our paper mills will all increase energy inputs per tonne of product, resulting in a potential worsening of the intensity ratios that are commonly used in our sector. In keeping with our values and our commitment to transparency, we will continue to submit our performance in this area to the Carbon Disclosure Project.	Read more in our Environment section on page 28.
Raw materials	We will need to invest in and manage an enhanced level of engagement with our own suppliers in order to better understand and explain the impacts of our upstream sourcing activities. This area is assessed as likely to come under increasing scrutiny by legislators and campaigners. Responsible fibre sourcing is already well established and chain of custody certification is mandated by EU legislation.	Read more in our 2014 Sustainability Review.
Employees	Our employees have a twofold role to play. Through their daily actions and behaviours, they are the custodians of our ability to deliver on our promise to be the most sustainable, innovative, and commercially successful recycled packaging company in each of our markets. But they are also an ambassador for our values, and their interaction with customers, suppliers, and the wider community is just as significant as their work in our factories and mills. In order to fulfil their potential, we must continue to invest in training and engagement.	Read more in our Employees section on page 31.
Recycling and waste	The ability to deliver a zero-waste solution to major retailers is a significant competitive advantage. Our closed loop recycling model is at the core of this strategy. But, having grown substantially as a business, our manufacturing operations in absolute terms generate substantial volumes of waste. We must ensure that each of our factories demonstrably and transparently delivers best-in-class management and handling of waste and that we continue to reduce the materials we cannot recycle ourselves to the absolute minimum level achievable.	Read more in our Environment section on page 28.

Find out more about sustainability at DS Smith and download our 2014 Sustainability Review at www.dssmith.com/company/sustainability

Environment

Environment.

We acknowledge the impact our activities have on the environment through the use of resources such as fibre, energy, water and the generation and disposal of waste materials. Our aim is to reduce these impacts relative to our production. We are very pleased to have delivered another year of progress, with relative CO_2 emissions down 5.2 per cent in 2013 versus the previous year and water discharge down 8.3 per cent. Through our environmental management systems, we identify and reduce the risks and impacts of environmental incidents, and we have continued to ensure that all employees have the appropriate knowledge and competencies to fulfil their responsibilities.

ENVIRONMENTAL MANAGEMENT AND REGULATION

The Group's management of environmental matters is through the Environmental Technical Working Group, which reports to the Group Sustainability Committee on issues pertaining to carbon emissions, energy usage, water consumption and quality, waste and product responsibility.

We also have a policy that each of our sites implements an environmental management system (EMS) which is appropriate to its activity.

For those sites where we have assessed the activity as material, we have pursued external certification to the ISO 14001 standard. For lower impact sites, we adopt a simplified EMS, appropriate to their lower level of potential environmental impact.

Many sites are pursuing the ISO 50001 for energy management, and our DACH region will become the first fully compliant region by the end of 2014.

With the exception of one spillage of diesel fuel at our Clay Cross site on 28 March 2014, which resulted in a warning letter from the United Kingdom Environment Agency on 28 April 2014, no other major environmental incidents or incidents of significant impact reportable to local or national authorities, or incidents potentially resulting in legal prosecution have been reported for the period of this report.

CERTUS

During the year, DS Smith made a substantial investment in new software to collate, aggregate and report on a range of sustainability key performance indicators, including the environmental indicators we have previously reported on.

This project has resulted in CERTUS, a Group-wide reporting system which will enable us to monitor and manage our progress more accurately and more quickly than before. It will also allow us to refine and expand our monitoring and analysis and to develop greater insight into potential efficiency improvements.

This initiative is not simply about internal performance measurement. It is a value-added service for our customers, for whom packaging remains a significant part of their Scope 3 emissions, being emissions related to their supply chain. Providing our customers with accurate, reliable and trusted data about the contribution our packaging makes to their product's footprint – both positive and negative – is an important element in winning and maintaining the role of a trusted packaging partner.

OUR ENVIRONMENTAL TARGETS

Our environmental targets remain unchanged from the previous year. Related to production, we aim to:

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

For each of these targets, we have established an action plan to deliver the stated objectives:

- Our CO_2 emissions will be reduced by a combination of increased energy efficiency and a switch from oil to gas or, where appropriate, to renewable fuels;
- Our water use targets will be met by moving towards more closed water systems at some of our paper mills; and
- A greater proportion of production rejects will be retrieved as materials and energy recovery, rather than be sent to landfill.

ACTIVITIES IN 2013

During 2013 several projects have been initiated to explore the benefits of converting sites to LED lighting. A number of potential sites were identified and trial installations were commissioned. A pilot site for a high bay lighting installation was completed at our packaging factory in Fordham, United Kingdom which was successful, and a framework agreement has been established with a supplier for high bay lamps. Projects at five sites are presently in progress in the UK and the Northern Europe packaging region.

In Kemsley, United Kingdom, the mill has increased the fibre yield of its recycled fibre plant from 59 per cent to 64 per cent, making much better use of raw materials, and increasing the use of mixed waste recovered paper from 7 per cent to 23 per cent, reducing the fibre material cost and enabling greater use of post-consumer fibrous materials.

In Wansbrough, United Kingdom, the installation of high efficiency boilers is underway. This project is forecast to deliver efficiency improvements of 20 per cent per annum, and in Gent, Belgium, the project to replace the heavy fuel oil-fired boiler with a more efficient gas-fired boiler has been completed, and will deliver cost and carbon benefits from April 2014.

In Mariestad, Sweden, we have had a successful project to optimise the enclosures and heat exchangers in the wet-end of the corrugator, which not only reduced the steam consumption by 13 per cent but also improved the working environment in the production area.

In Värnamo, Sweden, the project to connect to the local district heating system for site heating is now complete. This has reduced the site's dependency on liquid petroleum gas for ambient heat and has substituted fossil fuel for biomass which has also had a positive effect in reducing CO_2 emissions at that site.

In our DACH and Northern Europe region, a project to implement ISO 50001-Energy Management commenced in November 2013, which delivers financial benefits through tax efficiencies, as well as better visibility and control over energy consumption.

PLANS FOR 2014

There continues to be substantial knowledge transfer from the integration of DS Smith and SCA Packaging. The Group-wide Continuous Excellence programme, which seeks to transfer best practice throughout all of our operations, presently has over 400 projects that are at various stages of implementation.

In 2014 we are concentrating our efforts on these areas to ensure that we continue to deliver on our environmental, social, and commercial ambitions:

- Further investment into energy-efficient capital equipment in our manufacturing facilities.
  - Boilers: Identifying plants using oil and planning conversion to cleaner fuels.
  - Heat Recovery: Identifying sites with potential to reduce heating demand through improved heat recovery.
- More efficient transport solutions, driven through supplier standards to ensure the only the most efficient vehicles are used and that they meet the strictest environmental, safety and social standards.

ENVIRONMENTAL PERFORMANCE INDICATORS

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

The 2012 calendar year environmental data reported last year has been used as the baseline for our environmental performance targets on CO_2 emissions, water management and waste sent to landfill in relation to production levels.

Our Paper and Packaging businesses account for more than 95 per cent of the environmental impact relating to the three target areas; CO_2 emissions, water management and waste to landfill.

The environmental performance data table overleaf displays the data for calendar year 2013 together with the data previously reported for calendar year 2012.

For 2013 and going forward, we will report our emissions of Carbon Dioxide Equivalent (CO_2e), as required by legislation. CO_2e includes CO_2 and also the equivalent impact from other gases, such as methane.

DS SMITH CHARITABLE FOUNDATION

DS Smith is proud to have established the DS Smith Charitable Foundation. The purpose of the Charitable Foundation is to support with donations, charities with values aligned to those of DS Smith, in particular, charities that support the environment. As a large employer with a responsibility to the communities in which we operate, the Charitable Foundation also supports charities which help train young people and assist them into work.

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

Environment continued

ENVIRONMENTAL PERFORMANCE INDICATORS

(Data for period 1 January 2013 to 31 December 2013)

Global Greenhouse Gas Emissions

	Unit of measure	2013	2012
Scope 1: Combustion of fuel and operation of facilities	Tonnes of Co_2e	**1,215,458**	n/a
Scope 2: Electricity, heat, steam and cooling purchased for own use	Tonnes of Co_2e	**576,048**	n/a
Total Scope 1+2	Tonnes of Co_2e	**1,791,506**	n/a
CO_2e impact of electricity, heat and steam exported to third parties	Tonnes of Co_2e	**(519,457)**	n/a
Total		**1,272,049**	n/a
Total CO_2e per tonne production	kg/tonne	**297**	n/a

This table is presented in the format specified by the Greenhouse Gas Emissions (Directors' Reports) Regulations 2013. Reporting of our emissions in Tonnes of Carbon Dioxide Equivalent (CO_2e) has been implemented retrospectively. Data on the additional greenhouse gases (defined in section 92 of the Climate Change Act 2008 as methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6)), was not available for 2012.

Other environmental indicators

	Unit of measure	2013	2012	Change
Total Production	ktonnes	**6,027**	5,322	
Electricity, heat and steam exported to third parties	MWh	**1,995,495**	n/a	
Total Emissions of CO_2	ktonnes	**2,144**	1,514	
CO_2 impact of electricity, heat, and steam exported to third parties	ktonnes	**(519)**	n/a	
Total CO_2 emissions	ktonnes	**1,625**	1,514	
Total Effluent Water discharged	mm^3	**16.6**	16.0	
Total Waste to landfill	tonnes	**63,677**	67,889	
Total Emissions of CO_2 per tonne of production	ktonnes	**269.6**	284.4	-5.2%
Total Effluent Water discharged per tonne of production	m^3/tonne	**2.75**	3.00	-8.3%
Total Waste to landfill per tonne of production	kg/tonne	**10.6**	12.8	-17.2%

Verification Statement from Bureau Veritas UK Ltd

Bureau Veritas UK has been commissioned by DS Smith Plc (DS Smith) for the sixth year to provide an independent opinion on the Environmental Performance Indicators presented on this page of its 2014 Annual Report. Having completed a process of assessment including site visits, document review and interrogation of associated management and reporting systems, it is our opinion that the data presented here is a fair and accurate representation of DS Smith's performance.

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

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

Methodology

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

2 The figures reported above include data from all the Group's wholly-owned or majority-owned manufacturing operations. Of the 95 sites that consume fossil fuels (paper mills, corrugating plants and foam plants) actual consumption figures were available for all sites. The total figures also include data from a further 64 small production facilities that use only grid electricity.

3 The CO_2 and CO_2e emissions were calculated using the UK Department for Environment, Food & Rural Affairs 2013 emissions factors. The factors used for converting grid electricity reflect the mix of fuels used for electricity generation in each country.

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

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

6 In order to aid a year-on-year comparison, the data is displayed in the format we used for our reporting last year. This showed our total emissions of CO_2 only. In future reporting, we will align ourselves to using Tonnes CO_2e.

7 Production is defined as sum of the production output in tonnes from each site whose energy, waste and water consumption is reported above.

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

Employees

Our people.

Our people are dedicated, hard-working and proud to play their part in the DS Smith story.

Encouraged rather than intimidated by the ambitions of the Group they are keen to share innovative ideas and develop better ways of working. The drive for change comes from all levels of the business with the understanding that through change we will achieve growth. Our focus on excellence in service, quality and innovation speaks directly to the activities of our people and they see that they are central to the success of the Group. Equally, they know that by delivering in these key performance areas, there will be more investment in the business and in their own development.

Through our employee engagement and culture change programme "OWN IT!", which promotes the use of storytelling to drive change, the ambitious vision and goals of DS Smith have been given a human face as real-life stories have been shared of our colleagues' successes and challenges.

OUR VALUES

We believe that a clear set of values and behaviours, owned and lived by all our employees, can make a fundamental difference to how they feel and go about their work.

DS Smith is founded on the following values:

Be caring

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

Be challenging

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

Be trusted

We can always be trusted to deliver on our promises.

Be responsive

We seek new ideas and understanding and are quick to react to opportunities.

Be tenacious

We get things done.

EMPLOYEE SURVEY

At a Group level, we also place great importance on listening to our employees' collective voice and giving our colleagues the opportunity to raise the issues that matter to them. Our main vehicle for this communication is our Employee Survey.

Following the 2012 Employee Survey, as a Group we highlighted three areas of focus for our actions (in addition to local actions based on site/regional results):

Performance review

We are committed to ensuring that all employees receive open and honest performance feedback and, coming from that, clear development plans. To support this, a simpler appraisal form that promotes quality conversations, not tick boxes has been implemented. It also drives review of behaviours in line with our values as well as delivery against objectives. Steps have been taken to improve the quality of performance conversations by developing in-house courses for managers and employees on giving and receiving appraisals.

Parallel to the performance review process a common talent review process has been launched. This not only provokes valuable conversations with senior managers around succession plans and the development of a talent pool, but also has its foundations in our leadership competencies. The focus on competencies creates greater consistency and fairness providing equal opportunities for development and progression.

Reward

DS Smith is committed to finding the best way possible to share the benefits of company performance with every employee.

As a substantial step towards bringing closer links between performance and reward and delivering against this commitment, we launched an international Sharesave plan in January 2014. Through this we are also reinforcing the clear message of OWN IT!, in building genuine ownership in the business as well as ownership and accountability over individual roles and responsibilities.

Employee engagement and culture change

DS Smith promised to continue the OWN IT! programme that has been providing tools and occasions for employees at all levels to engage in the strategy of the business.

From this renewed commitment, we have seen fresh energy injected into the long-term efforts to develop a common corporate culture based on our values. This has meant teams spending more time exploring what the words mean in action and reflecting on individual performance and behaviours in relation to the values.

Employees continued

OWN IT!

OWN IT! as a change programme centres on the call to action for all our colleagues to "own" their part in the delivery of our strategy and our values.

We have some fantastic examples of employees who have followed that call to action:

- At one location an employee put in place a new suggestion scheme with clear communication and feedback processes and rewards for top implemented ideas.
- At another, we have seen an employee-led initiative to create "internet cafe" style access to our new intranet in a staff canteen.
- At one of our mills an OWN IT! committee has been formed. With their own improvement budget, they collect and decide upon ideas to follow up on and recognise the individual who suggested it with a name plaque.
- Other employees have been involved in the development of in-house learning and development offerings for colleagues and managers, in line with our values and leadership competencies.

Find out more about our employee culture at www.dssmith.com/people/culture/

A key element of the programme has also been empowering all employees to start bottom-up improvement projects aligned to the corporate strategic priorities. This has been facilitated by the identification and development of key influencers from outside the management structures. (See OWN IT! feature left).

The OWN IT! programme has also been built on the principle of sharing stories to inspire change or share experiences and knowledge. To help promote the sharing of best practice and recognition of success, we have launched a new Group-wide intranet, Plexus.

The next employee survey is being conducted in October 2014 and will measure our progress against these commitments as well as providing invaluable updates on levels of employee engagement and opinions on a range of pertinent topics.

DIVERSITY

DS Smith is an equal opportunities employer. DS Smith is firmly committed to both the principle and realisation of equal opportunities and its policies are designed to provide such equality as set out in our Code of Conduct.

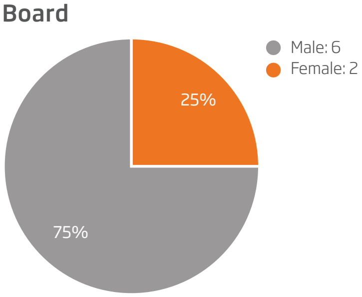
As DS Smith now operates in 25 different countries, we recognise and value the importance of a diverse workforce. Group leadership, divisional and regional operation, and local practices, provide a multi-cultural platform from which the Group can leverage talent in its broadest sense and develop multi-skilled teams who will look at business challenges from various perspectives.

Recruiting for talent within an equal opportunity environment, we also take good care of the complementarity of profiles that will form our teams, and whilst personalities are all individual, we strive to ensure that people's own values will be consistent with the DS Smith values.

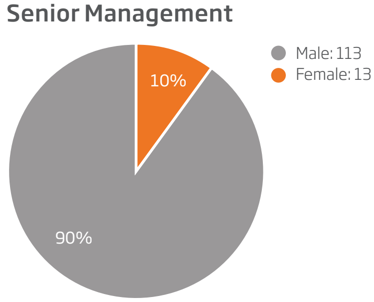
"Be Caring" and "Be Challenging" are the two values that will best represent how we value diversity at DS Smith. As we care for our people, we expect people to care for their colleagues and respect their differences of opinions and styles. The constructive challenge spirit that we foster within the Group encourages people to listen and consider diverse opinions when dealing with every business challenge.

GENDER DIVERSITY

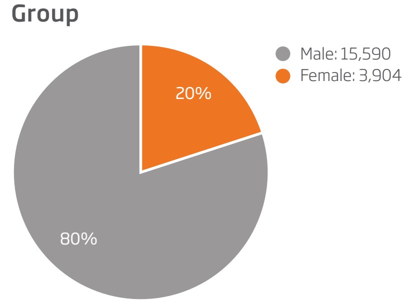
Board



Senior Management



Group



Employee data collected at the financial year end date of 30 April 2014. At that date there was one woman on the Board. On 23 June 2014, Louise Smalley was appointed to the Board, bringing the total to two.

Our Senior Management population consists of the management teams that report into the Group Management Team.

From a gender perspective, female representation at Board level is 25 per cent, at senior management level is 10 per cent and across the employee base as a whole is 20 per cent.

HEALTH AND SAFETY

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

Health and Safety Key Performance Indicators

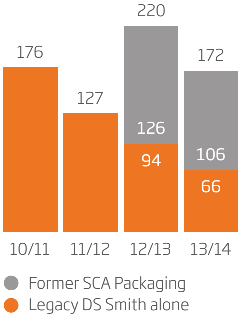
	2013/14	2012/13	Variance
Total LTAs	**172**	220	-22%
AFR	**4.80**	6.16	-22%

2012/13 figures revised to a full year of SCA Packaging.

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

This is the first full year of the newly enlarged Group and a key element of the integration of the business units has been to maintain our focus on improving our safety performance. The decrease shown in the table above is a significant improvement from 2012/13.

LTA figures



This mirrors our previous progress following the acquisition of new businesses. The graph above shows that, although the annual number of LTAs increased with the enlarged business, the downward momentum has been maintained.

In addition to the significant decrease in numbers of LTAs, and the consequential impact on AFR, we have seen an 18 per cent reduction in our severity rate (this is expressed as working hours lost as a percentage of the total hours worked) from 0.17 to 0.14.

Any accident which causes injury and suffering is one accident too many. We are committed to achieving a zero accident culture and recognise that much more work needs to be done on improving our sites, reducing risks and raising our safety awareness. However, it is important to note that 70 per cent of our sites have reported zero LTAs in the past year (versus 54 per cent 2012/13) and it is our challenge to extend this to the full Group.

This year the Group created the post of Group Health and Safety Director. Part of his role has been to work with the newly established Safety Leadership Group (SLG) to help coordinate Group policy and best practice from the various parts of the organisation and further raise the visibility of safety within the organisation. The first key element has been to establish a uniform incident management system which will be in place from the start of the new financial year.

The new system will ensure better quality reporting and analysis of our incidents so that we can prioritise our resources.

The SLG meets monthly to review major LTAs/high potential severity incidents, thus further improving the level of challenge on accident investigation.

The SLG has also set up working groups on specific topics such as machine guarding and workplace transport and is working to identity and share best practice across the Group. It has also revised the safety incident definitions and is in the process of revising the Group's safety policies.

Going forward the business will continue to set stretching safety key performance indicators to act as milestones to a zero accident culture. These are tracked and reported monthly to the Group Management Team, with quarterly reports to the Board as in previous years. The established Divisional safety audits will continue with support from external consultants as well as internal specialists. These audits assist the sites in reducing risks and establish greater consistency within the Group.

EXAMPLES OF HEALTH AND SAFETY IMPROVEMENTS

Throughout the Group substantial progress has been made on safety and that is translating into reduced frequency and severity rates. Accident frequency rates in Benelux have dropped by one-third and by over 25 per cent each in DACH, France/Spain, Italy and Plastics. The single most impressive improvement has been in Northern Europe where the rate has fallen by over 60 per cent.

Site specific examples of how we are continuing to raise safety standards include:

Nantes paper mill

Nantes paper mill has made excellent progress this year, reducing their LTAs and severity rates significantly. This result can be attributed to the huge amount of work and effort from the team to improve housekeeping and safety standards at the mill. The number of LTAs has reduced from six to one.

Featherstone

Featherstone is one of our largest, most complex packaging sites, employing 230 people and operating 24/7 365 days per year. It has achieved the milestone of three years without any LTAs, that is over 1.5 million hours worked LTA-free, an outstanding achievement by everyone on site.

Principal Risks

Providing better risk insight each year.

We are committed to seeking out opportunities and minimising the barriers and challenges that might impede the security of the Group's long-term viability and to maximize its economic value to our shareholders.

Our Governance Report which starts on page 38 describes the systems and processes through which our Board manages risk. The Board recognises that many risks are connected and interdependent. Like many other businesses we are subject to many general risks such as changes in socio-economic conditions, political, financial, regulatory and legislative changes. Whilst we aim to ensure our business is as resilient as it can be to such external shocks, the Board considers that the principal risks influencing the performance of the Group in terms of its key priorities and the ways we have designed our business to mitigate the negative consequences, are as follows:

ACQUISITION AND MARKET CONSOLIDATION RISKS

Strategic aim at risk: To deliver consistent shareholder value by winning market share and expanding into new markets.
KPIs at risk: Return on average capital employed, corrugated volume growth.

The risk	Resilience
We lack the agility and capability to identify, assess and take advantage of potential opportunities for expansion into new geographies and market penetration strategies for existing markets. Our investment in new "bolt on" acquisitions fails to stimulate increased packaging volume or margin growth and does not deliver the desired returns for our operations in emerging markets.	Our view remains that there are a number of significant opportunities for our business to grow substantially in the years ahead. We continually review and assess opportunities for expansion, in terms of our integrated supply chain activities and/or product range across all of the territories in which our divisions operate. Country and market entry strategies are based on a defined sourcing network undertaken throughout our divisional and regional business leaders as well as through local contacts in country and advisors to ensure that all potential acquisitions are reviewed by those with the most relevant experience, capabilities and capacity to lead successfully either a new market or product line entry or expansion of our closed loop integration strategy.

CAPITAL MARKET AND LIQUIDITY CAPACITY RISKS

Strategic aim at risk: To deliver consistent shareholder value by winning market share and expanding into new markets.

The risk	Resilience
Our inability to finance the growth strategy at acceptable terms.	Our ability to secure access to the debt capital and bank markets is well managed, and we currently envisage few limitations for raising additional financing for the Group. Our objective is to maintain a strong balance sheet, consistent with an investment grade credit rating, which results in an appropriate cost of capital, whilst providing flexibility to raise additional funding for investment. We aim to borrow from a variety of resources to reduce the reliance on any particular market. Where possible, the Group manages cash within cash pools and remits surplus funds to the centre to repay drawings under committed bank facilities. The level of cash and debt facilities required to fund the Group's business plan is reviewed regularly. This involves planning for repayments of debt at maturity and including an appropriate amount of headroom under committed bank facilities to provide a reserve against any unexpected funding requirements.

INTEGRATION RISKS

Strategic aim at risk: To realise the potential of our people by building a common culture.

The risk	Resilience
We fail to integrate our business into a single set of cohesive values exhibited in the daily activities and decision making processes of our employees and are unable to develop the appropriate level and calibre of skills and competences across our leadership teams to match our key strategic priorities.	Across our businesses we are developing our talent, building our leadership capability, employee skill base and connecting all our people through a variety of networks in order to be seen as the employer of choice in our markets. The OWN IT! employee communications campaign is the cornerstone of the cultural integration strategy connecting DS Smith values to strategy, organisation structure, skills, staffing, styles as well as adoption and use of new technology. To date its implementation has worked well, and we have a clear desire to move the OWN IT! programme to a more action oriented foundation. Our investment in establishing performance and talent management processes adds to the integration priority where employees and management can gauge development opportunities, produce and review succession plans and monitor successes.

Principal Risks continued

SECURITY OF PAPER SUPPLY RISKS

Strategic aim at risk: To deliver consistent shareholder value by building a resilient and sustainable business model.
KPIs at risk: Return on sales, return on average capital employed, cash conversion.

The risk	Resilience
We fail to manage input price risk and processing cost escalation in an industry that is subject to economic cyclicality in old corrugated card (OCC) and corrugated case material (CCM) costs. We fail to adapt adequately to changes in paper production capacity installed or imported into CCM markets by our competitors.	We operate sufficient paper manufacturing operations to give security of supply, while still being a net purchaser of CCM and securing lowest cost of overall supply. Improved security of lowest cost OCC and CCM supply is balanced by measures to secure quality paper by leveraging the scale of our own OCC sourcing and CCM production to generate a "best fit" given our geographical footprint. We use a targeted balance of committed/contractual supplies with open market purchases which varies by region and country, reflecting the economic supply radius of our mills, the availability of local supply (the quality of the paper available) and the local concentration of suppliers. We continue to pursue a strategy to recover paper price rises with our customers though indexed contracts as part of our commercial contracting process. We target reductions in the time period taken to recover input cost rises by working with customers to look at the costs at the various points where packaging touches their supply cycle and to help them reduce their costs overall.

COMMERCIAL DIFFERENTIATION RISKS

Strategic aims at risk: To delight our customer, to deliver consistent shareholder value, to lead the way in recycling.
KPIs at risk: Return on sales, return on average capital employed.

The risk	Resilience
We fail to manage adequately critical demand drivers through our commercial strategy to inspire and drive differentiation from design to new packaging services and fail to broaden our pan-European and industrial sector base.	We invest in providing a long-term commitment to properly resource our research and development through concept to commercialisation, recognising that we operate in an extremely competitive market place. This investment ensures we have an acceptable strength in depth to our commercial capability and the discipline to minimise the impact of margin erosion across our integrated business model. We operate a high quality, shared strategy for innovation across our closed loop business model and a well-established process for managing new products and services. We focus on extensive customer engagement work to ensure that innovation activities remain aligned to future customer needs and purchasing requirements.

LEGAL, REGULATORY AND GOVERNANCE RISKS

Strategic aim at risk: To deliver consistent shareholder value by building a resilient and sustainable business model.

The risk	Resilience
The Group fails to maintain its reputation and integrity in its management processes and procedures through weakness underpinning the principle of a sound corporate governance system which results in a systematic failure of, or systemic weakness in our internal systems of control and operational failure across one or more areas including finance, tax, health, safety and environment, IT system integrity, product safety or critical production processes. The Group's business model and/or reputation is damaged through adverse legal and/or regulatory change or from direct intervention from legislators arising from anti-trust concerns.	Both our employees and suppliers operate according to our set standards of ethics and behaviours as defined in our Operating Framework and manage legislative or regulatory challenges presented by their respective jurisdictions. We continue to enhance our risk-based governance strategy through Group policy development to improve both quality and content of each policy and/or adopt new policies where changes in regulatory or geographical operation and divisional footprint require. The Group continues to maintain very detailed and extensive arrangements for the management of health, safety and environment, product integrity and safety, including the management of standards and regulations governing all Group operations. Our divisional structure and network allows the Group to respond quickly through back-up or contingency arrangements to mitigate the emergence of any weaknesses identified in our internal controls or through any change in competitive behaviour or market dynamics. The Group engages with external bodies to undertake compliance and certification testing of its paper grades. We regularly check our suppliers for evidence of compliance with applicable legislation and standards. We work with industry associations and through various stakeholder channels to understand and monitor emerging trends in regulation and legislation that may materially influence the sustainability of our business model.

SUSTAINABILITY STRATEGY RISKS

Strategic aim at risk: To lead the way in recycling by building sustainability into our decisions.

The risk	Resilience
We fail to realise the full potential of the sustainability benefits from our closed loop business model from an inability to attain and disclose sufficient or acceptable sustainability performance measures and related environmental obligations and/or from changed customer ethos and expectation for increased standards of sustainability.	The Group's sustainability policy was released in October 2013. This policy clearly articulates the interrelationships between economic, environmental and social factors, and it recognises the competing demands of stakeholders and the role our managers have in balancing those demands. Across our Group we are developing our sustainability credentials by building our leadership capability and connecting our sustainability data in such a way so as to provide improved visibility and assurance to our stakeholders. We fully comply with European and national legislation for disclosing Greenhouse Gas emissions which supports our existing reporting to the Carbon Disclosure Project.

Introduction to Corporate Governance

Delivering a robust framework.

Key responsibilities of the Board

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

DEAR SHAREHOLDERS

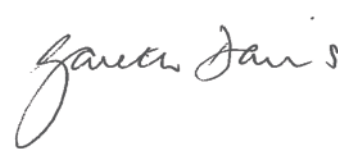
I and all the Board are committed to ensuring that DS Smith operates to the highest standards of corporate governance. A Board of Directors should add value in many ways and we believe it is our governance structure that underpins our ability to deliver our strategy to become the leader in recycled packaging for consumer goods.

The following pages outline our approach to governance. This year, for the first time, we have pulled together all of the Group's policies and procedures into a single overarching code which we call our Operating Framework. Our governance framework, which includes our Operating Framework and Code of Conduct together with our values, is key to the way we work with our colleagues and with our customers and suppliers. During the year our governance framework has been enhanced to take into account the commencement of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"), and the legislative changes, including changes introduced by the September 2012 edition of the UK Corporate Governance Code (the "Code") which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Company has complied in all material respects throughout the financial year with all the provisions of the Code.

This additional reporting also includes the statement made by the Directors on page 50 that they consider the Annual Report, taken as a whole, to be fair, balanced and understandable. The processes which underpin and support the Directors' confidence in making this statement are long established and embedded into our business. Both our internal and external legal advisers support these processes and our external Auditor reviews the narrative sections of the Annual Report and Accounts to identify any material inconsistences with the financial statements. The Directors also receive drafts of the Annual Report and Accounts and reviewed them at the 2014 April and June Board meetings.

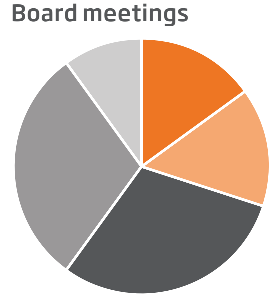
This year, as part of the year-end process, divisional managing directors and finance directors have signed a certificate confirming compliance with the Group's governance framework as set out in the Operating Framework.

My report begins with an overview of the key activities of the Board from 2013/14 and sets out our key priorities for next year.



Gareth Davis
Chairman

Topics discussed at 2013/14 Board meetings

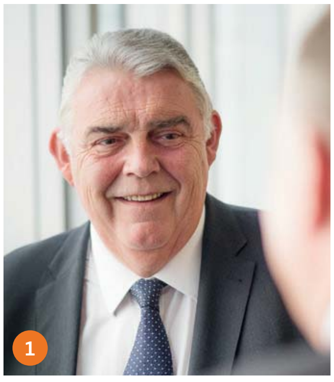


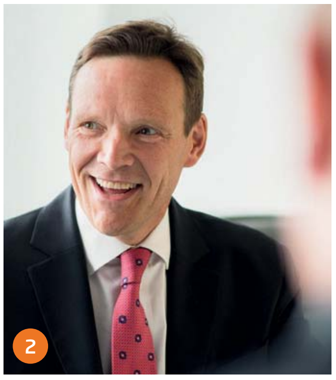
- Governance 15%
- Strategy 15%
- Financial Management 30%
- Operations 30%
- Health & Safety/Environment 10%

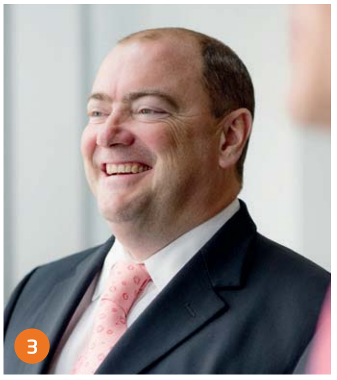
	Key activities in 2013/14	Key priorities in 2014/15
Strategy	• Reviewed and approved the Corporate Plan. • Debated and approved the Group's dividend policy.	• Approve and keep under review the Corporate Plan. • Keep the Group's dividend policy under review.
Risk and risk management	• Appointed a Group Risk Officer. • Approved new risk policy. • Adopted a Board risk tolerance statement. • Reviewed key risks (see pages 34 to 37) and the internal controls process, and assessed the Group risk profile by identifying where the business's key risks lay, aligning them with the risk appetite of the business and highlighting how to target effectively and mitigate those risks. • Continued the competition law, anti-bribery and anti-corruption policies, training and awareness drives and to monitor compliance.	• Ensure that the Group remains at the forefront of developing and embedding best practice for risk management. • Continue to monitor compliance with the "Speak Up!" workplace malpractice policy, the anti-bribery and anti-corruption policy and the competition law policy. • Update the social media and data protection policies.
Governance and values	Leadership and employees: • The recruitment of a new Group Finance Director helped to bring new perspectives, experience and skills to the table, further strengthening the Board debate. • Reviewed the key operational roles and identified gaps in experience needed to deliver the strategy. Relations with shareholders: • Engaged with our retail shareholders at the AGM. • Actively engaged with institutional shareholders, investors and other stakeholders throughout the year. • Consulted extensively with investors in relation to our remuneration policy. External Audit appointment: • Approved the re-appointment of Deloitte LLP as external Auditor following a tender process conducted by the Audit Committee. Compliance: • Approved a Code of Conduct which sets out the Group's culture and values. • Approved an Operating Framework which sets out the Group's key policies and procedures, all in accordance with the principles of good corporate governance. • Approved an updated "Speak Up!" workplace malpractice policy.	• Ensure that the Group continues to develop and embed best practice in responsible business behaviour. • Maintain and enhance DS Smith's culture and values. • Continue to strengthen internal controls and reporting. • Review level of institutional holdings and consider actions to broaden further the Group's shareholder base. • Continue to actively engage with both retail and institutional shareholders, as well as other stakeholders.
Organisational capacity	• Monitored health and safety and environmental performance across the Group and reviewed the lessons learned, ensuring the safety of our employees and others affected by our operations is protected. • Increased contact between the Board and senior talent pipeline to further improve information flow. • Reviewed the internal talent management process and its results.	• Continue to monitor senior executive talent management and development plans to provide succession for all key positions. • Continue to increase the diversity of the Board and management team.
Board development	• Continued to focus on the composition, balance and effectiveness of the Board. Reviewed Board composition and discussed and acted on the recommendations of the Nomination Committee. • Appointed two additional non-Executive Directors, improving Board skills and diversity. • Undertook an evaluation of the Board and its Committees with the aim of becoming the best Board we can be. Following the evaluation, an action plan was developed, which is set out in more detail on page 45.	• Enhance the Board's strategic understanding of geo-political and economic risks in international markets. • Use Board visits to promote understanding of markets and the business development opportunities they offer. • Annual evaluation of Board performance – to be carried out by independent evaluator.

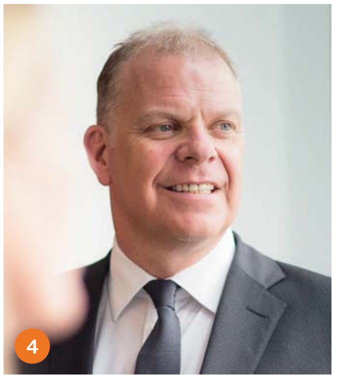
Board of Directors and Company Secretary

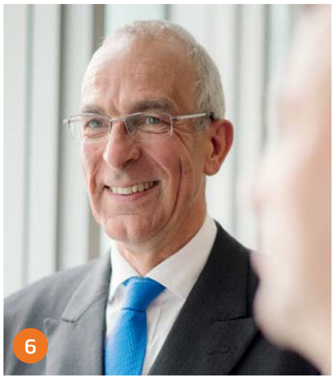
Delivering experience and leadership.





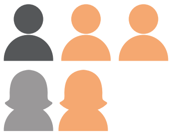






Board tenure and background

1–3 years



4–6 years

- Engineer
- Finance
- International sales, marketing & general management
- HR
- International operations

1 GARETH DAVIS
Chairman

N R

Appointment
Appointed to the Board on 1 June 2010 as a non-Executive Director. He became Chairman of the Board on 4 January 2012 and is Chairman of the Nomination Committee.

Skills and experience
He is Chairman of both William Hill PLC and Wolseley plc. He was previously Group Chief Executive of Imperial Tobacco Group PLC. Age 64

2 MILES ROBERTS
Group Chief Executive

N G

Appointment
Appointed to the Board on 4 May 2010 as Group Chief Executive.

Skills and experience
He was previously Chief Executive of McBride plc from July 2005 until April 2010 having originally joined as its Group Finance Director in January 2002. He was a non-Executive Director of Care UK plc until May 2010. Age 50

3 ADRIAN MARSH
Group Finance Director

G

Appointment
Appointed to the Board on 24 September 2013 as Group Finance Director.

Skills and experience
He was previously Group Director of Tax, Treasury and Corporate Finance at Tesco PLC. Prior to this he was European CFO at AstraZeneca plc and CFO Global Building Products at Pilkington plc. Age 47

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

4 CHRIS BRITTON
Non-Executive Director

N R A

Appointment
Appointed to the Board on 6 March 2013 as a non-Executive Director.

Skills and experience
He is a non-Executive Director of Alliance Boots GmbH and manages B&B Investment Partners LLP, a specialist investment fund. He was previously CEO of the Findus Group, a privately owned frozen and chilled food company, having previously been an executive Board member and President of the Baby Division of Royal Numico until its acquisition by Danone in November 2007. Before that he worked for Diageo for 20 years in various marketing and general management positions, including his final role as global marketing director of Diageo. Age 56

5 IAN GRIFFITHS
Non-Executive Director

N R A

Appointment
Appointed to the Board on 23 June 2014 as a non-Executive Director.

Skills and experience
He is Group Finance Director of ITV plc. He was at Emap plc for 8 years in various senior finance positions including as Group Finance Director from 2005 to 2008. Prior to that he was at Ernst & Young, where he worked in the corporate finance team. Age 47

6 JONATHAN NICHOLLS
Senior Independent Director

N R A

Appointment
Appointed to the Board on 1 December 2009 as a non-Executive Director. He is the Senior Independent Director and is the Chairman of the Audit Committee.

Skills and experience
He was previously Group Finance Director of Hanson Plc and, most recently, Group Finance Director of Old Mutual Plc. He is a non-Executive Director and Chairman of the Audit Committees of Great Portland Estates plc and SIG plc and was a non-Executive Director of Man Group Plc. Age 56

7 KATHLEEN O'DONOVAN
Non-Executive Director

N R A

Appointment
Appointed to the Board as a non-Executive Director on 5 December 2012. She was appointed Chairman of the Remuneration Committee in September 2013.

Skills and experience
She is currently Senior Independent Director of ARM Holdings plc and chairs the Audit Committee. She was previously a non-Executive Director of Prudential plc, EMI Group plc, O2 plc and Trinity Mirror plc, and Senior Independent Director of Great Portland Estates plc. She has served as a Director on the Court of the Bank of England from 1998 to 2004 and was Chief Financial Officer of BTR plc and Invensys plc from 1991 to 2002. Age 57

8 LOUISE SMALLEY
Non-Executive Director

N R A

Appointment
Appointed to the Board on 23 June 2014 as a non-Executive Director.

Skills and experience
She is Group Human Resources Director of Whitbread PLC. She is a trustee of People 1st. She previously worked in the oil industry, with BP and Esso Petroleum. Age 46

9 MATT JOWETT
Group General Counsel and Company Secretary

Appointment
Appointed Group General Counsel and Company Secretary on 21 June 2011.

Skills and experience
He was previously Group General Counsel and Company Secretary of VT Group plc and prior to that he was Group General Counsel of RMC Group plc. He began his career at law firm Linklaters. Age 46

Directors' Governance Report

Group annual reporting framework

Financial results and reports to investors
- Full-year results
- Half-year results
- Interim Management Statements
- Trading updates

Board meetings
- Seven Board meetings a year

Group Management Team ('GMT')
- Eleven GMT meetings a year

Trading Meetings
- Each division provides monthly updates

Sustainability governance
- Four quarterly Sustainability Committee meetings

Talent and performance review process
- Talent and performance reviews
- Bonus targets and payments
- Salary reviews

Corporate planning cycle
- Divisional strategy development
- Board approval

Budgetary process
- Divisional budget development
- Board approval

ROUTINE PROCESSES

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

BOARD AND COMMITTEE STRUCTURE

The Board has delegated authority to three principal committees:

- Audit Committee;
- Remuneration Committee; and
- Nomination Committee.

See pages 51 to 74 for the Committee Reports. All Board Committees have written terms of reference agreed by the Board and these are regularly reviewed and updated.

Currently, reflecting the smaller Board size, all non-Executive Directors are members of the three principal committees (with the exception of the Chairman, who is not a member of the Audit Committee). Following the strengthening of the Board with the appointment of two new non-Executive Directors, consideration will be given in 2015 to a more apportioned committee membership structure.

OTHER BOARD COMMITTEES

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

LEADERSHIP

Board and Board Committees

	Independent	Board	Nomination Committee	Audit Committee	Remuneration Committee	Annual General Meeting[5]
Total number of meetings in 2013/14		7	4	4	5	1
Total number of meetings attended in 2013/14						
Executive Directors						
Miles Roberts	No	7 (7)	4 (4)	–	–	1 (1)
Adrian Marsh[1]	No	5 (5)	–	–	–	0 (0)
Steve Dryden[2]	No	1 (1)	–	–	–	0 (0)
Non-Executive Directors						
Gareth Davis	On appointment	7 (7)	4 (4)	4 (4)	4 (5)	1 (1)
Chris Britton	Yes	7 (7)	4 (4)	4 (4)	3 (5)	1 (1)
Chris Bunker[3]	Yes	2 (2)	1 (3)	1 (1)	1 (2)	1 (1)
Philippe Mellier[4]	Yes	1 (4)	0 (3)	1 (3)	0 (3)	0 (1)
Jonathan Nicholls	Yes	7 (7)	4 (4)	4 (4)	5 (5)	1 (1)
Kathleen O'Donovan	Yes	6 (7)	4 (4)	4 (4)	5 (5)	0 (1)

The Board held seven scheduled meetings during the year. Figures in brackets denote the maximum number of meetings that could have been attended. All Directors received papers for all meetings, and had the opportunity to comment in advance of meetings where they were unable to attend.

1 Adrian Marsh was appointed to the Board on 24 September 2013.

2 Steve Dryden resigned from the Board with effect from 28 June 2013.

3 Chris Bunker resigned from the Board with effect from 3 September 2013. He had completed his third consecutive term in December 2012, but the Board concluded that he remained independent.

4 Philippe Mellier resigned from the Board with effect from 11 February 2014.

5 Philippe Mellier and Kathleen O'Donovon were unable to attend the 2013 AGM due to prior commitments.

Directors' Governance Report continued

Key responsibilities

Chairman – Gareth Davis

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

Gareth Davis, in conjunction with Matt Jowett, ensures that Directors receive a full, formal and tailored induction to the Group and ongoing training as relevant. The roles of the Chairman and Group Chief Executive are clearly established and separate.

Group Chief Executive – Miles Roberts

- leading the development of the Group's strategic direction and implementing the agreed strategy;
- communicating effectively with shareholders and stakeholders;
- overseeing business operations and managing risks;
- is the Director with prime responsibility for health and safety within the Group and its subsidiary operations ; and
- building and leading an effective GMT and management of the Group's business.

Miles Roberts is assisted in meeting his responsibilities by Adrian Marsh, Group Finance Director, and the GMT (which comprises the heads of the Group's principal operations and functions).

Senior Independent Director – Jonathan Nicholls

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

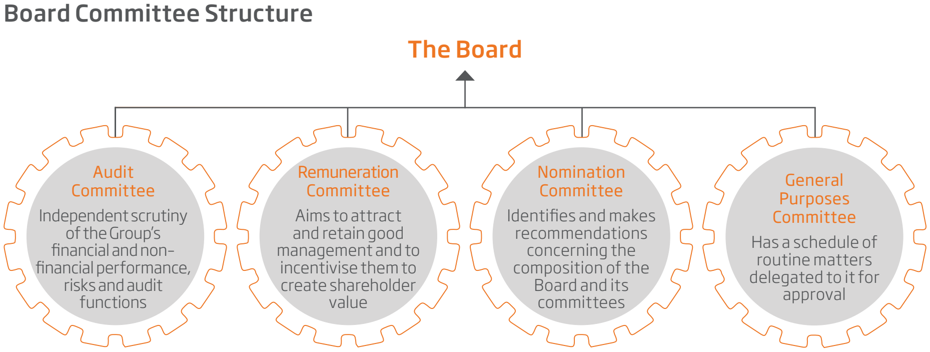
Independent non-Executive Directors

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

Group General Counsel and Company Secretary – Matt Jowett

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

Board Committee Structure



BOARD DIVERSITY

The Board aims to ensure that diversity in its broadest sense remains a key priority of the Board.

Whilst all Board appointments are made on merit, we seek to ensure that the Board maintains an appropriate balance through a diverse mix of experience, backgrounds, skills, knowledge and insight, to further strengthen the diversity of gender and experience already on the Board and continue to improve it. We will report annually against these objectives and other initiatives taking place in the Group which promote gender and other forms of diversity.

We firmly believe in the importance of a diverse Board membership and fully support the Lord Davies Report on 'Women on Boards'. Our Board gender and experience split is shown on page 40. Currently 25% of the Board are female and we hope to maintain at least this level in the short to medium-term.

We commit to having diverse and inclusive leadership which supports all colleagues in reaching their full potential, including the development of a pipeline of high-calibre candidates from within the business. More information on this can be found in the Employees section on page 32.

EFFECTIVENESS

The Board carried out an internal appraisal of its performance and that of the Committees and the individual Directors between March and June 2014. A detailed questionnaire was completed by each Director followed by individual discussions between the Chairman and each Director. The review this year investigated a variety of aspects associated with Board effectiveness and, in addition, revisited those areas identified last year to measure whether progress had been made. The feedback was collated into a report and presented to the Board for discussion and the outcomes and action plan are outlined

BOARD EVALUATION – ACTIONS AND OUTCOMES

Area	Actions from 2013/14	Areas for consideration in 2014/15
Board role and composition	• Ensuring that an appropriate balance of skills, experience and diversity on the Board is maintained: – The appointments of Ian Griffiths, Adrian Marsh and Louise Smalley improved Board diversity.	• A more structured annual agenda will be developed for the Nomination Committee, to ensure that executive succession planning and talent management receive due consideration. • Diversity, particularly the need for more continental European experience, will continue to be a key factor when considering the make-up of the Board.
Effectiveness	• The understanding of the Board and its visibility of risk and executive succession planning was further developed: – A Group Risk Officer was appointed during the year and gives regular reports to the Audit Committee and the Board. – The Board sees members of the senior management team at Board dinners as well as in Board meetings and individual Directors meet with senior managers from time to time.	• The membership of the Board committees will be considered and the possibility of moving to a more apportioned membership will be discussed. • Further training opportunities will be made available to Directors, in particular on audit and remuneration issues.
Relations with stakeholders	• A Group Communications Director was appointed to augment our Investor Relations activities.	• The profile of the share register will continue to be monitored with a view in particular to attracting further investment from international shareholders.
Board behaviours and Committees	• There has been more structured discussion at Board dinners around agreed topics, involving external contributors and other senior executives. More senior executives attended Board meetings and dinners during the year.	• It continues to be important for the Board to meet other managers and key people in the business. • Support for the various Board Committees needs to be reviewed to ensure that each Committee is getting the right level of help and assistance.

in the table above. All Directors and the Company Secretary participated in the exercise. Next year, in accordance with the Board's policy to utilise an external facilitator every three years, the review will be carried out by an external facilitator.

The Board reviews the independence of its non-Executive Directors as part of the annual Board effectiveness review. The non-Executive Directors bring a strong independent oversight to the Board and, following this year's review, the Board considers that all of the non-Executive Directors continue to demonstrate their independence.

A separate review of the Chairman was carried out by the Senior Independent Director. The review concluded that the Chairman had devoted sufficient time to the role and had continued to perform well.

Following this evaluation the Board recommends the election or re-election of Directors standing for election or re-election at the 2014 Annual General Meeting ("AGM").

Conflicts

As part of our annual review process, during the Board meeting in April 2014 we reviewed and reconsidered all situations entered in the Conflicts Register. Each of the Directors in office reviews their individual position regularly and new Directors review their individual positions prior to joining the Board. As a routine item Directors are asked, at the start of each Board meeting, to declare any interests that might conflict with the agenda items under discussion.

The Company has also put procedures in place, via the Company Secretary, whereby the Directors can notify any future conflicts or potential conflicts of interest that may arise so that the Board can consider whether authorisation is appropriate. Any such notifications are reviewed at the next Board meeting and, if considered appropriate, authorised in accordance with the articles of association.

Directors do not participate in the discussion, or vote regarding their own conflicts. If authorised, any conflicts are entered in the Conflicts Register. The procedures continue to operate effectively.

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

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

Directors' Governance Report continued

DIRECTOR INDUCTION

It is essential that all new Directors are provided with an effective, tailored induction aimed at providing each of them with the information they need to know in order to become as effective as possible in the shortest time possible. Each induction programme is tailored to their specific needs, taking into account their individual qualifications and experience.

For Adrian Marsh, our new Group Finance Director, an induction programme was designed which comprised a series of meetings with the head of each of our major business divisions and Group functions. This allowed Adrian to meet the business and function heads with responsibility for implementing the Board's strategy and to discuss specific matters affecting that business or function. He also met with key advisers and major shareholders.

The induction programme for Ian Griffiths and Louise Smalley, who joined the Board in June 2014, included the provision of information on the Group's strategy, key risks and policies and procedures, individual time with the Chairman, Group Chief Executive, Group Finance Director and Group General Counsel and Company Secretary and key advisers and site visits to business locations.

All the Directors are advised of the legal and other duties they have as Directors of a listed company.

DIRECTOR TRAINING

As part of the continuing development of the Directors, the Group General Counsel and Company Secretary ensures that the Board is kept up to date on relevant new legislation and regulatory changes, key governance developments throughout the business and changing commercial risks.

BOARD VISIT TO KEMSLEY MILL

The Board meeting in March was held at Kemsley Mill. Prior to the Board meeting Directors received a presentation by the general manager about the improvement progress, and made a tour of the site. Board visits provide invaluable insight into the business for Directors and the Board will hold at least one meeting a year at a business location.

BOARD MEMBERSHIP

Summary of Board and Committee changes

Month	Change
June 2013	Steve Dryden resigned from the Board and as a member of the General Purposes Committee.
September 2013	Chris Bunker retired from the Board and from the Audit, Remuneration and Nomination Committees.
September 2013	Kathleen O'Donovan appointed as Chairman of the Remuneration Committee.
September 2013	Adrian Marsh appointed as Group Finance Director. He was also appointed to the General Purposes Committee.
February 2014	Philippe Mellier retired from the Board and from the Audit, Remuneration and Nomination Committees.
June 2014	Ian Griffiths and Louise Smalley appointed as non-Executive Directors.

Biographical details of each of the current members of the Board, including their external commitments, can be found on page 41.

RELATIONS WITH SHAREHOLDERS

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

The Company has a programme of regular meetings, site visits and results briefings with its major institutional shareholders, which provide opportunities to discuss the progress of the business.

Over the course of the past year, we have held regular meetings with institutional shareholders, including several days of meetings following each of the full-year and half-year results announcements, two visits to investors in the United States, investor meetings in Paris and further ad hoc meetings and conferences. We also held a capital markets day for investors and equity analysts at our Brussels innovation centre.

The Board receives feedback from major shareholders following the full and half-year results. Together, the Chairman, the Executive Directors, the Group Communications Director and the Head of Investor Relations ensure the Board is briefed on shareholders' views such that any issues or concerns are fully understood and considered by the Board.

The Senior Independent Director is available to discuss with shareholders any major issues that cannot be resolved through normal channels.

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

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

At our 2013 AGM we received votes representing approximately 70% (2012/13: 80%) of our issued share capital.

Our next AGM will be held on Wednesday 17 September 2014. Full details are contained in the Notice of Meeting available on our website and, where applicable, posted with this Annual Report.

Regular communication with shareholders also takes place through the Annual Report and via the Company's website, www.dssmith.com/investors. In addition, in March and September, the Company provides Interim Management Statements to update investors on the performance of the Group.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control, including financial, operational and compliance controls, and risk management systems, and for reviewing its effectiveness. Such a system, however, can only be designed to manage rather than to eliminate risk and therefore can provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnbull guidance, the Company has in place the procedures necessary to ensure that there is an ongoing process for identifying, evaluating and managing the significant risks to the Group. These procedures have been in place throughout the year under review and up to the date of the approval of these financial statements and have been reviewed by the Board during the year. A Group Risk Committee, comprising the GMT, meets regularly and its activities are described in more detail on page 55.

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

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

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

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

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

Directors' Governance Report continued

DIVIDENDS

An interim dividend of 3.2 pence net per ordinary share was paid on 1 May 2014 and the Directors recommend a final dividend of 6.8 pence net per ordinary share which, together with the interim dividend, increases the total dividend for the year to 10.0 pence (2012/13: 8.0 pence). Subject to approval of shareholders at the Annual General Meeting to be held on 17 September 2014, the final dividend will be paid on 3 November 2014 to shareholders on the register at the close of business on 3 October 2014.

We have improved our dividend documentation for individual shareholders in order to alert them to any unclaimed dividends. This has enabled back payments to be made to a number of shareholders. Details of the Company's dividends and how to receive your dividend direct to your personal account can be found on the Company's website: www.dssmith.com/investors/shareholder-information/dividends

ACQUISITIONS AND DIVESTMENTS

2013/14

During the current financial year, the Group completed various business combination transactions with total cash consideration of £27 million, and various business disposals with total cash consideration of £12 million which are not considered material to the Group individually or in aggregate.

2012/13

On 30 June 2012, the Group acquired SCA Packaging. SCA Packaging was the second largest packaging business in Europe and the acquisition represents a significant opportunity for the Group to achieve its stated strategic aim of becoming the leading supplier of recycled packaging for consumer goods in Europe. The acquisition was effected by the purchase of equity of 100% of SCA Packaging Holding BV and SCA Packaging Nicollet SAS for £1,281 million (€1.6 billion) on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis. This was subject to customary post-completion adjustments.

Certain fair values assigned to the net assets at the date of acquisition were provisional and, in accordance with IFRS 3 *Business Combinations*, the Group has adjusted the fair values attributable to this acquisition during the year ended 30 April 2014, resulting in a net decrease in goodwill of £3 million. During the year ended 30 April 2014, the Group completed settlement of post-completion adjustments with SCA, the effect of which is included within exceptional items.

On 25 May 2012, the European Commission granted competition clearance for the SCA Packaging acquisition. The clearance required the Group to divest three sites after the acquisition, which represented approximately 1% of the enlarged Group profit. All three remedy disposal sites were divested during the year ended 30 April 2013 for total proceeds of £43 million. The Group incurred transaction costs of £2 million of which £1 million was recognised as an expense for the year ended 30 April 2013, with the remainder included in the opening fair value less cost to sell of the two remedy disposal sites gained through the SCA Packaging acquisition.

In the year ended 30 April 2013, the Group made additional minor disposals of associates and subsidiary businesses for proceeds of £8 million, net of cash and cash equivalents. These include the Group's associate GAE Smith, UK Packaging disposals and the sale of the Group's Norwegian subsidiary.

Office Products Wholesaling

In April 2013, DS Smith received £7 million in relation to final settlement of the disposal of its Office Products Wholesaling division in 2011/12 to Unipapel SA, which was recorded in discontinued operations in 2012/13.

In 2013/14 a tax expense of £3 million was incurred for tax balances written off in relation to the disposal which was recorded in discontinued operations.

SHARE CAPITAL

Details of the issued share capital and the rights and restrictions attached to the shares, together with details of movements in the Company's issued share capital during the year, are shown in note 24. Pursuant to the Company's employee share option schemes, 10,659,040 ordinary shares of 10 pence each were issued during the year. 129,368 shares pursuant to the Company's employee share option schemes were issued between 30 April 2014 and 25 June 2014 inclusive. The Company has not utilised its authority to make market purchases of shares granted to it at the 2013 AGM but will be seeking to renew such authority at this year's Meeting, details of which can be found in the Notice of Meeting.

POLITICAL DONATIONS

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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

SUBSTANTIAL SHAREHOLDERS

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

As at 30 April 2014, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital.

	Ordinary shares held	%	Nature of holding
Standard Life Investments Limited	139,737,679	14.56	Direct & indirect
Old Mutual plc	47,403,372	5.05	Indirect
Ameriprise Financial, Inc. and its group	46,864,824	4.99	Direct & indirect
Royal London Asset Management Limited	37,906,288	4.03	Direct

OTHER DISCLOSURES

This Directors' Governance Report fulfils the requirements of the Directors' Report for the purposes of the Companies Act 2006. The Strategic Report can be found on pages 2 to 37, and encompasses our Corporate Social Responsibility Report.

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

Subject matter	Page
Important events since the financial year-end	121
Likely future developments in the business	16
Research and development	25
Use of financial instruments	23
Human rights	26
Employment of disabled persons	32
Employee involvement	32
Greenhouse gas emissions	30

The information that fulfils the requirements of the Corporate Governance Statement for the purposes of the Disclosure and Transparency Rules can be found on pages 38 to 57, and forms part of the Directors' Report.

GOING CONCERN

In considering the going concern basis for preparing the financial statements, the Directors have considered the Company's objectives and strategy, risks and uncertainties in achieving its objectives and its review of business performance, which are all set out in the Strategic Report on pages 2 to 37. The Group's liquidity and funding arrangements are described in notes 18 and 20 to the financial statements, as well as in the capital structure and treasury management section of the Strategic Report, and the Directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities for the foreseeable future.

After reviewing the Company's expenditure commitments, current financial projections and expected future cash flows (with appropriate sensitivities applied), together with the available cash resources and undrawn committed borrowing facilities, the Directors have considered that adequate resources exist for the Company to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

By order of the Board

Matthew Jowett

Matt Jowett
Group General Counsel and
Company Secretary
25 June 2014

Directors' Governance Report continued

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have chosen to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

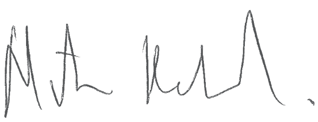
RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, we confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and proves the information necessary for shareholders to assess the performance, strategy and business model of the Company.

Signed on behalf of the Board



Miles Roberts
Group Chief Executive
25 June 2014

Adrian Marsh
Group Finance Director
25 June 2014

Audit Committee Report

Key responsibilities

- The accounting principles, policies and practices adopted in the Group's accounts.
- External financial reporting and associated announcements.
- The appointment, independence, effectiveness and remuneration of the Group's external Auditor.
- The resourcing, plans and effectiveness of Internal Audit performed on behalf of the Group by a major accountancy firm (currently KPMG), which is independent from the Group's external Auditor.
- The adequacy and effectiveness of the internal control environment.
- The Group's risk management processes and performance.
- The Group's compliance with the Code.
- The Audit Committee's Terms of Reference can be found at www.dssmith.com/investors/corporate-governance/committees

DEAR SHAREHOLDERS

The Audit Committee's work in the current year has been undertaken against the backdrop of the continuing integration of the SCA Packaging business into the Group. As a result, the Committee has had a renewed focus on the robustness of the financial reporting and control framework so as to ensure its adequacy for the enlarged business. The Committee has also monitored the resolution of the working capital negotiations with SCA and the ongoing integration costs that have been incurred.

As noted in last year's report, the Committee took the decision to undertake a full tender process for external audit services. The exercise was completed in the first half of the year and Deloitte have been re-appointed.

One of the significant requirements of the Code is that the Board confirms that the Annual Report presents a fair, balanced and understandable assessment of the Group's performance, business model and strategy. The Committee assists the Board in this task.

The Committee has continued to conduct its usual oversight of financial results, internal audit reviews and the management of risk across the Group. In particular, it has overseen the development and introduction of a programme to enhance the Group's approach to risk management, the results of which will provide valuable operational and control benefits.

Jonathan Nicholls
Chairman of the Audit Committee

AUDIT COMMITTEE MEMBERSHIP

Chairman of the Committee	Members
Jonathan Nicholls	Chris Britton, Chris Bunker[1], Ian Griffiths[2], Philippe Mellier[3], Kathleen O'Donovan, Louise Smalley[2]

1 Chris Bunker resigned from the Board with effect from 3 September 2013.
2 Ian Griffiths and Louise Smalley joined the Board on 23 June 2014.
3 Philippe Mellier resigned from the Board with effect from 11 February 2014.

AUDIT COMMITTEE STRUCTURE

The terms of reference of the Audit Committee include all the matters indicated by the Code, except the oversight of business risks which is the direct responsibility of the Board (with the risk management framework and processes overseen by the Committee).

The revisions to the Code, effective for periods beginning on or after 1 October 2012, have resulted in a review of the priorities of the Committee. The key change to the Code is the introduction of a requirement to put the external audit out to tender at least once every ten years. As reported on page 54, the audit was tendered in August 2013 and Deloitte have been re-appointed. Refinements have been introduced to enable the Committee to assist the Board in confirming whether the annual financial statements, taken as a whole, are fair, balanced and understandable and provide all information necessary to assess the Group's performance, business model and strategy.

Audit Committee Report continued

Key activities in 2013/14	Key priorities in 2014/15
• Significant accounting and financial reporting issues: – Accounting for the SCA Packaging acquisition. – Classification and presentation of financial performance. – The carrying values of goodwill, tangible and intangible fixed assets. – Taxation. – Adequacy of working capital provision. • External audit tender.	• Review of provision of non-audit services. • Carry out an assessment of the external Auditor's effectiveness and consider whether the Auditor should be recommended for re-appointment. • Test whether there has been any impairment to the balance sheet and review going concern. • Review the risk management framework and processes and the reporting thereon. • Review and approve the half-year and full-year results. • Review the Internal Audit report on internal control matters and review management response. • Evaluate systems of internal control across the Group, including IT controls.

The performance of the Committee was evaluated as part of the Board performance evaluation process described on pages 44 to 45.

The Committee receives and reviews regular reports from the external Auditor, Internal Audit and the Group Finance Director. In addition, it reviews the adequacy and effectiveness of the Group's risk management process, summaries of the Group's key risks, and the Group's performance in responding to these risks.

Under its terms of reference the Committee is empowered to seek independent external advice but did not do so during the year.

SIGNIFICANT MATTERS CONSIDERED IN 2013/14

In 2013/14, the Committee's work on significant accounting and financial reporting issues included a focus on the key activities outlined above:

Accounting for the SCA Packaging acquisition

The acquisition of SCA Packaging in June 2012 had material accounting and financial reporting consequences including, but not limited to, the recognition of intangible assets, fair value adjustments to the carrying values of other acquired assets and liabilities, and provisions for the costs of, inter alia, onerous contracts and other obligations. The acquisition completion process included revisions to initial fair value adjustments and agreement with the vendor of working capital balances. In addition, the financial operations of the enlarged group have continued to be consolidated and rationalised. The Audit Committee has reviewed the financial consequences of these activities and their presentation in the financial statements and has concluded that they are appropriate.

Classification

The Group continued its programme to integrate SCA Packaging and, additionally, instigated further initiatives to restructure the enlarged business. The costs of these programmes, together with other elements of income and cost (including acquisition costs, impairments and gains or losses on business disposals) are classified as exceptional because of their nature, incidence or size. The Directors believe that such a classification assists in the understanding of the trading and financial results of the Group. The Audit Committee has reviewed the appropriateness of the income and costs included in, and excluded from, exceptional items, and is satisfied with the resulting presentation.

Goodwill

The Group has significant goodwill and intangible fixed asset balances. Goodwill is subject to mandatory impairment testing, which is conducted at both the half year and the year end. Intangible fixed assets, tangible fixed assets and other investments (such as associates) are subject to testing when there are indications of impairment. In undertaking the impairment testing, goodwill is allocated to the appropriate operating segments and the resulting carrying values are compared to the relevant value in use. The Committee has reviewed the results of these tests, including an assessment of the robustness of the processes, the assumptions underpinning the values in use, and the appropriate sensitivities to changes in the assumptions. The impairment work, and the Committee's review thereon, also considered the carrying values of the individual cash-generating units with their values in use. The Committee was satisfied with the results of the work.

Taxation

Taxation represents a significant cost to the business both in cash and accounting terms. Once again, the acquisition of SCA Packaging had a significant impact on the Group's exposure to differing tax regimes, the carrying values of tax balances (including deferred tax) and the resultant income statement charges. The Committee reviewed the tax charge, including the underlying tax effect, the appropriateness of tax provisions recognised, and the risks associated with these. The Committee is satisfied with the tax charge and level of provisions.

Working capital

The Group operates from a large number of locations, particularly in Europe, and, as a consequence, has exposure to the carrying values of working capital, particularly inventory and trade debtors. The Group has operating procedures and financial controls to manage these balances and accounting policies to ensure that the carrying values are appropriate. The fair value exercise undertaken on the acquisition of SCA Packaging aligned these procedures and policies. The Committee assesses these

THE COMMITTEE ADDRESSED THE FOLLOWING MAIN MATTERS DURING THE YEAR:

June 2013	October 2013	December 2013	April 2014	June 2014
Key agenda items	**Key agenda items**	**Key agenda items**	**Key agenda items**	**Key agenda items**
• The Committee reviewed evaluations that the preparation of the year-end financial statements on a going concern basis was appropriate. • Working capital, cash flow and covenant headroom were reviewed. • The Committee received reports from Internal Audit on internal control matters and from the external Auditor on the conduct of their audit. • The Group's exceptional items policy was reviewed in order to ensure appropriateness and consistency of approach towards exceptionals. • The Committee considered the effectiveness of systems for monitoring and reporting on risks faced by the Group, and reviewed the Group's Key Risk paper. • The Committee monitored the ongoing integration of SCA Packaging into the Group, covering, inter alia, operational, financial and cost aspects. • The Committee implemented, as appropriate, the revisions to the Code.	• The Committee oversaw the external audit tender process to ensure that it was fair, open and efficiently run. • The Committee discussed and approved, and continues to monitor, a programme of change to enhance the Group's approach to risk management, led by the Group's newly appointed Group Risk Officer. • Internal Audit strategy, findings and management responses to proposals made in the audit reports issued by the function during the year were reported, debated and management actions monitored for timely completion. • Pension assumptions and valuation results were reported to the Committee and reviewed.	• The Committee reviewed evaluations of going concern and sensitivity analysis and recommended to the Board that the preparation of the half-year financial statements on a going concern basis was appropriate. • Ongoing impairment tests of the carrying values of goodwill and other intangible assets. • The Committee discussed the progress and resolution of the SCA Packaging completion accounts claim, including consideration of the associated accounting.	• The Committee reviewed the significant accounting policies and judgements and reviewed going concern. • Reviewed non-audit fees. • Reviewed the Internal Audit plan for 2014/15. • Reviewed and approved the updated "Speak Up!" workplace malpractice policy.	• The Committee reviewed evaluations of going concern and sensitivity analysis and recommended to the Board that the preparation of the year-end financial statements on a going concern basis was appropriate. • Working capital, cash flow and covenant headroom were reviewed. • The Committee received reports from Internal Audit on internal control matters and from the external Auditor on the conduct of their audit, their review of accounting policies, areas of judgement and the financial statements and their comments concerning risk and internal control. • The Group's exceptional items policy was reviewed in order to ensure appropriateness and consistency of approach towards exceptionals. • The Committee considered the effectiveness of systems for monitoring and reporting on risks faced by the Group, and reviewed the Group's Key Risk paper.

procedures and policies at the half-year and year-end reporting, and on a continuous basis through its oversight of the Internal Audit function. The Committee is satisfied with the carrying values of working capital.

EXTERNAL AUDIT

The Committee meets with the external Auditor to determine annually their qualifications, expertise, resources, independence, objectivity and effectiveness. In addition, the performance of the external and Internal Audit functions is evaluated. The Audit Committee receives written confirmation from the external Auditor as to any relationships that might have a bearing on their independence, whether they consider themselves independent within the meaning of the UK regulatory and professional requirements, and on their quality control processes and ethical standards. The independence of the external Auditor was confirmed as part of the tender process discussed on the next page.

In order to ensure the independence and objectivity of the Auditor, the Committee maintains and regularly reviews the Auditor Independence Policy which covers services which may be provided by, and fees paid to, auditors. Audit fees are negotiated with the Group Finance Director and approved by the Audit Committee.

The effectiveness of the external Auditor is monitored through private meetings between the Audit Committee and Deloitte. The tender process, discussed below, presented an opportunity to benchmark Deloitte's overall effectiveness against other audit firms. The Committee is satisfied with Deloitte's independence and effectiveness and their fees are regularly compared with peer companies by the Committee. Under professional standards, the partner responsible for the audit is

Audit Committee Report continued

generally changed every five years; the most recent rotation took place in the current financial year. There are no contractual restrictions on the Group with regard to Deloitte's appointment.

NON-AUDIT FEES

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

Non-audit services and fees are reported to the Audit Committee twice a year. For guidance, annual non-audit fees payable to the external Auditor should not exceed 75% of the annual Group audit fee without prior formal approval of the Committee. During 2013/14, total non-audit fees were 40% of the annual Group audit fee (2012/13: 64%). There has been a significant reduction from the level of non-audit fees paid in 2012/13, which were impacted by work undertaken in relation to the acquisition of SCA Packaging. In addition, £6 million was paid to other accounting firms for non-audit work, including £1 million for work relating to Internal Audit.

INTERNAL AUDIT

The Group has engaged KPMG to provide its Internal Audit service and act as the Head of Internal Audit. The Internal Audit function provides assurance on the Group's internal control environment and support in developing and improving that environment as the Group continues to grow. The Chairman of the Audit Committee reviews all Internal Audit reports and KPMG presents summaries of its work at each Audit Committee meeting. The Committee reviews the findings of Internal Audit, management's plans to respond to those findings, and the progression of those plans.

Audit tender process and outcome

In June 2013, the Committee discussed the external audit provision and considered a tender process for the external audit. The lead audit partner was not present during the Committee's discussions. Deloitte LLP, a leading international audit partnership, was first appointed as external Auditor to the Group companies in 2006. The lead audit partner rotates every five years and Ian Waller, the current lead audit partner, has been in post since 2013.

Although not directly informed by the recent changes to the UK Corporate Governance Code, the Committee recommended to the Board that a tender for the external audit should be carried out by the half-year end. Three firms were shortlisted. When developing the shortlist for the tender, we took into account the need for each firm to have international strengths and capabilities relevant to our business and the markets in which we operate, and with technical specialists dedicated to our audit. The process met the recommendations in the associated guidance to conduct an open and fair process. Following the tender process, Deloitte LLP was re-appointed. In making this decision, the Group considered a number of factors including industry and current experience, professional expertise, quality of audit service and cost effectiveness. Deloitte were clearly differentiated from the alternative providers under these factors.

OPERATION OF THE COMMITTEE

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

In addition to the Committee members, the Chairman, the Group Chief Executive, the Group Finance Director, representatives from Internal Audit and the Group Financial Controller attend parts of these meetings by invitation. The Board is satisfied that Jonathan Nicholls and the members of the Audit Committee have both current and relevant financial experience (as set out on page 41).

FOCUS ON OUR RISK MANAGEMENT PROCESS

The Group continues to maintain rigorous procedures for understanding and managing its strategic risks. This year, given the increased scale and complexity of our businesses since the acquisition of SCA Packaging, the Board increased its focus on risk management resulting in the appointment of a Group Risk Officer ("GRO"). The GRO's first task was to undertake an evaluation of the current risk management processes and present recommendations for strengthening them to fully support the Group's divisional structure and growth ambitions.

A revised risk management process is now fully embedded within our corporate planning process and structured to ensure the Board has improved visibility of the Group's key risks and greater opportunity to regularly review the adequacy and effectiveness of the mitigating controls and strategies. This new process provides the Board with the assurance that the Group has the scale, scope and capabilities to lower the impact of risks overall, is in a better position than previously to manage key risks, and is able to hold a strong position to absorb the financial impact should those risks materialise.

The risk evaluation cycle
The Board annually reviews the Group's key risks and approves the risk management policy.

The Audit Committee annually reviews the adequacy and effectiveness of the risk management process in relation to the key risks and uncertainties that the Group faces. Every six months the Audit Committee reviews a summary of the Group's key risks and the Group's performance against these areas.

Risk Committee
We have chosen to use our GMT (comprising the Group Chief Executive, Group Finance Director, Group General Counsel and Company Secretary, Group Human Resources Director, Chief Procurement Officer and Divisional Chief Executives) as the Group's Risk Committee so that the GMT fully understands what risks could impact the delivery of the Corporate Plan. The GMT is responsible for identifying, reviewing, evaluating and determining the actions necessary to manage the principal threats and opportunities to Group objectives. These risks and their management are then considered by the Board.

The responsibility for effective risk management is delegated to the management of each division. The divisions and regions identify, assess, prioritise and manage risks on a daily basis as a source of sustainable business opportunity and competitive advantage.

The divisional and regional management teams apply their judgement in determining what risks are considered acceptable when assessing the consequences of those risks materialising; and in identifying and ensuring the costs of operating particular controls are proportionate to the benefit provided.

Each division presents its risk management plans and resources to the GMT annually for critique and challenge. Clear accountability for risk management is provided through Group policies and procedures. Risk management forms part of all decision-making processes, with appropriate assessments conducted for all planning/investment decisions.

Board risk tolerance
During the year the Board has reviewed and approved its internal statement of risk appetite and tolerance. This describes both the current and desired levels of acceptable risk, supported by high level qualitative risk statements, ensuring that risks are proactively managed to the level desired by the Board.

The Board has also approved a number of new "monitoring" processes for controlling and reviewing our system of risk management and the reporting of any significant failing or weaknesses together with details of corrective action.

Nomination Committee Report

Key responsibilities

- Reinforcing the cultural and expertise diversity in the Board's composition, new Board opportunities and maintaining ongoing succession plans.
- Considering ways to improve diversity in the pipeline for senior management roles.
- Further strengthening of the senior management team.
- Reviewing the Group's talent management process.
- The Nomination Committee's Terms of Reference can be found at www.dssmith.com/investors/corporate-governance/committees

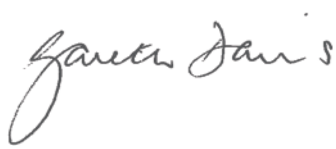
DEAR SHAREHOLDERS

The Nomination Committee has an important role to play in ensuring the Board has the right balance of experience and skills to support our strategy.

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

The Board has continued to follow the important debate on gender diversity. The Board believes that a diverse workforce and management team improve the culture of the organisation and add value to the business as a whole. With the appointment of Louise Smalley, female representation on the Board has risen to 25%. The Committee will continue to consider gender diversity when recommending any future Board appointments. Final appointments will always be made on merit.

The Committee ensures that a rigorous process is in place for the appointment of new Directors, using the services of external recruitment consultants followed by meetings with the Committee and then with the Board. During the year under review the Committee used the services of Spencer Stuart and The Inzito Partnership (who have no other connection with the Company). The Committee also takes into account the Company's strategy as part of the succession planning process and, as a consequence, identifies areas of knowledge and experience required in the senior management team that will assist the Company in strategic development and delivery.



Gareth Davis
Chairman of the Nomination Committee

NOMINATION COMMITTEE MEMBERSHIP

Chairman of the Committee	Members
Gareth Davis	Chris Britton, Chris Bunker[1], Ian Griffiths[2], Philippe Mellier[3], Jonathan Nicholls, Kathleen O'Donovan, Miles Roberts, Louise Smalley[2]

1 Chris Bunker resigned from the Board with effect from 3 September 2013.
2 Ian Griffiths and Louise Smalley joined the Board on 23 June 2014.
3 Philippe Mellier resigned from the Board with effect from 11 February 2014.

	Key activities in 2013/14	Key priorities in 2014/15
Succession planning	Candidates for appointment as Group Finance Director and non-Executive Directors were reviewed and nominations were made, based on merit against objective criteria (with diversity, as set out below, an important consideration), for the Board's approval. • The process of appointing Adrian Marsh, our new Group Finance Director, was completed.	Maintain ongoing succession plans.
Diversity	Diversity is an important part of the considerations for any appointment. Different aspects, including professional background and experience, geographic/cultural diversity and gender diversity, were taken into consideration in relation to the Board nominations during the year. • Louise Smalley was appointed as a non-Executive Director on 23 June 2014. • Ian Griffiths was appointed as a non-Executive Director on 23 June 2014. Further information about the Board's approach to diversity can be found on page 44.	Further reinforcing the cultural and expertise diversity in the Board's composition. • Considering ways to improve diversity in the pipeline for senior management roles.
Strategy	The Group's strategy is taken into consideration as part of the succession planning process. The senior management team was reviewed and areas of knowledge and experience identified that would assist the Group in strategic development and delivery.	Further strengthening of the senior management team. • Reviewing the Group's talent management process.
Governance	The performance of the Committee was evaluated as part of the Board performance evaluation process described on pages 44 to 45.	Annual evaluation of the Committee in the first quarter of 2015 with an external evaluator.

THE COMMITTEE ADDRESSED THE FOLLOWING MAIN MATTERS DURING THE YEAR:

June 2013	October 2013	December 2013	April 2014
Key agenda items	**Key agenda items**	**Key agenda items**	**Key agenda items**
• The Committee reviewed the appointment of Adrian Marsh, the new Group Finance Director. • The Committee received an update on the structure of the senior management team and succession planning.	• The Committee agreed that, to reflect the change in the size and complexity of the Group, the Committee should commence the recruitment of two new non-Executive Directors. To promote diversity of skills at the Board level, candidates would be sought from a finance/operations background, and an international HR experience background.	• The Committee reviewed the non-Executive Director recruitment process and considered the shortlist.	• The Committee finalised the recruitment process for two new non-Executive Directors and recommended that they appoint Ian Griffiths and Louise Smalley.

Directors' Remuneration Report

Key responsibilities

- Ensuring the Group's remuneration arrangements support its strategy, align with its values and drive performance.
- Maintaining a competitive remuneration policy appropriate to the business environment of the countries in which we operate, thereby ensuring we can attract and retain talented individuals.
- Aligning senior executives' remuneration with the interests of long-term shareholders whilst ensuring that remuneration is fair but not excessive.
- Making recommendations to the Board in respect of the Chairman's fees.
- Setting targets for the performance-related elements of remuneration packages.
- Oversight of our overall policy for senior management remuneration and of our employee share plans.
- Ensuring appropriate independent advisers are appointed to provide relevant advice and guidance to the Committee.
- The Remuneration Committee's Terms of Reference can be found at www.dssmith.com/investors/corporate-governance/committees

DEAR SHAREHOLDERS

In setting our remuneration policy for 2014/15, our over-riding objectives have been to promote sustainable value creation, incentivise better performance, address the risk of short-termism, be simple and be aligned with the workforce.

This is our first report prepared under the new reporting regulations and, in line with best practice, it has been arranged in two parts. The first part of our report, on pages 60 to 65, describes our remuneration policy. This is now subject to legally binding shareholder approval of resolution 3 at our AGM in September 2014. The second part of this new format report, on pages 66 to 74, is our annual report on remuneration. This explains how our policy has been implemented and is subject to an advisory vote at our AGM (resolution 4).

Last year, as early adopters of the new BIS disclosure guidelines, the Committee engaged extensively with our major shareholders and their representative bodies regarding our remuneration policy. We have listened to the feedback received and this year a number of changes are proposed, both to reflect the views of investors and to ensure the Group continues to be able to attract and retain talented Executive Directors and senior managers to meet the Group's needs. We provided a high level of disclosure in our remuneration report last year and, with the exception of the changes set out below, this policy remains the same:

- We have decided to discontinue the operation of the Share Matching Plan ("SMP") for the Executive Directors (which provided for performance share awards of up to 75% of salary per annum) and, instead, make increased Performance Share Plan ("PSP") awards and increase the annual bonus opportunity. This will simplify our remuneration arrangements but require approval of an increase in the annual award limit for the PSP at the AGM.
- We have listened carefully to the debate about emerging best practice for long-term incentive plans such as our PSP. We have decided to maintain the current three year performance period and to introduce a new requirement for Executive Directors that shares that vest under the PSP at the end of the three year period must be retained for a further two years before they can be sold. We consider that this change will further align the interests of our Executive Directors with those of our investors.
- Last year, some investors requested that the Committee give consideration this year to increasing the level of minimum shareholding requirements for Executive Directors. The Committee has decided this year to increase the minimum holdings as a percentage of salary from 150% to 225% for the Group Chief Executive and from 100% to 175% for the Group Finance Director. We would expect these holding levels to be met within five years of appointment (previously four years).
- Linked to the discontinuation of the SMP described above, we have decided to increase the maximum annual bonus opportunity and PSP award for Executive Directors. In terms of annual bonus, the opportunity will increase to 200% of base salary for the Group Chief Executive and 150% of base salary for the Group Finance Director. In terms of the PSP, the maximum award will be increased to 225% of salary for the Group Chief Executive (on a phased basis) and 175% of salary for the Group Finance Director. There will therefore be no increase in opportunity for the Group Finance Director and, phased over two years, an increase in opportunity of 50% of salary for the Group Chief Executive. This increase will seek to correct his below market salary level, but only if stretching performance targets are met.
- The performance measures applied under our PSP are a combination of total shareholder return ("TSR") (50%), average adjusted earnings per share ("EPS") (25%) and three year average adjusted return on average capital employed ("ROACE") (25%). The Committee continues to believe that these are the most appropriate measures for assessing the overall long-term performance of the Group. Whilst we do not propose to change the

measures, we do consider that the discontinuance of the SMP which did not use TSR and its replacement with PSP awards means that the 50% weighting towards TSR is too high. With the additional two year holding period for shares vesting under the PSP we feel that a more balanced weighting in future is achieved with an equal weighting of the three measures for future awards (TSR (⅓), EPS (⅓) and ROACE (⅓)).

- This year the Committee has decided that for the Group Chief Executive a base salary increase of 2.2% in line with that received by the rest of the workforce is appropriate. This leaves the salary of the Group Chief Executive circa 10% below the mid-market salary for his role and so will not be in line with our stated policy. However, the Committee is satisfied that a lower salary with higher bonus potential and rebalanced long-term incentives with the additional two year holding period and increased shareholding guidelines creates the right balance and level of potential remuneration.
- In terms of the new Group Finance Director, Adrian Marsh, who was appointed by the Company to his first Group Finance Director role at a below market base salary, it is the Committee's intention, in line with our stated policy and subject to continued satisfactory performance, to increase his base pay over time to a mid-market level. In this context, the Group Finance Director's salary will be increased this August by 5%.

We also received feedback and views from shareholders on matters related to remuneration during the year. Shareholders do not speak with a single voice and, as a Committee, we have to balance individual perspectives with our overall responsibility to ensure that remuneration arrangements enable us to attract and retain talented employees to deliver sustainable shareholder returns.

We have reviewed the effectiveness of the application of our remuneration policy to date and continue to be satisfied that the overall approach also provides good alignment of executive behaviour with shareholder interests and does not encourage excessive risk taking.

Kathleen O'Donovan
Chairman of the Remuneration Committee 25 June 2014

REMUNERATION COMMITTEE MEMBERSHIP

Chairman of the Committee	Members
Kathleen O'Donovan	Chris Britton, Chris Bunker[1], Gareth Davis, Ian Griffiths[2], Philippe Mellier[3], Jonathan Nicholls, Louise Smalley[2]

1 Chris Bunker resigned from the Board with effect from 3 September 2013.
2 Ian Griffiths and Louise Smalley joined the Board on 23 June 2014.
3 Philippe Mellier resigned from the Board with effect from 11 February 2014.

THE COMMITTEE ADDRESSED THE FOLLOWING MAIN MATTERS DURING THE YEAR:

June 2013

Key agenda item

- Authorised 2012/13 bonus payments.
- Approved targets for 2013/14 bonus plan.
- Approved 2012/13 Directors' Remuneration Report.
- Reviewed the Executive Directors' and senior executives' pay/incentive arrangements.
- Had oversight of remuneration policy for senior management and employees.
- 2012/13 PSP award – TSR, EPS and ROACE target proposals.

December 2013

Key agenda item

- Received an update on the 2013/14 remuneration policy investor consultation.
- Reviewed and approved changes to the UK Sharesave Plan rules, updating them in line with the Finance Act 2013.
- Reviewed and approved the International Sharesave Plan rules (the main provisions of which are the same as for the UK Plan, subject to minor country specific variances).
- Reviewed and adopted the US Stock Purchase Plan rules, subject to final approval at the 2014 AGM.

January 2014

Key agenda item

- Received an update on 2013/14 annual bonus plan.
- Considered the approach to 2014 share incentive awards.
- Set the annual agenda for 2014/15 for the Committee.
- Defined the remuneration policy for 2013/14.

March 2014

Key agenda item

- Discussed the detail around the 2013/14 remuneration policy investor consultation.
- Reviewed the targets for existing awards.
- Reviewed senior executive remuneration benchmarking.

April 2014

Key agenda item

- Received a further update on the 2013/14 remuneration policy investor consultation.
- Reviewed performance targets for 2014/15 bonus and PSP awards.

Directors' Remuneration Report: Policy

REMUNERATION POLICY

Introduction

This policy will take effect from the date of the AGM and the Committee intends to operate a policy which is broadly consistent over time. Simplification is taking place this year alongside greater alignment with shareholders' interests through longer holding periods under the PSP and higher share ownership guidelines for Executive Directors.

The Committee believes that the following policy strikes the right balance between providing clarity on its intentions and retaining flexibility to deal with the unexpected over the next three years. If there is the need, however, a revised policy will be presented for approval at the AGM in 2015 or 2016 to ensure that the appropriate policy can be operated in changing circumstances.

Linking remuneration with strategy

We focus on our key strategic goals. Ensuring their delivery, incentivised by our remuneration policy, is key to maximising long-term returns to shareholders.

Alignment with our strategy	This is supported by the inclusion of the drivers of ROACE and TSR growth within our variable remuneration. Stretching performance targets incentivise the delivery of our goals and the creation of shareholder value. Managing our costs and cash flows are the other elements of our strategic focus. Profitability forms a major part of the measurement in both the annual bonus and the share-based incentive plans.
Alignment with our shareholders	Employees at all levels are encouraged to have an interest in the Company's shares through both direct share holdings and through our share-based incentive plans, with more senior employees interests aligned to shareholders through their shareholding requirements. The value of their overall remuneration is, therefore, heavily dependent on the performance of our share price.

Implementing executive policy and practice

In implementing the Company's remuneration policy, the Committee recognises that striking the right balance in finding a fair outcome in setting a competitive level of total remuneration is a matter of judgement. In forming this judgement, the Committee considers pay data at comparator companies of similar scale and operating in a similar sector. Comparisons with other companies, however, do not determine what remuneration the Company offers but, at most, serve to define a range within which an individual's rewards need to be positioned. In determining that positioning, the primary factors taken into account are the scale of the challenges intrinsic to that individual's role, their ability and experience and their performance.

We align the interests of long-term shareholders and employees at all levels by, wherever possible, giving our employees the opportunity to build a shareholding in the Company through our employee share plans, with over 22% of eligible employees participating in one or more plans.

Other key features of the policy

Discretions and judgements

The Committee will operate the annual bonus plan and long-term plans (PSP and SMP) according to the rules of each respective plan, their respective ancillary documents and the UKLA Listing Rules, which, consistent with market practice, include discretion in a number of respects in relation to the operation of each plan. In addition to the normal manner in which awards are set this includes:

- How to deal with a change of control or restructuring of the Group.
- Whether an Executive Director or a senior manager is a good/bad leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s).
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the annual bonus plan and long-term plans from year to year.
- The Committee also retains the ability within the policy to adjust targets and/or set different measures, and to alter weightings for the annual bonus plan and to adjust targets for the long-term plans, if events happen that cause it to determine that the conditions are unable to fulfil their original intended purpose.

All historical awards that have been granted by the date this policy comes into effect and still remain outstanding (including those detailed on pages 67 to 69 of the Annual Remuneration Report) remain eligible to vest based on their original award terms.

Recruitment (and appointment) policy

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

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

In the case of an internal executive appointment, any variable salary element awarded in respect of the prior role would be allowed to pay out according to its existing terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would continue.

Service contracts and payment for loss of office policy

The Committee's policy is that the notice periods for Executive Directors appointed in future will not exceed one year. Service contracts may be terminated without notice and without payment or compensation, except for sums earned up to the date of cessation, on the occurrence of certain events, such as gross misconduct. The Committee's normal policy on termination is to make phased compensatory payments and to reduce or stop such payments to former Executive Directors where they receive remuneration from other employment during the notice period (where this is consistent with local employment legislation and market practice). Termination payments will not exceed contractual entitlements. For future directors' contracts, if the Company exercises its right to make a payment in lieu of notice (PILON), these such payments will not exceed an amount equal to basic salary for any unexpired notice period.

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

1 The Company may terminate the contract with immediate effect by making a payment equal to basic salary and, where applicable, pensions allowance for any unexpired period of notice. Such payment may be made in a lump sum or in monthly instalments from the termination date. These monthly payments will be reduced to take account of any alternative employment or consultancy income during the period over which such instalments are payable.

The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance.

In the case of a "good leaver":

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

For all other leavers:

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

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

Consideration of employment conditions elsewhere in the Group

The Company does not formally consult with employees on executive remuneration. However, when setting the remuneration policy for Executive Directors, the Committee takes into account the overall approach to reward for, and the pay and employment conditions of, other employees in the Group.

How the views of shareholders are taken into account

The Remuneration Committee actively seeks to engage with shareholders and values highly the contribution their views can make in the process of formulating remuneration policy decisions. The Committee actively considers feedback received from shareholders prior to and following each AGM. It also actively monitors guidance and directional themes emerging from institutional shareholder bodies on the subject of executive remuneration. This feedback, plus any emerging relevant guidance, is considered as part of the Company's annual review of remuneration policy.

In addition, when it is proposed that any material changes are to be made to the remuneration policy, the Remuneration Committee chairman will inform institutional shareholders and shareholder bodies of these in advance, and will seek feedback, which will be carefully considered by the Committee.

Details of votes cast for and against the resolution to approve last year's remuneration report are provided in the Annual Remuneration Report.

Differences in remuneration policy for Executive Directors compared to other employees

The Committee considers the pay structures across the wider Group workforce when setting the remuneration policy for Executive Directors. The key structural difference is that, overall, the remuneration policy for Executive Directors is more heavily weighted towards variable pay than for other employees. In particular, long-term incentives are provided only to the most senior executives as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

The remuneration of senior managers below Board level is broadly consistent with that followed at Executive Director level.

Directors' Remuneration Report: Policy continued

Element, purpose & link to strategy	Operation and performance metrics	Opportunity
Basic salary To help recruit and retain key senior executives. To provide a mid-market salary relative to comparable companies, in terms of size and complexity.	Normally reviewed by the Committee annually and fixed for the 12 months commencing 1 August. The Committee takes into account: • role, competence and performance; • average change in broader workforce salary; and • total organisational salary budgets. Salaries are benchmarked against similar roles within a selected group of UK businesses of similar size with substantial overseas operations.	Salaries as at 1 August 2014 will be: Group Chief Executive £685,000; Group Finance Director £420,000. Salaries will normally be increased in line with increases for the workforce in general/increases for senior management/inflation unless there has been an increase in the scope, responsibility or complexity of the role when increases may be higher. Phased higher increases may also be awarded to new Executive Directors who were hired at a discount to the market level to bring the salary to the desired mid-market positioning, subject to individual performance. The aim is to position salaries around the mid-market level, although higher salaries may be paid, if necessary, in cases of external recruitment or retention.
Annual bonus To incentivise executives to achieve specific, predetermined objectives during a one-year period. To reward ongoing delivery and contribution to strategic initiatives. Deferred proportion of bonus, awarded in shares, provides a retention element and additional alignment of interests with shareholders.	Targets are set annually and relate to areas of the business over which the executive has particular control. Bonus payouts are determined by the Committee after the year-end, based on performance against predetermined objectives, at least the vast majority of which are financial. Up to half of the bonus is paid in cash and the balance is deferred into shares. The deferred bonus shares vest after three years and are paid together with an amount equal to the value of dividends payable on the vested shares during the deferral period. The deferred element is subject to forfeiture for "bad leavers" who depart prior to vesting. The annual bonus plans are not contractual and bonuses under the plans are not eligible for inclusion in the calculation of the participating executives' pension plan arrangements. Clawback provisions apply to the annual bonus plan and the deferred bonus shares so that individuals are liable to repay/forfeit some or all of their bonus if there is a material misstatement of results or if there is serious misconduct.	Maximum bonus potential of 200% of base salary (which will apply to the Group Chief Executive, with the Group Finance Director having an opportunity of 150% of base salary), with target bonus being one half of the maximum. Bonus starts to be earned at the threshold level (below which 0% is payable).
Pension To remain competitive in the marketplace and provide income in retirement.	Executive Directors can elect to either: • participate in the Group's Registered Defined Contribution Plan ("DC Plan"), with life cover equal to four times basic salary; or • receive a salary supplement; or • a combination of the above. Members of the DC Plan are required to contribute a minimum of 3% of their basic salary to qualify for matching employer contributions, with higher levels of employer contributions payable if members pay a higher contribution.	Maximum: 30% of base salary (including a maximum DC Plan contribution). Future appointments to the Board would have a maximum of 25% of base salary.
Benefits To help retain employees and remain competitive in the marketplace.	Directors receive a car allowance, income protection insurance, life cover and medical insurance. Additional benefits (including a relocation allowance) may be provided from time to time where they are in line with market practice.	Benefit levels may be increased in line with market levels and to ensure they remain competitive and valued by the recipient. However, as the cost of the provision of benefits can vary without any change in the level of provisions, no maximum is predetermined.

Element, purpose & link to strategy	Operation and performance metrics	Opportunity
Performance Share Plan (PSP) To incentivise Executive Directors to achieve returns for shareholders over a longer time-frame. To help retain executives and align their interests with shareholders through building a shareholding in the Company.	Awards of nil-cost options are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years. Awards will vest, subject to performance, on the third anniversary of grant and will be subject to an additional two-year holding period post vesting during which time awarded shares may not be sold (other than for tax). The Committee reviews the quantum of awards annually to ensure that they are in line with market levels and appropriate given the performance of the individual and the Company. Vesting of awards is based on: (i) the Company's Total Shareholder Return performance measured over no less than three years against a peer group of companies selected by the Committee as at the start of the performance period. The vesting scale is median to upper quartile of the group of companies, with nothing vesting for below median performance; and (ii) internal audited financial measures of performance (e.g. Earnings Per Share, Return on Average Capital Employed) selected by the Committee over a period of no less than three financial years. Dividend equivalents arising over the period between the grant date and the vesting date will be paid in cash or shares. Clawback provisions apply to the PSP so that individuals are liable to repay/forfeit some or all of their shares if there is a material misstatement of results or if there is serious misconduct.	Maximum annual awards: 225% of base salary (which will apply to the Group Chief Executive, with the Group Finance Director having an opportunity of having a maximum opportunity of 175% of base salary). 25% of the relevant part of the award will vest for achieving threshold performance, increasing to full vesting for the achievement of maximum performance.
Share ownership guidelines To further align the interests of executives with those of shareholders.	Executive Directors are expected to maintain a shareholding in the Company's shares as a multiple of their base salary within five years of appointment (Group Chief Executive 225%, Group Finance Director 175%). To achieve this, Executive Directors are expected to retain at least 50% of shares (net of tax) which vest under the Company's share plans until the share ownership guidelines are met. Non-Executive Directors are expected to build up and then maintain a shareholding that is equivalent to a percentage of their annual fee (50%) from the Company within two years of their date of appointment.	None.
All employee share plan Encourages long-term shareholding in the Company.	Executive Directors have the opportunity to participate in the UK or international Sharesave plans on the same terms as other eligible employees. The UK plan is operated on an 'equal terms basis' to secure approved UK HMRC tax status. There are no performance conditions applicable to awards.	Following recent UK HMRC changes to the limits, the maximum participation level is now £500 per month (or local currency equivalent). This limit is subject to change in line with the UK HMRC limit from time to time.

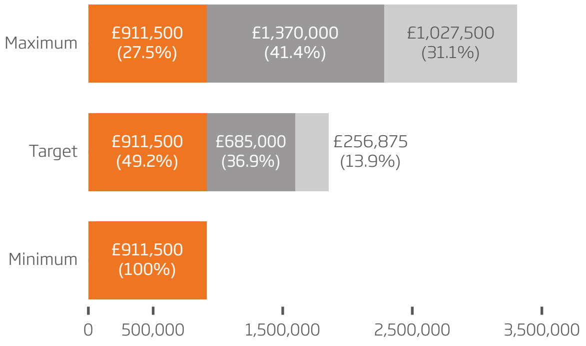
Directors' Remuneration Report: Policy continued

Reward scenarios

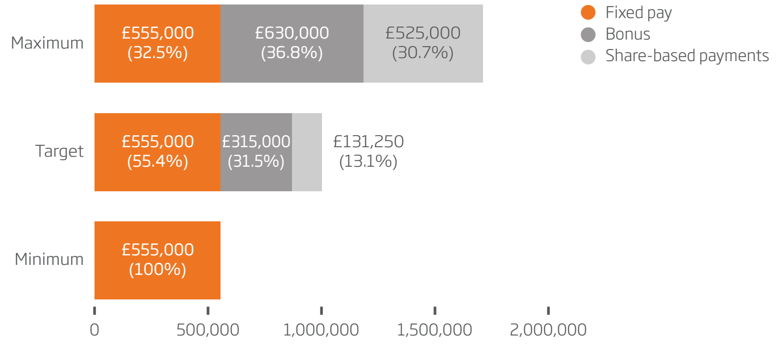
The balance between fixed and variable "at risk" elements of remuneration changes with performance. The Company's remuneration policy, as set out in the policy report on pages 60 to 65, results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The total remuneration of the Executive Directors for a minimum, target and maximum performance is presented in the charts below:

Total remuneration

Miles Roberts



Adrian Marsh



The charts illustrate the remuneration policy from its start date at the 2014 AGM. The charts are indicative as share price movement and dividend accrual have been excluded. Assumptions made for each scenario are as follows:

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

Policy on external appointments

Executive Directors are allowed to accept external appointments as a non-Executive Director of up to two other companies provided that these are not with competing companies and are not likely to lead to conflicts of interest. In normal circumstances, the Group Chief Executive may not accept more than one external appointment. Executive Directors are normally allowed to retain the fees paid from these appointments.

Neither Miles Roberts nor Adrian Marsh currently has external appointments.

Policy for non-Executive Directors and the Chairman

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	Attract and retain high performing individuals.	Reviewed annually by the Board (after recommendation by the Committee in respect of the Chairman). Fee increases, if applicable, are normally effective from 1 August. The Board and, where appropriate, the Committee considers pay data at comparator companies of similar scale. The Senior Independent Director and the chairmen of the Audit and Remuneration Committees receive additional fees. No eligibility for participation in bonuses, retirement plans or share plans but limited benefits may be delivered in relation to the permanency of their duties as Director (e.g. hospitality, communication and travel-related benefits).	No prescribed maximum annual increase. Aggregate annual fees limited to £750,000 by Articles of Association.

Non-Executive Directors have letters of appointment for a term of three years whereupon they are normally renewed, but generally for no more than three terms in aggregate. In each case the notice period is one month by the Company or the Director. Non-Executive Directors are not eligible for payments on termination.

		Date of contract	Unexpired period
Gareth Davis	Chairman	22 April 2013	One year and eight months
Chris Britton		22 January 2013	One year and seven months
Ian Griffiths		14 April 2014	Three years
Jonathan Nicholls	Senior Independent Director	3 September 2012	One year and four months
Kathleen O'Donovan		10 September 2012	One year and four months
Louise Smalley		14 April 2014	Three years

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

The current rates for the Chairman's and non-Executive Directors' fees are:

Chairman's and non-Executive Directors' fees	Base fee (£)	Senior Independent Director fee (£)	Chairman of Audit Committee fee (£)	Chairman of Remuneration Committee fee (£)	**Total (£)**
Gareth Davis	245,000	–	–	–	**245,000**
Chris Britton	51,500	–	–	–	**51,500**
Ian Griffiths[1]	51,500	–	–	–	**51,500**
Jonathan Nicholls	51,500	7,500	10,000	–	**69,000**
Kathleen O'Donovan	51,500	–	–	10,000	**61,500**
Louise Smalley[1]	51,500	–	–	–	**51,500**

1 Ian Griffiths and Louise Smalley joined the Board on 23 June 2014.

Directors' Remuneration Report: 2013/14 Annual Remuneration Report

ANNUAL REPORT ON REMUNERATION

Single total figure of remuneration for each Director (audited)

	Salary/fees[1] £'000		Benefits[2] £'000		Annual bonus[3] £'000		Long-term incentives[4] £'000		Pensions[5] £'000		**2013/14 total £'000**	2012/13 total £'000
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13		
Executive Directors												
Group Chief Executive Miles Roberts	658	608	222	21	425	381	1,879	4,492	207	174	**3,391**	5,676
Group Finance Director Adrian Marsh[6]	241	–	11	–	127	–	–	–	23	–	**402**	–
Group Finance Director Steve Dryden[7]	67	379	4	19	–	–	–	–	11	65	**82**	463
Total	966	987	237	40	552	381	1,879	4,492	241	239	**3,875**	6,139
Non-Executive Directors												
Chairman Gareth Davis	239	213	–	–	–	–	–	–	–	–	**239**	213
Chris Britton	51	8	–	–	–	–	–	–	–	–	**51**	8
Chris Bunker[8]	25	60	–	–	–	–	–	–	–	–	**25**	60
Philippe Mellier[9]	40	49	–	–	–	–	–	–	–	–	**40**	49
Jonathan Nicholls	69	65	–	–	–	–	–	–	–	–	**69**	65
Kathleen O'Donovan	58	21	–	–	–	–	–	–	–	–	**58**	21
Total	482	416	–	–	–	–	–	–	–	–	**482**	416

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

2 Taxable benefits principally include a relocation allowance of £201,000 in respect of Miles Roberts and car allowances of £20,000 in respect of Miles Roberts, £10,543 in respect of Adrian Marsh and £2,917 in respect of Steve Dryden as well as income protection, life cover and health insurance.

3 Annual bonus paid for performance over the financial year ending 30 April 2014, 50% of which is deferred into shares as described in the policy table on page 62. The total bonus for 2013/14 for Miles Roberts was £849,225 and for Adrian Marsh was £253,500; the total bonus for 2012/13 for Miles Roberts was £762,600.

4 The value of LTIs for 2013/14 represent the estimated value of the 2011 PSP (the performance period for this award ended on 30 April 2014), the Substitute Share Bonus Award which vested on 1 September 2013 (including the cash payment of £17,422 for the dividend equivalent earned) and the value of 2011 SAYE awards which vested on 1 April 2014. The value of LTIs for 2012/13 represent the estimated value of the 2010 PSP (the performance period for this award ended on 30 April 2013), the Replacement Deferred Share Bonus Award which vested on 1 September 2012 (including the cash payment of £13,229 for the dividend equivalent earned) and the Recruitment Award which vested on 19 October 2012.

5 Further details are contained in the Executive Directors' pension section on page 70.

6 Adrian Marsh was appointed to the Board on 24 September 2013.

7 Steve Dryden resigned from the Board on 28 June 2013.

8 Chris Bunker resigned from the Board on 3 September 2013.

9 Philippe Mellier resigned from the Board on 11 February 2014.

Determination of annual bonus (audited)

Annual bonus payments were determined with reference to performance over the financial year ended 30 April 2014. The bonus vested on a straight-line basis of 95% – 105% of the budget as approved by the Board, split 50/50 between budgeted ROACE (12.4%) and budgeted EBTA (£245 million). No element of the annual bonus is guaranteed.

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

Annual bonus

2013/14		2014/15	
Miles Roberts	Adrian Marsh	Miles Roberts	Adrian Marsh
Maximum potential bonus is 150% of basic annual salary, of which half will be deferred in shares.	Maximum potential bonus is 125% of basic annual salary, of which half will be deferred in shares.	Maximum potential bonus is 200% of basic annual salary, of which half will be deferred in shares.	Maximum potential bonus is 150% of basic annual salary, of which half will be deferred in shares.
Targets EBTA growth and improved ROACE.	Targets EBTA growth and improved ROACE.	Targets EBTA growth and improved ROACE.	Targets EBTA growth and improved ROACE.
At target 50% of maximum bonus will be payable.	At target 50% of maximum bonus will be payable.	At target 50% of maximum bonus will be payable.	At target 50% of maximum bonus will be payable.
Bonus earned 126.8% – £849,225	Bonus earned 63.4% – £253,500		

The annual bonus plan for the Executive Directors and other senior executives is operated as shown in the policy table on page 62. Bonus results are determined by the Committee after the year-end, based on performance against targets. Bonus awards will be measured against the achievement of Group objectives. Maximum bonus for 2013/14 is shown above for the Executive Directors and is generally between 70%–100% for the other most senior executives.

LONG-TERM INCENTIVE PLANS (AUDITED)

Performance Share Plan

Vesting of awards

The PSP award granted on 8 July 2011 is based on performance to the year ended 30 April 2014. The performance conditions attached to this award and actual performance against these conditions is as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual performance	Vesting level
Return on average capital employed (25%)		11%	13.5%[1]	13.2%	91%
Earnings per share (25%)	Annualised fully diluted, adjusted EPS growth, calculated on the basis of foreign exchange rates adopted at the start of the performance cycle	15.2p	17.2p	17.2p	100%
Total shareholder return (50%)	Relative TSR performance against the constituents of the FTSE 250 Industrial Goods and Services Supersector	Median	Upper quartile	Upper quartile	100%
				Total vesting	97%

1 Adjusted from a range of 12.5% – 15% in 2012/13 to reflect the substantial structural change in the nature of the capital employed in the enlarged business and following the disposal of Spicers. The Committee considers the revised target range at least as stretching as the original target range had the disposal and acquisition not taken place.

Directors' Remuneration Report: 2013/14 Annual Remuneration Report continued

The award details for the Executive Directors are as follows:

Executive Director	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Reinvestment of dividends	Total	Estimated value[1] (£'000)
Miles Roberts	438,595	428,727	9,868	42,786	471,513	1,542
Steve Dryden[2]	275,944	–	275,944	Nil	Nil	Nil

1 The estimated value of the vested shares is based on the average share price during the three months to 30 April 2014 (£3.27). These shares will vest on the third anniversary of grant.

2 Left during the year.

Awards granted during the year

The following PSP awards were granted to the Executive Directors on 23 July 2013 (Miles Roberts) and 10 December 2013 (Adrian Marsh):

Executive Director	Type of award	Basis of award granted	Share price at date of grant (p)	Number of shares over which award was granted	Face value of award (£'000)	% of face value that would vest at threshold performance	Vesting determined by performance over
Miles Roberts	Nil cost option	150% of salary	249.5	372,745	930	25%	Three financial years to 30 April 2016
Adrian Marsh[1]	Nil cost option	125% of salary	312.2	80,076	250	25%	

1 Time pro-rated.

It is intended to award at the same levels in 2014, but as the SMP is being removed, subject to shareholder approval, PSP award levels in 2015 will rise to 200% of base salary for the Group Chief Executive and 175% of base salary for the Group Finance Director. Under the PSP, the Committee has the power to vary the metrics used each year and their relative weightings. It also has the power to review the specific targets for each award to ensure that they remain appropriate, but the new targets must be at least as challenging in the circumstances as the original targets were when they were set.

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

Plan	Year	ROACE	EPS	TSR
Performance Share Plan	2011	11.0% – 13.5%	15.2p – 17.2p	Median – upper quartile[1]
	2012	11.6% – 13.3%	19.2p – 23.0p	
	2013	12.6% – 14.6%	19.9p – 25.3p	
Share Matching Plan	2012	11.6% – 13.3%	19.2p – 23.0p	
	2013	12.6% – 14.6%	19.9p – 25.3p	

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

2011 PSP award: 50% based on relative TSR, 25% based on average adjusted EPS and 25% based on average ROACE. The performance period for this award ended on 30 April 2014. Details of the performance conditions of this award and the number of shares to vest are set out above.

2012 and 2013 PSP award: 50% based on relative TSR, 25% based on average adjusted EPS and 25% based on average ROACE. 25% of the award vests for achieving threshold performance, increasing on a straight-line basis to full vesting for maximum performance.

Share Matching Plan

The awards made in 2012 and 2013 to the Executive Directors were in respect of 75% of salary (calculated based on the maximum matching ratio of 1.5:1 on the first 50% of salary worth of shares awarded under the Deferred Share Bonus Plan ("DSBP")).

Matching awards normally vest three years after grant, to the extent that the applicable performance conditions have been satisfied and the related DSBP award has not lapsed, and provided the participant is still employed within the Group. If a DSBP award lapses before the vesting of the related matching award then that matching award will lapse at the same time.

OUTSTANDING SHARE AWARDS

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

	Award date	Awards held at 30 April 2013	Granted	Notional dividend shares accrued	Exercised/ vested	Lapsed/ forfeited	Market price on date of award (p)	Market price at date of exercise (p)	Awards held at 30 April 2014	Vesting date if performance conditions are met	Expiry date
Miles Roberts											
PSP	16 Jul 10	828,526	–	143,885	972,411	–	140.6	250.5	–	16 Jul 13	16 Jul 20
PSP	8 Jul 11	438,595	–	–	–	–	265.6	–	438,595	8 Jul 14	8 Jul 21
PSP	16 Jul 12	577,507	–	–	–	–	148.1	–	577,507	16 Jul 15	16 Jul 22
PSP	23 Jul 13	–	372,745	–	–	–	249.5	–	372,745	23 Jul 16	23 Jul 23
									1,388,847		
DSBP	8 Jul 11	109,029	–	–	–	–	267.1	–	109,029	8 Jul 14	8 Jul 21
DSBP	16 Jul 12	192,502	–	–	–	–	148.1	–	192,502	16 Jul 15	16 Jul 22
DSBP	23 Jul 13	–	152,825	–	–	–	249.5	–	152,825	23 Jul 16	23 Jul 23
									454,356		
SMP	16 Jul 12	288,753	–	–	–	–	148.1	–	288,753	16 Jul 15	16 Jul 22
SMP	23 Jul 13	–	229,237	–	–	–	249.5	–	229,237	23 Jul 16	23 Jul 23
									517,990		
Adrian Marsh											
PSP	10 Dec 13	–	80,076	–	–	–	312.2	–	80,076	10 Dec 16	10 Dec 23
									80,076		
Steve Dryden[1]											
PSP	16 Jul 10	511,053	–	–	–	511,053	140.6	–	–	16 Jul 13	16 Jul 20
PSP	8 Jul 11	275,944	–	–	–	275,944	265.6	–	–	8 Jul 14	8 Jul 21
PSP	16 Jul 12	361,702	–	–	–	361,702	148.1	–	–	16 Jul 15	16 Jul 22
									Nil		
DSBP	16 Jul 10	85,223	–	–	–	85,223	140.5	–	–	16 Jul 13	16 Jul 20
DSBP	8 Jul 11	68,596	–	–	–	68,596	267.1	–	–	8 Jul 14	8 Jul 21
DSBP	16 Jul 12	120,567	–	–	–	120,567	148.1	–	–	16 Jul 15	16 Jul 22
									Nil		
SMP	16 Jul 12	180,850	–	–	–	180,850	148.1	–	–	16 Jul 15	16 Jul 22
									Nil		

1 Resigned from the Board with effect from June 2013.

Directors' Remuneration Report: 2013/14 Annual Remuneration Report continued

ALL-EMPLOYEE SHARE PLAN

We believe that our Sharesave Plan (SAYE) is a valuable way of aligning our employees with those of our long-term shareholders. Executive Directors are eligible (along with all employees of the Company and participating subsidiaries of the Group) to participate in the SAYE. Options are granted under the SAYE (which is an HMRC tax-advantaged plan in the UK) to participants who have contracted to save up to the equivalent of £250 per month over a period of three years (two years in the US and four years in France) at a discount of up to 20% (15% in the US) to the average closing mid-market price of the Group's shares on the three dealing days prior to invitation (20 day average to the day before grant in France and the mid-market average on the day of grant in the US). In common with most plans of this type there are no performance conditions applicable to options granted under the SAYE. Details of Directors' interests in the SAYE are as follows:

Executive Director	Options held at 30 April 2013	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held at 30 April 2014**	Exercise price (p)	Dates from which exercisable	Expiry date
Miles Roberts	7,551	–	7,551	–	**–**	119.2	1 Apr 14	30 Sep 14
	–	3,345	–	–	**3,345**	269.0	1 Apr 17	30 Sep 17
Adrian Marsh	–	3,345	–	–	**3,345**	269.0	1 Apr 17	30 Sep 17
Steve Dryden	7,551	–	–	7,551	**–**	119.2	1 Apr 14	30 Sep 14

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

No payments were made to past Executive Directors during the year ended 30 April 2014. No payments were made in respect of loss of office during the year ended 30 April 2014.

PENSION AND OTHER BENEFITS

Miles Roberts receives an annual pension allowance of 30% of basic salary, in lieu of pension benefits. This payment is not considered to be salary for the purpose of calculating any bonus payment.

Adrian Marsh elected to pay contributions at a level that qualifies for a Company contribution of 20% or he can receive an equivalent cash supplement of £80,000 per annum. This payment is not pensionable and is not considered to be salary for the purpose of calculating any bonus payment.

Steve Dryden participated in the Group's Registered Defined Contribution Plan. Members of this plan are required to contribute a minimum of 3% of their basic salary to qualify for matching Company contributions, with higher levels of Company contributions payable if the members pay a higher contribution. He elected to pay contributions at a level that qualified for a Company contribution of 6%. He also received a cash supplement of £65,000 per annum. This payment was not pensionable and was not considered to be salary for the purpose of calculating any bonus payment.

Other benefits:
Miles Roberts received a relocation allowance of £201,000 during the year under review following the relocation of the office from Maidenhead to London. Adrian Marsh will receive a relocation allowance of up to £30,000 in early 2014/15. These payments are in line with the head office relocation policy rules and the individual payments are subject to clawback if either Director should leave early.

Other benefits include car allowance, free fuel, income protection, life assurance and private medical cover.

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

	Group Chief Executive	All employees[1]
	Percentage change 2013 to 2014	Percentage change 2013 to 2014
Salary	**8.2%**	**3.2%**
Benefits[2]	**957.1%**	**0.1%**
Bonus	**11.5%**	**1.4%**

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

2 This includes the relocation allowance payment of £201,000. Excluding this payment there was no year-on-year change to benefits for the Group Chief Executive.

Relative importance of spend on pay

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

£ million unless otherwise stated	**2014**	2013	Percentage change
Overall expenditure on pay	**883**	781	13.1%
Dividend paid in the year	**74**	37	100.0%

SHARE OWNERSHIP

The shareholding guidelines for all Directors are set out in the policy table on page 63. Failure to meet the minimum shareholding requirement is taken into account when determining eligibility for share-based incentive awards. Current shareholdings are summarised in the following table:

			Options held					
Name of Director	**Total as at 30 April 2014**	Total as at 30 April 2013	Unvested and subject to performance conditions[1]	Unvested and subject to continued employment	Vested but not exercised	Shareholding required (% salary/fee)	Current shareholding (% salary/fee)[2]	Requirement met[3]
Executive Directors								
Miles Roberts	**605,341**	232,791	1,939,755	457,701	116,148	150%	285%	Yes
Adrian Marsh	**–**	–	80,076	3,345	–	100%	–	No
Non-Executive Directors								
Gareth Davis	**106,900**	106,900	–		–	50%	136%	Yes
Chris Britton	**10,550**	10,550	–		–	50%	64%	Yes
Jonathan Nicholls	**109,307**	109,307	–		–	50%	494%	Yes
Kathleen O'Donovan	**–**	–	–		–	50%	–	No

1 The PSP awards granted in 2011 to Miles Roberts as detailed in the table on page 68, included in the total below will vest on 8 July 2014 but are not subject to any further performance conditions.

2 Based on a share price of £3.15 (being the closing price on 30 April 2014).

3 Kathleen O'Donovan joined the Board in December 2012 and, under the non-Executive Directors' shareholding guidelines, has up to two years from her date of appointment to build up a shareholding that is equivalent to 50% of her annual fee from the Company. Adrian Marsh joined the Board in September 2013 and has up to four years from his date of appointment to build up a shareholding that is equivalent to 100% of his salary. This will change to a shareholding that is equivalent to 175% of his salary within five years of appointment when the remuneration policy is approved by shareholders at the AGM in September 2014. Ian Griffiths and Louise Smalley joined the Board after the year-end. At their date of appointment neither held shares in the Company. They have two years from their date of appointment to build up a shareholding that is equivalent to 50% of their annual fee. Subject to the above, all Directors complied with the shareholding guidelines.

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

Directors' Remuneration Report: 2013/14 Annual Remuneration Report continued

Replacement 2008 LTIP, Replacement Deferred Shares Award, Recruitment Award, Substitute Share Bonus Award (audited)

Executive Director	Scheme	Interests under the scheme at 30 April 2013	Awards crystallised in year	Awards lapsed in year	Date of award	Market price on date of award (p)	Market price at date of exercise (p)	**Interests under the scheme at 30 April 2014**	Vesting date if performance conditions met	Expiry date
Miles Roberts	Replacement 2008 LTIP	627,718	627,718	–	16 Jul 10	140.52	250.53	**–**	17 Oct 11	16 Jul 20
	Replacement Deferred Shares Award	154,863	154,863	–	16 Jul 10	140.52	250.53	**–**	1 Sep 12	16 Jul 20
	Recruitment Award	828,526	828,526	–	16 Jul 10	140.52	250.53	**–**	19 Oct 12	16 Jul 20
	Substitute Share Bonus Award	116,148	–	–	16 Jul 10	140.52	–	**116,148**	1 Sep 13	16 Jul 20

As disclosed previously, in order to facilitate the recruitment of Miles Roberts in 2010, and to ensure that his interests were directly and immediately aligned with those of the Company's shareholders, the Company granted several conditional share awards as detailed below principally as compensation for lost entitlements to bonus, deferred share awards and long-term share incentive awards relating to his previous employer, McBride plc.

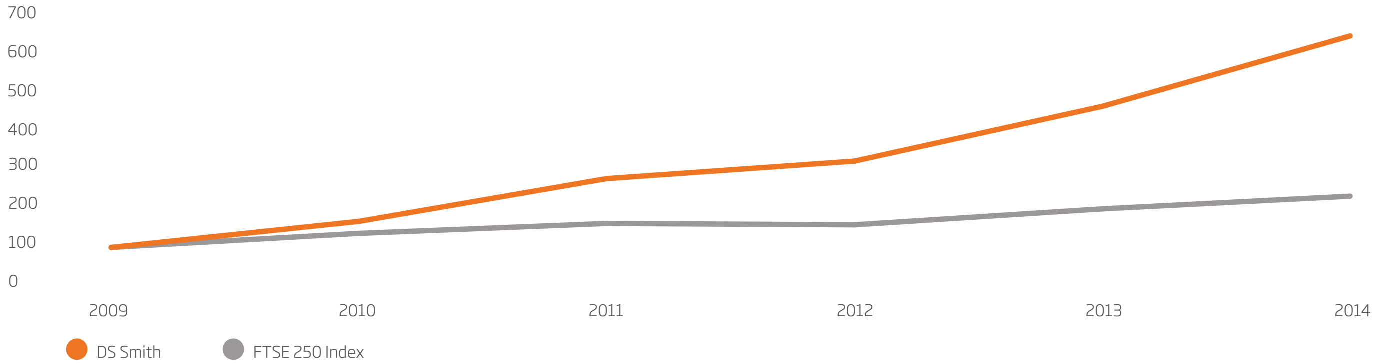
The awards made to him were as follows:

- The Replacement 2008 LTIP (subject to performance conditions as detailed below) was awarded in respect of an award made by his previous employer and forfeited as a result of his recruitment. The value of this award was based on the value of shares under award at October 2009. The award was subject to a performance condition measuring the TSR of McBride plc up to the date he joined the Company and thereafter the Company's TSR against a comparator group of companies comprising the FTSE 250 Index (excluding investment trusts) constituted as at the date of grant of the award over a three-year performance period commencing on 1 July 2008. The award vested in full and became exercisable on 17 October 2011.
- Replacement Deferred Shares Award. This award reflects the value of shares as at October 2009 which he forfeited as a result of his recruitment by the Company. As this award replaces an award with vesting dependent only on continued employment, the vesting of the Replacement Deferred Shares Award was not subject to performance conditions. The award vested in full and became exercisable on 1 September 2012.
- The Recruitment Award (subject to the 2010 PSP performance conditions which measured the TSR of the Company against a comparator group of companies comprising the Industrial Goods and Services Supersector within the FTSE 250 Index, ROACE and EPS all over a three-year performance period commencing on 1 May 2010) was made to facilitate his recruitment and in lieu of the 2009 LTIP award which he would have been granted at McBride plc if he had remained in employment. The value of the award was based on the normal grant policy of 150% of his basic salary. The award vested in full and became exercisable on 19 October 2012.
- Substitute Share Bonus Award as compensation for loss of his share bonus entitlement with his previous employer for the year 2009/10 as a result of his recruitment by the Company. The value of shares awarded reflects the proportion of the period of 12 calendar months beginning on 1 July 2009 during which he was actively employed by McBride plc and was based on an assessment of the likely bonus which would have become payable to him had he remained employed by McBride plc. The award vested in full and became exercisable on 1 September 2013.

Review of past performance – total shareholder return graph

The following graph illustrates the Company's TSR performance since 1 May 2009, relative to the FTSE 250 Index. The Company is a member of the FTSE 250 Index and, accordingly, this index is considered to be the most appropriate comparator group for this purpose. This graph looks at the value, by 30 April 2013, of £100 invested in DS Smith over the last five financial years compared with that of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year-ends.

Total shareholder return
(Value £)



Source: Thomson Reuters

Remuneration of the Chief Executive

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

	2009/10[1]	2010/11	2011/12	2012/13	**2013/14**
Total remuneration (£'000)	1,499	1,595	1,885	5,676	**3,391**
Annual bonus (%)	100%	100%	100%	82%	**85%**
LTIP vesting (%)	28%	100%	100%	100%	**98%**

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

REMUNERATION COMMITTEE GOVERNANCE

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

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

New Bridge Street (a brand of Aon Hewitt Limited) has been appointed by the Committee to provide advice on the remuneration of Executive Directors and other senior executives. New Bridge Street also provides advice to the Company in connection with the operation of the Company's share-based incentive plans. New Bridge Street is a signatory to the Code of Conduct for remuneration consultants and a member of the Remuneration Consultants Group. Neither New Bridge Street nor any other part of Aon Hewitt provided any other services to the Company during the year. The total fees in respect of its services to the Committee during the year were £43,692.

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

Directors' Remuneration Report: 2013/14 Annual Remuneration Report continued

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

Voting on the Remuneration Report at the 2013 AGM

At the 2013 AGM a small number of shareholders expressed concerns with various aspects of our remuneration. The Committee has noted the concerns expressed by some shareholders following the last two years' salary increases for the Group Chief Executive; it remains the view of the Remuneration Committee that this approach, which followed the Group's policy of awarding median salary, was in the shareholders' best interests. At the Company's AGM in 2013 the 2012/13 Directors' Remuneration Report received a majority "for" vote of 51.6%; 9.9% of votes were withheld.

IMPLEMENTATION OF POLICY FOR 2014/15

Base salaries

In determining base salaries for 2014/15, the Remuneration Committee has taken into consideration, particularly, the experience, performance, and the internal and external relative positioning for total reward of the individuals, and has also taken into account the average budgeted increase in base salaries of the Group's workforce in 2014 /15. Salaries are being increased from 1 August 2014 as follows:

	Salaries effective from:	
	1 August 2013	1 August 2014
Miles Roberts	£670,000	£685,000
Adrian Marsh	£400,000	£420,000

Annual bonus

To simplify our remuneration arrangements, the Committee has decided to discontinue the operation of the SMP and to compensate for this change (a loss of up to 75% of salary in performance share awards per annum) through a combination of increased annual bonus and PSP opportunity over two years. The maximum annual bonus opportunity for 2014/15 will be increased to 200% of salary for the Group Chief Executive and 150% of salary for the Group Finance Director. The maximum annual bonus opportunity for 2015/16 will then remain at 200% and 150% of salary respectively. The target bonus will also remain at the same level as a percentage of salary at half of the maximum. The Committee will continue to review the maximum bonus amount to ensure it remains appropriate.

For 2014/15, the annual bonus plan will comprise two discrete elements for the Executive Directors:

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

The proposed targets will be set to be challenging relative to the 2014/15 business plan and show growth over 2013/14. They are deemed by the Committee to be commercially sensitive so will be disclosed retrospectively (along with performance against them) in next year's remuneration report to the extent that they do not remain commercially sensitive at that time.

Long-term incentives

The last awards will be made under the SMP in July 2014. PSP awards will also be made at the same time at the levels of 150% of salary for the Group Chief Executive and 125% of salary for the Group Finance Director. Subject to shareholder approval at the AGM, award levels will increase to 200% of salary for the Group Chief Executive and 175% of salary to the Group Finance Director for 2015/16. The Committee will continue to review the award level to ensure it remains appropriate. The awards will continue to be granted as nil-cost options.

The PSP will continue to be subject to three performance measures: relative TSR, EPS and ROACE. However, it is proposed that for awards made from the 2014 AGM the weighting of the TSR element of the award will be reduced from 50% to 33.3% as the Committee felt that an equal weighting better reflected the business strategy of growing EPS whilst focusing on the efficient use of capital within the business. The respective targets for the 2014 award will be:

% vesting as a proportion	Relative TSR[1]	Average EPS[2]	Average adjusted ROACE[3]
100%	Upper quartile	28.0p	15%
Between 25% and 100%	Between median and upper quartile	24.0p-28.0p	13%-15%
25%	Median	24.0p	13%

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

2 Average adjusted EPS, as disclosed in the Annual Report, over the forthcoming three financial years, commencing with the financial year starting immediately prior to the award.

3 Average adjusted ROACE over the forthcoming three financial years, commencing with the financial year starting immediately prior to the award.

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

These targets will require management to deliver a strong, sustainable performance over the three year period.

On behalf of the Board

Kathleen O'Donovan
Chairman of the Remuneration Committee 25 June 2014

Independent Auditor's Report to the members of DS Smith Plc

OPINION ON FINANCIAL STATEMENTS OF DS SMITH PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet and the related notes 1 to 34 to the Consolidated Financial Statements and the related notes 1 to 12 to the Company Balance Sheet. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

GOING CONCERN

As required by the Listing Rules we have reviewed the Directors' statement on page 49 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independent Auditor's Report to the members of DS Smith Plc continued

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Accounting in respect of the acquisition of SCA Packaging Significant management judgement is involved in determining the impact of events occurring after the acquisition date and within the fair value window period on the carrying value of acquired assets and liabilities.	We evaluated the appropriateness and completeness of the adjustments to the carrying value of acquired assets and liabilities as a result of events occurring after the acquisition date within the fair value window period. We also considered whether the effect of any events occurring outside of the fair value window had been reflected appropriately within the financial statements.
Classification and presentation of exceptional items The presentation and consistency of costs and income within exceptional items is a key determinant in the assessment of the quality of the Group's underlying earnings. Significant level of management judgement is involved in ascertaining whether an item of cost or income is exceptional.	Exceptional items have been evaluated by the local and Group audit teams as to their nature in order to assess whether their classification and presentation are in line with the Group's accounting policy and guidance from the Financial Reporting Council. The quantification of such items has been assessed by agreeing to supporting source documentation. We have reviewed management's application of the policy for consistency with previous accounting periods. We also assessed whether the disclosures within the financial statements in Note 4 provide sufficient detail for the reader to understand the nature of these items.
Tax The value of the tax provisions recorded in respect of a number of uncertain tax positions require judgements in respect of the likely outcome of negotiations with various tax authorities.	We worked with our tax audit specialists to challenge the estimates and judgements made by management when calculating the income tax payable in each territory and the associated provisions held. We reviewed correspondence with taxation authorities in significant locations, as well as reviewing the support or opinions received from external counsel and other advisors where management has utilised such opinions to appraise the likely outcome of technical tax treatments and assessing the reasonableness of any provisions held.
Carrying value of goodwill, tangible and intangible assets and investment balances The key assumptions used in the assessment of the carrying value of goodwill and intangible assets are determined with reference to judgemental factors such as projected cash flows and the appropriate discount rate.	We assessed the assumptions used in the impairment model, specifically the cash flow projections, discount rates and perpetuity growth rates. Our procedures included reviewing forecast cash flows with reference to historical trading performance, consulting with our valuation specialists and benchmarking assumptions, such as the growth rate and discount rate to external macro-economic and market data. Additionally, we considered the likelihood of change in management's assumptions and assessed the sensitivity of management's base case to an adverse change in the key assumptions both individually and collectively.
Adequacy of working capital provisions Significant management judgement is required in determining the appropriate level of provision to be held in respect of irrecoverable trade receivables and inventories.	We evaluated management's assumptions used in calculating the bad debt provision and checked the calculations supporting the provision, testing the integrity of the ageing reports used as a basis to calculate the provision. In order to assess the reasonableness of the provision, we reviewed the ageing of receivables in comparison to previous years, reviewed the level of bad debt write offs in the current year and the prior year and checked the recoverability of outstanding receivables through examination of subsequent cash receipts. We assessed the reasonableness of the recorded level of provision with reference to ageing of inventories and the level of inventory written off during the year. We evaluated the appropriateness of the percentages applied and tested the integrity of the inventory ageing analysis. We compared the actual sales value of a sample of inventory items to their book value to ascertain that the carrying value of inventories does not exceed their net realisable value. We evaluated the adequacy of provision for damaged inventory during our observation of annual and perpetual inventory counts.

The Audit Committee's consideration of these risks is set out on page 52.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £10 million, which is approximately 5% of profit before tax and exceptional items. We exclude the effect of exceptional items to provide a stable basis for materiality, as these are expected to be volatile year on year.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £200,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls and assessing the risks of material misstatement at the Group level.

Based on that assessment, we focused our Group audit scope primarily on the audit work at seven components located in the United Kingdom, France, Germany, Italy and the Netherlands. The component auditor provided an audit clearance to the Senior Statutory Auditor for each component. These seven components represent the principal business units within the Group's key reportable segments and accordingly provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The Group audit team takes an active part in the conduct of the audits at these seven components and follows a programme of planned site visits that is designed to ensure that the Senior Statutory Auditor or another senior member of the Group audit team visits each of the full scope components or attends close out meetings. This year, the Group audit team visited all of the full scope components or attended close out meetings.

For those remaining components requiring a statutory audit, the component auditor provided reporting to the Senior Statutory Auditor on the significant risks and material balances. The Group audit team undertook a programme of rotational visits at these components. Where no visits were carried out, the Senior Statutory Auditor or another senior member of the Group audit team held discussions with the local audit partner in the current year.

Together these components accounted for 93% of revenue and 91% of profit before tax.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of significant risks and material balances.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Independent Auditor's Report to the members of DS Smith Plc continued

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION CONTINUED

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ian Waller
(Senior statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
25 June 2014

Consolidated Income Statement

Year ended 30 April 2014

Continuing operations	Note	**Before exceptional items 2014 £m**	**Exceptional items (note 4) 2014 £m**	**After exceptional items 2014 £m**	Before exceptional items 2013 [1] £m	Exceptional items (note 4) 2013 £m	After exceptional items 2013 [1] £m
Revenue	2	**4,035**	**–**	**4,035**	3,669	–	3,669
Operating costs	3, 4	**(3,728)**	**(31)**	**(3,759)**	(3,420)	(10)	(3,430)
Operating profit before amortisation, acquisition and SCA Packaging related costs	2	**307**	**(31)**	**276**	249	(10)	239
Amortisation of intangible assets and acquisition related costs	4, 10	**(51)**	**(4)**	**(55)**	(45)	(11)	(56)
SCA Packaging related exceptional costs	4	**–**	**(3)**	**(3)**	–	(58)	(58)
Operating profit		**256**	**(38)**	**218**	204	(79)	125
Finance income	5	**3**	**–**	**3**	3	–	3
Finance costs	5	**(44)**	**–**	**(44)**	(40)	–	(40)
Employment benefit net finance expense	25	**(7)**	**–**	**(7)**	(7)	–	(7)
Net financing costs		**(48)**	**–**	**(48)**	(44)	–	(44)
Profit after financing costs		**208**	**(38)**	**170**	160	(79)	81
Share of (loss)/profit of equity accounted investments, net of tax	12	**–**	**(3)**	**(3)**	1	–	1
Profit before income tax		**208**	**(41)**	**167**	161	(79)	82
Income tax (expense)/credit	7	**(45)**	**22**	**(23)**	(35)	20	(15)
Profit for the year from continuing operations		**163**	**(19)**	**144**	126	(59)	67
Discontinued operations							
(Loss)/profit for the year from discontinued operations	7, 31	**(3)**	**–**	**(3)**	–	7	7
Profit for the year		**160**	**(19)**	**141**	126	(52)	74
Profit for the year attributable to:							
Owners of the parent		**159**	**(19)**	**140**	126	(52)	74
Non-controlling interests		**1**	**–**	**1**	–	–	–
Earnings per share							
Adjusted from continuing operations[2]							
Basic	8	**21.4p**			17.1p		
Diluted	8	**21.1p**			16.9p		
From continuing operations							
Basic	8			**15.3p**			7.2p
Diluted	8			**15.2p**			7.1p
From continuing and discontinued operations							
Basic				**15.0p**			8.0p
Diluted				**14.9p**			7.9p

1 Restated for IAS 19 (Revised 2011) (note 1a).

2 Adjusted for amortisation and exceptional items.

Consolidated Statement of Comprehensive Income

Year ended 30 April 2014

	Note	**2014 £m**	2013 [1] £m
Items which will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on employee benefits	25	**57**	(68)
Income tax on items which will not be reclassified subsequently to profit or loss	7	**(18)**	14
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**(55)**	54
Movements in cash flow hedges		**(16)**	(20)
Income tax on items which may be reclassified subsequently to profit or loss	7	**(4)**	10
Other comprehensive expense for the year, net of tax		**(36)**	(10)
Profit for the year		**141**	74
Total comprehensive income for the year		**105**	64
Total comprehensive income attributable to:			
Owners of the parent		**104**	64
Non-controlling interests		**1**	–

1 Restated for IAS 19 (Revised 2011) and re-presented to reflect adoption of amendments to IAS 1 (note 1a).

Consolidated Statement of Financial Position

At 30 April 2014

	Note	2014 £m	2013 £m
Assets			
Non-current assets			
Intangible assets	10	**961**	1,044
Property, plant and equipment	11	**1,372**	1,371
Equity accounted investments	12	**24**	24
Other investments	13	**8**	6
Deferred tax assets	22	**84**	79
Other receivables	15	**3**	3
Derivative financial instruments	21	**4**	9
Total non-current assets		**2,456**	2,536
Current assets			
Inventories	14	**272**	285
Other investments	13	**1**	17
Income tax receivable		**11**	6
Trade and other receivables	15	**650**	644
Cash and cash equivalents	19	**98**	116
Derivative financial instruments	21	**2**	1
Assets held for sale	17	**45**	1
Total current assets		**1,079**	1,070
Total assets		**3,535**	3,606
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	20	**(786)**	(904)
Employee benefits	25	**(151)**	(214)
Other payables	16	**(4)**	(10)
Provisions	23	**(23)**	(39)
Deferred tax liabilities	22	**(163)**	(156)
Derivative financial instruments	21	**(40)**	(21)
Total non-current liabilities		**(1,167)**	(1,344)
Current liabilities			
Bank overdrafts	19	**(34)**	(38)
Interest-bearing loans and borrowings	20	**(96)**	(20)
Trade and other payables	16	**(930)**	(956)
Income tax liabilities		**(90)**	(107)
Provisions	23	**(49)**	(54)
Derivative financial instruments	21	**(20)**	(2)
Liabilities held for sale	17	**(18)**	–
Total current liabilities		**(1,237)**	(1,177)
Total liabilities		**(2,404)**	(2,521)
Net assets		**1,131**	1,085
Equity			
Issued capital	24	**94**	93
Share premium		**715**	710
Reserves		**323**	284
Total equity attributable to owners of the parent		**1,132**	1,087
Non-controlling interests		**(1)**	(2)
Total equity		**1,131**	1,085

Approved by the Board of Directors of DS Smith Plc on 25 June 2014 and signed on its behalf by

M W Roberts
Director

A R T Marsh
Director

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

Consolidated Statement of Changes in Equity

Year ended 30 April 2014

	Note	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings £m	Total reserves attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 May 2012		**93**	**710**	**(2)**	**6**	**(8)**	**260**	**1,059**	**(2)**	**1,057**
Profit for the year[1]		–	–	–	–	–	74	74	–	74
Actuarial losses on employee benefits[1]	25	–	–	–	–	–	(68)	(68)	–	(68)
Foreign currency translation differences		–	–	–	54	–	–	54	–	54
Cash flow hedges fair value changes		–	–	(19)	–	–	–	(19)	–	(19)
Movement from cash flow hedge reserve to income statement		–	–	(1)	–	–	–	(1)	–	(1)
Income tax on other comprehensive income[1]	7	–	–	5	5	–	14	24	–	24
Total comprehensive (expense)/income		**–**	**–**	**(15)**	**59**	**–**	**20**	**64**	**–**	**64**
Ordinary shares purchased		–	–	–	–	(1)	–	(1)	–	(1)
Employee share trust		–	–	–	–	7	(7)	–	–	–
Share-based payment expense (net of tax)		–	–	–	–	–	2	2	–	2
Dividends paid	9	–	–	–	–	–	(37)	(37)	–	(37)
Other changes in equity in the year		**–**	**–**	**–**	**–**	**6**	**(42)**	**(36)**	**–**	**(36)**
At 30 April 2013		**93**	**710**	**(17)**	**65**	**(2)**	**238**	**1,087**	**(2)**	**1,085**
Profit for the year		–	–	–	–	–	140	140	1	141
Actuarial gains on employee benefits	25	–	–	–	–	–	57	57	–	57
Foreign currency translation differences		–	–	–	(55)	–	–	(55)	–	(55)
Cash flow hedges fair value changes		–	–	(16)	–	–	–	(16)	–	(16)
Income tax on other comprehensive income	7	–	–	2	(6)	–	(18)	(22)	–	(22)
Total comprehensive (expense)/income		**–**	**–**	**(14)**	**(61)**	**–**	**179**	**104**	**1**	**105**
Issue of share capital		1	5	–	–	–	–	6	–	6
Employee share trust		–	–	–	–	2	(2)	–	–	–
Share-based payment expense (net of tax)		–	–	–	–	–	9	9	–	9
Dividends paid	9	–	–	–	–	–	(74)	(74)	–	(74)
Other changes in equity in the year		**1**	**5**	**–**	**–**	**2**	**(67)**	**(59)**	**–**	**(59)**
At 30 April 2014		**94**	**715**	**(31)**	**4**	**–**	**350**	**1,132**	**(1)**	**1,131**

1 Restated for IAS 19 (Revised 2011) (note 1a).

Consolidated Statement of Cash Flows

Year ended 30 April 2014

Continuing operations	Note	2014 £m	2013 £m
Operating activities			
Cash generated from operations	27	**309**	374
Interest received		**3**	–
Interest paid		**(46)**	(35)
Tax paid		**(55)**	(42)
Cash flows from operating activities		**211**	297
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	31	**(27)**	(1,281)
Divestment of subsidiary and equity accounted businesses, net of cash and cash equivalents	31	**12**	51
Capital expenditure		**(174)**	(161)
Proceeds from sale of property, plant and equipment and intangible assets		**18**	4
Decrease/(increase) in restricted cash		**16**	(22)
Cash flows used in investing activities		**(155)**	(1,409)
Financing activities			
Proceeds from issue of share capital		**6**	–
Purchase of own shares		**–**	(1)
Increase in borrowings		**8**	552
Repayment of finance lease obligations		**(2)**	–
Dividends paid to Group shareholders	9	**(74)**	(37)
Cash flows (used in)/from financing activities		**(62)**	514
Decrease in cash and cash equivalents from continuing operations		**(6)**	(598)
Discontinued operations			
Cash (used in)/from discontinued operations		**(4)**	7
Decrease in cash and cash equivalents		**(10)**	(591)
Net cash and cash equivalents at 1 May		**78**	653
Exchange (losses)/gains on cash and cash equivalents		**(4)**	16
Net cash and cash equivalents at 30 April	19	**64**	78

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and have also applied IFRSs as issued by the International Accounting Standards Board (IASB). The Company has elected to prepare its parent Company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP); these are presented on pages 123 to 127.

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

The consolidated financial statements have been prepared on a going concern basis as set out on page 49 of the Corporate Governance section.

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect whether and how policies are applied and the reported amounts of assets and liabilities, income and expenses. Judgements made by management in the application of adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in accounting policy (w).

No changes have been made to the Group's accounting policies in the year ended 30 April 2014 other than the following:

- As a result of adopting IAS 19 *Employee Benefits (Revised 2011),* interest costs and expected return on assets have been replaced by a net interest charge/credit on the net employee benefit pension liability/surplus. Certain costs previously recorded as part of finance costs or other comprehensive income have now been presented within operating expenses. As the Group records actuarial adjustments immediately, there has been no effect on the comparative pension deficit. The change has no net effect on total comprehensive income as the increased charge in profit or loss is offset by a decreased charge in other comprehensive income.

  Accordingly, the year ended 30 April 2013 has been restated with profit after tax being £3 million lower, and other comprehensive income £3 million higher, after the tax impact of the changes.
- IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair value and making disclosures about fair value measurements, as well as replacing and expanding related disclosure requirements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures.* The change had no significant impact on the measurement of the Group's assets and liabilities.
- *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)* requires that items of other comprehensive income that will be reclassified subsequently to profit or loss are grouped separately from those that will never be reclassified, together with their associated income tax. The consolidated statement of comprehensive income has been represented to reflect this change.
- The Group has early adopted IAS 28 *Investment in Associates and Joint Ventures* and IFRS 11 *Joint Arrangements*. This included the requirements for joint ventures, as well as associates, to be equity accounted, requiring a change in accounting method for one small joint venture. The comparative period has not been restated for the change described above because the change is immaterial to the Group's results.
- IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* have been early adopted by the Group. Their adoption has not had a material impact on the Group's financial statements, but may impact the accounting for future transactions and arrangements.

The accounting policies set out below have been applied consistently in all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by all Group entities.

(b) Basis of consolidation

(i) Subsidiaries

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(ii) Interests in equity accounted investments

The Group's interests in equity accounted investments comprise interest in associates and joint ventures. An associate is an entity over which the Group has significant influence, but not control or joint control, over the financial and operating policy decisions of the investment. A joint venture is an entity in which the Group has joint control, whereby the Group has rights to the net assets of the entity, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investments, until the date on which significant influence or joint control ceases.

(iii) Non-controlling interests

Non-controlling interests are shown as a component of equity in the statement of financial position net of the value of options over interests held by minorities in the Group's subsidiaries.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(c) Revenue

Revenue comprises the fair value of the sale of goods and services, net of value added tax, rebates and discounts and after eliminating sales within the Group.

Revenue from the sale of goods is recognised when:

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

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

(d) Government grants

(i) Emission quotas

The Group participates in Phase II of the EU Emissions Trading Scheme. Emission quotas received in a period are initially recognised at a nominal value of nil. As a result, no asset or liability is initially recognised in the statement of financial position. A provision is recognised if there is any anticipated shortfall in the level of quotas received or purchased when compared with actual emissions in any given period, measured at the market price of such quotas at the reporting date. Excess emission quotas acquired as part of a business combination are recognised as intangible assets at their fair value on the date of acquisition.

(ii) Other

Other government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are offset against the expenses in the same periods in which the expenses are incurred. Grants relating to assets are released to the income statement over the expected useful life of the asset to which it relates on a basis consistent with the depreciation policy. Depreciation is provided on the full cost of the assets before deducting grants.

(e) Dividends

Dividends attributable to the equity holders of the Company paid during the year are recognised directly in equity.

(f) Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

The assets and liabilities of all the Group entities that have a functional currency other than sterling are translated at the closing exchange rate at the reporting date. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, and other financial instruments designated as hedges of such investments, are recognised in the translation reserve. On the disposal of foreign currency entities, the cumulative exchange difference recorded in the translation reserve is taken to the income statement as part of the gain or loss on disposal.

(g) Intangible assets

(i) Goodwill

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of identifiable assets acquired to be allocated to the assets and liabilities of the acquired entity. The Group makes judgements and estimates in relation to the fair value allocation of the purchase price.

Goodwill is stated at cost less accumulated impairment losses. The useful life of goodwill is considered to be indefinite. Goodwill is allocated to the cash generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination and is tested annually for impairment; or more frequently if impairment is indicated.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement.

(ii) Intellectual property

Intellectual property is stated at cost less accumulated amortisation and impairment losses.

(iii) Computer software

Computer software that is integral to a related item of hardware is included within tangible fixed assets. All other computer software is treated as an intangible asset.

Notes to the Consolidated Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(g) Intangible assets continued

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(v) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

(vi) Amortisation

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

The estimated useful lives are as follows:

Intellectual property	Up to 20 years
Computer software	3-5 years
Customer relationships	5-15 years

(h) Property, plant and equipment and other investments

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, and major components that are accounted for separately (or in the case of leased assets, the lease period, if shorter). Land is not depreciated.

The estimated useful lives are as follows:

Freehold and long leasehold properties	10-50 years
Plant and equipment, fixtures and fittings (including IT hardware)	2-25 years
Motor vehicles	3-5 years

Other investments consist of available for sale investments in unquoted equity and debt securities which are carried at cost, less any impairment, and restricted cash.

(i) Impairment

The carrying amounts of the Group's assets, including tangible and intangible non-current assets, are reviewed at each reporting date to determine whether there are any indicators of impairment. If any such indicators exist, the asset's recoverable amount is estimated. Goodwill is tested for impairment annually at the same time, regardless of the presence of an impairment indicator. An impairment loss is recognised whenever the carrying amount of an asset, collection of assets or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Cash generating units

For the purposes of impairment testing, each segment, split by process, is a separate CGU. Impairment testing of property, plant and equipment and other intangibles is carried out at an individual CGU level. Goodwill impairment testing is carried out based on regional groupings of CGUs as illustrated in note 10, as this is the lowest level at which goodwill is monitored for internal management purposes.

(ii) Calculation of recoverable amount

The recoverable amount of the Group's assets is calculated as the value-in-use of the CGU to which the assets are attributed. Value-in-use is calculated by discounting the cash flows expected to be generated by the CGU/group of CGUs being tested for evidence of impairment. This is done using a pre-tax discount rate that reflects the current assessment of the time value of money or the net selling price, if greater, and the country specific risks for which the cash flows have not been adjusted. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

(iii) Reversals of impairment

Impairment losses in respect of goodwill are not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(j) Derivative financial instruments

The Group uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not, undertake any speculative activity in these instruments.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk associated with either a statement of financial position item or a highly probable forecast transaction; or
- hedges of the net investment in a foreign entity.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship as follows:

Fair value hedges: the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged and the derivative is remeasured at fair value. Gains and losses from both the hedged item and the fair value of derivatives are taken to the income statement. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges: the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement in the same period during which the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or roll-over, the hedged transaction ceases to be highly probable, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement.

Hedges of net investment in a foreign entity: the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the foreign entity is sold.

Any gains or losses arising from changes in the fair value of all other derivatives are taken to the income statement. These may arise from derivatives for which hedge accounting is not applied because they are not effective as hedging instruments.

The net present value of the expected future payments under options over interests held by minorities in the Group's subsidiaries are shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in profit or loss for the period.

(k) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

(l) Trade and other receivables

Trade and other receivables are stated at their cost less impairment provisions.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(n) Cash and cash equivalents and restricted cash

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are stated at amortised cost.

Cash subject to contractual restrictions on use by the Group is excluded from cash and cash equivalents in the consolidated financial statements and presented within other investments in the statement of financial position. Restricted cash is stated at amortised cost.

(o) Borrowings

Borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with borrowing costs being accounted for on an accruals basis in the income statement using the effective interest method.

At the reporting date, accrued interest is recorded separately from the associated borrowings within current liabilities.

Notes to the Consolidated Financial Statements continued

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(p) Employee benefits

(i) Defined contribution schemes

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

(ii) Defined benefit schemes

The Group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value amount and recognised in the income statement as personnel expense; a corresponding liability for all future benefits is established on the statement of financial position and the fair value of any schemes' assets is deducted.

The discount rate is the yield at the reporting date on AA credit rated bonds that have maturity dates approximating to the duration of the schemes' obligations. The calculation is performed by a qualified actuary using the projected unit method. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

(iii) Share-based payment transactions

The Group operates equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as personnel expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

At each reporting date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

(q) Provisions

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

(r) Trade and other payables

Trade and other payables are stated at their cost.

(s) Leases

(i) Finance leases

Assets held under finance leases are recognised as assets of the Group at the inception of the lease at the lower of their fair value and the present value of the minimum lease payments. Depreciation on leased assets is charged to the income statement on the same basis as owned assets. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement so that a constant periodic rate of interest is recognised on the outstanding balance of the liability.

(ii) Operating leases

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term. Any premium or discount on the acquisition of a lease is spread over the life of the lease on a straight-line basis.

(t) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Group is subject to corporate taxes in a number of different jurisdictions and judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, the Group recognises liabilities for anticipated taxes based on the best information available and where the anticipated liability is both probable and estimable. Such liabilities are classified as current when the Group expects to settle the liability within 12 months with the remainder as non-current. Any interest and penalties accrued are included in income taxes both in the consolidated income statement and statement of financial position. Where the final outcome of such matters differs from the amount recorded, any differences may impact the income tax and deferred tax provisions in the period in which the final determination is made.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The tax effect of certain temporary differences is not recognised, principally with respect to goodwill; temporary differences arising on the initial recognition of assets or liabilities (other than those arising in a business combination or in a manner that initially impacts accounting or taxable profit); and temporary differences relating to investment in subsidiaries and equity accounted investees to the extent that they will probably not reverse in the foreseeable future and the Group is able to control the reversal of such temporary differences. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

(u) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(v) Exceptional items

Items of income or expenditure that are significant by their nature, size or incidence, and for which separate presentation would assist in the understanding of the trading and financial results of the Group, are classified and disclosed as exceptional items. Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments.

(w) Critical accounting policies

The application of the Group's accounting policies requires management to make estimates and assumptions. These estimates and assumptions affect the reported assets and liabilities and financial results of the Group. Actual outcomes could differ from the estimates and assumptions used.

The Group's accounting policies that are most critical to an understanding of the results and position of the Group, and the judgements involved in their application, are as follows:

(i) Impairments

When applying IAS 36 *Impairment of Assets*, the Group compares the carrying value of tangible and intangible non-current assets with the higher of their net realisable value and value-in-use to determine whether an impairment exists. Impairment testing is an area requiring management judgement.

To determine the present value of expected future cash flows, certain assumptions have to be made in respect of uncertain matters including management's expectations of (a) the discount rates reflecting the risks involved, (b) the timing and quantum of capital expenditure, (c) short and long-term growth rates and (d) the future development of the business. Whilst the Directors consider their assumptions to be realistic, if actual results differ from expectations the Group's impairment evaluation could be affected. In addition, the use of different estimates, assumptions and judgements, in particular those involved in (a) determining a value based on our current expectations of future conditions and the associated cash flows from the Group's operations, (b) our determination of the level at which groups of assets can be reasonably tested for impairment separately from other parts of the business, and (c) our treatment of centrally held assets, could each result in material differences in the carrying values of assets and assessments of impairment. See note 10 for additional information.

(ii) Pensions and other employee benefits

IAS 19 *Employee Benefits (Revised 2011)* requires the Group to make assumptions including, but not limited to, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant statement of financial position assets and liabilities which could also result in a change to the cost of such liabilities as recognised in profit or loss over time. These assumptions are subject to periodic review. See note 25 for additional information.

(iii) Provisions

The Group measures provisions at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date. These estimates are made, taking account of information available and different possible outcomes, and are reviewed on a regular basis.

(iv) Taxation

The Group's tax payable on profits is determined based on tax laws and regulations that apply in each of the numerous jurisdictions in which the Group operates. The Group is required to exercise judgement in determining income tax provisions, along with the recognition of deferred tax assets/liabilities. While the Group aims to ensure that estimates recorded are accurate, the actual amounts could be different from those expected.

The Group's tax payable on profits is determined based on tax laws and regulations that apply in each of the numerous jurisdictions in which the Group operates. The Group is required to exercise judgement in determining income tax provisions, along with the recognition of deferred tax assets/liabilities. While the Group aims to ensure that estimates recorded are accurate, the actual amounts could be different from those expected.

(x) IFRS standards and interpretations in issue but not yet effective

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

International Financial Reporting Standards (IFRS/IAS)		Effective date – financial year ending
Amendments to IAS 32	Offsetting financial assets and financial liabilities	30 April 2015
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets	30 April 2015
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting	30 April 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities	30 April 2015
IFRS 9	Financial instruments	30 April 2016
IFRS 15	Revenue from contracts with customers	30 April 2017

Of these, IFRS 9 *Financial Instruments* is expected to have the most significant effect. IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 concerns the classification and measurement of financial assets and financial liabilities, the de-recognition of financial instruments and hedge accounting.

The Group does not anticipate that the adoption of the remaining standards and interpretations that are effective for the year ending 30 April 2015 will have a material effect on its financial statements. None of these standards have currently been endorsed by the EU.

Notes to the Consolidated Financial Statements continued

2. SEGMENT REPORTING

Operating segments

IFRS 8 *Operating Segments* requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the Group Chief Executive (who is the Chief Operating Decision Maker as defined by IFRS 8). Further details of these segments are given in the Strategic Report on pages 17 to 19.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central administration costs are allocated to the individual segments on a consistent basis year-on-year. All assets and liabilities have been analysed by segment, except for items of a financing nature, taxation balances, employee benefit liabilities and current and non-current asset investments. Debt and associated interest is managed at a Group level and therefore has not been allocated across the segments.

Year ended 30 April 2014	Note	UK £m	Western Europe £m	DACH and Northern Europe £m	Central Europe and Italy £m	Plastics £m	Total Continuing Operations £m
External revenue		**929**	**1,017**	**1,029**	**739**	**321**	**4,035**
EBITDA		**92**	**102**	**126**	**73**	**37**	**430**
Depreciation	11	**(28)**	**(35)**	**(30)**	**(20)**	**(10)**	**(123)**
Operating profit[1]		**64**	**67**	**96**	**53**	**27**	**307**
Unallocated items:							
Amortisation	10						**(51)**
Exceptional items	4						**(38)**
Total operating profit (continuing operations)							**218**
Analysis of total assets and total liabilities							
Segment assets		**708**	**790**	**981**	**641**	**183**	**3,303**
Unallocated items:							
Equity accounted investments and other assets							**33**
Derivative financial instruments							**6**
Cash and cash equivalents							**98**
Tax							**95**
Total assets							**3,535**
Segment liabilities		**(230)**	**(319)**	**(192)**	**(196)**	**(76)**	**(1,013)**
Unallocated items:							
Borrowings and accrued interest							**(927)**
Derivative financial instruments							**(60)**
Tax							**(253)**
Employee benefits							**(151)**
Total liabilities							**(2,404)**

1 Adjusted for amortisation and exceptional items.

2. SEGMENT REPORTING CONTINUED

Year ended 30 April 2013	Note	UK £m	Western Europe £m	DACH and Northern Europe £m	Central Europe and Italy £m	Plastics £m	Total Continuing Operations £m
External revenue		961	966	836	601	305	3,669
EBITDA		73	104	90	58	36	361
Depreciation	11	(27)	(31)	(27)	(17)	(10)	(112)
Operating profit[1, 2]		46	73	63	41	26	249
Unallocated items:							
Amortisation	10						(45)
Exceptional items	4						(79)
Total operating profit (continuing operations)							125
Analysis of total assets and total liabilities							
Segment assets		692	856	1,034	590	176	3,348
Unallocated items:							
Equity accounted investments and other assets							47
Derivative financial instruments							10
Cash and cash equivalents							116
Tax							85
Total assets							3,606
Segment liabilities		(284)	(356)	(191)	(206)	(23)	(1,060)
Unallocated items:							
Borrowings and accrued interest							(961)
Derivative financial instruments							(23)
Tax							(263)
Employee benefits							(214)
Total liabilities							(2,521)

1 Restated for IAS 19 (Revised 2011) (note 1a).

2 Adjusted for amortisation and exceptional items.

Geographical areas

In presenting information by geographical area, external revenue is based on the geographical location of customers. Non-current assets are based on the geographical location of assets and exclude investments, deferred tax assets, derivative financial instruments and intangible assets (which are monitored at the operating segment level, not at a country level).

	External revenue		Non-current assets		Capital expenditure	
Continuing operations	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
UK	**933**	1,026	**346**	352	**43**	57
France	**688**	743	**221**	249	**32**	34
Germany	**613**	525	**260**	260	**27**	22
Italy	**433**	370	**169**	148	**16**	14
Rest of the World	**1,368**	1,005	**379**	365	**56**	34
	4,035	3,669	**1,375**	1,374	**174**	161

Notes to the Consolidated Financial Statements continued

3. OPERATING PROFIT

Continuing operations	2014 £m	2013 [1]£m
Operating costs		
Cost of sales	**2,127**	1,946
Other production costs	**763**	652
Distribution	**281**	285
Administrative expenses	**588**	547
	3,759	3,430

1 Restated for IAS 19 (Revised 2011) (note 1a).

Details of exceptional items included in operating profit are set out in note 4.

Operating profit is stated after charging the following:

Continuing operations	2014 £m	2013 £m
Depreciation – owned assets	**118**	110
– leased assets	**5**	2
Amortisation of intangible assets	**51**	45
Hire of plant and machinery	**17**	15
Other operating lease rentals	**24**	17
Research and development	**6**	6

	2014			2013		
Auditor's remuneration	**UK £m**	**Overseas £m**	**Total £m**	UK £m	Overseas £m	Total £m
Fees payable to the Company's Auditor for audit of the Company's annual accounts	**0.1**	**–**	**0.1**	0.1	–	0.1
Fees payable to the Company's Auditor and their associates for other services:						
Audit of the Company's subsidiaries, pursuant to legislation	**0.6**	**0.8**	**1.4**	0.6	0.4	1.0
Corporate finance services	**0.5**	**–**	**0.5**	0.5	–	0.5
Audit related assurance services	**0.1**	**–**	**0.1**	0.1	–	0.1
Tax and other services	**–**	**–**	**–**	–	0.1	0.1
	1.3	**0.8**	**2.1**	1.3	0.5	1.8

Auditor's remuneration includes continuing and discontinued operations. Total non-audit fees were £0.6m (2012/13: £0.7m).

A description of the work of the Audit Committee is set out in the Corporate Governance section on pages 51 to 55 and includes an explanation of how the external Auditor's objectivity and independence are safeguarded when non-audit services are provided by the external Auditor.

4. EXCEPTIONAL ITEMS

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

Continuing operations	**2014 £m**	2013 £m
SCA Packaging integration costs	**(42)**	(58)
SCA Packaging acquisition finalisation	**39**	–
SCA Packaging related exceptional costs	**(3)**	(58)
Acquisition related costs	**(4)**	(11)
Other restructuring costs	**(29)**	(15)
Impairment of assets	**(5)**	(2)
Rebranding	**(4)**	–
Gain on divestment	**4**	8
Other	**3**	(1)
Total pre-tax exceptional items (recognised in operating profit)	**(38)**	(79)
Income tax credit on exceptional items	**22**	20
Share of exceptional loss of associate, net of tax	**(3)**	–
Total post-tax exceptional items	**(19)**	(59)

2013/14

SCA Packaging integration costs relate to the completion of integration projects which began in 2012/13 and are associated with achieving cost synergies from the acquisition of the packaging division of Svenska Cellulosa Aktiebolaget SCA ('SCA Packaging') in the previous year.

The SCA Packaging completion process concluded in December 2013. Together with the effects of the subsequent acquisition of the power plant adjacent to the paper mill in Italy, and the release of an onerous contract provision recognised in the statement of financial position on acquisition of SCA Packaging, the Group has recorded a gain of £39m.

Acquisition costs of £4m primarily relate to professional advisory, legal and consultancy fees relating to the finalisation of the completion accounts process of the acquisition of SCA Packaging.

In November 2013, the Group announced a major rebranding, bringing the businesses together under one unified corporate identity. Of the £4m cost in the year, the majority related to signage, internal and external communication and marketing costs.

Of the £29m other restructuring costs, £12m relates to restructuring and rationalisation in the Plastics businesses, £7m relates to UK site closures and reorganisations, and £4m relates to restructuring of businesses in the DACH region.

Other exceptional items principally relate to a provision release for employee compensation, partly offset by costs relating to UK centralisation projects, onerous lease and dilapidation provisions.

The income tax credit on exceptional items includes the reversal of prior year provisions for exceptional tax and the tax effect of exceptional items that are subject to tax.

The share of exceptional loss of associate relates to the Group's share of post-tax foreign exchange losses recognised in the Group's Ukrainian associate Rubezhansk as a result of the significant decline in the value of the Ukrainian currency, Hryvnia, during the local geopolitical crisis (note 12).

2012/13

Acquisition costs of £11m relate to professional advisory fees, due diligence costs and other acquisition costs relating to the acquisition of SCA Packaging.

SCA Packaging integration costs primarily relate to costs associated with achieving cost synergies.

Of the £15m other restructuring costs, £8m relates to restructuring in the UK Paper business and central services, £3m relates to reorganisations in Sweden, and the remainder is primarily attributable to restructuring in Germany and Poland.

The gain on divestment primarily relates to the sale of the Group's investment in the associate GAE Smith, the sale of European Commission remedy disposal sites, and disposal of the Group's Norwegian operations.

Notes to the Consolidated Financial Statements continued

5. FINANCE INCOME AND COSTS

Continuing operations	2014 £m	2013 £m
Interest income from financial assets	**(1)**	(1)
Other	**(2)**	(2)
Finance income	**(3)**	(3)
Interest on loans and overdrafts	**41**	38
Other	**3**	2
Finance costs	**44**	40

6. PERSONNEL EXPENSES

Continuing operations	2014 £m	2013 £m
Wages and salaries	**702**	628
Social security costs	**140**	126
Contributions to defined contribution pension plans	**30**	20
Service costs for defined benefit schemes (note 25)	**7**	3
Share-based payment expense (note 26)	**4**	4
Personnel expenses	**883**	781

Average number of employees	2014 Number	2013 Number
UK	**5,256**	5,436
Western Europe	**5,741**	5,204
DACH and Northern Europe	**5,523**	4,403
Central Europe and Italy	**4,321**	3,859
Rest of the World	**623**	558
Average number of employees	**21,464**	19,460

7. INCOME TAX EXPENSE

Continuing operations	2014 £m	2013[1] £m
Current tax expense		
Current year	**(61)**	(73)
Adjustment in respect of prior years	**6**	11
	(55)	(62)
Deferred tax expense		
Origination and reversal of temporary differences	**1**	25
Reduction in UK tax rate	**2**	2
Adjustment in respect of prior years	**7**	–
Total income tax expense before exceptional items	**(45)**	(35)
Tax relating to exceptional items (note 4)	**22**	20
Total income tax expense in the income statement from continuing operations	**(23)**	(15)
Discontinued operations		
Current tax expense adjustment in respect of prior years	**(3)**	–
Total income tax expense in the income statement from discontinued operations	**(3)**	–

1 Restated for IAS 19 (Revised 2011) (note 1a).

The tax credit on amortisation was £14m (2012/13: £13m).

7. INCOME TAX EXPENSE CONTINUED

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

	2014 £m	2013[1] £m
Profit before income tax		
Continuing operations	**167**	82
Discontinued operations	**-**	7
Share of loss/(profit) of associates	**3**	(1)
Profit before tax and share of loss/(profit) of associates	**170**	88
Income tax at the domestic corporation tax rate of 22.83% (2012/13: 23.92%)	**(39)**	(21)
Effect of tax rates in overseas jurisdictions	**(14)**	(15)
Additional items deductible for tax purposes	**35**	14
Non-deductible expenses	**(25)**	(7)
Gain on disposal of Office Products Wholesaling division	**-**	2
Adjustment in respect of prior years	**15**	10
Effect of change in UK corporation tax rate	**2**	2
Income tax expense – total Group	**(26)**	(15)
Income tax expense from continuing operations	**(23)**	(15)
Income tax expense from discontinued operations	**(3)**	–

1 Restated for IAS 19 (Revised 2011) (note 1a).

The Finance Act 2013 includes a 3% reduction to the main UK Corporation tax rate to 20% effective 1 April 2015. Accordingly, the rate applying to UK deferred tax assets and liabilities has been reduced from 23% to 20%, creating a rate adjustment, which is partly reflected in the consolidated income statement, and partly in the consolidated statement of comprehensive income. There have been no further indications of additional changes to the rate of corporation tax from 20%.

Tax on other comprehensive income and equity

	Gross 2014 £m	Tax credit/ (charge) 2014 £m	Net 2014 £m	Gross 2013 [1]£m	Tax credit/ (charge) 2013 [1]£m	Net 2013 [1]£m
Actuarial gains/(losses) on employee benefits	**57**	**(18)**	**39**	(68)	14	(54)
Foreign currency translation differences and reclassification from translation reserve to income statement arising on divestment	**(55)**	**(6)**	**(61)**	54	5	59
Movements in cash flow hedges	**(16)**	**2**	**(14)**	(20)	5	(15)
Other comprehensive (expense)/income	**(14)**	**(22)**	**(36)**	(34)	24	(10)
Issue of share capital	**6**	**-**	**6**	–	–	–
Ordinary shares purchased	**-**	**-**	**-**	(1)	–	(1)
Share-based payment expense	**4**	**5**	**9**	4	(2)	2
Dividends paid to Group shareholders	**(74)**	**-**	**(74)**	(37)	–	(37)
Other comprehensive (expense)/income and equity	**(78)**	**(17)**	**(95)**	(68)	22	(46)

1 Restated for IAS 19 (Revised 2011) (note 1a).

Notes to the Consolidated Financial Statements continued

8. EARNINGS PER SHARE

Basic earnings per share from continuing operations

	2014	[1]2013
Profit from continuing operations attributable to ordinary shareholders	**£143m**	£67m
Weighted average number of ordinary shares	**932m**	924m
Basic earnings per share	**15.3p**	7.2p

Diluted earnings per share from continuing operations

	2014	[1]2013
Profit from continuing operations attributable to ordinary shareholders	**£143m**	£67m
Weighted average number of ordinary shares	**932m**	924m
Potentially dilutive shares issuable under share-based payment arrangements	**8m**	8m
Weighted average number of ordinary shares (diluted)	**940m**	932m
Diluted earnings per share	**15.2p**	7.1p

Basic earnings per share from discontinued operations

	2014	2013
(Loss)/profit attributable to ordinary shareholders	**(£3m)**	£7m
Weighted average number of ordinary shares	**932m**	924m
Basic earnings per share	**(0.3p)**	0.8p

Diluted earnings per share from discontinued operations

	2014	2013
(Loss)/profit attributable to ordinary shareholders	**(£3m)**	£7m
Weighted average number of ordinary shares	**932m**	924m
Potentially dilutive shares issuable under share-based payment arrangements	**n/a**	8m
Weighted average number of ordinary shares (diluted)	**932m**	932m
Diluted earnings per share	**(0.3p)**	0.8p

1 Restated for IAS 19 (Revised 2011) (note 1a).

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2012/13: 4m).

8. EARNINGS PER SHARE CONTINUED

Adjusted earnings per share from continuing operations

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

	2014			[1]2013		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	**143**	**15.3p**	**15.2p**	67	7.2p	7.1p
Add back amortisation, after tax	**37**	**4.1p**	**4.0p**	32	3.4p	3.4p
Add back exceptional items, after tax	**19**	**2.0p**	**1.9p**	59	6.5p	6.4p
Adjusted earnings	**199**	**21.4p**	**21.1p**	158	17.1p	16.9p

1 Restated for IAS 19 (Revised 2011) (note 1a).

9. DIVIDENDS PROPOSED AND PAID

	2014		2013	
	Pence per share	**£m**	Pence per share	£m
2011/12 final dividend – paid	**–**	**–**	4.0p	37
2012/13 interim dividend – paid	**–**	**–**	2.5p	23
2012/13 final dividend – paid	**5.5p**	**51**	–	–
2013/14 interim dividend – paid	**3.2p**	**30**	–	–
2013/14 final dividend – proposed	**6.8p**	**64**	–	–

	2014 £m	2013 £m
Paid during the year	**74**	37

The interim dividend in respect of 2013/14 of 3.2 pence per share (£30m) was paid after the year-end on 1 May 2014. The 2012/13 interim and final dividends were paid during the 2013/14 financial year. A final dividend in respect of 2013/14 of 6.8 pence per share (£64m) has been proposed by the Directors after the reporting date.

Notes to the Consolidated Financial Statements continued

10. INTANGIBLE ASSETS

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2013	652	35	28	385	56	1,156
Additions	–	2	2	–	2	6
Adjustment relating to business combination in previous year	(3)	–	–	–	–	(3)
Divestments	(2)	–	(1)	–	(3)	(6)
Disposals	–	(1)	–	–	(1)	(2)
Reclassification to held for sale	–	–	(2)	–	–	(2)
Currency translation	(16)	(1)	(1)	(12)	(1)	(31)
At 30 April 2014	**631**	**35**	**26**	**373**	**53**	**1,118**
Amortisation and impairment						
At 1 May 2013	(28)	(22)	(12)	(37)	(13)	(112)
Amortisation	–	(5)	(2)	(42)	(2)	(51)
Disposals	–	1	–	–	–	1
Currency translation	1	1	–	3	–	5
At 30 April 2014	**(27)**	**(25)**	**(14)**	**(76)**	**(15)**	**(157)**
Carrying amount						
At 1 May 2013	624	13	16	348	43	1,044
At 30 April 2014	**604**	**10**	**12**	**297**	**38**	**961**

	Goodwill £m	Software £m	Intellectual property £m	Customer related £m	Other £m	Total £m
Cost						
At 1 May 2012	299	25	15	19	16	374
Acquisitions	330	7	9	349	38	733
Additions	–	2	1	–	3	6
Disposals	–	–	–	–	(3)	(3)
Currency translation	23	1	3	17	2	46
At 30 April 2013	**652**	**35**	**28**	**385**	**56**	**1,156**
Amortisation and impairment						
At 1 May 2012	(27)	(18)	(8)	(3)	(8)	(64)
Amortisation	–	(4)	(2)	(33)	(6)	(45)
Disposals	–	–	–	–	2	2
Currency translation	(1)	–	(2)	(1)	(1)	(5)
At 30 April 2013	**(28)**	**(22)**	**(12)**	**(37)**	**(13)**	**(112)**
Carrying amount						
At 1 May 2012	272	7	7	16	8	310
At 30 April 2013	**624**	**13**	**16**	**348**	**43**	**1,044**

10. INTANGIBLE ASSETS CONTINUED

Goodwill

The CGU groups below represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8 *Operating Segments*. The carrying values of goodwill are split between the CGU groups as follows:

	2014 £m	2013 £m
UK	**147**	147
Western Europe	**148**	152
DACH and Northern Europe	**216**	221
Central Europe and Italy	**47**	53
Plastics	**46**	51
Total goodwill	**604**	624

Goodwill impairment tests – key assumptions and methodology

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may be impaired. The recoverable amounts of the groups of CGUs are determined from value-in-use calculations. No impairment arose in the year ended 30 April 2014 as the recoverable amount of the groups of CGUs, based on value-in-use calculations, exceeded the carrying amounts.

The key assumptions in the value-in-use calculations are:

- the cash flow forecasts have been derived from the most recent Board approved budget for the year ending 30 April 2015 and are based upon past performance, known changes and expectations of current market conditions, taking into account the cyclical nature of the business;
- the sales volume and price assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based upon historic performance and the current economic outlooks for the economies in which the Group operates. These are viewed as the key operating assumptions as they determine the Directors' approach to margin and cost maintenance;
- the cash flow forecasts for capital expenditure are based upon past experience and include the replacement capital expenditure required to generate the terminal cash flows;
- cash flows beyond the budgeted period (2016 and beyond) have been determined using a long-term growth rate specific to each of the CGU groups based upon external sources such as the International Monetary Fund's World Economic Outlook Database. These resulted in an average growth rate for the total Group of 1.96%; and
- the pre-tax adjusted discount rate is derived from the weighted average cost of capital ('WACC') for the Group of 9.5% (2012/13: 9.5%). The WACC is a function of the cost of debt and equity. The cost of equity is largely based upon the risk free rate for 30 year German Bund yields (70%) and 30 year UK gilts (30%), adjusted for the relevant country market risk premium, which reflects the increased risk of investing in country specific equities and the relative volatilities of the equity of the Group compared to the market as a whole. This Group rate has been adjusted for the risks inherent in the countries in which the CGU group operates that are not reflected in the cash flow projections.

Goodwill impairment tests – sensitivities

The value-in-use is based upon anticipated discounted future cash flows and results in significant headroom across all CGU groups. Whilst the Directors believe the assumptions used are realistic, it is possible that a reduction in the headroom would occur if any of the above key assumptions were significantly changed. Factors which could cause an impairment are:

- significant underperformance relative to the forecast; and
- further deteriorations in the economies in which the Group operates.

To support their assertions, the Directors' have conducted sensitivity analyses to determine the impact that would result from the above situations. Key sensitivities tested included future growth and discount rates. In these cases, if estimates of future growth were reduced to 0% per annum, or if the estimated discount rates applied to the cash flows were increased by 1%, there would still be significant headroom to support the carrying value of the assets.

Based on this analysis the Directors believe that no reasonably possible change in any of the key assumptions detailed above would cause the carrying value of CGU groups to exceed their recoverable amounts. Therefore at 30 April 2014 no impairment charge is required against the carrying value of goodwill.

Notes to the Consolidated Financial Statements continued

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2013	640	1,718	50	69	2,477
Acquisitions	–	23	–	–	23
Additions	11	88	3	68	170
Divestments	–	(1)	–	–	(1)
Disposals	(9)	(62)	(2)	–	(73)
Transfers	(18)	67	–	(49)	–
Reclassification to held for sale	(15)	(59)	(1)	–	(75)
Currency translation	(20)	(61)	(3)	(2)	(86)
At 30 April 2014	**589**	**1,713**	**47**	**86**	**2,435**
Depreciation and impairment					
At 1 May 2013	(113)	(969)	(23)	(1)	(1,106)
Depreciation charge	(20)	(99)	(4)	–	(123)
Impairment	–	(2)	–	–	(2)
Disposals	6	57	1	–	64
Transfers	9	(9)	–	–	–
Reclassification to held for sale	6	44	1	–	51
Currency translation	10	40	2	1	53
At 30 April 2014	**(102)**	**(938)**	**(23)**	**–**	**(1,063)**
Carrying amount					
At 1 May 2013	527	749	27	68	1,371
At 30 April 2014	**487**	**775**	**24**	**86**	**1,372**

The amounts above include land and buildings held under finance lease agreements. At 30 April 2014, the carrying amount of land and buildings held under finance leases was £4m (30 April 2013: £7m).

Assets under construction mainly relate to production machines being built for various sites across the Group.

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Under construction £m	Total £m
Cost					
At 1 May 2012	314	1,190	22	39	1,565
Acquisitions	278	355	18	65	716
Additions	14	84	5	36	139
Divestments	(1)	(4)	–	–	(5)
Disposals	(2)	(27)	(2)	–	(31)
Transfers	7	64	2	(73)	–
Reclassification to held for sale	–	(22)	–	–	(22)
Currency translation	30	78	5	2	115
At 30 April 2013	**640**	**1,718**	**50**	**69**	**2,477**
Depreciation and impairment					
At 1 May 2012	(86)	(865)	(15)	(1)	(967)
Depreciation charge	(16)	(90)	(6)	–	(112)
Divestments	1	3	–	–	4
Disposals	2	24	2	–	28
Reclassification to held for sale	–	14	–	–	14
Currency translation	(14)	(55)	(4)	–	(73)
At 30 April 2013	**(113)**	**(969)**	**(23)**	**(1)**	**(1,106)**
Carrying amount					
At 1 May 2012	228	325	7	38	598
At 30 April 2013	**527**	**749**	**27**	**68**	**1,371**

12. EQUITY ACCOUNTED INVESTMENTS

	2014 £m	2013 £m
At 1 May	**24**	9
Acquisition	**–**	16
Disposal	**–**	(3)
Adoption of IFRS 11 (note 1a)	**3**	–
Share of profit of equity accounted investments after interest and tax before exceptional items	**–**	1
Share of Rubezhansk exceptional charge	**(3)**	–
Currency translation	**–**	1
At 30 April	**24**	24

As described in note 1(a), the Group has adopted IFRS 11 *Joint Arrangements*. As such, the Group's 50% interest in Italmaceri S.r.l. has changed from proportionate consolidation to equity accounting in the current period, as it is classified as a joint venture. The comparative period has not been restated for the change described above because the change is immaterial to the Group's results.

During the year ended 30 April 2013, the Group acquired associate investments in Turkey and Spain as part of the acquisition of SCA Packaging and disposed of a 50% investment in GAE Smith.

Principal equity accounted investments

	Nature of business	Principal country of operation	Ownership interest 2014	2013
OJSC Rubezhansk Paper and Packaging Mill (Rubezhansk)	Paper and packaging	Ukraine	**49.6%**	49.6%
Turkish Group	Paper, packaging and recycling	Turkey	**49.0%**	49.0%
Lantero Group	Packaging	Spain	**25.0%**	25.0%
Italmaceri S.r.l.	Recycling	Italy	**50.0%**	50.0%

The Group accounts for its investments in Rubezhansk and Turkey using the equity method as associates because the Group has the ability to exercise significant influence over the investment due to the Group's equity holdings.

Rubezhansk
For two months during the year ended 30 April 2014, the foreign exchange rate between the Ukrainian Hryvnia weakened against the US dollar by over 10% in each month. The Group's share of the resultant post-tax foreign exchange loss on retranslation of the associate's US dollar loan liability has been classified as an exceptional item in the financial statements for the year (note 4).

Turkey
The Group owns direct and indirect holdings in the following Turkish businesses; Yalova Ambalaj Sanayi ve Ticaret A.Ş; Kaplamin Ambalaj Sanayi ve Ticaret A.Ş; OVA Oluklu Mukavva Ambalaj Sanayi. ve Ticaret A.Ş; Atkasan Atık Değerlendireme San. Ve Tic. A.Ş and Selkasan Kağit ve Paketleme Malzemeleri Imalat San. Ve Tic. A.Ş. Direct holdings vary between 2.2% and 49.0%.

Summary of financial information of associates
The following items are an aggregate of the financial statements of the Group's main associates on a 100% basis.

	2014 £m	2013 £m
Assets	**427**	429
Liabilities	**(185)**	(180)
Revenue	**473**	327
Loss after tax	**(5)**	–

13. OTHER INVESTMENTS

	2014 £m	2013 £m
Restricted cash – receivable after one year	**5**	5
Other investments	**3**	1
Total non-current investments	**8**	6
Restricted cash – receivable within one year	**1**	17
Total current investments	**1**	17

To facilitate Pension Scheme Trustee support for the acquisition of SCA Packaging, an escrow deposit of £15m was required to be held until the net debt/EBITDA ratio was below 2 times. This escrow deposit represented the majority of the £17m restricted cash receivable within one year at 30 April 2013. As the Group achieved this metric, the escrow amount was released during the year ended 30 April 2014.

Notes to the Consolidated Financial Statements continued

14. INVENTORIES

	2014 £m	2013 £m
Raw materials and consumables	**142**	152
Work in progress	**15**	16
Finished goods	**115**	117
	272	285

Inventory provisions at 30 April 2014 were £28m (30 April 2013: £40m).

15. TRADE AND OTHER RECEIVABLES

	2014		2013	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade receivables	**–**	**556**	–	595
Provisions for bad and doubtful receivables	**–**	**(27)**	–	(36)
Prepayments and other receivables	**3**	**121**	3	85
	3	**650**	3	644

Trade receivables	Net carrying amount £m	Of which neither impaired nor past due £m	Of which past due but not impaired: 1 month or less £m	1-3 months £m	3-6 months £m	6-12 months £m	More than 12 months £m
At 30 April 2014	**529**	**451**	**52**	**20**	**5**	**–**	**1**
At 30 April 2013	559	493	47	12	4	1	2

Movement in bad and doubtful receivables allowance

	2014 £m	2013 £m
At 1 May	**(36)**	(9)
Uncollectible amounts written off, net of receivables	**7**	1
Decrease in allowance recognised in the income statement	**1**	1
Acquisitions	**–**	(27)
Currency translation	**1**	(2)
At 30 April	**(27)**	(36)

The majority of the Group's trade receivables are due for maturity within 90 days of due date. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

16. TRADE AND OTHER PAYABLES

	2014		2013	
	Non-current £m	Current £m	Non-current £m	Current £m
Trade payables	**–**	**635**	–	581
Non-trade payables and accrued expenses	**4**	**295**	10	375
	4	**930**	10	956

17. ASSETS AND LIABILITIES HELD FOR SALE

	2014 £m	2013 £m
Intangible assets	**2**	–
Property, plant and equipment	**24**	–
Inventories	**9**	1
Trade and other receivables	**10**	–
Total assets held for sale	**45**	1
Trade and other payables	**(18)**	–
Total liabilities held for sale	**(18)**	–

Assets and liabilities held for sale at 30 April 2014 primarily relate to assets in the UK across a number of businesses, as well as our Scandinavian Foam business.

18. NET DEBT

	2014 £m	2013 £m
Non-current liabilities	**(786)**	(904)
Current liabilities	**(96)**	(20)
Derivative financial instruments	**(40)**	(11)
Net cash and cash equivalents	**64**	78
Other investments – restricted cash	**6**	22
Other deposits	**25**	18
Net debt	**(827)**	(817)

The movement in net debt is as follows:

	At 1 May 2013 £m	Reclassification £m	Continuing operations cash flow £m	Discontinued operations cash flow £m	Foreign exchange and fair value movements £m	At 30 April 2014 £m
Cash and cash equivalents	116	–	(10)	(4)	(4)	**98**
Overdrafts	(38)	–	4	–	–	**(34)**
Net cash and cash equivalents	78	–	(6)	(4)	(4)	**64**
Restricted cash – receivable after one year	5	–	–	–	–	**5**
Restricted cash – receivable within one year	17	–	(16)	–	–	**1**
Other deposits	18	–	7	–	–	**25**
Interest-bearing loans and borrowings due – after one year	(899)	86	(11)	–	42	**(782)**
Interest-bearing loans and borrowings due – within one year	(19)	(86)	3	–	6	**(96)**
Finance leases	(6)	–	2	–	–	**(4)**
Derivative financial instruments						
– assets	9	–	–	–	(5)	**4**
– liabilities	(20)	–	–	–	(24)	**(44)**
	(895)	–	(15)	–	19	**(891)**
Net debt	**(817)**	**-**	**(21)**	**(4)**	**15**	**(827)**

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

Certain other deposits balances are included, as these short-term receivables have the characteristics of net debt.

Notes to the Consolidated Financial Statements continued

19. CASH AND CASH EQUIVALENTS

	2014 £m	2013 £m
Bank balances	**93**	108
Short-term deposits	**5**	8
Cash and cash equivalents (consolidated statement of financial position)	**98**	116
Overdrafts	**(34)**	(38)
Net cash and cash equivalents (consolidated statement of cash flows)	**64**	78

20. INTEREST-BEARING LOANS AND BORROWINGS

	2014			2013		
	Current £m	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Bank and other loans	**(33)**	**(390)**	**(423)**	(19)	(409)	(428)
Note purchase agreements						
$105m USD private placement 5.66% coupon August 2014[1]	**(63)**	**-**	**(63)**	–	(73)	(73)
$95m USD private placement 5.80% coupon August 2016[2]	**-**	**(56)**	**(56)**	–	(54)	(54)
€59m euro private placement shelf facility 4.40% coupon August 2018	**-**	**(49)**	**(49)**	–	(50)	(50)
€59m euro private placement shelf facility 4.83% coupon August 2020	**-**	**(49)**	**(49)**	–	(50)	(50)
$400m USD private placement 4.48% weighted average coupon August 2017-2022[3]	**-**	**(238)**	**(238)**	–	(263)	(263)
Finance lease liabilities	**-**	**(4)**	**(4)**	(1)	(5)	(6)
	(96)	**(786)**	**(882)**	(20)	(904)	(924)

1 Swapped to floating-rate €87m based on 6 month EURIBOR plus a margin using a cross-currency interest rate swap.

2 Swapped to floating-rate €17m based on 6 month EURIBOR plus a margin, and fixed-rate £41m using cross-currency interest rate swaps.

3 Swapped to fixed-rate £130m and fixed-rate €160m using cross-currency interest rate swaps.

Borrowings are measured at amortised cost, except for £77m of note purchase agreements in a fair value hedge relationship (30 April 2013: £87m).

The Group's bank loan consisted of a £610m syndicated revolving credit facility with an expiry date of 23 September 2016. Advances drawn down under the facility bore interest at a margin over the applicable LIBOR or EURIBOR rate.

The Group also had a €380m (£313m) syndicated term loan with an expiry date of 30 June 2016. This facility bore interest at a margin over EURIBOR. The Group has entered into interest rate swap derivatives with bank counterparties to fix a proportion of the interest on this facility in compliance with Group hedging policy on interest rate risk management.

Since the year end, the Group has refinanced its committed bank borrowing facilities. The syndicated term loan facility, under which €380m was outstanding at 30 April 2014, was repaid on 23 May 2014, and replaced with a €300m syndicated bank term loan facility maturing in May 2017. In addition, on the same date, the £610m syndicated revolving credit facility was repaid and replaced with a £800m syndicated bank revolving credit facility maturing in 2019, but with options to extend this facility to 2021.

Of the total borrowing facilities available to the Group, the undrawn committed facilities available at 30 April were as follows:

	2014 £m	2013 £m
Expiring between two and five years	**496**	517

20. INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

The repayment profile of the Group's borrowings, after taking into account the effect of cross-currency and interest rate swaps, is as follows:

	2014				
	1 year or less £m	**1–2 years £m**	**2–5 years £m**	**More than 5 years £m**	**Total £m**
Interest-bearing loans and borrowings					
Fixed-rate	**–**	**–**	**(354)**	**(276)**	**(630)**
Floating-rate	**(96)**	**(33)**	**(123)**	**–**	**(252)**
Total interest-bearing loans and borrowings	**(96)**	**(33)**	**(477)**	**(276)**	**(882)**

	2013				
	1 year or less £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	(1)	–	(318)	(344)	(663)
Floating-rate	(19)	(90)	(152)	–	(261)
Total interest-bearing loans and borrowings	(20)	(90)	(470)	(344)	(924)

The Group's borrowings, after taking into account the effect of cross-currency and interest rate swaps, are denominated in the following currencies:

	2014				
	Sterling £m	**Euro £m**	**US dollar £m**	**Other £m**	**Total £m**
Interest-bearing loans and borrowings					
Fixed-rate	**(162)**	**(468)**	**–**	**–**	**(630)**
Floating-rate	**(5)**	**(188)**	**(36)**	**(23)**	**(252)**
	(167)	**(656)**	**(36)**	**(23)**	**(882)**
Net cash and cash equivalents (including bank overdrafts)					
Floating-rate	**5**	**47**	**5**	**7**	**64**
Net borrowings at 30 April 2014	**(162)**	**(609)**	**(31)**	**(16)**	**(818)**

	2013				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Interest-bearing loans and borrowings					
Fixed-rate	(176)	(487)	–	–	(663)
Floating-rate	–	(199)	(39)	(23)	(261)
	(176)	(686)	(39)	(23)	(924)
Net cash and cash equivalents (including bank overdrafts)					
Floating-rate	5	46	8	19	78
Net borrowings at 30 April 2013	(171)	(640)	(31)	(4)	(846)

At 30 April 2014, 74% of the Group's interest-bearing loans and borrowings, after taking into account the effect of cross-currency swaps, were denominated in euros in order to hedge the underlying assets of the Group's European operations (30 April 2013: 76%). Interest rates on floating-rate borrowings are based on London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR) or base rates.

Finance lease liabilities

	2014			2013		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	**–**	**–**	**–**	2	–	2
Between one and five years	**2**	**–**	**2**	2	–	2
More than five years	**2**	**–**	**2**	2	–	2
Finance lease liabilities	**4**	**–**	**4**	6	–	6

Notes to the Consolidated Financial Statements continued

21. FINANCIAL INSTRUMENTS

The Group's activities expose the Group to a number of key risks which have the potential to affect its ability to achieve its business objectives. A summary of the Group's key financial risks and the policies and objectives in place to manage these risks is set out in the Financial Review and Principal Risk sections of the Strategic Report.

The derivative financial instruments set out in this note have been entered into in line with the Group's risk management objectives.

The Group's treasury policy prohibits entering into speculative transactions.

(a) Carrying amounts and fair values of financial assets and liabilities

Set out below is the accounting classification of the carrying amounts and fair values of all of the Group's financial assets and liabilities:

	2014		2013	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets				
Cash and cash equivalents	**98**	**98**	116	116
Other investments – restricted cash	**6**	**6**	22	22
Available for sale – other investments	**3**	**3**	1	1
Loans and receivables	**653**	**653**	647	647
Other financial assets in designated hedge accounting relationships	**6**	**6**	10	10
Total financial assets	**766**	**766**	796	796
Financial liabilities				
Trade and other payables	**(934)**	**(934)**	(966)	(966)
Bank and other loans	**(423)**	**(423)**	(428)	(428)
Note purchase agreements	**(455)**	**(514)**	(490)	(583)
Finance lease liabilities	**(4)**	**(4)**	(6)	(6)
Bank overdrafts	**(34)**	**(34)**	(38)	(38)
Other financial liabilities in designated hedge accounting relationships	**(60)**	**(60)**	(23)	(23)
Total financial liabilities	**(1,910)**	**(1,969)**	(1,951)	(2,044)

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, cross-currency swaps and interest rate swaps. All derivative financial instruments are shown at fair value in the consolidated statement of financial position.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, only the portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the consolidated statement of financial position. The majority of the Group's note purchase agreements are in effective cash flow and net investment hedges and are therefore held at amortised cost. The fair values of financial assets and liabilities which bear floating rates of interest are estimated to be equivalent to their book values.

IFRS 7 *Financial Instruments: Disclosures* requires the classification of fair value measurements using the fair value hierarchy that reflects the significance of the inputs used in making the assessments.

All of the Group's financial instruments are Level 2 financial instruments, where inputs are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

21. FINANCIAL INSTRUMENTS CONTINUED

(b) Derivative financial instruments

The Group enters into derivative financial instruments, primarily interest rate, foreign exchange and commodity contracts, to manage the risks associated with the Group's underlying business activities and the financing of these activities. All derivatives have been designated as effective hedging instruments and are carried at their fair value.

The assets and liabilities of the Group at 30 April in respect of derivative financial instruments are as follows:

	Assets		Liabilities		Net	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Derivatives held to:						
Manage the interest rate and currency exposures on borrowings and net investments	**4**	9	**(44)**	(20)	**(40)**	(11)
Derivative financial instruments included in net debt	**4**	9	**(44)**	(20)	**(40)**	(11)
Derivatives held to hedge future transactions						
Energy costs	**2**	1	**(16)**	(3)	**(14)**	(2)
Total derivative financial instruments	**6**	10	**(60)**	(23)	**(54)**	(13)
Current	**2**	1	**(20)**	(2)	**(18)**	(1)
Non-current	**4**	9	**(40)**	(21)	**(36)**	(12)
	6	10	**(60)**	(23)	**(54)**	(13)

(c) Cash flow, fair value and net investment hedges

(i) Cash flow hedging reserve movements

The following table identifies the movements in the cash flow hedging reserve during the year. All figures are post-tax.

	2014 £m	2013 £m
At 1 May	**(17)**	(2)
Unrealised fair value (loss)/gain on designated cash flow hedges		
Cross-currency and interest rate swaps	**(4)**	(16)
Commodity contracts	**(10)**	2
Gain/(loss) recycled from equity to the income statement		
Commodity contracts	**–**	(1)
At 30 April	**(31)**	(17)

The gains and losses recycled to the income statement from the cash flow hedging reserve during the year are reflected in the following items in the income statement:

	2014 £m	2013 £m
Revenue	**–**	1
Cost of sales	**–**	(2)
Total gain recycled from equity to the income statement during the year	**–**	(1)

(ii) Fair value hedges

At 30 April 2014, the Group held interest rate and foreign exchange swap contracts as fair value hedges of the interest rate and foreign exchange risk on fixed rate debt payable by the Group. The receive leg of the swap contracts is identical in all critical aspects to the terms of the underlying debt and therefore the hedging is treated as highly effective. The pre-tax loss on hedging derivative instruments taken to the income statement during the year was £11m (2012/13: gain of £17m) offset by a pre-tax gain on the fair value of the debt of £12m (2012/13: loss of £16m).

(iii) Hedges of net investments in foreign operations

The Group holds cross-currency interest rate swap contracts as hedges of long-term investments in foreign subsidiaries. The pre-tax gain on the hedges recognised in equity during the year was £7m (2012/13: loss of £9m). This gain is matched by a similar loss in equity on the retranslation of the hedged foreign subsidiary's net assets resulting in a net gain of £nil (2012/13: net gain of £1m) treated as hedge ineffectiveness in the income statement.

Notes to the Consolidated Financial Statements continued

21. FINANCIAL INSTRUMENTS CONTINUED

(d) Risk identification and risk management

(i) Capital management

The Group defines its managed capital as equity as presented in the consolidated statement of financial position and net debt (see note 18).

	2014 £m	2013 £m
Net debt	**827**	817
Total equity	**1,131**	1,085
Managed capital	**1,958**	1,902

There have been no changes to the components of managed capital during the year. Managed capital is different from capital employed (defined as property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale). Managed capital relates to our sources of funding, whereas return on average capital employed is our measure of the level of return being generated by the asset base.

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

The Group's overall treasury objectives are to ensure sufficient funds are available for the Group to carry out its strategy and to manage certain financial risks to which the Group is exposed, as described elsewhere in this note. The Group's treasury strategy is controlled through the Balance Sheet Committee which meets regularly and includes the Group Finance Director, the Group General Counsel and Company Secretary, the Group Financial Controller, the Group Treasurer and the Group Tax Manager. The Group Treasury function operates in accordance with policies and procedures approved by the Board and controlled by the Group Treasurer. The function arranges funding for the Group, provides a service to operations and implements strategies for financial risk management.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of a change in market prices. The Group is exposed to changes in interest rates, foreign currency exchange rates and commodity prices.

Interest rate risk

The Group is exposed to interest rate risk as borrowings are arranged at fixed interest rates exposing it to fair value risk and floating interest rates exposing it to future cash flow risk. The risk is managed by maintaining a mix of fixed and floating-rate borrowings and by the use of interest rate swap contracts which modify the interest payable on the Group's underlying debt instruments. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

At 30 April 2014, 71% of the Group's interest-bearing loans and borrowings were at fixed rates of interest (30 April 2013: 72%). The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable-rate borrowings at 30 April 2014.

To calculate the impact on the income statement for the year, the interest rates on all variable-rate external interest-bearing loans and cash deposits have been increased by 100 basis points, and the resulting increase in the net interest charge has been adjusted for the effect of the Group's interest rate derivatives. Changes in the carrying value of derivative financial instruments only affect the Group's income statement.

The results are presented before non-controlling interests and tax.

	2014		2013	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
Increase in market interest rates by 100 basis points	**(5)**	**–**	(3)	–

Under interest rate swap contracts the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. At 30 April 2014, losses of £20m (30 April 2013: losses of £17m) net of tax are deferred in equity in respect of cash flow hedges of interest rate risk. These will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will be during the period to 2022.

21. FINANCIAL INSTRUMENTS CONTINUED

Foreign exchange risk

Foreign exchange risk on investments

The Group is exposed to foreign exchange risk arising from net investments in Group entities, the functional currencies of which differ from the Group's presentational currency, sterling. The Group hedges this exposure through borrowings denominated in foreign currencies and through cross-currency swap contracts. Gains and losses for hedges of net investments are recognised in equity.

Foreign exchange risk on borrowings

The Group is exposed to foreign exchange risk on borrowings denominated in foreign currencies. The Group hedges this exposure through cross-currency swaps designated as either cash flow or fair value hedges.

Foreign exchange risk on transactions

Foreign currency transaction risk arises where a business unit makes product sales or purchases in a currency other than its functional currency. Part of this risk is hedged using foreign exchange contracts which are designated as cash flow hedges.

At 30 April 2014, losses net of tax deferred in equity in respect of cash flow hedges were £nil (30 April 2013: £nil). These amounts will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur within one year.

The Group's main currency exposure is to the euro and the following significant exchange rates applied during the year:

	2014		2013	
	Average	**Closing**	Average	Closing
euro	**1.191**	**1.215**	1.222	1.180

The following sensitivity analysis shows the impact on the Group's results of a 10% increase and decrease in the sterling exchange rate against all other currencies representing management's assessment of the reasonably possible change in foreign exchange rates. The analysis is restricted to financial instruments denominated in a foreign currency and excludes the impact of financial instruments designated as net investment hedges. Loans that are treated as net investment hedges are not included within the impact on the Group's profit as the impact of foreign exchange movements on these is offset by equal and opposite movements in the foreign assets that the instruments hedge.

The results are presented before non-controlling interests and tax.

	2014		2013	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% strengthening of sterling	**–**	**–**	1	(1)
10% weakening of sterling	**–**	**–**	(1)	2

Commodity risk

The Group's main commodity exposures are to changes in gas and electricity prices. The majority of this commodity price risk is managed by a combination of physical supply agreements and derivative instruments. At 30 April 2014, losses of £11m net of tax are deferred in equity in respect of cash flow hedges in accordance with IAS 39 (30 April 2013: losses of £1m). These will be recycled to the income statement in the period in which the hedged item also affects the income statement, which will occur within three years.

The following table details the Group's sensitivity to a 10% increase in these prices, which is management's assessment of the reasonably possible change, on average, over any given year. A decrease of 10% in these prices would produce an opposite effect on equity. As all of the Group's commodity financial instruments achieve hedge accounting under IAS 39, there is no impact on profit for either year.

The results are presented before non-controlling interests and tax.

	2014		2013	
	Impact on profit £m	**Impact on total equity £m**	Impact on profit £m	Impact on total equity £m
10% increase in electricity prices	**–**	**1**	–	1
10% increase in gas prices	**–**	**12**	–	10

Notes to the Consolidated Financial Statements continued

21. FINANCIAL INSTRUMENTS CONTINUED

(d) Risk identification and risk management continued

(iii) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the Group. In the current economic environment, the Group has placed increased emphasis on the management of credit risk. The carrying amount of financial assets at 30 April 2014 was £766m and is analysed in note 21(a). This represents the maximum credit risk exposure.

Credit risk on financial instruments held with financial institutions is assessed and managed by reference to the long-term credit ratings assigned to that counterparty by Standard & Poor's and Moody's credit rating agencies. There are no significant concentrations of credit risk.

See note 15 for information on credit risk with respect to trade receivables.

(iv) Liquidity risk

Liquidity risk is the risk that the Group, although solvent, will have difficulty in meeting its obligations associated with its financial liabilities as they fall due.

The Group manages its liquidity risk by maintaining a sufficient level of undrawn committed borrowing facilities. At 30 April 2014, the Group had £496m of undrawn committed facilities available (30 April 2013: £517m). The Group mitigates its refinancing risk by raising its debt requirements from a number of different sources with a range of maturities.

The following table is an analysis of the undiscounted contractual maturities of financial liabilities (including the effect of cross-currency and interest rate swaps).

	Contractual repayments			
At 30 April 2014	**Total £m**	**1 year or less £m**	**1-5 years £m**	**More than 5 years £m**
Non-derivative financial liabilities				
Trade and other payables	**934**	**930**	**4**	**-**
Bank and other loans	**427**	**33**	**394**	**-**
Note purchase agreements	**484**	**71**	**116**	**297**
Finance lease liabilities	**4**	**-**	**1**	**3**
Bank overdrafts	**34**	**34**	**-**	**-**
Interest payments on borrowings	**132**	**37**	**69**	**26**
Total non-derivative financial liabilities	**2,015**	**1,105**	**584**	**326**

	Contractual repayments			
At 30 April 2013	Total £m	1 year or less £m	1-5 years £m	More than 5 years £m
Non-derivative financial liabilities				
Trade and other payables	966	956	10	–
Bank and other loans	434	19	415	–
Note purchase agreements	493	–	142	351
Finance lease liabilities	6	1	5	–
Bank overdrafts	38	38	–	–
Interest payments on borrowings	197	38	111	48
Total non-derivative financial liabilities	2,134	1,052	683	399

Refer to note 29 for an analysis of the Group's future operating lease payments and to note 30 for a summary of the Group's capital commitments.

21. FINANCIAL INSTRUMENTS CONTINUED

The following table is an analysis of the undiscounted contractual maturities of derivative financial instruments excluding interest payments and receipts. Where the payable and receivable legs of these derivatives are denominated in foreign currencies, the contractual payments or receipts have been calculated based on exchange rates prevailing at the respective year-ends.

Where applicable, interest and foreign exchange rates prevailing at the reporting date are assumed to remain constant over the future contractual maturities.

	Contractual payments/(receipts)			
At 30 April 2014	**Total £m**	**1 year or less £m**	**1-5 years £m**	**More than 5 years £m**
Derivative financial liabilities				
Energy derivatives	**14**	**11**	**3**	**-**
Interest rate and currency swaps:				
Payments	**387**	**71**	**68**	**248**
Receipts	**(357)**	**(62)**	**(69)**	**(226)**
Total net derivative financial liabilities	**44**	**20**	**2**	**22**

	Contractual payments/(receipts)			
At 30 April 2013	Total £m	1 year or less £m	1-5 years £m	More than 5 years £m
Derivative financial liabilities				
Energy derivatives	1	–	1	–
Interest rate and currency swaps:				
Payments	393	–	141	252
Receipts	(386)	–	(142)	(244)
Foreign exchange:				
Payments	29	29	–	–
Receipts	(28)	(28)	–	–
Total net derivative financial liabilities	9	1	–	8

22. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		**Liabilities**		**Net**	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Property, plant and equipment and intangible assets	**8**	–	**(163)**	(156)	**(155)**	(156)
Share-based payments and employee benefits	**48**	57	**-**	–	**48**	57
Tax losses	**10**	–	**-**	–	**10**	–
Other items	**18**	22	**-**	–	**18**	22
Tax assets/(liabilities)	**84**	79	**(163)**	(156)	**(79)**	(77)

The Group has total unrecognised deferred tax assets relating to tax losses of £13m (30 April 2013: £19m). These losses include £10m (30 April 2013: £13m) which do not expire and £3m which expire between 2017 and 2019 under current tax legislation (30 April 2013: £6m expire between 2017 and 2019). Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise these benefits.

No deferred tax liability is recognised on temporary differences of £206m (30 April 2013: £195m) relating to unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The temporary differences at 30 April 2014 represent only the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings may still result in a tax liability, principally as a result of dividend withholding taxes levied by the overseas jurisdiction in which these subsidiaries operate.

Notes to the Consolidated Financial Statements continued

22. DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

Analysis of movements in recognised deferred tax assets and liabilities during the year

	Property, plant and equipment and intangible assets		Employee benefits including pensions		Tax losses		Other		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
At 1 May	**(156)**	(52)	**57**	34	**–**	–	**22**	12	**(77)**	(6)
Acquired	**–**	(127)	**–**	12	**–**	–	**–**	–	**–**	(115)
(Charge)/credit for the year	**(4)**	29	**7**	(2)	**10**	–	**–**	–	**13**	27
Recognised directly in equity	**–**	–	**(15)**	12	**–**	–	**(4)**	10	**(19)**	22
Currency translation	**5**	(6)	**(1)**	1	**–**	–	**–**	–	**4**	(5)
At 30 April	**(155)**	(156)	**48**	57	**10**	–	**18**	22	**(79)**	(77)

At 30 April 2014, deferred tax assets and liabilities were recognised for all taxable temporary differences:

- except where the deferred tax liability arises on goodwill;
- except on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of temporary differences can be controlled by the Group and it is probable that temporary differences will not reverse in the foreseeable future.

23. PROVISIONS

	Restructuring £m	Other £m	Total £m
At 1 May 2013	27	66	93
Charged to income	69	5	74
Credited to income	(1)	(17)	(18)
Utilised	(67)	(9)	(76)
Currency translation	–	(1)	(1)
At 30 April 2014	**28**	**44**	**72**
Non-current	–	23	23
Current	28	21	49
	28	**44**	**72**

The restructuring provision includes amounts associated with the closures, restructuring and integration costs described in note 4. Other provisions mainly relate to acquired onerous contracts, site restorations and to provisions for vacant leaseholds and various legal claims. The timing of the utilisation of these provisions is uncertain, except where the associated costs are contractual, in which case the provision is utilised over the time period specified in the contract.

24. CAPITAL AND RESERVES

Share capital

	Number of shares			
	2014 Millions	2013 Millions	**2014 £m**	2013 £m
Ordinary equity shares of 10 pence each:				
Issued, allotted, called up and fully paid	**939**	929	**94**	93

During the year ended 30 April 2014, 10,659,040 ordinary shares of 10 pence each were issued as a result of exercises of employee share options. The net movement in share capital and share premium is disclosed in the consolidated statement of changes in equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

24. CAPITAL AND RESERVES CONTINUED

Share premium

The share premium account represents the difference between the issue price and the nominal value of shares issued.

Own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. The Group operates a General Employee Benefit Trust, which acquires shares in the Company that can be used to satisfy the requirements of the Performance Share Plan and the Share Matching Plan. At 30 April 2014, the Trust held 0.5m shares (30 April 2013: 2.1m shares). The market value of the shares at 30 April 2014 was £2m (30 April 2013: £5m). Dividends receivable on the shares owned by the Trust have been waived.

Non-controlling interests

The Group has various put options in relation to subsidiaries with non-controlling interests. The Group records a liability at the net present value of the expected future payments, with a corresponding entry against non-controlling interests in respect of the non-controlling shareholders' put option, measured at fair value. At the end of each period, the valuation of the liability is reassessed with any changes recorded within finance costs through the income statement and then transferred out of retained earnings into non-controlling interests.

25. EMPLOYEE BENEFITS

	Total		**UK**		**Overseas**	
Balance sheet	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Present value of post-retirement obligations	**(1,042)**	(1,130)	**(932)**	(983)	**(110)**	(147)
Fair value of plan assets						
Equities/multi-strategy	**525**	536	**514**	495	**11**	41
Debt instruments	**352**	357	**341**	345	**11**	12
Insurance contracts	**21**	23	**-**	–	**21**	23
Cash and cash equivalents	**9**	9	**5**	8	**4**	1
Other	**1**	3	**-**	2	**1**	1
	908	928	**860**	850	**48**	78
Net post-retirement plan deficit	**(134)**	(202)	**(72)**	(133)	**(62)**	(69)
Other employee benefit assets	**-**	4	**-**	–	**-**	4
Other employee benefit liabilities	**(17)**	(16)	**-**	–	**(17)**	(16)
Total employee benefit liabilities	**(151)**	(214)	**(72)**	(133)	**(79)**	(81)
Related deferred tax asset	**40**	56	**14**	31	**26**	25
Net employee benefit liabilities	**(111)**	(158)	**(58)**	(102)	**(53)**	(56)

Employee benefit schemes

At 30 April 2014 the Group operated a number of employee benefit arrangements for the benefit of its employees throughout the world. The plans are provided through both defined benefit and defined contribution arrangements and their legal status and control vary depending on the conditions and practices in the countries concerned.

Representatives of the Group work with those managing the employee benefit arrangements to monitor the effects of volatility in financial markets and the impact of uncertainty in assumptions, to develop strategies that could mitigate the risks to which these employee benefit schemes expose the Group.

UK schemes

The Group's principal defined benefit pension scheme, the DS Smith Group Pension Scheme (the 'Group Scheme') is a UK funded final salary defined benefit scheme providing pensions and lump sum benefits to members and dependants. The Group Scheme closed to future accrual from 30 April 2011 with pensions calculated based on salaries up to the point of closure (or earlier date of leaving the Group Scheme). The Group Scheme has a normal retirement age of 65 although some members are able to take some of their benefits earlier than this. Changes in inflation impact increases to pensions for the majority of members.

The Group Scheme is governed by a Trustee Company (DS Smith Pension Trustees Limited), which is comprised of a Board of Trustee Directors (the 'Trustee Board') and is independent of the Group. The Trustee Board has control over the operation, funding and investment strategy of the Group Scheme.

UK legislation requires the Trustee Board to carry out valuations at least every three years and to target full funding against a basis that prudently reflects the Group Scheme's risk exposure. The most recent valuation is being carried out as at 30 April 2013. In the event of underfunding the Group is required to agree a deficit recovery plan with the Trustee Board within statutory deadlines. The most recent deficit recovery plan made based on the valuation as at 30 April 2010 agreed that the Group would remove the shortfall by paying annual contributions, starting at £15m in the year ended 30 April 2012 and increasing by 2% per annum, such that the final contribution is £18m in the year ending 30 April 2021. As part of the 30 April 2010 valuation the Trustee Board and the Group also agreed to put in place a secondary Long-Term Funding Target (the 'LTFT'), in addition to the statutory funding requirements, the purpose of which is to achieve material additional security for the Group Scheme's members. The objective of the LTFT is for the Group Scheme to reach self-sufficiency by 30 April 2035.

Notes to the Consolidated Financial Statements continued

25. EMPLOYEE BENEFITS CONTINUED

UK schemes continued

The Group Scheme's assets are invested in a diversified range of assets, details of which are set out above. A portion of the assets are invested in inflation-indexed bonds to provide a partial hedge against inflation and the Group Scheme has adopted a trigger based process that moves assets from corporate bonds to index-linked gilts when specific real triggers are met. If inflation increases the Group Scheme obligation will likely increase more significantly than any change in the fair value of the assets; this would result in an increase in the net liability. Approximately 50% of the Group Scheme's overseas equity currency exposure is hedged back to sterling. To help the Trustee Board to monitor, review and assess investment matters, the Investment Sub-Committee (the 'ISC'), which consists of representatives from the Trustee Board and the Group, meets on a quarterly basis throughout the financial year.

The Group Scheme exposes the Group to risks, such as longevity risk, currency risk, inflation risk, interest rate risk and investment risk. As the Group Scheme's obligation is to provide lifetime pension benefits to members upon retirement, increases in life expectancy will result in an increase in the Group Scheme's liabilities. Other assumptions used to value the defined benefit obligation are also uncertain.

The largest defined contribution arrangement operated by the Group is in the UK. The UK defined contribution scheme is a trust-based arrangement offering members a range of investments. Friends Life is the preferred provider. All assets are held independently from the Group. The Group also operates a small unfunded scheme in the UK.

Overseas schemes

The countries where the Group operates the most significant defined benefit post-retirement arrangements are:

- France – various mandatory retirement indemnities, post-retirement medical plans and jubilee arrangements, in the majority determined by the applicable Collective Bargaining Agreement;
- Italy – mandatory end-of-service lump sum benefits in respect of pre-2007 service;
- Switzerland – funded scheme, affiliated to a fully insured joint foundation (similar to a multi-employer scheme); and
- Germany – jubilee benefits and non-contributory defined benefit pension schemes.

In general, local trustees or similar bodies manage the post-retirement and medical plans in accordance with local regulations. Jubilee benefits are paid to employees after completion of a certain number of years of service. Other employee benefits relate to pre-retirement benefits in Germany.

Overseas schemes expose the Group to risks such as longevity risk, currency risk, inflation risk, interest rate risk, investment risk, life expectancy risk and healthcare cost risk. Actions taken by the local regulator, or changes to European legislation, could result in stronger local funding standards, which could affect the Group's future cash flow.

Movements in the liability for employee benefit plans' obligations recognised in the statement of financial position

	2014 £m	2013 £m
Schemes' liabilities at 1 May	**(1,146)**	(869)
Interest cost	**(41)**	(45)
Service cost recognised in the income statement	**(7)**	(5)
Member contributions	**(1)**	–
Settlement/curtailment	**30**	10
Pension payments	**41**	41
Unfunded benefits paid	**1**	–
Actuarial gains/(losses) – financial assumptions	**69**	(145)
Actuarial losses – experience	**(8)**	(4)
Actuarial (losses)/gains – demographic	**(1)**	3
Currency translation	**4**	(5)
(Acquisition)/divestment	**–**	(127)
Schemes' liabilities at 30 April	**(1,059)**	(1,146)

25. EMPLOYEE BENEFITS CONTINUED

Movements in the fair value of employee benefit plans' assets recognised in the statement of financial position

	2014 £m	2013 [1] £m
Schemes' assets at 1 May	**932**	765
Employer contributions	**19**	23
Member contributions	**1**	–
Settlement/curtailment	**(30)**	(8)
Interest income	**34**	38
Administration expenses paid from schemes assets	**(1)**	(1)
Actuarial (losses)/gains	**(3)**	79
Acquisition/(divestment)	**–**	74
Pension payments	**(41)**	(41)
Currency translation	**(3)**	3
Schemes' assets at 30 April	**908**	932

1 Restated for IAS 19 (Revised 2011) (note 1a).

Durations and expected payment profile

The following table provides information on the distribution of the timing of expected benefit payments for the Group Scheme:

At 30 April 2014	Within 5 years £m	6 to 10 years £m	11 to 20 years £m	21 to 30 years £m	31 to 40 years £m	41 to 50 years £m	Over 50 years £m
Projected benefit payments	186	217	545	528	394	224	99

The weighted average duration for the Group Scheme is 18 years.

The Group made agreed contributions of £15m to the Group Scheme in 2013/14 (2012/13: £18m). A charge over certain assets of the Group has been made as security for certain of the unfunded arrangements. The Group's current best estimate of contributions expected to the Group Scheme in the year ending 30 April 2015 is approximately £16m. However, the triennial valuations currently being undertaken are not yet finalised. When they are, the amount of future contributions may differ from this estimate.

Significant actuarial assumptions

Principal actuarial assumptions for the Group Scheme are as follows:

	2014	2013
Discount rate for scheme liabilities	**4.4%**	3.9%
Inflation	**2.3%**	2.2%
Pre-retirement pension increases	**2.3%**	2.2%
Future pension increases for pre 30 April 2005 service	**2.3%**	2.2%
Future pension increases for post 30 April 2005 service	**2.1%**	2.0%

For other overseas arrangements, the weighted average actuarial assumptions are a discount rate of 2.7% (30 April 2013: 2.9%) and an inflation rate of 2.4% (30 April 2013: 1.8%).

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with the relevant standard mortality tables in each country. For the Group Scheme at 30 April 2014, the mortality base table used is S1NMA/S1NFA (year of birth) with a +1 year age rating, with CMI 2013 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. At 30 April 2013, whilst the mortality base table used was the same, CMI 2009 projections with a 1.0% long-term rate of improvement were used for future longevity improvement.

As part of the Group Scheme actuarial valuation exercise the projected life expectancies were as follows:

	2014		2013	
	Male	Female	Male	Female
Life expectancy at age 65				
Pensioner currently aged 65	**21.4**	**23.8**	21.2	23.4
Member currently aged 45	**23.2**	**25.7**	22.6	24.9

Notes to the Consolidated Financial Statements continued

25. EMPLOYEE BENEFITS CONTINUED

Sensitivity analysis

The sensitivity of the liabilities in the Group Scheme to each significant actuarial assumption is summarised in the following table, showing the impact on the defined benefit obligation if each assumption is altered by the amount specified in isolation, whilst assuming that all other variables remain the same. In practice, this approach is not necessarily realistic since some assumptions are related. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability, the measurement of which depends on a number of factors including the fair value of plan assets.

	Increase in pension liability £m
0.5% decrease in discount rate	**(78)**
0.5% increase in inflation	**(66)**
1 year increase in life expectancy	**(24)**

Expense recognised in the income statement

Consolidated statement of comprehensive income	**Total 2014 £m**	2013[1] £m
Post-retirement benefits current service cost	**(5)**	(3)
Other employee benefit liabilities current service cost	**(2)**	(2)
Total service cost	**(7)**	(5)
Net interest cost on net pension liability	**(6)**	(6)
Pension Protection Fund levy	**(1)**	(1)
Employment benefit net finance expense	**(7)**	(7)
Total expense charged to income statement	**(14)**	(12)
Remeasurement of defined benefit obligation – effect of change in financial assumptions	**60**	(146)
Return on plan assets excluding amounts included in employment benefit net finance expense	**(3)**	79
Actuarial losses on other employee benefits	**-**	(1)
Total gains/(losses) recognised in other comprehensive income	**57**	(68)

1 Restated for IAS 19 (Revised 2011) (note 1a).

26. SHARE-BASED PAYMENT EXPENSE

The Group's share-based payment arrangements are as follows:

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

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

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

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

- The 2008 award was subject to three equally-weighted performance measures (TSR, average adjusted EPS, and average adjusted ROACE). For those senior executives working in one of the Business Segments, the three equally-weighted measures were TSR, average adjusted operating profit and average adjusted ROACE for the relevant segment. Of these awards, 55.1% of the TSR element have vested, and have been fully exercised.
- The 2009 award was subject to two performance measures (80% based on a TSR component and 20% based on average adjusted ROACE). For those senior executives working in one of the Business Segments, the two measures were TSR and average adjusted ROACE for the relevant segment. The 2009 awards have vested in full, and have been fully exercised.
- The 2010, 2011 and 2012 awards are subject to three performance measures:

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

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

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

  The 2010 awards have vested in full, but have not yet been fully exercised.

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

(ii) The Replacement 2008 Long-Term Incentive Plan for Mr M W Roberts vested on 17 October 2011 and has been fully exercised in the year. The Replacement 2008 LTIP award was subject to a performance condition measuring the TSR of McBride Plc up to the date Mr Roberts joined the Company and thereafter the Company's TSR against a comparator group of companies comprising the FTSE 250 Index (excluding investment trusts) constituted as at the date of grant of the award over a three-year performance period commencing on 1 July 2008.

(iii) The Replacement Deferred Shares Award and the Substitute Share Bonus Award for Mr M W Roberts are subject to substantially the same terms as the Company's Deferred Share Bonus Plan (see below), except that the vesting dates were 1 September 2012 and 1 September 2013 respectively. The Replacement Deferred Shares Award vested in full on the vesting date and has been fully exercised. The Substitute Share Bonus Award vested in full on the vesting date but has not yet been exercised. Mr Roberts was entitled to a cash payment on vesting, representing a value equivalent to the dividends which would have been paid on his vested shares while they were subject to his awards. There were no performance conditions governing the vesting of the Replacement Deferred Shares Award and the Substitute Share Bonus Award because the awards they replicated had no performance conditions attaching to them.

(iv) The Recruitment Award for Mr M W Roberts is subject to substantially the same terms as the awards made under the Company's PSP in 2009. The award vested in full on 19 October 2012 and has been fully exercised.

(v) A Deferred Share Bonus Plan (DSBP) is operated for Executive Directors and, from 2012/13, for senior executives. Shares awarded under the Plan will vest automatically if the Director or senior executive is still employed by the Company three years after the grant of the award.

(vi) A Share Matching Plan (SMP) is operated for Executive Directors and senior executives with the first award made in 2012/13. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE. No further awards under this Plan will be made after the 2014/15 award has been granted in July 2014.

(vii) A Long-Term Incentive Plan (LTI) is operated for selected senior managers with the first award made in 2013/14. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE.

(viii) An Executive Share Option Scheme (ESOS). This scheme ceased to be operated from September 2008. In normal circumstances, the vesting of any options granted under the ESOS is subject to remaining in service and to the growth in the Company's normalised earnings per share equalling or exceeding the growth in the UK Retail Prices Index plus an average of 3% per annum over the three financial years commencing with the year of grant. All outstanding vested awards have now been fully exercised.

(ix) A Sharesave Plan was introduced in the UK in January 2011. All UK employees of the Company and participating subsidiaries were eligible to participate in this Plan. Under this HMRC approved Plan options are granted to participants who have contracted to save up to £250 per month over a period of three years at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan. The first award under this Plan has now vested but is not yet fully exercised.
An international Sharesave Plan was introduced in January 2014. The main provisions of this are the same as for the January 2011 Plan, subject to minor country specific variances. A standard US Stock Purchase Plan, which is subject to shareholder approval at the 2014 AGM, was also introduced in January 2014. US employees of the Group are eligible to participate in this Plan. Options are granted to participants who have contracted to save up to $405 per month over a period of two years at a discount of up to 15% to the average closing mid-market price of a DS Smith Plc ordinary share on the day before grant. Options cannot normally be exercised until a minimum of two years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan.

Full details of the awards described in (i), (ii), (iii), (iv), (v), (vi) and (ix) are set out in the Remuneration Report on pages 58 to 74.

Options outstanding and exercisable under share arrangements at 30 April 2014 were:

	Options outstanding			Options exercisable		
	Number of shares	**Option price range (p)**	**Weighted average remaining contract life (years)**	**Weighted average exercise price (p)**	**Number exercisable**	**Weighted average exercise price (p)**
Performance Share Plan	7,164,248	Nil	1.0	Nil	519,233	Nil
Substitute Share Bonus Award	116,148	Nil	Nil	Nil	116,148	Nil
Deferred Share Bonus Plan	1,244,103	Nil	1.5	Nil	Nil	Nil
Share Matching Plan	877,029	Nil	1.6	Nil	Nil	Nil
Sharesave Plan	7,962,308	119.2-269.0	2.8	263.2	307,448	119.2
Long-Term Incentive Plan	1,558,392	Nil	2.3	Nil	Nil	Nil

Notes to the Consolidated Financial Statements continued

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

The effect on earnings per share of potentially dilutive shares issuable under share-based payment arrangements is shown in note 8.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Executive Share Option Scheme (1999)		**Performance Share Plan**		**Replacement 2008 Long-Term Incentive Plan**		**Replacement Deferred Shares Award**		**Recruitment Award**	
2014	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**
At 1 May 2013	103.7	112	Nil	11,511	Nil	628	Nil	155	Nil	828
Granted	Nil	–	Nil	2,080	Nil	–	Nil	–	Nil	–
Exercised	103.7	(112)	Nil	(5,152)	Nil	(628)	Nil	(155)	Nil	(828)
Lapsed	Nil	–	Nil	(1,275)	Nil	–	Nil	–	Nil	–
At 30 April 2014	**103.7**	**–**	**Nil**	**7,164**	**Nil**	**–**	**Nil**	**–**	**Nil**	**–**
Exercisable at 30 April 2014	**103.7**	**–**	**Nil**	**519**	**Nil**	**–**	**Nil**	**–**	**Nil**	**–**

	Substitute Share Bonus Award		**Deferred Share Bonus Plan**		**Share Matching Plan**		**Sharesave Plan**		**Long-Term Term Incentive Plan**	
2014 continued	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**	**Weighted average exercise price (p)**	**Options ('000s)**
At 1 May 2013	Nil	116	Nil	1,095	Nil	520	119.2	5,854	Nil	–
Granted	Nil	–	Nil	426	Nil	357	269.0	7,695	Nil	1,558
Exercised	Nil	–	Nil	–	Nil	–	119.2	(5,313)	Nil	–
Lapsed	Nil	–	Nil	(277)	Nil	–	119.2	(274)	Nil	–
At 30 April 2014	**Nil**	**116**	**Nil**	**1,244**	**Nil**	**877**	**263.2**	**7,962**	**Nil**	**1,558**
Exercisable at 30 April 2014	**Nil**	**116**	**Nil**	**–**	**Nil**	**–**	**119.2**	**307**	**Nil**	**–**

	Executive Share Option Scheme (1999)		Performance Share Plan		Replacement 2008 Long-Term Incentive Plan		Replacement Deferred Shares Award		Recruitment Award	
2013	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
At 1 May 2012	103.7	334	Nil	15,160	Nil	628	Nil	155	Nil	828
Granted	Nil	–	Nil	3,214	Nil	–	Nil	–	Nil	–
Exercised	103.7	(222)	Nil	(6,236)	Nil	–	Nil	–	Nil	–
Lapsed	Nil	–	Nil	(627)	Nil	–	Nil	–	Nil	–
At 30 April 2013	103.7	112	Nil	11,511	Nil	628	Nil	155	Nil	828
Exercisable at 30 April 2013	103.7	112	Nil	857	Nil	628	Nil	155	Nil	828

	Substitute Share Bonus Award		Deferred Share Bonus Plan		Share Matching Plan		Sharesave Plan	
2013 continued	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)	Weighted average exercise price (p)	Options ('000s)
At 1 May 2012	Nil	116	Nil	263	Nil	–	119.2	6,928
Granted	Nil	–	Nil	835	Nil	700	Nil	–
Exercised	Nil	–	Nil	–	Nil	–	Nil	(342)
Lapsed	Nil	–	Nil	(3)	Nil	(180)	Nil	(732)
At 30 April 2013	Nil	116	Nil	1,095	Nil	520	119.2	5,854
Exercisable at 30 April 2013	Nil	–	Nil	–	Nil	–	Nil	–

26. SHARE-BASED PAYMENT EXPENSE CONTINUED

The average share price of the Company during the financial year was 291.2 pence (2012/13: 191.4 pence).

The fair value of awards granted in the period relates to the PSP, DSBP and SMP schemes.

The fair value of the PSP award granted during the year, determined using the stochastic valuation model, was £3.7m. The significant inputs into the model were: a share price of 250.9p for the PSP at the grant date; the exercise prices shown above; an expected initial volatility of the share price of 29.1% and long-term volatility of 28.9%; the scheme life disclosed above; an annual risk-free interest rate of 0.63% and an expected dividend yield of nil. The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices from 1 January 1970.

The total charge for the year relating to share-based payments recognised as personnel expenses was £4m (2012/13: £4m).

27. CASH GENERATED FROM OPERATIONS

Continuing operations	2014 £m	2013 [1] £m
Profit for the year	**144**	67
Adjustments for:		
Pre-tax SCA Packaging integration costs and other exceptional items	**34**	68
Amortisation of intangible assets and acquisition related costs	**55**	56
Cash outflow for exceptional items	**(78)**	(112)
Depreciation	**123**	112
Profit on sale of non-current assets	**(8)**	(1)
Share of loss/(profit) of equity accounted investments, net of tax	**3**	(1)
Employment benefit net finance expense	**7**	7
Share-based payment expense	**4**	4
Finance income	**(3)**	(3)
Finance costs	**44**	40
Other non-cash items (including other deposits)	**(8)**	(20)
Income tax expense	**23**	15
Change in provisions	**(21)**	2
Change in employee benefits	**(13)**	(18)
Cash generation before working capital movements	**306**	216
Changes in:		
Inventories	**(6)**	29
Trade and other receivables	**(25)**	112
Trade and other payables	**34**	17
Working capital movement	**3**	158
Cash generated from continuing operations	**309**	374

1 Restated for IAS 19 (Revised 2011) (note 1a).

Notes to the Consolidated Financial Statements continued

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2014 £m	2013[1] £m
Continuing operations		
Operating profit before amortisation and exceptional items	**307**	249
Depreciation	**123**	112
Adjusted EBITDA	**430**	361
Working capital movement	**3**	158
Change in provisions	**(21)**	2
Change in employee benefits	**(13)**	(18)
Other	**(5)**	1
Cash generated from operations before exceptional cash items	**394**	504
Capital expenditure	**(174)**	(161)
Proceeds from sale of property, plant and equipment and other investments	**18**	4
Tax paid	**(55)**	(42)
Net interest paid	**(43)**	(35)
Free cash flow	**140**	270
Cash outflow for exceptional items	**(78)**	(112)
Dividends paid to Group shareholders	**(74)**	(37)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(27)**	(1,281)
Divestment of subsidiary and equity accounted businesses, net of cash and cash equivalents	**12**	51
Net cash flow	**(27)**	(1,109)
Proceeds from issue of share capital	**6**	–
Purchase of own shares	**–**	(1)
Loans and borrowings acquired	**–**	(8)
Net movement on debt	**(21)**	(1,118)
Foreign exchange and fair value movements (note 18)	**15**	(28)
Net debt movement – continuing operations	**(6)**	(1,146)
Net debt movement – discontinued operations	**(4)**	7
Opening net (debt)/cash	**(817)**	322
Closing net debt	**(827)**	(817)

1 Restated for IAS 19 (Revised 2011) (note 1a).

29. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2014 £m	2013 £m
Less than one year	**20**	21
Between one and five years	**37**	43
More than five years	**11**	14
	68	78

Operating lease payments represent rentals payable by the Group for certain of its properties, machines, vehicles and office equipment.

30. CAPITAL COMMITMENTS AND CONTINGENCIES

At 30 April 2014, the Group had committed to incur capital expenditure of £3m (30 April 2013: £9m).

The Group is not subject to a material litigation but has a number of contingent liabilities that arise in the ordinary course of business on behalf of trading subsidiaries including, inter alia, intellectual property disputes and regulatory enquiries on areas such as health and safety, environmental, and anti-trust. No losses are anticipated to arise on these contingent liabilities.

As a result of previous acquisitions, various contingent liabilities were identified and included within provisions, as required by IFRS 3 *Business Combinations*. Whilst it is difficult to reasonably estimate the ultimate outcome of these claims, the Directors' best estimate has been updated and included in the closing provision balance at 30 April 2014.

31. ACQUISITIONS AND DIVESTMENTS

(a) 2013/14 acquisitions and disposals

During the current financial year, the Group completed various business combination transactions with total cash consideration of £27m, and various business disposals with total cash consideration of £12m which are not considered material to the Group individually or in aggregate.

(b) 2012/13 acquisitions and disposals

On 30 June 2012, the Group acquired SCA Packaging. The acquisition was effected by the purchase of equity of 100% of SCA Packaging Holding BV and SCA Packaging Nicollet SAS for £1,281 million (€1.6 billion) on a cash, debt and, to the extent legally possible and commercially practicable, pension free basis. This was subject to customary post-completion adjustments.

Certain fair values assigned to the net assets at the date of acquisition were provisional and, in accordance with IFRS 3 *Business Combinations*, the Group has adjusted the fair values attributable to this acquisition during the year ended 30 April 2014, resulting in a net decrease in goodwill of £3m. During the year ended 30 April 2014, the Group completed settlement of post-completion adjustments with SCA, the effect of which is included within exceptional items.

On 25 May 2012, the European Commission granted competition clearance for the SCA Packaging acquisition. The clearance required the Group to divest three sites after the acquisition, which represented approximately 1% of the enlarged Group profit. All three remedy disposal sites were divested during the year ended 30 April 2013 for total proceeds of £43m. The Group incurred transaction costs of £2m of which £0.5m was recognised as an expense for the year ended 30 April 2013, with the remainder included in the opening fair value less cost to sell of the two remedy disposal sites gained through the SCA Packaging acquisition.

In the year ended 30 April 2013, the Group made additional minor disposals of associates and subsidiary businesses for proceeds of £8m, net of cash and cash equivalents. These include the Group's associate GAE Smith, UK Packaging disposals and the sale of the Group's Norwegian subsidiary.

(c) Office Products Wholesaling

In April 2013, DS Smith received £7m in relation to final settlement of the disposal of its Office Products Wholesaling division in 2011/12 to Unipapel SA, which was recorded in discontinued operations in 2012/13. In 2013/14 a tax expense of £3m was incurred for tax balances written off in relation to the disposal which was recorded in discontinued operations.

(d) Acquisition related costs

The Group incurred acquisition related costs of £4m in 2013/14 (2012/13: £11m). In 2013/14 these primarily related to finalisation of the completion accounts process of the SCA Packaging acquisition in the previous year, as well as other deal costs relating to aborted acquisitions. These costs have been included in administrative expenses in the Group's income statement within exceptional items.

32. RELATED PARTIES

Identity of related parties

In the normal course of business the Group undertakes a wide variety of transactions with certain of its subsidiaries and equity accounted investments.

The key management personnel of the Company comprise the Chairman, Executive Directors and non-Executive Directors. The compensation of key management personnel can be found in the Annual Remuneration Report. Certain key management also participate in the Group's share-based incentive programme (note 26). Included within the share-based payment expense is a charge of £1m (2012/13: £1m) relating to key management.

Other related party transactions

	2014 £m	2013 £m
Sales to equity accounted investees	**35**	35
Purchases from equity accounted investees	**1**	–
Amounts due from equity accounted investees	**10**	10
Amounts due to equity accounted investees	**–**	(1)
Advances to minority interest	**3**	3

33. SUBSEQUENT EVENTS

On 24 June 2014, the Group reached agreement to dispose of its Scandinavian Foam business, classified as held for sale, for £24m, subject to working capital adjustments and competition clearance. The sale is scheduled to complete on or about 31 August 2014, and no material gain or loss on disposal is expected.

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

Notes to the Consolidated Financial Statements continued

34. DS SMITH GROUP COMPANIES

Control of the Group

The Group's ultimate parent company is DS Smith Plc.

List of key consolidated companies

	Country of incorporation or registration	Ownership interest at 30 April 2014
UK		
DS Smith Holdings Limited	UK	100%
DS Smith Packaging Limited	UK	100%*
DS Smith Corrugated Packaging Limited	UK	100%*
DS Smith Paper Limited	UK	100%*
DS Smith Logistics Limited	UK	100%*
DS Smith Recycling UK Limited	UK	100%*
Western Europe		
DS Smith Kaysersberg S.A.S.	France	100%*
DS Smith Packaging France S.A.S.	France	100%*
Otor S.A.	France	100%*
DS Smith Packaging Services S.A.S.	France	100%*
DS Smith Packaging Consumer S.A.S.	France	100%*
DS Smith Chouanard S.A.S.	France	100%*
DS Smith Packaging Netherlands B.V.	Netherlands	100%*
DACH and Northern Europe		
DS Smith Packaging Deutschland Stiftung & Co KG	Germany	100%*
DS Smith Recycling Deutschland GmbH	Germany	100%*
DS Smith Paper Deutschland GmbH	Germany	100%*
DS Smith Packaging Denmark A/S	Denmark	100%*
DS Smith Packaging Sweden AB	Sweden	100%*
Central Europe and Italy		
DS Smith Polska sp.z.o.o.	Poland	100%*
Toscana Ondulati SpA	Italy	92%*
DS Smith Packaging Italia SpA	Italy	100%*
Plastics		
DS Smith Plastics Limited	UK	100%*
DS Smith Cartón Plástico s.a.	Spain	100%*
D.W. Plastics NV	Belgium	100%*
DS Smith Ducaplast S.A.S.	France	100%*
DSS Rapak Inc.	USA	100%*
Rapak GmbH	Germany	100%*
Rapak Asia Pacific Limited	New Zealand	100%*

* indirectly held by DS Smith Plc.

A complete list of the Group's companies is available from the registered office and will be filed with the Annual Return.

Company Balance Sheet Prepared in Accordance with UK GAAP
At 30 April 2014

	Note	2014 £m	2013 £m
Fixed assets			
Tangible assets	3	**4**	2
Investments	4	**1,833**	1,833
		1,837	1,835
Current assets			
Debtors: amounts falling due within one year	5	**80**	22
Debtors: amounts falling due after more than one year	5	**339**	393
Cash at bank and in hand	10	**35**	33
		454	448
Creditors: amounts falling due within one year			
Trade and other creditors	6	**(60)**	(47)
Borrowings	6	**(218)**	(51)
Net current assets		**176**	350
Total assets less current liabilities		**2,013**	2,185
Creditors: amounts falling due after more than one year			
Trade and other creditors	6	**(40)**	(21)
Borrowings	6	**(782)**	(899)
Provisions for liabilities	7	**(3)**	(7)
Net assets		**1,188**	1,258
Capital and reserves			
Called up share capital	8	**94**	93
Share premium account	9	**715**	710
Profit and loss account	9	**379**	455
Shareholders' funds		**1,188**	1,258

Approved by the Board of Directors of DS Smith Plc (company registered number 1377658) on 25 June 2014 and signed on its behalf by

M W Roberts
Director

A R T Marsh
Director

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

Notes to the Company Balance Sheet

1. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies, which have been applied consistently to all periods presented, is set out below:

(a) Accounting basis

The financial statements of DS Smith Plc (the 'Company') have been prepared on a going concern basis and under the historical cost convention and have been prepared in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Practice (GAAP).

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 *Cash Flow Statements*, the Company is exempt from the requirement to prepare a cash flow statement on the grounds the Company is included in the consolidated financial statements.

FRS 102 *The Financial Reporting Standard applicable in the UK and the Republic of Ireland* has been issued but not yet adopted by the Company. It is effective for accounting periods beginning on or after 1 January 2015.

The Company has also taken advantage of the exemption in FRS 29 *Financial Instruments: Disclosures*, not to present Company only information as the disclosures provided in the notes to the consolidated financial statements comply with the requirements of this standard.

In accordance with FRS 17 *Retirement Benefits*, the Company has taken the multi-employer exemption from disclosing the assets and liabilities of the scheme as it is not possible to separately identify those relating to the Company employees. This is because of complexities in determining how the cost of funding the deficit will be allocated between Group companies in future periods. A Group level actuarial valuation under FRS 17 has not been performed, but the net pension liability under IAS 19 for the UK defined benefit pension schemes was £72m at 30 April 2014 (2013: £133m).

(b) Income recognition

Dividend income from subsidiary undertakings is recognised in the profit and loss account when paid.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost or valuation less the estimated residual value of all tangible fixed assets in equal annual instalments over their estimated useful lives at the following rates:

Plant and equipment	2-25 years

(d) Fixed asset investments

Fixed asset investments are valued at cost less provisions for impairment.

(e) Deferred taxation

In accordance with FRS 19 *Deferred Tax*, deferred tax is provided in full on timing differences that result in an obligation at the reporting date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, provided at current tax rates and based on current legislation. Timing differences arise from inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(f) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at that date. Exchange differences arising on translation are taken to the profit and loss account.

(g) Pension contributions

The Company participates in a funded, defined benefit scheme in the UK, the DS Smith Group Pension scheme (the 'Group Scheme'). On 30 April 2011, the scheme was closed to future accrual. As the Company is unable to identify its share of scheme assets and liabilities on a consistent and reasonable basis, the Company treats contributions to defined benefit schemes as if they were contributions to a defined contribution scheme in accordance with the exemption permitted by FRS 17 *Retirement Benefits*. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the relevant accounting period.

(h) Financial instruments

Financial instruments are reported in accordance with FRS 26 *Financial Instruments: Recognition and Measurement*.

The Company uses derivative financial instruments, primarily interest rate, currency and commodity swaps, to manage interest rate, currency and commodity risks associated with the Group's underlying business activities and the financing of these activities. The Group has a policy not to, and does not, undertake any speculative activity in these instruments. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk. Any gains or losses arising from the hedging instruments are offset against the hedged items.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; and
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

(i) Share options

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At each reporting date, the entity revises its estimates of the numbers of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity. Where applicable, the fair value of employee services received by subsidiary undertakings within the DS Smith Plc Group in exchange for options granted by the Company is recognised as an expense in the financial statements of the subsidiary by means of a recharge from the Company.

2. EMPLOYEE INFORMATION

The average number of employees employed by the Company was 58 (2012/13: 48).

	2014 £m	2013 £m
Wages and salaries	**8**	9
Social security costs	**2**	2
Pension costs	**1**	–
Total	**11**	11

Note 26 to the consolidated financial statements sets out the disclosure information required for the Company's share-based payments.

3. TANGIBLE FIXED ASSETS

	Plant and equipment £m	Total £m
Cost		
At 1 May 2013	4	4
Additions	2	2
At 30 April 2014	6	6
Depreciation		
At 1 May 2013	(2)	(2)
Charge for the year	–	–
At 30 April 2014	(2)	(2)
Carrying amount		
At 1 May 2013	2	2
At 30 April 2014	**4**	**4**

4. FIXED ASSET INVESTMENTS

	Shares in Group undertakings £m
At 1 May 2013	1,833
At 30 April 2014	**1,833**

The Company's principal trading subsidiary undertakings at 30 April 2014 are shown in note 34 to the consolidated financial statements.

5. DEBTORS

	2014 £m	2013 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**66**	15
Other debtors	**10**	2
Prepayments and accrued income	**2**	4
Derivative financial instruments	**2**	1
	80	22
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	**319**	374
Deferred tax asset	**16**	10
Derivative financial instruments	**4**	9
	339	393
Total debtors	**419**	415

Notes to the Company Balance Sheet continued

6. CREDITORS

	2014 £m	2013 £m
Trade and other creditors falling due within one year		
Amounts owed to subsidiary undertakings	**2**	–
Corporation tax	**1**	5
Other tax and social security payables	**5**	8
Other creditors, accruals and deferred income	**32**	33
Derivative financial instruments	**20**	1
	60	47
Trade and other creditors falling due after more than one year		
Derivative financial instruments	**40**	21
	40	21
Borrowings falling due within one year		
Bank loans and overdrafts	**155**	34
Other loans	**63**	17
	218	51
Borrowings falling due after more than one year		
Other loans	**782**	899
	782	899
Total creditors	**1,100**	1,018

7. PROVISIONS FOR LIABILITIES

	Restructuring £m	Other £m	Total £m
At 1 May 2013	5	2	7
Utilised	(2)	(2)	(4)
At 30 April 2014	**3**	**–**	**3**

8. SHARE CAPITAL

	Number of shares			
	2014 Millions	2013 Millions	2014 £m	2013 £m
Ordinary equity shares of 10 pence each				
Issued, allotted, called up and fully paid	**939**	929	**94**	93

During the year, the Company issued new ordinary shares as a result of exercises of employee share options of 10,659,040 ordinary shares of 10 pence.

The net movement in share capital and share premium is disclosed in the consolidated statement of changes in equity.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group, all rights are suspended until those shares are reissued.

9. RESERVES

	Share premium account £m	Profit and loss account			
		Own shares £m	Hedging reserve £m	Other £m	Total £m
At 1 May 2013	710	(2)	(23)	480	455
Issue of share capital	5	–	–	–	–
Profit for the year	–	–	–	5	5
Dividends paid	–	–	–	(74)	(74)
Changes in the fair value of cash flow hedges (including tax)	–	–	(14)	–	(14)
Share-based payment expense	–	–	–	7	7
Reclassification	–	–	6	(6)	–
Employee share trust	–	2	–	(2)	–
At 30 April 2014	**715**	**-**	**(31)**	**410**	**379**

The Company made a profit for the year of £5m (2012/13: profit of £235m) including the recognition of intra-group dividends. As at 30 April 2014, the Company had distributable reserves of £291m.

10. CASH AT BANK AND IN HAND

Included within cash at bank and in hand is £nil (30 April 2013: £15m) restricted for use by the Company. Details of the restriction in the prior year are disclosed within note 13 to the consolidated financial statements.

11. CONTINGENT LIABILITIES

The Company has guaranteed the gross overdrafts and loans of certain subsidiary undertakings, which at 30 April 2014 amounted to £72m (30 April 2013: £61m).

12. RELATED PARTY DISCLOSURE

The Company has identified the Directors of the Company, its key management and the UK pension scheme as related parties for the purpose of FRS 8 *Related Party Disclosures*. Details of the relevant relationships with these related parties are disclosed in the Directors' Annual Remuneration Report, and note 32 to the consolidated financial statements respectively.

As permitted by FRS 8, no related party disclosures in respect of transactions between the Company and its wholly owned subsidiaries have been included.

Five-Year Financial Summary

Continuing operations	2010 [1] £m	2011 [1] £m	2012 [1] £m	2013 [1] £m	**2014 £m**
Revenue	1,337	1,759	1,969	3,669	**4,035**
Operating profit[2]	76	110	141	249	**307**
Amortisation	(3)	(7)	(8)	(45)	**(51)**
Share of (loss)/profit of equity-accounted investments before exceptional items, net of tax	–	–	(1)	1	**-**
Net financing costs	(32)	(30)	(25)	(44)	**(48)**
Profit before taxation and exceptional items	41	73	107	161	**208**
SCA Packaging acquisition and integration related costs	–	–	(18)	(69)	**(46)**
Other exceptional items	(11)	1	(70)	(10)	**5**
Profit before income tax	30	74	19	82	**167**

Adjusted earnings per share[2]	5.7p	9.7p	12.5p	17.1p	**21.4p**
Dividends per share	3.2p	4.5p	5.9p	8.0p	**10.0p**

Adjusted return on sales[2]	5.7%	6.3%	7.2%	6.8%	**7.6%**
Adjusted return on average capital employed[2,3,4]	8.9%	11.4%	14.3%	12.2%	**13.0%**

1 Restated for IAS 19 (Revised 2011) (note 1a).

2 Before amortisation and exceptional items.

3 Adjusted return on average capital employed is defined as operating profit before amortisation and exceptional items divided by average capital employed.

4 Average capital employed is the average monthly capital employed for the last 12 months. Capital employed is made up of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions and assets/liabilities held for sale. The definition of capital employed is different from the definition of managed capital as defined in note 21 to the consolidated financial statements, which consists of equity as presented in the statement of financial position, plus net debt.

Shareholder Information

FINANCIAL DIARY

17 September 2014
Annual General Meeting

1 October 2014
Ex-dividend date for final dividend

3 November 2014
Payment of final dividend

4 December 2014*
Announcement of half-year results for the six months ended 31 October 2014

2 April 2015*
Ex-dividend date for interim dividend - note ex-dividend date has moved following the introduction of T+2[1]

1 May 2015*
Payment of interim dividend

25 June 2015*
Announcement of full-year results for the year ended 30 April 2015

* Provisional date
1 T+2 refers to the reduced settlement period (Trade+2 days) for some market transactions which will be introduced in the UK and much of Europe on 6 October 2014. If you wish to find out any more information or whether it will affect your sales of purchases of DS Smith Plc shares, speak to a stockbroker.

COMPANY WEBSITE

The Company's website at www.dssmith.com contains the latest information for shareholders, including press releases and an updated financial diary. E-mail alerts of the latest news, press releases and financial reports about DS Smith Plc may be obtained by registering for the e-mail news alert service on the website.

SHARE PRICE INFORMATION

The latest price of the Company's ordinary shares is available from the FT Cityline service. Calls within the UK are charged at 75 pence per minute at all times. To access this service, telephone +44 (0) 9058 171 690. Alternatively click on www.londonstockexchange.com. DS Smith's ticker symbol is SMDS. It is recommended that you consult your financial adviser and verify information obtained from these services before making any investment decision.

REGISTRARS

Please contact the Registrars at the address above to advise of a change of address or for any enquiries relating to dividend payments, lost share certificates or other share registration matters.

The Registrars provide on-line facilities at www.shareview.co.uk. Once you have registered you will be able to access information on your DS Smith Plc shareholding, update your personal details and amend your dividend payment instructions on-line without having to call or write to the Registrars.

DIVIDENDS

Shareholders who wish to have their dividends paid directly into a bank or building society account should contact the Registrars. In addition, the Registrars are now able to pay dividends in 90 foreign currencies. This service enables the payment of your dividends directly into your bank account in your home currency. For international payments, a charge is deducted from each dividend payment to cover the costs involved. Please contact the Registrars to request further information.

SHARE DEALING SERVICES

The Registrars offer a real-time telephone and internet dealing service for the UK. Further details including terms and rates can be obtained by logging on to the website at www.shareview.co.uk/dealing or by calling 0845 603 7037. Lines are open between 8am and 4.30pm, Monday to Friday.

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Solicitors

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Principal clearing bank

The Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

Stockbroker

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25 Bank Street
London E14 5JP

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrars queries

Information on how to manage your shareholdings can be found at https://help.shareview.co.uk. The pages at this web address provide answers to commonly asked questions regarding shareholder registration, links to downloadable forms and guidance notes.

If your question is not answered by the information provided, you can send your enquiry via secure e-mail from these pages. You will be asked to complete a structured form and to provide your Shareholder Reference, Name and Address. You will also need to provide your e-mail address if this is how you would like to receive your response. In the UK you can telephone 0871 384 2197. Lines are open 8.30am to 5.30pm Monday to Friday. Calls to this number will be charged at 8 pence per minute plus network extras. Other telephone providers' costs may vary. For overseas, telephone +44 (0) 121 415 7047.

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