Foreword

"In this report we set out details of our performance and strong momentum in the second half of the year 2020/21, and how our business is extremely well positioned through our circular business model to meet the challenges of the changing world."

Miles Roberts, Group Chief Executive

Over the course of 2020/21 we have not only responded to the impact of Covid-19, we have continued to make significant progress in furthering our strategy to be the leading supplier of sustainable packaging solutions.

Our priority throughout this pandemic has been and continues to be the safety and wellbeing of our people. We have worked in tandem with governments to ensure that our factories could remain open and continue to keep goods moving, including vital supplies like medicines and food.

The opportunity for DS Smith is clear. We are an industry leader, with a fast moving consumer goods (FMCG) focused customer base and high quality assets across Europe and into North America, built up over the last decade and led by our customers' requirements. We have invested substantially in innovation for many years resulting in differentiated, value-adding solutions in growth areas of the market, such as e-commerce and plastic replacement. As such, we are at the intersection of powerful trends – sustainability, e-commerce and digital – which result in compelling opportunities for us and we are partnering with customers and stakeholders to realise those.

The launch of our new sustainability vision and strategy, Now and Next, maps out ambitious commitments and goals for the next decade. We are furthering our transition to a circular economy by partnering with our employees, customers, communities and stakeholders to keep materials in use, design out waste and regenerate natural systems, while continuing to focus on CO_2 reduction, protecting biodiversity and reducing water consumption.

And while paper and packaging is one of the hardest sectors to de-carbonise, we were delighted to commit to a science-based target by 2030 and Net Zero by 2050 to reinforce our leadership in the circular economy and climate action.

We also recognise that this changing world has placed increased demands on our employees' wellbeing, which is why we have launched a new framework to support this critical area. Our safety statistics have again improved, for the 12th year in a row. Meanwhile, from Kemsley to Krusevac, Tampere to Timisoara, and in over 300 locations across the world, our employees continue to embody our values by supporting the local communities in which we operate.

In this report we set out what we have achieved in the year 2020/21, but also how we are well positioned to respond to the uncertain outlook facing the global economy. We explain the underlying growth drivers for the corrugated industry, and why DS Smith is ready to take advantage of those opportunities from the surge in e-commerce to plastic replacement.

There is no denying the world has dramatically changed and through our Purpose of 'Redefining Packaging for a Changing World', which we have been working hard to embed over the past two years, we continue to support our customers and stakeholders to respond to a more digitally connected world.

Finally, I would like to take this opportunity to officially welcome Geoff Drabble as Chairman and thank, once again, our outgoing Chairman Gareth Davis for his decade of service to DS Smith.

Miles Roberts
Group Chief Executive

Redefining Packaging for a Changing World

Our Purpose
'Redefining Packaging for a Changing World'

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

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

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

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

We deliver our Purpose through our strategic goals:

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

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

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

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

Helps us to deliver our vision
To be the leading supplier of sustainable packaging solutions

Underpinned by our values

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

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

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

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

Be tenacious
We get things done

Our stakeholders

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

Our people

We are around 29,000 people across 34 countries worldwide, speaking 26 languages. We are inspired by our Purpose and are diverse in our thinking.

By giving everyone a voice, we provide a meritocracy with development opportunities for all and recognition of personal achievement, regardless of gender, ethnicity, age or religion. We have workplace conversations through team briefings, leadership visits, digital and hard copy communications. We have mechanisms for feedback through our employee works councils, biennial employee survey and more regular pulse surveys, which inform local action plans and sharing of best practice. We also have a confidential hotline known as 'Speak Up!' for employees to report concerns where they do not wish to go through their local management. More formally, our European Works Council (EWC) brings together employee representatives from the European countries in which we operate and provides a forum for information sharing and consultation.

Read more on page 24

Our customers

Our customers are largely fast moving consumer goods (FMCG) companies that produce goods typically sold in supermarkets and increasingly via e-commerce channels. We make corrugated packaging for some of the largest global food brands. We also make packaging for online retailers and industrial customers and sell paper and recycling to third parties. As the world changed through the Covid-19 pandemic, our customers' needs changed. They require an innovative and flexible partner with world class supply chains and scale. We aim to be the easiest packaging company to do business with and provide more ways to work with customers than ever before.

Read more on page 22

Our investors

Our shares are listed on the London Stock Exchange, and we raise our debt from banks and through listed bonds. Our equity and bonds are owned by a wide range of investors in the UK, Europe, the US and beyond. We engage with equity investors and analysts through regular meetings and conferences, and similarly engage with our banking syndicate, fixed income investors and ratings agencies periodically.

Our suppliers

We have approximately 40,000 suppliers, ranging from small suppliers of goods and services, to large paper manufacturers from whom we source substantial volumes of paper for our corrugated board. We engage with suppliers to enforce our established supplier standards and supplier code of conduct, which set out our ways of working, including for example, in relation to our obligations under anti-modern slavery laws.

The environment and communities

Leading in sustainability and care for the environment is core to our Purpose and one of our four strategic goals. Reducing CO_2, water usage and waste to landfill are priorities, and we have committed to setting science-based carbon-reduction targets in alignment with the Paris Agreement. The transition to a circular economy is our particular focus. Our strategic partnership with the Ellen MacArthur Foundation is informing our Now and Next sustainability strategy and is supporting our work in replacing problem plastic with fibre-based packaging, and educating five million people across Europe and North America in the circular economy.

Our Purpose also guides our community programmes and charitable foundation which supports local and larger initiatives, from sponsoring local educational projects to donations to environmental and education-focused charities, such as the Arkwright Foundation. Since its establishment in 2011, the DS Smith Charitable Foundation has donated over £2 million to causes aligned with our Purpose. DS Smith manages more packaging for recycling than it makes, meaning we are a net recycler of packaging. We have testing environmental targets so that we continue to improve our impact on the environment.

Read more on page 30

Governments and non-governmental organisations

We engage in detailed consultation with governments to promote efficient fibre recycling and the acceleration of the circular economy, and we participate in industry organisations to combine our influence. We take a leadership role with relevant non-governmental organisations, such as our global partnership with the Ellen MacArthur Foundation. We are engaging with leading ESG organisations such as the Science Based Targets initiative to set meaningful and ambitious goals around our carbon emissions.

A sample of the talented women across DS Smith who shared their career stories as part of our International Women's Day celebration in March 2021.

At a glance

We have created a circular business focused on sustainable packaging.

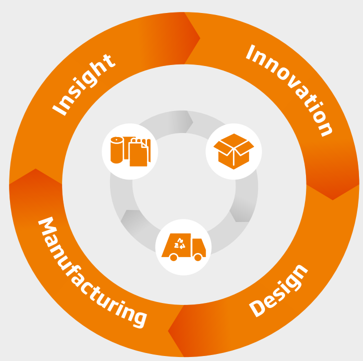
Our business model overview

Find out more on page 16

Our resources

- Our people and values
- Manufacturing and other physical assets
- Our relationships
- Intellectual capital
- Financial capital
- Natural capital

What we do



The value we create

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

Packaging

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

We partner with customers to provide innovative packaging solutions. Not only do we help specify packaging solutions to generate more sales, but we do so while ensuring lower cost and meeting performance criteria. We complement our product range with consultancy services on supply chain optimisation and creative design.

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

c. 24,000 employees

c. 8.8 billion m^2 corrugated board sold in 2020/21

Paper

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

We operate 14 CCM paper mills, 12 in Europe and two in the US. Of those, two are kraftliner (virgin paper) mills (one in the US, one in Europe) and the remainder are principally dedicated to the production of recycled CCM (testliner). We also have two small mills in Europe producing specialist paper grades. Fibre for our testliner is principally sourced from our own recycling operations.

c. 4,000 employees

c. 4.6 million tonnes CCM produced in 2020/21

Recycling

We provide a full recycling and waste management service, ranging from simple recycling collections through to full recycling and waste management solutions, which help us take responsibility for the collection of used packaging.

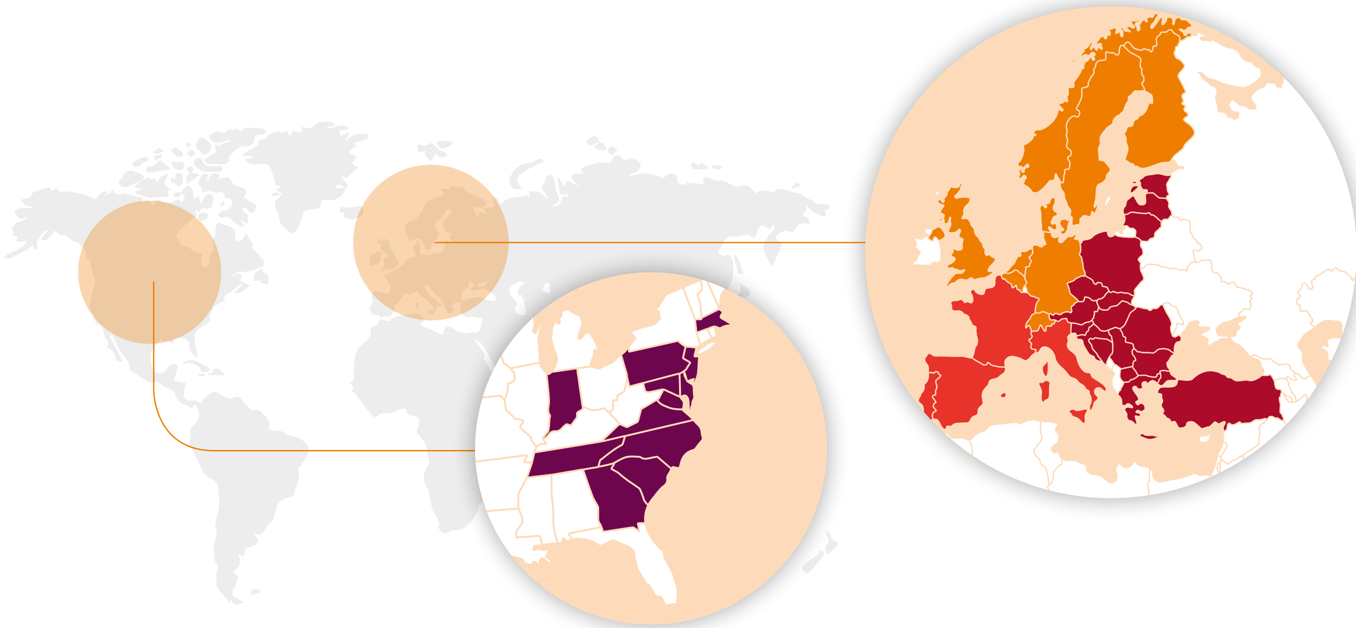
We are Europe's largest cardboard and paper recycler and are also one of the leading full service recycling and waste management companies in Europe. We collect quality paper and cardboard for recycling from a range of sectors, including retailers, manufacturers, local authorities, and other recycling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

c. 1,000 employees

c. 6 million tonnes fibre managed in 2020/21

Where we operate

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



Northern Europe

£2,370m
2020/21 revenue

c. 11,000 employees

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

Southern Europe

£2,156m
2020/21 revenue

c. 9,000 employees

France, Italy, Portugal and Spain

Eastern Europe

£909m
2020/21 revenue

c. 7,000 employees

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

North America

£541m
2020/21 revenue

c. 2,000 employees

United States

We also have offices in India and China, where we offer sourcing and consultancy services, and a packaging sales site in Morocco.

The changing relationship with packaging

Over the past year, we have seen an acceleration of the ongoing structural changes in the packaging market driven by the evolving consumer relationship with packaging. New technologies, customer demands and external pressures like Covid-19 and climate change are all aligning to reshape shopping behaviours with an increased focus on areas such as e-commerce, health and wellbeing and a continued prioritisation on sustainable packaging.

As we enter recovery, research shows that many of the online shopping habits European consumers adopted over lockdown are here to stay. This, together with changing demographics, access to fast broadband, advances in artificial intelligence and improvements in delivery infrastructure, will surely contribute to continued fast growth in 2021 and beyond.

Products being over-packaged or delivered in non-recyclable materials can lead to strong criticism, complaints, and active public debate. Plastics are perceived to be the least sustainable form of packaging and brands, retailers and food producers are increasingly looking for more sustainable alternatives.

With European consumers planning to continue or increase buying groceries online (62 per cent) and home meal kits (49 per cent)[1], we have responded to the challenges of these segments by partnering with TemperPack to introduce ClimaCell®, a sustainable thermal insulation barrier for temperature-sensitive goods such as meal kits, perishable groceries and medical products.

While leveraging the convenience of these new delivery channels, consumers continue to prioritise sustainable packaging. Almost a third (29 per cent) have stopped buying from particular brands because their packaging was not sustainable, with half (48 per cent) of online shoppers saying that they have experienced 'unsustainable packaging'[2].

It is not just sustainability that has increased in importance. Awareness of the hygiene and food safety of packaging has also significantly shifted, with 71 per cent of respondents in the US more concerned than prior to the pandemic[3]. While there is no evidence of virus transfer from cardboard, we partnered with Touchguard to develop a new range of bacteria and virus-safeguarded sustainable cardboard packaging. The easily identifiable touch-safe zones can be applied at scale across a range of industries and applications.

48%

European shoppers have experienced 'unsustainable packaging'

29%

European consumers have stopped buying from a particular brand because their packaging was unsustainable

1. DS Smith and OnePoll, 2020.
2. Ipsos MORI and DS Smith, Sustainable Packaging – Did Covid-19 change everything?, 2020.
3. McKinsey Packaging Survey (2020).

Helping customers meet their biggest challenges

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

As is often the case, adversity encourages innovation and many companies saw real opportunity around e-commerce driven by unprecedented demand. Since summer 2020, more than 85,000 UK businesses including farms and restaurants have launched online stores selling directly to their local communities and beyond. This has necessitated interactions with a raft of new customers designing supply chains for the first time. Through our ePack online platform, we have helped small and medium-sized businesses make this transition to ensure they can continue trading and delighting their consumers.

It is not just small brands that have had to adapt to changing consumer behaviours. To respond to increasing demand during the pandemic, food retailer Delhaize and DS Smith worked together to introduce an automated box erecting machine to ensure efficient delivery to homes and shops across Belgium.

We have worked hard to continue innovating with our customers to respond to these trends, transforming our sustainability and innovation workshops through new digital platforms. By launching 'Impact Centre Online', we are working directly with our customers to develop the next generation of e-commerce packaging, implement new sustainable design principles and develop alternatives to problem plastics.

Meanwhile, alongside ongoing calls from consumers for sustainable packaging, by taking a leadership role in alliances such as 4Evergreen, we are supporting plans to increase the 84 per cent fibre-based packaging recycling rate in Europe to 90 per cent by the end of the decade. This can only be achieved through innovative collaboration between the packaging and recycling supply cycle – by working together to deliver innovation from product design through to collection and recycling systems infrastructure. This is particularly important as more packaging ends up in people's homes.

And this is why our circular approach is so important. By thinking differently and working closely with our customer Laithwaite's Wine, DS Smith has closed the loop on over 1,000 tonnes of cardboard packaging, ensuring materials are kept in the supply cycle for as long as possible, while maximising value.

"We continue to help new and existing customers navigate this period of uncertainty through security of supply, quality and innovation."

Leading the transition to the circular economy

Today, we face huge challenges to mitigate the effects of climate change and achieve agreed climate targets, with a 2021 UN poll suggesting that two-thirds of people want action against climate change[1]. By improving circularity of resources, as well as decarbonising energy production, business and society can work together to lead a step change in sustainable business.

Greenhouse gas emissions are not falling quickly enough to achieve climate targets. According to the Ellen MacArthur Foundation, a switch to renewable energy can only cut them by 55 per cent, which means a further 45 per cent of the target must be tackled through better adoption of a circular economy[2].

At DS Smith, our Purpose of 'Redefining Packaging for a Changing World' is reinforced by our robust circular business model. Our products are made from renewable resources and once our paper and cardboard has been used it can be recycled up to 25 times.

DS Smith's new sustainability strategy, Now and Next, allows us to move beyond just having a strong circular business model ourselves to delivering more circular solutions for our customers and wider society – replacing problem plastics, taking carbon out of supply chains and providing innovative recycling solutions.

Almost half of Europeans (46 per cent) say they want to use more cardboard or paper-based packaging rather than plastic-based packaging, and almost a third of European shoppers say they have stopped buying particular brands altogether because their packaging was not sustainable[3]. With over 700 packaging designers developing thousands of packaging specifications every year, we are helping our customers to create circular alternatives.

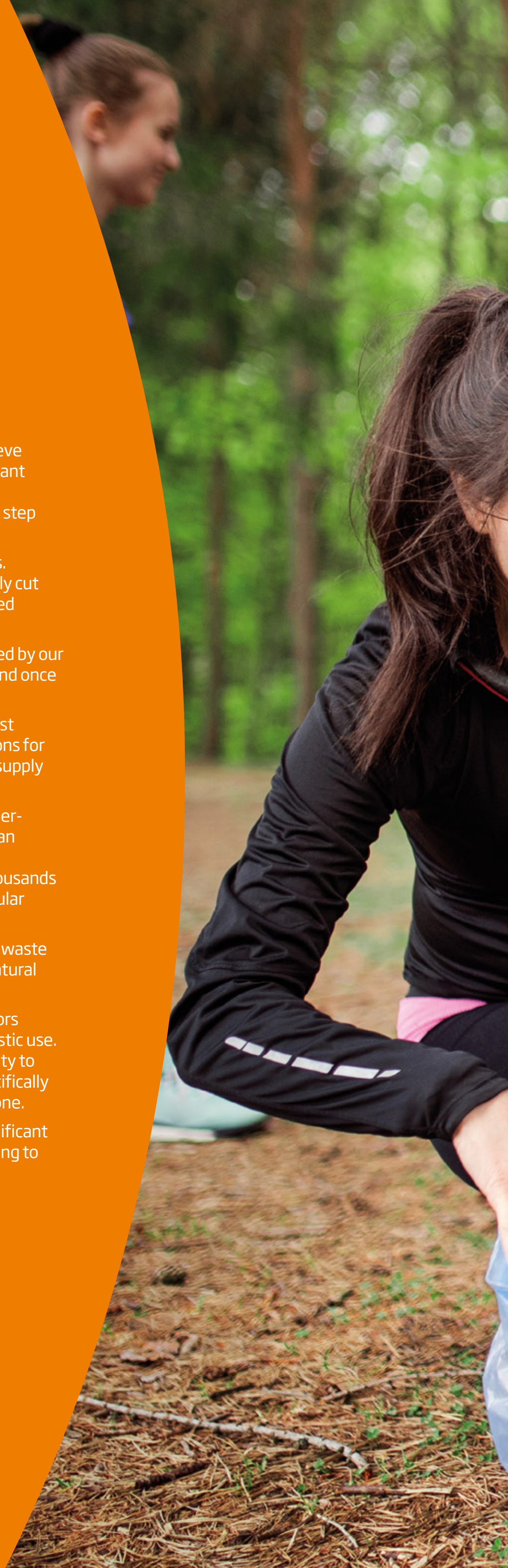
Through our circular design principles, brands can keep materials in use, design out waste so that it is easier for consumers to reuse and recycle packaging, and regenerate natural systems.

Moreover, we have been working to reduce plastic packaging by innovating in sectors where sustainable fibre-based packaging can make a big difference in reducing plastic use. Through partnerships, such as Aquapak and MULTIVAC, we have extended our ability to tackle 'hard to recycle' plastics and we've developed over 650 designs focused specifically on plastic replacement – with over 54 million units of plastic replaced in the year alone.

As companies embrace sustainable packaging, there is an opportunity to make significant progress against their environmental and social responsibilities while also responding to changing consumer behaviours in light of Covid-19.

46%
Europeans want to use more cardboard or paper-based packaging, rather than plastic-based packaging

54 million
Units of plastic replaced in the year



1. United Nations Development Programme, People's Climate Vote, 2021.
2. The Ellen MacArthur Foundation, Completing the Picture: How the Circular Economy Tackles Climate Change (2019).
3. DS Smith and OnePoll, 2021.

Now and Next sustainability strategy

Led by our Purpose and to achieve our vision to be the leading supplier of sustainable packaging solutions, Now and Next is our new sustainability strategy that sets out how we will tackle the sustainability challenges we are facing today, as well as those that will impact future generations.

Now and Next strategy

Our focus is on:

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

We will continue to:

Drive carbon reduction

Care for forests and their biodiversity

- By 2025 we will protect forests and enhance biodiversity wherever we operate
- By 2030 we will reduce our CO_2 emissions by 30 per cent per tonne of production against a 2015 baseline

Maintain that 100 per cent of in-scope sites are ISO 50001 certified each year[1]

NOW

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

- By 2021, we will train 100 per cent of our designers on Circular Design Principles. By 2023, we will manufacture 100 per cent reusable or recyclable packaging
- By 2025, we will optimise fibre use for individual supply chains in 100 per cent of our new packaging solutions
- By 2025, we will take one billion pieces of problem plastics off supermarket shelves, take 250,000 lorries off the road and work with partners to find solutions for 'hard to recycle' packaging
- By 2025, we will engage 100 per cent of our people on the circular economy

Managing water responsibly

- By 2021, all sites in current or future water stressed areas will have a mitigation plan in place
- By 2025, achieve zero non-conformances with consents to discharge
- By 2030, all paper mills to operate at or below internal benchmark rates for water consumption

Sending zero waste to landfill

- By 2030, send zero waste to landfill

Sourcing sustainably

- By 2025, ensure that 100 per cent of our suppliers comply with our sustainability standards
- By 2025, we will measure and improve biodiversity in our own forests
- Maintain that 100 per cent of the papers we purchase are recycled or chain of custody certified each year[2]
- Maintain that 100 per cent of relevant sites are FSC certified each year[3]

Contributing to our communities

- By 2025, launch 100 biodiversity projects across Europe and North America
- By 2025, all of our paper mills will run a biodiversity programme in their local community

Alignment with international frameworks

We support several international frameworks:

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

For more information, see our latest Sustainability Report.

NEXT

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

By 2030, we aim for all of our packaging to be recycled or reused and to pilot 20 new business models for improving post-consumer waste quality and recycling rates

By 2030 we are aiming to optimise every fibre for every supply chain

By 2030 our aim is to use packaging and recycling to enable the circular economy by replacing problem plastics, reducing customer carbon and eliminating consumer packaging waste

By 2030 we will engage five million people on the circular economy and circular lifestyles

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

- Maintain that 100 per cent of our sites are engaged in community programmes each year[4]

Find out more online at www.dssmith.com

Respecting human rights

- By 2022, we will conduct a human rights risk assessment

1. Includes sites accounting for at least 90 per cent of overall Group energy consumption.
2. Includes certification to controlled wood standard as a minimum.
3. Includes Packaging, Paper and Paper Sourcing sites that trade or manufacture products derived from timber.
4. Includes sites with greater than 50 employees.

How we contribute to the Sustainable Development Goals

The UN Sustainable Development Goals (UN SDGs) are an ambitious plan to create a better world by 2030.

Although we impact many of the goals, we have identified four that are most relevant to our business and where we can make a significant contribution:

Responsible Consumption and Production: we keep materials in use for longer, reduce waste and pollution and protect natural resources.

Climate Action: we reduce our emissions to combat climate change and its impacts.

Life on Land: we minimise our use of sustainably sourced fibre, protecting and restoring ecosystems.

Decent Work and Economic Growth: we commit to being a responsible employer, underlining our ethical, labour and employment standards.

Increasing our ambition on climate change

We have announced new climate targets, including a commitment to reach Net Zero emissions by 2050 and a science based target for 2030, which requires at least a 40 per cent reduction of CO_2 emissions per tonne of product compared to 2019. Turn to pages 30 and 31 to learn more.

Chairman’s statement

“Our Purpose of ‘Redefining Packaging for a Changing World’ has never been more relevant in a year that has presented significant challenges for society at large from the Covid-19 pandemic. As a packaging provider we have continued to operate throughout, thanks to the dedication and commitment of our people.”

Geoff Drabble, Chairman

I am delighted to have joined the Board as your new Chairman, and it has been a pleasure getting to know the business, albeit virtually in most instances. I have been very impressed with the commitment of the people I have met, and look forward to meeting many more as lockdown and travel restrictions progressively ease.

A year of challenge and progress

Our Purpose of ‘Redefining Packaging for a Changing World’ has never been more relevant in a year that has presented significant challenges for society at large from the Covid-19 pandemic. As a packaging provider we have continued to operate throughout, thanks to the dedication and commitment of our people, as we are integral to the food and medical supply chain and classified as an essential industry. We have long been committed to fast moving consumer goods (FMCG) and e-commerce customers and we have seen very strong growth within e-commerce from an accelerated change in shopping habits and an evolving retail environment.

Covid-19

Throughout the year, we have been guided by our values and core priorities: firstly, to the health and wellbeing of our people; and secondly, to serving our customers. Our people have responded magnificently, adapting ways of working where needed. This has enabled us to continue to serve our customers, ultimately getting food and other vital supplies to consumers around Europe and beyond. I would particularly like to thank my colleagues who have worked so hard throughout such a challenging period, whether coping with health issues or anxieties for themselves or their families, or the strains that the various restrictions have placed on us all. Thank you.

Performance

Volumes have been resilient throughout the year, dipping only modestly in the first half of the year as activity among our industrial customers temporarily fell, and accelerating considerably in the second half of the year, driven by solutions for e-commerce customers in particular. Volumes from our bedrock of FMCG customers remained solid throughout. Covid-19 restrictions resulted in significant volatility in various input costs, including used fibre, impacting profitability. I am delighted to see the improved performance from our US business, as we begin to see the benefit of the Indiana site develop and market conditions improve. While it has been a challenging year, we are well placed to benefit from the accelerated, long-term growth drivers of e-commerce and sustainable solutions. We have consistently invested in these key areas over many years in anticipation of the growth which is now playing out as expected, with e-commerce in particular accelerated by Covid-19. That investment has taken the form of designers, technicians and equipment, resulting in a range of both e-commerce products and services, so that our packaging adds value in the e-commerce supply cycle. Looking ahead, we are investing further in new packaging sites in Italy and Poland. These sites will provide capacity to allow us to take advantage of the customer demand and growth in these regions and we are confident in the returns they will deliver.

Health and safety is of paramount importance to us, and I am very pleased to note that we have continued our long-term trend of improvement, with the accident frequency rate, our headline measure for health and safety, declining by 14 per cent compared to last year, the 12th year of improvement in a row.

Sustainability

Sustainability is at the heart of our business, both in how we operate and as an opportunity for growth. In the year, we launched an ambitious new sustainability strategy, Now and Next, focused on the circular economy, taking us to 2030, and we have committed to setting further, more challenging science-based targets in relation to carbon reduction, in line with the Paris Agreement. We are engaging with stakeholders, particularly customers and investors, on the topic of sustainability and ESG more widely, more than ever, as their interests and requirements grow, and we are taking a leadership position in the debate, in collaboration with the Ellen MacArthur Foundation, as the only packaging business that is a global strategic partner.

The Board

I would first like to thank the outgoing Chairman, Gareth Davis, on behalf of the Board and the Company, for his tireless service as Chairman over the past nine years. He has championed the strategy taken by the management team and seen the business through some transformative acquisitions, with the Company now past its third anniversary of being in the FTSE 100. His enthusiasm, commitment and wise counsel will be missed.

On 1 May 2020, Alina Kessel was appointed to the Board as a Non-Executive Director, and Chris Britton stepped down at our 2020 AGM. I would like to welcome Alina and thank Chris for over seven years of service.

Dividend

The Board considers the dividend to be a very important component of shareholder returns and it is integral to our capital allocation policy of delivering a return to shareholders while maintaining a robust balance sheet with the flexibility for re-investment in projects expected to deliver returns in our return on capital range, in the medium term. We have a longstanding capital allocation and dividend policy of paying a dividend with cover of 2.0 – 2.5 times to adjusted EPS. Having taken the prudent decision to pause dividends in 2019/20 at the peak of the Covid-19 crisis, due to the uncertainty created by restrictions on activity, I am very pleased to be able to resume payment this year. In respect of 2020/21, we paid an interim dividend of 4.0 pence and propose a final dividend of 8.1 pence, together 12.1 pence, representing a cover of 2.0 times, in line with our policy.

Outlook

On behalf of the Board, I would like to welcome colleagues who have joined DS Smith during the year and to thank everyone for their commitment and hard work. The continued investment in our business, together with the strong support of our customers and the momentum built over recent quarters, give us confidence for the current year and future. Whilst the business has seen reduced profitability over the last twelve months, we firmly believe that we exit 2020/21 stronger, further focused on the accelerated opportunities a post Covid-19 world offers and that our customers will continue to recognise this going forward.

The current year has started well, with the volume momentum of the final quarter of FY21 continuing into this year. Inflationary cost pressures have also continued, in particular old corrugated cases, but also other costs such as energy, transport and labour. Packaging prices have started to increase and we expect to fully recover these increasing costs.

Accordingly, while there remains uncertainty in the overall economic environment, demand is strong and we expect to make good progress this year.

Engaging with stakeholders: Section 172 statement

The Board aims to promote the success of the Company for the benefit of its shareholders as a whole, taking into account the long-term consequences of its decisions and looking at those decisions through a variety of lenses. This involves the Board and management considering in detail and discussing the interests of the Company's stakeholders, including our people, our customers, our investors, local communities and non-governmental organisations and our suppliers; the importance of maintaining our reputation for high standards of business conduct; and the environment. More information about our stakeholders is set out on page 3. Examples of what that has looked like in practice over the past year are summarised below.

In the governance section of this Annual Report we use s172 to highlight the examples referred to below:

Stakeholder	Strategic Report	Governance
Our people	Pages 3 and 27 (engagement and feedback), 28 (decisions made in consultation with employees), 25 (engagement on health and safety), 28 (global recognition programme)	Pages 68 (engagement with our workforce), 67 (involvement in virtual onboarding), 69 (induction site visits), 68 (EWC meetings and EWC representative attending Remuneration Committee meetings and Remuneration Committee Chairman attending EWC Executive meeting)
Our customers	Pages 3 (engagement), 9 (collaboration)	Page 68 (engagement with our customers via updates from sales, marketing and innovation functions)
Our investors	Page 3 (engagement)	Pages 67 (engagement with our shareholders)
The environment and communities	Pages 3 (engagement and charitable giving), 32 (engagement with ESG rating agencies)	Pages 67 (discussion of environmental impact assessments), 68 (engagement with other stakeholders including briefing on community engagement)
Governments and non-governmental organisations	Page 3 (engagement)	Page 68 (engagement with other stakeholders including the Ellen MacArthur Foundation)
Our suppliers	Page 3 (engagement and supplier standards)	Page 68 (engagement with our suppliers via updates from Group procurement)

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

To be the leader in sustainable packaging solutions

Our business model is focused on value-adding corrugated packaging and supported by upstream paper production and recycled paper collection.

Our relationships and resources

Our people and values

We employ around 29,000 people globally and develop them so they can realise their potential. Our values and management standards guide how we operate.

Manufacturing and other physical assets

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

Our relationships

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

Intellectual capital

We have substantial customer understanding, innovation and patented designs.

Financial capital

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

Natural capital

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

Our circular business model

OCC and recovered fibre

OCC and recovered fibre is converted into paper again

CCM

Paper is converted into corrugated board and then into packaging

Used packaging

Used packaging is collected and brought to our recycling facilities

Boxes

Packaging is used by our customers, retailers and consumers

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

How we create value

1. Insight

We work with leading fast moving consumer goods (FMCG) brand owners, major retailers and industrial companies. This breadth of interaction means that we have considerable knowledge of how changing consumer, retail and regulatory trends affect the use of packaging. We use this insight to inform our innovation.

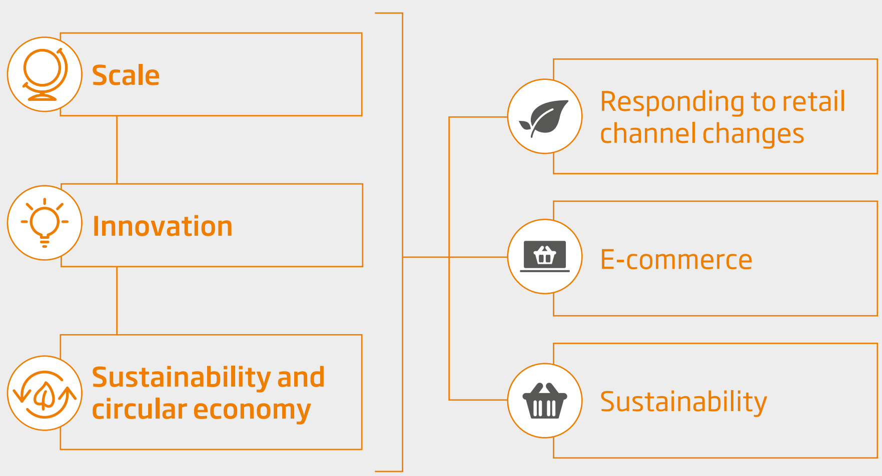
2. Innovation

Our Impact Centres are where we showcase our insight and our designers partner with customers to create inspiring, innovative packaging solutions. Best practice is shared across all our regions.

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

Our differentiators

Market drivers



See more on pages 18 and 19

3. Design

Using our network of designers and PackRight Centres, we create packaging that fulfils our customers' requirements for all stages of the primary product's journey, whether improving protection in transit, ease of identification in the supply cycle, or presenting the primary product to maximise sales.

4. Manufacturing

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

The value we create

Satisfied customers

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

Packaging that is sustainable

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

Returns to our capital providers

Investors benefit from strong operational and financial performance.

Safety and opportunity for our people

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

Leadership in sustainability

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

Community involvement

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

Our differentiation and market drivers

DS Smith is in a strong position to capitalise on the opportunities that current market changes present. Scale, innovation and sustainability are the most material differentiators; scale drives our flexibility and agility, innovation meets changing customer needs, while sustainability is at the heart of our offering.

Differentiators

Scale

Our packaging and paper operations cover 34 countries giving the widest coverage of any packaging company across Europe. We have around 29,000 employees and over 300 manufacturing sites, including our growing operations in the US.

Our footprint matches our customers' requirements. Our large customers are multinational, so require a global, consistent approach to their packaging. For example, over 50 per cent of our boxes are for customers served in more than one country.

Customers are increasingly looking for closer partnership with their suppliers and need to work with fewer, more sophisticated suppliers.

Our people have a deep understanding of our customers as a result of working closely with them over many years. Our understanding around emerging trends and creativity to design innovative, sophisticated packaging that solves our customers' challenges, helps us to develop our relationships further by extending the ranges, categories and services we provide. As a demonstration of this success, our average rate of box volume growth among large customers has been over 10 per cent over the last three years, considerably ahead of Group volume growth.

Innovation

DS Smith is a leader in packaging innovation, with c. 700 designers and innovators. Through our network of innovation hubs, nine Impact Centres, and 42 PackRight Centres, supported by designers at our manufacturing sites, we work collaboratively with customers to solve their challenges. To offer a more flexible approach we have created an enhanced customer experience through virtual collaboration.

Innovation is delivered by DS Smith and then applied across our wide customer base. Examples of innovation are performance packaging and ParceLive.

Our packaging is vital to keep supply chains running, meet the complex needs of our customers and ensure that each valuable product is making it safely to its destination. With supply chains becoming more integrated and demanding, we strive to maximise the performance of our packaging, such as strength, while reducing costs and the amount of material used.

Innovative seasonal gift packaging for BrewDog

By using performance as the basis of supply, we provide packaging that delivers a certain performance rather than being specified by the weight of paper used. Our industry-first science-based optimisation programme PACE™ (Performance, Assurance, Consistency & Environmental excellence) enables us to guarantee performance. Using proprietary technology, we measure the board strength throughout the process to optimise the use of fibre. We analyse the supply chain challenges to define the right specification and deliver cost, efficiency and carbon savings for our customers. Other innovation includes ParceLive, an advanced multi-sensory tracker allowing us to record real-time data linked to every touchpoint along the supply chain.

Advising global brands, we engage early in their product development process. This includes providing design input on the development of their primary packaging with a focus on sustainability and circularity, efficiency and brand consistency throughout all the packaging touchpoints.

Sustainability and circular economy

Sustainability is at the heart of our offering and our circular business model delivers corrugated packaging made from renewable resources that are recyclable in our closed loop systems. Through this approach we keep valuable materials in use for longer, reducing waste. By prioritising recycled papers and championing responsible forest management, we help protect our natural resources and create value for our customers. As our customers set ambitious sustainability targets and consumers demand more sustainable packaging, we can help our customers to get ready for the circular economy.

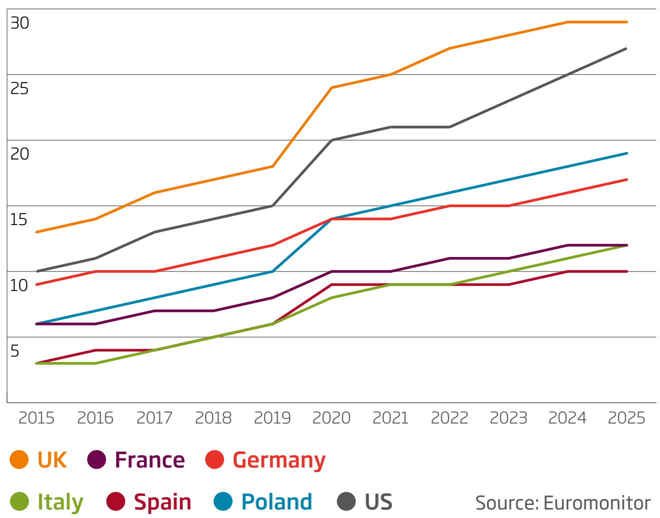
The decisions we make during the packaging design stage can have a domino effect on cost, carbon and other environmental efficiencies in supply chains. Our Circular Design Principles are a key tool for our designers to protect brands and products, not use more materials than necessary, design for supply cycle efficiency, design to keep materials in use and find a better way by always challenging the status quo.

Market drivers

Responding to retail channel changes

Retail channels are changing – with the most dramatic change being the growth in e-commerce. This has been accelerated by the lockdowns due to Covid-19 and the growth is forecast to continue.

E-commerce as proportion of retail sales



At present, supply chains are not always optimised for e-commerce, resulting in repacking at points in the supply chain, which is costly and inefficient. At the same time, customers who do go to bricks-and-mortar shops expect to find products visually appealing and accessible, and as such the emphasis on display packaging and retail-ready packaging continues to grow.

E-commerce

The e-commerce packaging supply cycle presents many challenges and we estimate that there are ten times the chance of product damage in the home delivery route versus the traditional supply chain to a store. Our proprietary innovation DISCS™ (Drop, Impact, Shock, Crush, Shake) simulates e-commerce supply chains and allows us to create high-performing packaging solutions which ensure our customers' products are received by their customers in optimal condition. This technology dramatically shortens the design and innovation cycle of new e-commerce packaging.

Sustainability

As consumers are increasingly demanding more sustainable packaging solutions, replacing single-use plastic is a priority for many customers. We work with retailers and brand owners to develop innovative sustainable designs that replace plastic solutions across categories, including fruit and veg punnets, e-commerce packaging, retail and point-of-sale solutions. Another example is ECO Bowl, a new, more sustainable alternative to plastic packaging for frozen, chilled and ambient food. Our target is to take one billion pieces of problem plastics off supermarket shelves by 2025.

Short paper strategy

Corrugated packaging is our primary product and we are 'short paper', i.e. a net buyer of paper across the Group as a whole, while in the US we are over 100 per cent integrated. We choose to be short in paper in Europe, particularly in the German and surrounding regions. This is due to the excess supply position of the market in these regions and the associated significant volatility and generally low financial returns. We expect our short position to increase as we grow our packaging business and we source more paper from new external capacity that is being added to the general market.

Our innovative corrugated alternative to plastic fruit punnets is designed to appeal to consumers.

Q&A: Delivering circularity

"Our Purpose, 'Redefining Packaging for a Changing World', has never been more apt and we are well positioned to capitalise on a dynamic global environment."

Miles Roberts, Group Chief Executive

Q How has DS Smith continued to adapt to Covid-19?

I am extremely proud of the commitment, professionalism and flexibility of our employees over the past year, keeping all our plants operational and responding to our customers' needs throughout the period. We invested significantly to ensure that we had the right procedures in place to ensure the wellbeing and safety of every one of our employees.

Meanwhile, in spite of the pandemic, we have maintained our track record of winning market share through our fibre-based offering focused on fast moving consumer goods (FMCG) and e-commerce customers, with growth across our largest customers, in particular, continuing. Our US business has seen good underlying progress over the past year, reflecting the recent investment in our new plant in Indiana and the award of a number of significant supply contracts from major FMCG companies.

Q E-commerce has grown significantly as a result of the pandemic, how is DS Smith leveraging this opportunity?

Covid-19 has accelerated some of the trends we were seeing previously, including the growth in e-commerce and demand for sustainable packaging. As we enter recovery, we believe we will see a continued structural change in how people shop and live. With much of this growth in e-commerce expected to be permanent, DS Smith is well positioned as the leading provider of e-commerce packaging in Europe to benefit, having invested in innovation and development in this market segment for many years.

Q You have launched a number of partnerships over the past year, why?

Innovation is a critical part of our strategy and as we reinforce our position as the leading provider of sustainable packaging solutions, we have worked closely with a number of partners over the past year to further expand our offering.

Examples of our partnerships include ClimaCell®, which offers a replacement for plastic cool chain with 100 per cent recyclable options, as well as Touchguard, who we have worked with to develop anti-microbial packaging to provide an additional layer of protection across the value chain.

Q How is DS Smith driving forward its commitment to the circular economy?

Our Now and Next sustainability strategy positions DS Smith at the forefront of the packaging industry and sets a clear roadmap to address immediate challenges, while also working to meet the needs of the next generation by creating solutions that are aligned with the principles of the circular economy.

By taking a whole systems approach, we have an opportunity to make significant progress against our environmental, social and governance responsibilities.

Meanwhile, our business model is inherently circular and our box-to-box model in 14 days is representative of our commitment to this and we continue to manage more recycling than we put on the market.

Q Carbon reduction is a key area of focus globally, what is DS Smith doing to respond?

Over the past five years, DS Smith has achieved a 23 per cent reduction in carbon emissions per tonne of production of our

Our strategy

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

To delight our customers
How we engage with customers

See more on page 22

To realise the potential of our people
How we engage with our people

See more on page 24

To lead the way in sustainability
How we engage with society

See more on page 30

To double our size and profitability
How we engage with our investors

See more on page 34

historic target of a 30 per cent reduction by 2030. However, we recognised that we must go further. As a manufacturing business, this has to include decisions on which technologies to invest in at what time to ensure maximum reduction of carbon per pound of investment. I am therefore delighted to announce our commitment to a science-based target by 2030 and Net Zero by 2050, which will support our production of fully renewable and recyclable packaging. To further underline our ambition, we have also joined the UN's Race to Zero.

However, in addition to our carbon commitments it is also critical to consider our wider impact. Following the launch of our Purpose, 'Redefining Packaging for a Changing World', in 2019, we recognised there was a gap between our ambition and our existing nine long-term sustainability goals and hence our Now and Next sustainability strategy was launched in 2020.

The strategy sets out four key pillars, alongside a continued commitment to reduce CO_2 emissions and care for forests and biodiversity wherever we operate. The key areas of the strategy will drive sustainable growth at DS Smith, including a focus on closing the loop through better design; protecting natural resources by making the most of every fibre; reducing waste and pollution through circular solutions; and equipping people to lead the transition to a circular economy.

We will be measuring our progress towards these goals, holding ourselves accountable to our stakeholders through regular indices and processes like the Ellen MacArthur Foundation Circulytics benchmark.

Q DS Smith recently announced two new greenfield sites in Poland and Italy, why are you expanding in these regions?

We announced plans to expand packaging production through investment in two new, state-of-the-art facilities in Poland and Italy, which will provide a platform for organic growth in the regions. The facilities will deliver cutting-edge manufacturing technology, innovation and sustainable performance.

The investments follow significant growth over the past three years in these markets and support DS Smith's ambitious plans for organic growth. We see good returns from investing in growth markets, and we are financing it through the organic cash flow.

Q 2020/21 has seen continued volume growth. How have you achieved this in challenging market conditions?

Innovation is a critical part of our strategy and our long-term strategic direction focused on FMCG and consumer markets, embracing e-commerce and technology-based solutions, has been accelerated by consumer trends resulting from the pandemic. The business has continued to grow volumes despite challenging macro-economic conditions. Corrugated box volumes have grown progressively throughout the financial year with the second half achieving a volume increase in excess of 8 per cent over the comparative period last year.

Q Can you explain what you are doing to make progress in the area of diversity and inclusion?

We recognise that diversity is key to our continued success. Creating a diverse and inclusive culture is core to our values and Purpose. I am pleased with the progress we have made in this area over the past year, which includes the expansion of our diversity and inclusion forum with representation from across the business to develop the networks and local action plans that will have the biggest positive impact for our people and the communities they serve. This is supported by a programme of awareness training. Meanwhile, 37.5 per cent of our Board members are women, meeting the Hampton-Alexander Review's target. We have made significant progress over the past two years on women in senior positions, while we have achieved gender parity on offers for our graduate programme.

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

While we are hopeful that the vaccine will mark a turning point in the pandemic and a road to recovery, we are facing an uncertain macro-economic outlook for the upcoming year. However, our focus on resilient FMCG and e-commerce markets, as well as demand for sustainable packaging solutions within these critical value chains, will give us the platform to drive market gains and reinforce our strategic customer partnerships across our integrated footprint.

As a business, we are focused on delivering for all our stakeholders including employees, customers, suppliers and shareholders who expect us to deliver real value and grow our business in a sustainable way over the coming year.

To delight our customers

We do this by:

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

In 2020/21 we:

- Maintained continuity of service to our customers throughout the pandemic
- Adapted to new purchase behaviours and increasing, rapid growth of e-commerce
- Accelerated innovation programmes, including for plastic replacement
- Operated with increased flexibility and agility in our co-operation with customers

In 2021/22 we will:

- Strengthen our value proposition to help customers get ready for the circular economy
- Accelerate our leadership on ecommerce
- Continue to scale up innovations within core business priorities
- Sustain continuous improvement of service levels

Q&A with Marc Chiron

Sales, Marketing and Innovation Director, Packaging

Q How would you describe your customer portfolio?

We work with some of the world's most visible and iconic brands. We have a diverse customer base, but our market share in the dynamic fast moving consumer goods (FMCG) category is well above the corrugated industry average and, over the past year, we have worked hard to ensure that they have benefitted from innovation, sustainable solutions and most importantly continuity of supply to keep goods moving throughout the pandemic.

Q How do you partner with your customers?

Our job is to add value to these brands by making them attractive to new consumers, available when shoppers look for them online or in-store and helping our customers' products to be sold at the targeted price-position. In addition, we focus on transforming the design of point-of-sale, to shorten supply chain complexities and allow our customers to be quicker to market.

Q What role do you have in supporting your customers to meet the changing expectations of consumers?

We help customers meet consumer demand for more sustainable solutions and respond better to changing retail channels, including the fast growth in e-commerce. Our end-to-end approach is adopted by many of our multinational accounts and has been a real source of value growth in these relationships. We engage our customers about their future business priorities and opportunities and create shared roadmaps to meet their future needs.

Our KPI

On-time, in-full deliveries (OTIF)

Definition

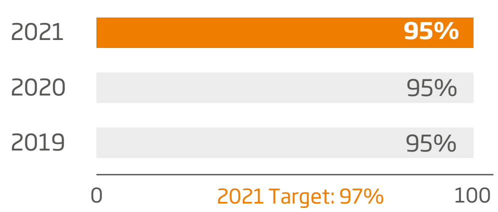
The proportion of our orders that are delivered on-time, in-full across our businesses.

Why this is a KPI

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

2020/21 performance

In the year 2020/21 our overall OTIF remained at 95 per cent, despite the significant disruption caused by Covid-19, close to our overall target of 97 per cent. We continue to strive for higher service levels.



Our packaging customers

We have a diverse customer base, with over 80 per cent of our customers being fast moving consumer goods (FMCG) and other consumer products. This compares to the market in Europe which is c. 73 per cent consumer goods, making our market share in the dynamic FMCG category well above the corrugated industry average. This is important to our business model as the food, drink and personal care categories are resilient in an uncertain economic outlook. These are goods that consumers use in their everyday lives and purchase regularly from supermarkets and, increasingly, online. FMCG customers require high quality, innovative, value-adding packaging. We invest in the insights and innovation needed to meet this demand; and deliver this on a multinational scale.

FMCG customers require packaging that helps build brand loyalty. Packaging can add real value to the brand experience. To stand out, consumer goods packaging is diverse and creative, and packaging plays a role in marketing a product within a competitive retail environment beyond simply providing protection. FMCG customers want value. We approach packaging at every step of the supply chain to ensure that it provides sustainable, optimised performance from end-to-end.

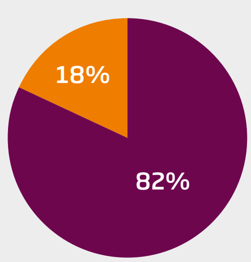
FMCG customers have a global outlook. Our multinational customers require a partner that has a geographic footprint which matches their own. DS Smith is exceptional in having the scale, expertise and innovative approaches to support our customers around the world. Over the past year, we have onboarded key global accounts across our US operations and specifically utilised our Indiana site, which continues to expand operations.

FMCG customers demand secure supply of goods. By creating joint business contingency plans we secure continuity of operations and resilience of our supply chains.

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

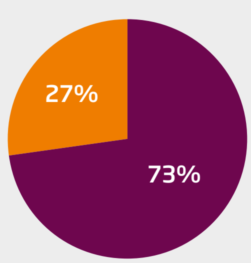
Our corrugated packaging customers by volume

Source: DS Smith analysis



European industry average corrugated packaging by volume

Source: FEFCO



● FMCG and other consumer goods ● Industrial

Value proposition for customers

More sales	Lower cost	Risk managed	Circular ready
We help our customers generate more sales with the right packaging	We help our customers eliminate unnecessary cost	We help our customers address risk throughout the supply chain	We help our customers with circular packaging solutions

Our paper customers

Supplying customers across the globe, we are a leading manufacturer of sustainable packaging and speciality papers made from 100 per cent recycled or chain of custody certified fibre sources. The high performing packaging papers we produce, such as corrugated case materials and kraftliners, are integral in allowing the Group's packaging division to produce sustainable paper-based packaging solutions. Our customers for speciality papers, such as plasterboard liners, come from across a variety of industries including construction, printing, food manufacturing, stationery supplies and education.

Combining our expertise of 16 mills across Europe and North America with a forward-thinking research and development focus enables us to provide customers with the high performing quality papers they need for their onward manufacturing operations. Through our stringent quality measurement systems and ability to track fibre through the complete papermaking process, we ensure delivery of high quality finished papers to all our customers. Our commitment is to create sustainable, high performing papers, that deliver the packaging solutions needed in an ever-changing world.

Our recycling customers

We provide recycling and waste management services to companies of all sizes across a diverse range of sectors in both Europe and North America. From municipalities and waste management companies, to printers, manufacturers, wholesalers, and some of the best-known brands and retailers the world over, our customers benefit from our recycling expertise. We partner with organisations large and small to keep over six million tonnes of paper and cardboard out of landfill or incineration every year. The paper and cardboard we collect for recycling serves our own paper mills as part of our closed loop recycling business model, while also being sold into our global network of third-party paper mills.

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

In 2020 we took our experience and expertise gathered from our pan-European network of recycling operations to help support our customers in North America, with the launch of our first dedicated recycling operation in the US. This new plant can handle over 36,000 tons of paper and cardboard, helping to facilitate fully closed loop packaging and recycling solutions for our customers in this region.

To realise the potential of our people

We do this by:

- Creating an environment that people are proud of and where they can give their best
- Ensuring the health and safety and wellbeing of all
- Building capability for the future

In 2020/21 we:

- Prioritised the health, safety and wellbeing of our people during the Covid-19 pandemic – listening and responding to feedback
- Celebrated the contribution and success of colleagues through our first Smithies awards event
- Launched our refreshed and simplified Management Standards
- Adapted and extended our development offer – embracing technology to overcome the challenges of Covid-19

In 2021/22 we will:

- Progress our new sustainable ways of working with a renewed focus on flexibility and wellbeing
- Continue to invest in the capability of our managers and leaders to build high-performing teams
- Provide consistent and standardised training to further develop our technical and operational capability
- Continue progress to build an inclusive and diverse workplace
- Open up development opportunities even further, blending technology with face-to-face learning

Q&A with Darren Littleboy

Group Human Resources Director

Q What does diversity and inclusion mean for DS Smith?

For us, inclusion starts with the belief that everyone, regardless of background, is valued, respected and has the opportunity to flourish. It is about embracing our differences and valuing the creative opportunities that brings for our business and customers. These principles are core to our diversity and inclusion programme across the Group.

Q How have you supported your employees during the past year?

To support our colleagues working remotely we ran a pulse survey and nearly 3,500 colleagues participated. Remaining at the workplace throughout the pandemic brought different challenges for our front-line operational colleagues, so we also ensured their feedback was heard. We actively used all of our employee feedback to improve our support to employee health, safety and wellbeing.

Q What have you done to develop people?

Opening up access to development opportunities remained a core priority. Covid-19 challenged us to reconsider how we deliver learning. Our learning and development community rose to the challenge to continue to increase the range and accessibility of the learning offer and we accelerated our move to providing more blended solutions using virtual learning, immersive learning and e-learning, delivering a fourfold increase in all learning.

Our KPI

Accident frequency rate (AFR)

Definition

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

Why this is a KPI

We have a strong focus on individual ownership, and we believe that by engaging our people to contribute to a safe working environment and culture, everyone can influence a reduction in our AFR.

2020/21 performance

A healthy and safe working environment and culture is the cornerstone of any responsible, sustainable and profitable business. In the context of our health and safety aim of zero harm, our target AFR is zero.

The past year has been like no other. The Covid-19 pandemic has had a profound effect, touching every aspect of how we work. It is therefore a remarkable achievement that against this ever changing and increasingly demanding landscape, we have managed to maintain and improve our health and safety performance. We are very pleased with this tremendous achievement.

Health and safety key performance indicators	2020/21	2019/20 Reported	2019/20 Pro forma[3]	Variance vs. pro forma
Total LTAs[1]	**102**	97	119	-14%
AFR[2]	**2.06**	2.08	2.40	-14%

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

To realise our Purpose of 'Redefining Packaging for a Changing World' we need a modern, diverse, motivated and engaged workforce where everyone has the opportunity to realise their potential. We are passionate about working together, sharing ideas and exploring new ways to innovate and delight our customers; it is fundamental to our business success. These values have been at the forefront during the past year. Our priority has been the health and wellbeing of our people, continuing to serve our customers and to support the communities we serve.

At the same time, we have not lost focus or momentum on building an inclusive workplace, recognising the contribution of colleagues across the business and providing development opportunities for all. As we look forward, we are building on the experience and learning gained through the Covid-19 pandemic to shape new sustainable ways of working that recognise the importance of flexibility, connectedness and mental health and wellbeing.

Ensuring the health and safety of all

We are highly ambitious about health and safety with a focus on continual improvement and high standards to achieve our target of zero harm.

Health and safety – Vision Zero

Our vision is to provide a working environment and culture where health and safety is integral to our business and all our people actively engage in our drive to continuous health and safety excellence.

The campaign for zero harm focuses on our four main strategic goals:

Leadership – Our successful health and safety onboarding programme has continued this year, albeit virtually, inducting all new and promoted site managers into the behaviours and mindsets required to perform as health and safety leaders. In addition, virtual roll out has commenced of our Fundamentals of First Line Management programme which incorporates content consistent with the senior manager programme. Our next focus is to create content applicable for all our employees to support the drive of required health and safety mindset and behaviours further into the organisation.

In 2020/21 we also developed and launched our bespoke e-learning sessions on incident investigation and risk assessment for our health and safety professionals. The aim is to ensure a consistent understanding and service on these topics across our sites. The focus on developing the leadership and technical skills of our health and safety professionals has been very warmly received and will continue into 2021/22.

Engagement – Our new proactive internal KPI, the health and safety engagement rate (measuring the number of near misses/safety observations per person) has increased significantly this year, up by 15 per cent. We are particularly pleased with this, as it reflects our people's engagement with seeing and raising health and safety standards.

Engagement with critical health and safety processes, like Lock Out, Tag Out, Try Out (LOTOTO) are essential to ensure safe working environments. This year we launched a competition inviting our employees to create materials which would inspire and motivate others to use LOTOTO. The response was fantastic with over 63 innovative entries. The chosen top ten were incorporated into a montage for display at sites, whilst the top three entries were put to a vote with over 960 employees taking part.

The eventual winner was Timisoara, our Romanian site – with a very moving and inspiring film which has been translated into our core languages for use in training and raising awareness.

Processes – We completed a Group-wide auditing process this year which resulted in an overall audit score increase of 8 per cent. We are pleased with the progress all sites are making to meet our very high standards of health and safety and in 2021/22 we will continue to develop our Group-wide minimum standards to challenge us further on our Vision Zero journey.

Culture – All our work on leadership, engagement, systems and processes is designed to drive a culture of continuous improvement and setting high standards. We firmly believe that we are building the foundations to drive the change in our culture to achieve sustainably excellent performances, year-on-year. This year we celebrated 246 sites with zero accidents by awarding Gold, Silver and Bronze certificates. Ten of our sites achieved our prestigious Gold award, showing excellence in audit scores and health and safety engagement in addition to zero accidents. These sites were celebrated at our first ever Smithies event (see page 28 for more information).

The winning core LOTOTO Team (General Manager, Gabriel Balogh; HSE Manager, Tiberiu Tozser; Production Manager, Christian Schmidt; Corrugator Coordinator, Marius Brisc). DS Smith Packaging Timisoara, Romania

"The great reaction we received to our competition entry shows that the story touched the hearts of many colleagues and is proof that all at DS Smith are very connected to the topic of health and safety. We are proud to be the competition winners out of a group of highly responsible and engaged teams throughout the organisation and we are continuing to drive the health and safety procedures."

Gabriel Balogh, General Manager, DS Smith Packaging Timisoara, Romania.

Health and wellbeing

The changing world, with restrictions and lockdowns, has meant increased demands on our employees' physical and mental wellbeing. Therefore, this year we have been refreshing and consolidating our strategy on this highly important subject, incorporating best practice from internal and external benchmarking. Our new framework is designed to build positive, healthy working environments, enabling our people to thrive and perform sustainably. To achieve this our framework focuses on four key areas:

Taking The Lead – Encouraging everyone to visibly and demonstrably set the example and champion health and wellbeing

Learning & Development – Providing knowledge and information to empower people to take ownership of their physical and mental wellbeing

Engagement – Working together, involving and including all our colleagues to continuously improve health and wellbeing

Toolkits – Providing best practice tools to inspire and motivate positive and healthy people and workplaces

In summary, our aim for 2021/22 is to build on our foundations and focus on achieving sustainable world-class performances in health, safety and wellbeing across our Group.

Development for all

At DS Smith we are committed to our learning and development strategy which is to:

- Deliver a sustainable, accessible and measurable learning and development proposition
- Have a model of learning that blends structured learning with workplace application
- Provide colleagues with support and accountability for their own development
- Prioritise our interventions to ensure we can focus on the skills and capabilities that will contribute to the future growth of our business.

We launched 'DS Smith Learning', our virtual home for learning, open to colleagues from across the business, which provides access to our library of learning programmes.

This offers online learning and resources as well as curated content on core management and leadership skills and dedicated professional development content for functional and specialist colleagues.

During 2020/21 we have seen a fourfold increase in the volume of learning and development activity taking place across the business. Our e-learning platform provides access to both generic development content, books, videos and audio as well as bespoke DS Smith content on subjects ranging from paper making to continuous improvement practices and our sales processes, and has seen over 10,000 users. Alongside this platform we provide a range of bitesize virtual training modules prioritising learning most relevant to current business challenges and equipping managers to support their team in topics such as leading remote teams, resilience and change management, with more than 4,000 attendees between September 2020 and April 2021.

We are continuing to work with our external partner Oxford Saïd Business School. Our Global Leadership Programme and Aspire Programmes were moved successfully to virtual delivery and expanded to reflect new challenges which have faced our leaders during Covid-19.

"Aspire is a great opportunity to discuss and reflect about yourself as being a leader. The mix of content given by professionals of the Oxford Saïd Business School as well as the open exchange with other DS Smith leaders within and beyond the courses gives you a fantastic chance to improve your leadership skills. Bringing Aspire to a digital level was an inevitable step, but due to regular vibrant online sessions it's not a loss at all."

Daniel Malolepszy, Site Manager, Germany

"For me personally Aspire is an absolutely inspiring programme which strongly supported me to grow my confidence into my leadership skills. The regular – now virtual – exchange with colleagues across the business is giving so many new perspectives and reflects an incredibly valuable part of the programme."

Marina Wimmer, Head of Commercial Finance, Austria

Our internal 'Fundamentals of First Line Management' modular programme was also rapidly redesigned for virtual delivery by our team of 50 in-house trainers and we aim to reach 3,000 managers by the end of 2020/21. Here are some quotes from recent attendees:

"I liked the delivery and content, it gives the FLM good tools to use and will improve us as managers."

"The exercises challenged me to be more self-aware and understand how my natural self can be used to manage people and situations."

Webinars and other resources have covered content as diverse as boundary management – juggling home and work-life, parenting, mindfulness and wellbeing.

This hugely impactful resource will continue to grow in 2021/22 to ensure that we provide learning pathways which align to the needs of our business and meet the challenges of new ways of working. We are passionate about providing all our colleagues with opportunities to grow in their current roles and to meet aspirations for the future.

Enabling our managers

Having capable managers who enable our people to thrive and perform at their best is a core pillar of our strategy and is reflected in our strategic people risk priorities (organisational capability risk) outlined on page 54. Our Group values and management standards provide clarity around expectations and consistency in our management practices across the Group.

During 2020/21 we launched our refreshed and simplified standards with four core standards on health, safety and environment, customer, team management and our focus on continuous improvement – 'the DS Smith Way'. The standards are embedded in our performance management approach and underpinned with guidance and training to bring them to life.

Developing diverse leadership talent

We continue to take action to grow a strong and diverse pipeline of leadership talent. During 2021 additional cohorts will join our Global Leadership and Aspire programmes delivered in partnership with the Oxford Saïd Business School. Alumni from both programmes are increasingly taking the lead as coaches and mentors for emerging talent across the Group.

In addition, we will pilot a targeted career development offer for mid-level female talent to continue to accelerate progress towards a more gender diverse leadership population.

Engagement

By giving all employees a voice, we create the opportunity to improve their work experience and feel pride in working for DS Smith.

During the year, responding to the need to support and engage colleagues working remotely we deployed a real-time pulse survey in which nearly 3,500 colleagues participated.

Feedback told us that they felt supported by their managers and had confidence their safety was being prioritised but there was more we could do to help them manage some of the challenges of remote working. The findings directly influenced the immediate response locally and are now shaping new ways of working that support greater flexibility, working in remote teams and staying connected with colleagues as well as informing our new health and wellbeing strategy.

Recognising that remaining at the workplace throughout the pandemic brought specific challenges for our front-line operational colleagues, we have worked hard to ensure their feedback is heard. Across locations in the UK and the Nordic countries we sought feedback by enabling front-line operational colleagues to participate in digital surveys. At a time when a second wave of infections was being recorded and social restrictions were tightening, most colleagues reported a strong sense of togetherness, positive line manager support and that they felt able to continue to work safely.

Understanding what matters to colleagues and how we help them to thrive and succeed continues to be the priority. 2021/22 will see the introduction of our new Let's Keep Talking initiative as we focus on keeping conversations going. We will pilot new technology including on-site touchscreen feedback kiosks as well as checking in with all 29,000 of our people via our engagement survey.

Wellness Wednesdays

To focus wellbeing communications in our North American business, the team has introduced concise, bi-weekly communications providing tips on preserving and improving mental and physical health. A DS Smith employee is featured each week to provide insight into their wellness strategies.

The Smithies

In 2020 we launched a global recognition programme – The Smithies – to recognise and celebrate individuals and teams who go above and beyond and excel at what they do – our hidden gems of DS Smith. We were determined that the challenges of restricted travel and social distancing would not prevent us celebrating their successes and so created an online awards event that proved to be an inspiring and inclusive highlight of the year.

The first Smithies event was held virtually in September recognising 28 finalists and seven winners, watched by thousands of employees across the world. In a post-event poll, 99 per cent said they were more inspired to recognise their colleagues.

European Works Council

The purpose of our European Works Council (EWC) is to bring together employee representatives from the different European countries where we operate. The aim of the EWC is to engage employees through an effective information and consultation process focused on business decisions which affect the workforce and impact on the interests of employees. This improves business outcomes, individuals' contribution to the business and development opportunities.

We worked closely with the EWC members to prioritise areas where we can jointly improve policies and processes. 2020/21 has seen us work in partnership to develop joint action plans to address aspects of health and safety, diversity and inclusion, sustainable employment and fairness in the workplace.

"The secret to the success of the DS Smith EWC is no secret; we work together with senior management to jointly improve policies and processes within the Company. The EWC and senior management both understand that we all want to bring the business forward. We do not claim to be perfect, but we are working hard at trying to make DS Smith an employer of choice and make our colleagues proud to work here. This takes mutual respect and hard work from all of us, and the reward is to be described by people outside of the Company as setting the standard in Europe for EWCs. True to our Purpose of 'Redefining Packaging for a Changing World'."

Joseph Reed, European Works Council Chairman

Creating a modern, inclusive and diverse culture

2020/21 has seen us delivering on the actions in our diversity and inclusion plan, to build awareness and ownership and embed the principles of inclusion and diversity in all aspects of our people policies and practices. We implemented our Equal Opportunities and Anti-Discrimination policy. The policy sets clear expectations about inclusion and a zero tolerance for discrimination, but we know that real change comes from people not policies. To ensure this has a practical positive impact on inclusion, we are focusing on building real understanding and engagement, working in partnership with our employee forums. Translated into multiple languages, the policy is supported by modules adapted for both online and site-based learning and engaging videos addressing unconscious bias and building inclusive leadership.

Meaningful change starts at the top and during the year we developed an inclusive leadership virtual workshop built around a simple but powerful framework of 'Courage, Curiosity and Trust'. Over 100 of our senior leaders have participated globally so far and they now form an internationally and culturally diverse alumni group, role modelling and extending the principles into their teams. We will continue to extend participation during 2021/22.

We understand that with such an international and diverse business, the specific diversity and inclusion challenges will differ between regions. That is why we established a diversity and inclusion forum with representation from across the business to build the inclusive networks and local action plans that will have the biggest positive impact for our people and the communities they serve.

The year has seen the forum go from strength to strength, driving engagement and action across the business. In the UK, the leadership team has hosted roundtable events with external speakers sharing insights and ideas on a range of diversity and inclusion topics. From celebrating Black History Month with our US team to hosting a range of events and activities on International Women's Day, colleagues are taking the lead on inclusion.

The coming year will see us increasingly connecting our work across inclusion and wellbeing as both are at the heart of a sustainable healthy workplace.

Diversity of Executive team

We voluntarily take part in the Hampton-Alexander Review which sets out recommendations for FTSE 350 companies to improve the representation of women both on their executive committees and the direct reports to those committees. DS Smith has three committees that together comprise our Executive Committee; Group Operating Committee, the Group Strategy Committee and the Group Health, Safety, Environment and Sustainability Committee, as described on page 71.

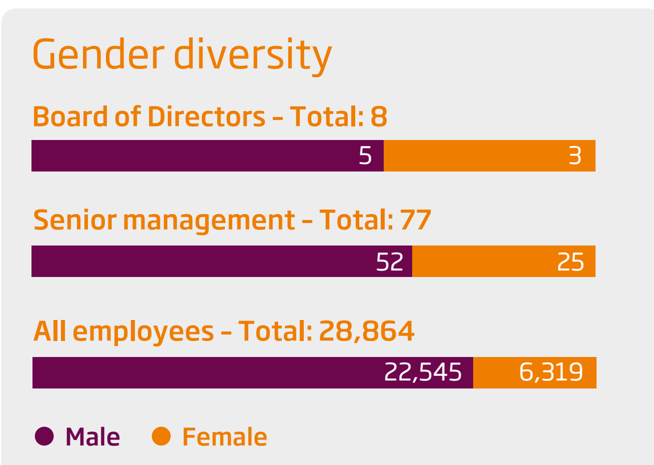
The Hampton-Alexander Review set a target of 33 per cent female representation on FTSE 350 boards by 2020. The 2020 report was published in February 2021 and represents women on Boards as of 11 January 2021 and senior management as at 31 October 2020.

Our position at that date is outlined below:

Ranking in industry sector (general industrials)	4th
Overall FTSE 100 ranking	44th
Women on plc Board	37.5%*
Female Executive Committee and direct reports	30.2%**

* Compared to FTSE 100 average of 36.2%.
** Compared to FTSE 100 average of 30.6%.

Our gender split as of 30 April 2021 is outlined in the table below:



We have adopted the Hampton-Alexander Review definition of senior management to provide a consistent and comparable measure of progress on gender diversity.

It has been historically challenging to attract women into our industry, but we are determined to make progress. As a result of our continued action on graduate recruitment 2021, 64 per cent of our offers went to female candidates.

"As part of the Packaging graduate scheme, I get the opportunity to work across multiple projects that involve some of the world's biggest brands, and it is so rewarding to work on something that creates such a positive impact for both people and planet. It is such an exciting time to be a part of a brand that continuously anticipates the opportunity for packaging to lead the way in sustainability, and I look forward to being a part of this along my graduate journey."

Amy Strudwick, 2020 graduate

We are also reviewing our broader talent attraction strategy and developing external partnerships to engage with women at all stages of their careers to understand what they want from a modern workplace and encourage them to consider joining us. We are now a corporate member of the WISE (Women In Science and Engineering) campaign that promotes opportunities for women in STEM careers and are working with our recruitment team to reach a broader audience, showcasing our female talent and demonstrating the diversity of opportunities available across the business.

For gender pay gap reporting we choose to report not only on the UK legal entities where headcount is above 250, but on the UK total figures to provide a comprehensive view. This year the mean gender pay gap was 3.5 per cent (4.7 per cent in 2019) whilst the median gender pay gap was 6.2 per cent (6.7 per cent in 2019). The improvement is encouraging but to move further we need more women in senior positions and are working hard to deepen the leadership pipeline. We currently have 32 per cent in our global senior management population. We know that gaining exposure to strategy development is key for executive succession and three female leaders now sit on two of the Group Executive Committees.

During 2021/22 we will pilot and launch a new mid-level female career development programme to accelerate the progression of female talent into senior leadership roles. We have also further extended mentoring and executive coaching support.

You can find our detailed UK gender pay gap report on dssmith.com by searching 'gender pay gap report'. This explains the reasons for the gap and information on the actions we have in place to help close the gap. However, the UK only represents a small proportion of our total workforce and our policies and practices are applied globally.

To lead the way in sustainability

We do this by:

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

In 2020/21 we:

- Launched our Now and Next sustainability strategy, unveiling our ambitions for the coming decade
- Achieved targets, including implementing mitigation plans at sites located in areas at risk of water stress
- Increased our MSCI rating from ‘A’ to ‘AA’, designating us as a Containers and Packaging leader
- Continued collaborating with the Ellen MacArthur Foundation

In 2021/22 we will:

- Conclude the process of setting a science-based target and commitment to achieve Net Zero emissions by 2050, increasing the pace at which to decarbonise our business
- Continue embedding Now and Next, involving every employee in delivering our new sustainability strategy
- Continue delivering progress on Now and Next and improvements in ESG ratings
- Continue partnering for sustainable product innovations, such as ClimaCell®, Hydropol™, ParceLive and Touchguard™ anti-microbial surface coatings
- Take account of a number of ESG factors when the Remuneration Committee considers the 2021/22 annual bonus

Q&A with Wouter van Tol:

Head of Sustainability, Government and Community Affairs

Q Since launching Now and Next, what have you done to embed the new strategy?

We have been collaborating across the business to ensure that our people have the tools they need to deliver change. During the launch, we briefed over 2,100 managers through online seminars and interactive training, inviting employees to be involved in achieving our ambitious targets. Clearly defined roles and responsibilities to deliver progress have been established and we have invested in our reporting capabilities to regularly evaluate our performance.

Q How are you helping customers transition to the circular economy?

Our customers, like us, see the urgency in moving beyond the traditional ‘take-make-dispose’ model to a circular system built for long-term, multiple lifecycles. We believe that there is an enormous opportunity to do more with corrugated board to accelerate the transition to a circular economy, particularly as an alternative to plastic, which remains difficult to recycle in practice. Many of our Now and Next targets respond to this opportunity.

Q How are you increasing your ambition on carbon reduction?

In 2020/21, we challenged consultants to help us to increase our ambition on carbon reduction and to optimise our decarbonisation roadmap. We are pleased to announce our commitment to reach Net Zero emissions by 2050 and a science-based target for 2030. We have a strong roadmap of investments coming online in the coming years that will reduce our emissions, paving the way for our circular packaging to play a powerful role in helping brands and consumers reduce their carbon footprint.

For more information about how we are leading the way in sustainability with our Now and Next sustainability strategy, please refer to the latest DS Smith Sustainability Report and DS Smith Sustainability Databook 2021, which include additional metrics and further information on our sustainability performance.

We have again been awarded the LSE Green Economy Mark, as we derive substantial revenues from environmental solutions.

Summary of Now and Next progress

Closing the loop through better design

In 2020/21, we achieved our target to train 100 per cent of our designers on the circular economy, ensuring our designers are skilled in building circularity into packaging design. Our community of over 700 designers is actively applying our Circular Design Principles, developed in collaboration with the Ellen MacArthur Foundation, to hundreds of thousands of new packaging designs. We are progressing against our target to manufacture 100 per cent recyclable or reusable packaging, a target originally set with a deadline of 2025 but that we have brought forward to 2023, with 99.2 per cent (2019/20: 98 per cent) of packaging manufactured in 2020/21 meeting this standard. We continue to pilot substitutes for a small remainder of materials that are presently difficult to recycle, such as wax coatings.

Reducing waste and pollution

Our designers have developed over 650 designs representing hundreds of thousands of products geared towards plastic replacement. In 2020/21, 53.9 million pieces of problem plastics were removed from supply chains and replaced with recyclable corrugated alternatives. We are also optimising transport by developing solutions to remove wasted air in transit and lessen the number of lorries on the road. In 2020/21, we invested in the capability within our Value Tool to gather data to measure progress against our target to remove 250,000 lorries from the road by 2025. We have begun to explore new business models for the rise in e-commerce waste and carbon-neutral packaging.

Equipping people to lead the transition to the circular economy

In 2020/21, over 2,500 employees in design, senior management and leadership, graduate and procurement roles completed formal circular economy training, representing 9 per cent of employees overall. Our next step is to engage sales and marketing teams as we extend learning opportunities to eventually reach all our people. A further 57 senior leaders and others participated in the Ellen MacArthur Foundation Circular Economy Masterclass, delivered by the University of Exeter. In 2020/21, we engaged over 519,000 people on the circular economy and circular lifestyles through online content, including posts 'liked' and shared, videos viewed, and reports downloaded. We developed a lesson plan for school engagement. We streamed a pilot of this live lesson via YouTube, where over 100 families participated, and hope to be able to spend more time in our communities next year to promote the circular economy and circular lifestyles.

Protecting natural resources

In 2020/21, fibre use in around a quarter of new packaging solutions was fully optimised for individual supply chains, ensuring that whilst we use recycled fibre where we can, virgin fibre consumption is minimised as far as practicable. There is a significant opportunity to increase this, given that optimisation leads to less impact , as transporting fewer fibres through the production process requires less water and energy. We maintain our standard that 100 per cent of papers used are sourced from recycled or chain of custody certified sources, having achieved this target in 2019/20. Furthermore, 100 per cent of our sites[1] hold chain of custody certification and we achieved our target for 100 per cent of our forests to be certified, meaning that we comply with the highest social and environmental standards for forestry in the market.

Driving carbon reduction

We have delivered a 23 per cent (2019: 20 per cent) reduction in CO_2e per tonne of production on a like-for-like basis since 2015, demonstrating pace ahead of our target, driven mostly by investment in energy efficiency and equipment upgrades made at our mills. Our Group carbon emission intensity for 2020 was 212kg CO_2e /t nsp (2019: 220kg CO_2e /t nsp), a reduction of 4 per cent compared to last year on a like-for-like basis. Following our Group Sustainability Data and Reporting policy and Greenhouse Gas Protocol guidance, we have calculated this performance on a like-for-like basis by including estimates of emissions from acquisitions in our base year, which has been independently verified. Our Europac acquisition is therefore included in all figures to enable meaningful comparison.

In 2020, at Belišće Mill c. 27,000 tonnes of CO_2e has been saved by purchasing green electricity. Since August 2020, steam generation at Kemsley Mill is powered by the neighbouring Wheelabrator Combined Heat and Power (CHP) plant, reducing the mill's reliance on fossil fuels, removing c. 8,000 tonnes of CO_2e per year. At Lucca Mill, a new aeroderivative gas turbine has been installed in partnership with GE Gas Power, delivering a 2 per cent efficiency improvement, removing c. 4,000 tonnes of CO_2e per year. Finally, a new biomass dry line has been installed at Viana Mill, saving c. 3,100 tonnes of CO_2e per year. At our packaging plants, our LED lighting rollout now has 36,672 lamps installed at 96 sites, saving c. 14,000 tonnes of CO_2e per year. The past year was the first complete year of operation for our state-of-the-art biomass boiler that uses residual low grade timber waste to generate energy for our plant in Värnamo, Sweden; saving c. 2,200 tonnes of CO_2e by switching from LPG. Additionally, new CHP plants have been operational for around one year at Blunham and Fordham. These plants generate electrical power for the sites whilst also harnessing the waste heat from the process, increasing overall efficiency. We maintained ISO 50001 certification at 100 per cent of our relevant sites[2], a target achieved in 2019/20, which continues to drive energy efficiency.

Our continued investment in carbon reduction over the coming years will set us on the way to achieving our ambitious climate targets, including a commitment to reach Net Zero emissions by 2050, and a science-based target for 2030 which will require at least a 40 per cent reduction in CO_2 emissions per tonne of product compared to 2019. These targets will be validated by the Science Based Target initiative as being in line with what the latest science considers necessary to meet the goals of the Paris Agreement. We will begin to report progress towards achieving this new target next year.

Managing water responsibly

We are delighted that in the past year we achieved our target for 100 per cent of sites at risk of current or future water stress to have mitigation plans in place, accounting for 36 per cent of our total water consumption. These plans involve identifying opportunities for water reduction, reuse and recycling, regular reporting on water performance and engagement with local stakeholders, such as the water authority. Further discussion on

1. Includes all Packaging and Supply Engine (Paper and Paper Sourcing) sites that trade or manufacture products derived from timber.
2. Includes sites accounting for at least 90 per cent of energy consumption.

water stress as a climate-related risk can be found on page 57. Over the year, six (2019: six) of our mills performed better than our benchmark rates for water consumption, with plans to bring one additional mill per year beneath our benchmark rates, enabling cost savings through improved efficiency. Water abstraction reduced by 5 per cent per tonne of paper production versus last year on a like-for-like basis, driven by behaviour change and improvements made to our operational processes. In the past year we received 21 notifications of water non-conformances from local authorities (2019: 79), a substantial decrease owed to stronger management.

Sending zero waste to landfill

In 2020, waste sent to landfill from our paper mills decreased by 32 per cent per tonne of production compared to last year on a like-for-like basis. Overall for the Group, 268 kt (2019: 348 kt) of waste was sent to landfill. This reduction was driven predominantly by a significant improvement at Zarnesti Mill, which achieved zero operational waste to landfill in the past year. Furthermore, Aschaffenburg, De Hoop and Witzenhausen paper mills sent zero waste to landfill during the past year. At the remaining mills, we are developing innovative, circular solutions for waste. For example, Lucca Mill reduced its landfill by 62 per cent compared to last year owed to reducing rejects and utilising sludge to produce bricks. Pazardzhik Mill diverted landfill waste partly to biogas and compost production, a reduction of 82 per cent compared to last year. Finally, Riceboro Mill reduced landfill waste by 24 per cent through landspread opportunities. With a waste diversion rate of 98.9 per cent in our Packaging division, only 1.1 per cent of waste is sent to landfill, representing c. 6,000 tonnes. This year, we undertook a project to identify common sources of landfilled waste and held a series of workshops to train sites on new waste reduction, reuse and recycle opportunities, leading to a 13 per cent reduction.

Sourcing sustainably

Whilst we put sustainability at the heart of our business, we recognise that our impacts also occur in the supply chain and so our target is to ensure that 100 per cent of our suppliers comply with our sustainability standards by 2025. Our Global Supplier Standard (GSS) sets out our expectations and in 2020/21, 100 per cent (2019/20: 74 per cent) of our strategic suppliers and 45 per cent (2019/20: 11 per cent) of our suppliers overall have agreed to our standards. Having rolled out circular economy training to our Procurement function, in January 2021 we introduced a group of suppliers to Circulytics® to invite them to measure their circularity and identify opportunities to become more circular.

Contributing to our communities

With support from the DS Smith Charitable Foundation, we continued to develop our community programme themes of inspiring the next generation through circular lifestyles and protecting our environment through biodiversity. In 2020/21, 57 projects to improve biodiversity were funded by the Charitable Foundation, with a further 47 applications in progress, from wildflower meadows and community gardens to bug hotels and ponds. For example, at DS Smith Kielce in Poland, 130 employees and their families participated in planting over 5,000 trees and funding has been used by our Louth plant to install a beehive and a wildflower meadow. We continue to welcome applications, encouraging our colleagues to act as biodiversity ambassadors. So far, three of our mills have begun biodiversity programmes. For example, Aschaffenburg Mill is growing wild plant species and significantly improving soil quality at the site, attracting butterflies and bees. At Kemsley Mill, a wildflower meadow and a variety of educational initiatives are being set up. These are just the beginnings of new initiatives that will improve the environment for plants and animals, protect natural habitats and enhance species diversity. We are delighted that for the second year running, 100 per cent of our sites (with greater than 50 employees) engaged in community activity, having achieved this target in 2019/20.

Caring for our people

We are committed to the health, safety and wellbeing of our people, with a vision of zero accidents and zero harm. We are an inclusive employer where people can thrive, succeed, and achieve their potential. Information about how we are realising the potential of our people can be found on pages 24-29.

Respecting human rights

As an employer of around 29,000 people and with an extensive global supply chain involving hundreds of thousands more people, we have a responsibility to identify, prevent and mitigate negative human rights impacts. In 2020/21, we planned and scoped a human rights impact assessment, selected a partner and identified key stakeholders to involve. In 2021/22, we will conduct the assessment, which will highlight the parts of our business with the greatest risk to human rights. Following this, clear actions to manage and mitigate these risks will be identified and addressed.

External recognition

- **MSCI:** Rated AA
- **EcoVadis:** Rated Gold
- **Circulytics:** Rated A-
- **CDP:** Rated B (Climate Change), B (Forests) and A- (Water Security)
- **DJSI:** Rated 51
- **FTSE4Good:** Included since 2012
- **ISS:** Rated 'Prime' B-
- **LSE Green Economy mark**
- **Support the Goals:** Rated 4 out of 5 stars
- **Sustainalytics:** Rated 15.9 'Low ESG Risk'
- **UN Global Compact:** Member since 2013

Group environmental KPIs

KPI	Unit	2015 (base line)	2019 (re-stated)	2020	Compared to last year	Compared to base year
Direct (Scope 1) CO_2e emissions	kt CO_2e	2,461	2,401	2,267	-6%	-8%
Indirect (Scope 2) CO_2e emissions	kt CO_2e	967	803	764	-5%	-21%
Emissions from energy exports	kt CO_2e	717	859	766	-11%	7%
Total CO_2e (net energy export)[1]	kt CO_2e	2,711	2,345	2,265	-3%	-16%
Energy exported	GWh	2,187	2,112	1,924	-9%	-12%
Energy consumption (net)[2]	GWh	17,240	16,604	16,276	-2%	-6%
Total production	kt nsp*	9,898	10,648	10,708	1%	8%
Waste to landfill[3]	kt	87	348	268	-23%	208%
CO_2e per tonne of production	kg CO_2e/t nsp*	274	220	212	-4%	-23%

1. 21% of carbon emissions generated from UK-based operations in 2020.
2. 14% of energy consumption by UK-based operations in 2020.
3. Waste to landfill 2015 not re-based.

* net saleable production

Greenhouse gas emissions data is collected and reported in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (Revised). As the Company has grown over recent years through acquisitions, our emissions generating activities have increased, making historic performance incomparable to today. Following Greenhouse Gas Protocol guidance and our Group Sustainability Data and Reporting policy, we are now including estimations of emissions from acquisitions in our base year and historic years, enabling meaningful comparison of emissions on a like-for-like basis over a long period. In the table above, both 2015 and 2019 figures have been restated to include acquisitions (and remove disposals) to provide a comparison to the business as it exists today. Our latest Sustainability Report includes both recalculated and restated historic emissions and historic emissions as reported, alongside additional materials, energy, water and waste metrics. Definitions, scope and emission factors applied are also provided.

Independent Assurance Statement

Bureau Veritas UK Limited has been commissioned by DS Smith Plc to provide an independent opinion on the following environmental performance indicators: total energy consumption; total energy exported; Scope 1 and 2 greenhouse gas (GHG) emissions; raw material usage; water consumption; total water effluent; landfill waste; discharge to air and water; and total production, for calendar year 2020. In addition, the verification scope included review of the estimation calculations used to determine the following information for the restated calendar year 2015 base year data: Scope 1 and 2 (GHG) emissions; emissions from energy exports; and total production. Bureau Veritas UK Limited reported: 'Based on our verification activities and scope of work, nothing has come to our attention to suggest that the reported data does not provide a fair representation of environmental performance across DS Smith for the defined period'. A full verification statement including methodology, limitations and exclusions can be found on the DS Smith website (https://www.dssmith.com/sustainability/reports-performance-and-data).

For a complete review of our Now and Next progress, please see the latest DS Smith Sustainability Report.

VALUE REPORTING FOUNDATION
SASB STANDARDS

For the second year running, we've implemented the SASB 'Containers & Packaging' standard.

Please see page 63 of the latest DS Smith Sustainability Report for our standard disclosure.

To double our size and profitability

We do this by:

- Driving organic market share gains
- Investing behind innovation in growing areas of the corrugated packaging market
- Investing in new corrugated packaging capacity

In 2020/21 we delivered:

- +3.5 per cent like-for-like corrugated box volume growth – ahead of target
- +37 per cent growth in free cash flow
- Maintained operations throughout Covid-19 disruption

In 2021/22 we will:

- Continue to drive growth through organic investment
- Develop new corrugated packaging sites in Europe
- Drive volume growth and operational efficiency from the packaging site in Indiana, US

Q&A with Adrian Marsh

Group Finance Director

Q How have you delivered against your financial KPIs in 2020/21?

Delivery against our KPIs has been good, in the context of Covid-19. We have dramatically out-performed our corrugated box volume target of GDP+1, because our volumes have held up well, with a substantial acceleration in the second half of the year, while GDP has fallen very markedly. The trend has been fuelled by e-commerce which we anticipate continuing to grow, as consumers have adopted online purchasing as part of their way of life. On the other hand, the first half of the year was challenging overall, particularly due to one-off effects from Covid-19, and that impacted the return on sales and return on average capital employed (ROACE) metrics. Looking at the second half of the year, with the bulk of the one-off impacts behind us, then you see an improved return on sales, and I expect to see that continue into the new financial year.

Q How has cash flow fared over the year?

We remain highly focused on cash flow with free cash flow up 37 per cent to £486 million, reflecting a focus on working capital and costs generally. This has resulted in our net debt falling by £306 million to £1,795 million at the year end.

Our KPIs

Like-for-like corrugated box volume growth

Definition

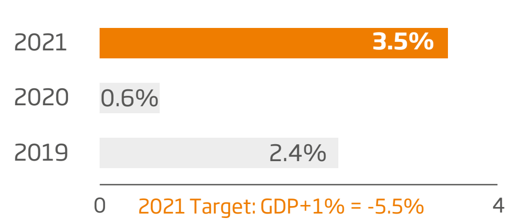
Like-for-like volume of corrugated box products sold (excluding the effect of acquisitions), measured by area.

Why this is a KPI

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

2021 Performance

We delivered volume growth of +3.5 per cent, being -1.0 per cent in H1 and +8.2 per cent in H2. The exceptional growth in the second half of the year was driven by very strong demand in particular from e-commerce customers and also a recovering trend in industrial customers. While all regions showed good growth, the UK was the stand-out country, due to our success in e-commerce.



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

Return on sales[1]

Definition

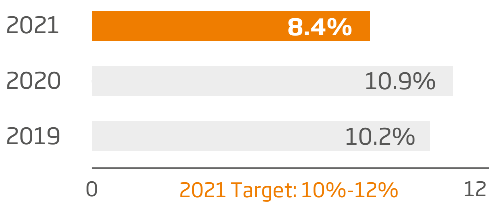
Earnings before interest, tax, amortisation and adjusting items as a percentage of revenue.

Why this is a KPI

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

2021 Performance

Return on sales of 8.4 per cent, down 250 basis points on 2020, reflects the reduction in profitability in the year, driven by Covid-19 impacts and a decline in pricing in H1 combined with input cost pressures in H2.



Net debt/EBITDA[1]

Definition

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

Why this is a KPI

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

2021 Performance

Net debt reduced by £306 million to £1,795 million, reflecting strong cash flow, while net debt/EBITDA ended the year at 2.2 times, broadly similar to last year and a good reduction compared to the half year at 2.4 times.

Cash conversion

Definition

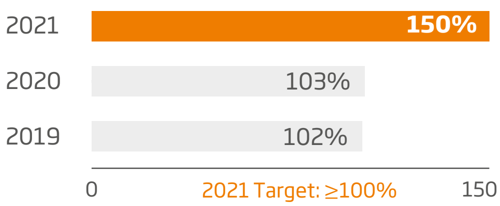
Free cash flow before tax, net interest, growth capex, pension payments and adjusting items as a percentage of earnings before interest, tax, amortisation and adjusting items. Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and disposal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

Why this is a KPI

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

2021 Performance

Cash conversion was 150 per cent, in line with our target, reflecting a particularly strong working capital improvement.



Adjusted return on average capital employed[1]

Definition

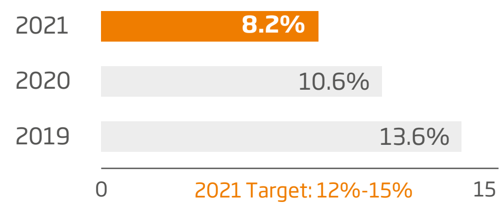
Earnings before interest, tax, amortisation and adjusting items as a percentage of average capital employed, including goodwill, over the prior 12 month period.

Why this is a KPI

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

2021 Performance

ROACE declined 240 basis points to 8.2 per cent, reflecting the reduction in adjusted operating profit for the business in the year on a stable capital base.



1. Comparative results for 2019 have not been restated for IFRS 16 *Leases* adopted in 2020.

Operating review

Overview

Through clear and consistent strategic direction we have positioned our business as a solely fibre-based Group, centred on innovation and sustainability with the scale and expertise to deliver for multinational consumer companies predominantly in the fast moving consumer goods (FMCG) and e-commerce sectors.

The start of the 2020/21 financial year coincided with the initial impacts of Covid-19 being felt across many parts of the business. This manifested in an initial fall in our packaging volumes and significant volatility in the cost of various raw materials. In response we invested in safeguarding the health and safety of our colleagues, and in the security and operational effectiveness of all our sites. This was in addition to carrying additional costs from production underutilisation. The effect of the above was a significant fall in profitability during the first quarter of the year.

With all our sites fully operational and the maintenance of high levels of customer service, we started to see a good gain in market share with increasingly positive volume growth, primarily in the FMCG/e-commerce sectors, during the second quarter of the year. This was combined with a lessening in the volatility of input costs. The second quarter of the year therefore showed a significant improvement in the run-rate of profitability over the first quarter, albeit at a lower level than the comparative period last year.

Encouragingly, the momentum in packaging volumes seen in the second quarter has continued to build throughout the remainder of the financial year resulting in second half growth of 8.2 per cent, against the previous comparative period, which compares to -1.0 per cent in the first half.

The strong demand for packaging was accompanied by an increase in input costs, particularly in the fourth quarter of the financial year. Given the strong demand, and good levels of customer service, these costs are starting to be recovered with good initial progress.

Overall profitability in H2 therefore showed a strong improvement over the first half and significantly closed the underperformance with the comparative period last year. Our US operations have performed very well, particularly in H2, with profit for the year up 70 per cent (on a constant currency basis) compared to the prior year, and H2 63 per cent ahead of H1, reflecting strong corrugated box volumes overall and improved paper and packaging market pricing in the second half.

During the year we continued to invest in our business to capitalise on the accelerated growth trends of e-commerce and sustainability and the strong pipeline of opportunities ahead. This included the announcement of two new state-of-the-art packaging plants in Italy and Poland, increased investment in digital platforms and innovation of new products.

Focus on people and customers during Covid-19

Throughout the Covid-19 pandemic our primary focus has been on the health and wellbeing of our c. 29,000 employees, who have responded magnificently to the challenge. Secondly, we have focused on maintaining an uninterrupted supply to our customers, the majority of whom are FMCG companies which are essential in the food supply chain. As such, our factories were classified by governments as essential operations and I am extremely proud that all our Paper and Packaging sites have remained operational throughout the pandemic. New ways of working have been implemented to reflect the best guidance on safe operations, which led to some additional costs. In the year 2020/21, we saw a reduction in our overall box volumes during the first quarter principally due to weakness in the industrial customer categories, together with increased volatility of input costs, when the crisis was at its peak. The greater impact however has been from the cost of paper for recycling (PfR) and old corrugated cases (OCC). Here, we were impacted by an initial, short increase in prices in May and June 2020, due to sudden and extreme supply constraints caused by national lockdowns. These initial short spikes were not recovered in paper prices; however, the subsequent rises which occurred in H2 coupled with strong demand for paper have been reflected in higher paper prices which are being passed through to packaging prices along with other inflationary costs.

Strong organic growth momentum

Organic corrugated box volumes have grown 3.5 per cent across the year, reflecting substantial growth from H1 (-1.0 per cent) into H2 (+8.2 per cent). The progression in H2 was driven by exceptionally strong growth from Northern Europe, notably the UK, and strong growth also in Eastern Europe and North America. E-commerce was the driver behind much of the growth reflecting very substantial growth with existing e-commerce customers, while working with other customers to accelerate their transition into e-commerce sales.

The core market growth drivers of e-commerce, consumer and retail channel evolution and plastic substitution are more relevant than ever in the post Covid-19 world. Public awareness of the importance of alternatives to plastic packaging has continued to grow over the past 12 months despite the pandemic and we have continued to develop corrugated packaging alternatives to take advantage of this opportunity.

Our packaging growth has also been supported by the development and implementation of new digitally enabled platforms that allow for enhanced ways of working with our customers. These include, for example, digital virtual creation centres that allow for the remote development of new products and designs through to platforms that enable the placing of new orders centrally with delivery from our extensive distribution network throughout Europe.

For the full year, revenue declined 1 per cent on a constant currency basis. There was an overall positive contribution from corrugated box volumes (£123 million), having been negative (down £21 million) in H1, demonstrating the strength of growth in H2. This benefit was offset by reduced box pricing throughout H1, reflecting the annualisation of lower paper pricing in prior periods with some net improvement in H2 (£137 million decline for the full year), and a decline in other volumes (£60 million) particularly due to increased paper and recyclate integration and reduced volumes of corrugated sheet sold externally.

Operating profit declined year-on-year to £311 million (2019/20: £455 million). Adjusted operating profit fell by 24 per cent on a constant currency basis to £502 million (2019/20: £660 million), resulting in a return on sales for the Group of 8.4 per cent (2019/20: 10.9 per cent). This profit decline was despite corrugated box volume growth of £40 million, offset by additional costs incurred by the business in dealing with Covid-19 and ensuring all our colleagues were safe and our factories remained operational, and a more general input cost volatility, particularly in recyclate, in total a £66 million headwind. Profits were also impacted by the lower average selling prices for boxes, largely in H1 (as set out above), although in H2 we have seen more general price inflation. Corrugated box prices stabilised through H2 as the testliner price also increased, with some annualised pricing declines offset by new price increases agreed, with the increased box prices expected to continue to benefit the business as we progress through the current financial year. The Europac acquisition synergies came in as expected at £21 million, completing the programme of €70 million overall.

Basic earnings per share from continuing operations fell 38 per cent on a constant currency basis to 13.3 pence (2019/20: 21.2 pence). Adjusted basic earnings per share of 24.2 pence fell by 28 per cent compared to the prior year on a constant currency basis (2019/20: 33.2 pence), reflecting the decline in operating profit.

Momentum in our business

Our corrugated box business is over 80 per cent weighted by volume to the growing FMCG, e-commerce and consumer sector, with the remaining sectors being mainly industrial, such as automotive and chemicals. E-commerce volumes are split across FMCG and the other consumer categories, depending on the product sold. The benefit of this end-customer profile is both the resilience of volumes in difficult economic times, as seen in our H1 period, and the exceptional growth evidenced in the past six months, as consumers have appreciated the convenience of e-commerce and our customers have expanded their offerings, and we expect this trend to continue.

Box pricing is also gathering momentum. In the past year, particularly in H2, paper prices have increased materially and we are actively recovering these through well established pricing mechanisms albeit with the customary level of delay. This is consistent with 2017 and 2018, when paper prices of similar magnitudes were all successfully recovered. Exceptionally strong demand for packaging has allowed us to ensure this price recovery is already well progressed with the major benefit to fall in the 2021/22 financial year.

Overall, the acceleration of volumes and momentum in pricing resulted in much stronger H2 profitability versus H1, with adjusted operating profit for the H2 period of £272 million versus £230 million for the H1 period.

Investing for growth

We continue to invest behind the strong structural demand for our products and are focused on ensuring we are able to respond to our customer needs across our global footprint. As announced in December 2020, we are building two new greenfield corrugated box plants, in Italy and Poland. Both represent additional packaging capacity, including dedicated equipment focused on e-commerce packaging. The Polish site will be quickly filled with existing customer demand and the Italian site will allow us to expand further our strong e-commerce offer. Work on both sites has begun and both are expected to begin operations in Q4 of the current financial year. In addition to these new sites, we are significantly expanding our Arnstadt packaging facility in Germany, a site which serves a range of high quality FMCG customers. Together, these three site developments add c. 5 per cent to our corrugated capacity.

Capex for 2021/22 is expected to increase from the £323 million in 2020/21 to around £430 million of which c. 55 per cent has been allocated to growth, efficiency and environmental capex. We remain extremely focused on capital allocation and where possible recycling capital from disposal of non-core assets into investment in growth assets. All the projects undertaken have estimated returns on capital in excess of the Group target ROACE.

Leading the way in sustainability

Sustainability has been at the heart of our business for many years as we have developed and grown into a solely fibre based packaging business. This has accompanied the setting of stretching environmental targets since 2011 that have been consistently upgraded on the back of strong performance and also the desire to consistently outperform our customers' requirements. Our latest sustainability strategy, Now and Next, was launched in the autumn of 2020. This is focused on the circular economy, where we take the leading packaging role as well as carbon reduction. This policy includes 26 KPIs covering a broad range of sustainability issues, from carbon reduction to recyclability, where DS Smith can and does make a difference. On 9 June 2021, we announced a series of further enhanced climate targets. These include a science-based target which requires a minimum 40 per cent reduction of CO_2 emissions per tonne of product by 2030, compared to 2019 levels, and a commitment to reach at least Net Zero emissions by 2050. These targets will be validated by the Science Based Targets initiative as in line with the goals of the Paris Agreement. To further underline the Group's ambition and commitment, we also announced our membership of the UN's Race to Zero.

This year, we have continued to deliver against all of our ESG targets. Most notably, our CO_2e emissions (per tonne of production) have reduced by 23 per cent compared to our comparative 2015 baseline. This excellent reduction puts us ahead of target to deliver against our current goal of 30 per cent by 2030. Please go to our website and/or our latest Sustainability Report for more details on our delivery against ESG goals.

In addition to our progress against our own sustainability targets, we continue to work actively with our customers to help them address their sustainability challenges. Our circular design principles and our recently-launched circularity metrics allow us to analyse our customers' increasing sustainability requirements. We have invested significantly in training and development in our designers' capabilities, which differentiates our offering as we drive re-use, recyclability, carbon and other resource utilisation for the benefit of our customers, their customers and the environment.

Dividend

The Board considers the dividend to be a very important component of shareholder returns. In December 2020 we announced an interim dividend of 4.0 pence per share. Our policy is that dividends will be progressive and that, in the medium term, dividend cover should be on average of 2 to 2.5 times (relative to adjusted earnings per share), through the cycle. Accordingly, we are announcing a final dividend for this year of 8.1 pence, taking the total dividend for the year to 12.1 pence (2019/20: nil), in line with our policy.

Our medium-term targets and key performance indicators

We measure our performance according to both our financial and non-financial medium-term targets and key performance indicators. Whilst a number of the outcomes are clearly disappointing, they are reflective of a highly unusual year and the Board is committed to restoring our performance to the levels of achievement prior to the pandemic.

As set out above, like-for-like corrugated box volumes grew by 3.5 per cent, well ahead of our target of GDP+1 per cent of -5.5 per cent, based on year-on-year GDP growth to 30 April 2021, weighted by our sales in the markets in which we operate, estimated at -6.5 per cent. The GDP figure is particularly impacted by Covid-19. As described earlier, volume growth has been led by growth with e-commerce and consumer-focused customers.

Return on sales fell 250 basis points to 8.4 per cent (2019/20: 10.9 per cent), due to the overall fall in adjusted operating profit, below our medium-term target range of 10 to 12 per cent.

Adjusted return on average capital employed (ROACE) is 8.2 per cent (2019/20: 10.6 per cent), below our medium-term target range of 12 to 15 per cent. The reduction reflects the decline in adjusted operating profit, and the continued impact of Interstate Resources in North America and of Europac in Europe, which have been dilutive to return on capital in these initial years. This pattern was also seen at the time of the SCA Packaging acquisition in 2012, where ROACE initially dipped and then built up as the acquisition synergies were fully realised and our expectations are for ROACE to improve into the target range as the effects of the pandemic are reduced.

Net debt as at 30 April 2021 was £1,795 million (30 April 2020: £2,101 million), with the reduction principally due to excellent cash management resulting in free cash flow of £486 million. Working capital performance was extremely good with both a strong focus in the business and the benefit of rising input costs such as paper and OCC on our payables. Some of this commodity related payables benefit may reverse in 2021/22. Cash generated from operations before adjusting cash items of £943 million was used to invest in net capex of £323 million, an 11 per cent reduction on the prior year reflecting capex constraints put in place at the start of the year and eased later in the year. Net debt/EBITDA (calculated in accordance with our banking covenant requirements) is 2.2 times (2019/20: 2.1 times), substantially below our banking covenant of 3.75 times. The Group remains fully committed to its investment grade credit rating.

During the year, the Group generated free cash flow of £486 million (2019/20: £354 million), despite the reduction in profit. Cash conversion, as defined in our financial KPIs (note 32), was 150 per cent, well ahead of our target of being at or above 100 per cent.

DS Smith is committed to providing all employees with a safe and productive working environment. We are pleased once again, for the 12th consecutive year, to report improvements in our safety record, with our accident frequency rate (defined as the number of lost time accidents per million hours worked) reducing by a further 14 per cent to 2.06, reflecting our ongoing commitment to best practice in health and safety. We are proud to report that 246 sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole.

The Group has a challenging target for customer service of 97 per cent on-time, in-full deliveries. Despite the significant operational challenges due to Covid-19, in the year we achieved a continued strong performance at 95 per cent. However, management remains fully committed to delivering our target and the highest standards of service, quality and innovation to all our customers and we will continue to challenge ourselves to meet the demanding standards our customers expect. Other markers of quality such as our defects rate (measured in parts-per-million) have improved significantly, having reduced 22 per cent.

Operating review

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

Group

£m	**Year ended 30 April 2021**	Year ended 30 April 2020	Change – reported	Change – constant currency
Revenue	**£5,976m**	£6,043m	(1%)	(1%)
Adjusted operating profit[1]	**£502m**	£660m	(24%)	(24%)
Operating profit	**£311m**	£455m	(32%)	(32%)

1. Adjusted to exclude amortisation and adjusting items.

Revenue from corrugated box volume growth offset by a reduction in sales price and mix resulted in a decrease in revenue of 1 per cent. Operating profit declined 32 per cent to £311 million due to the decline in sales price and mix and input cost headwinds, partially offset by the benefit from strong volume growth.

Northern Europe

£m	**Year ended 30 April 2021**	Year ended 30 April 2020	Change – reported	Change – constant currency
Revenue	**£2,370m**	£2,333m	+2%	+1%
Adjusted operating profit[1]	**£138m**	£219m	(37%)	(37%)
Return on sales[1]	**5.8%**	9.4%	(360bps)	(350bps)

1. Adjusted to exclude amortisation and adjusting items.

The Northern Europe division has seen very strong corrugated box volume growth, reflecting an exceptional level of growth in the UK, driven in particular by e-commerce, and good trading in Benelux and Germany.

While revenues remained broadly flat, the reduction in adjusted operating profit reflects very good corrugated box volume growth more than offset by the annualisation of pricing declines, and a significant impact on input costs in our paper mills due to the volatility in OCC pricing. This region has a higher proportion of higher value point-of-sales and display business which was particularly badly impacted by retailers in-store activity during lockdowns. Return on sales reduced by 350 basis points to

5.8 per cent. The recovery of the higher paper prices and margins is well underway and in-store retail activity is also recovering quickly.

Southern Europe

£m	Year ended 30 April 2021	Year ended 30 April 2020	Change – reported	Change – constant currency
Revenue	**£2,156m**	£2,214m	(3%)	(4%)
Adjusted operating profit[1]	**£223**	£314m	(29%)	(30%)
Return on sales[1]	**10.3%**	14.2%	(390bps)	(390bps)

1. Adjusted to exclude amortisation and adjusting items.

Volumes in the year have grown across the region, driven by good volume growth in Italy, while revenues declined 4 per cent as average selling prices reflected prior paper price declines.

Adjusted operating profit fell by 30 per cent, reflecting the challenging economic and market environment and in particular the volatility of OCC and of pulp used at our Viana kraftliner mill. This region was particularly badly impacted in H1 with significantly lower tourist and agricultural activity in the early months of the pandemic.

Eastern Europe

£m	Year ended 30 April 2021	Year ended 30 April 2020	Change – reported	Change – constant currency
Revenue	**£909m**	£892m	+2%	+2%
Adjusted operating profit[1]	**£78m**	£88m	(11%)	(10%)
Return on sales[1]	**8.6%**	9.9%	(130bps)	(120bps)

1. Adjusted to exclude amortisation and adjusting items.

Volumes in this region have again been very good throughout the period, with particularly strong performance in operations in Poland and the Baltics, with revenues increasing 2 per cent.

Adjusted operating profit fell by 10 per cent, reflecting declines in both the Paper and Packaging operations in the region. The region has less paper capacity than the others and as such did not see the same impact from the OCC volatility in the period.

North America

£m	Year ended 30 April 2021	Year ended 30 April 2020	Change – reported	Change – constant currency
Revenue	**£541m**	£604m	(10%)	(5%)
Adjusted operating profit[1]	**£63m**	£39m	+62%	+70%
Return on sales[1]	**11.6%**	6.5%	+510bps	+510bps

1. Adjusted to exclude amortisation and adjusting items.

Volumes in the region have been very good, reflecting growth in a number of packaging sites as we manage the ramp-up of the new box plant in Indiana. Full utilisation is expected to be completed on plan in the financial year 2022/23. Volumes in North America were badly impacted by Covid-19 in Q1 due to certain customer site closures, so the recovery through the year has been particularly pleasing and a testament to the support and confidence of many old and new customers to our new products, production capacity and ways of working.

Revenue fell 5 per cent, principally due to increased internal utilisation of paper. Adjusted operating profit for the division improved by 70 per cent, reflecting improved volumes across our packaging plants, including the ramp-up of the new Indiana site, the improvement in domestic paper and packaging pricing and the US export paper price. As a result, return on sales improved to 11.6 per cent, with H2 profitability substantially ahead of H1.

Brexit

The UK left the EU in January 2020 and the transition period ended on 31 December 2020. The UK comprises 15 per cent of Group revenue with the majority of our operations in continental Europe. Product for UK customers is largely manufactured within the UK and materials sourced within the UK, and as such we did not experience substantial disruption in the first few months of 2021 as the new trading arrangements between the UK and EU came into place. While there are some friction impacts of Brexit, in particular limited capacity with carriers and brokers at the start of the year, we have planned, in collaboration with key trading partners, and accordingly the overall impact on DS Smith has not been material.

Outlook

The continued investment in our business, together with the strong support of our customers and the momentum built over recent quarters, give us confidence for the current year and future. Whilst the business has seen reduced profitability over the last twelve months, we firmly believe that we exit 2020/21 stronger, further focused on the accelerated opportunities a post-Covid-19 world offers and that our customers will continue to recognise this going forward.

The current year has started well, with the volume momentum of the final quarter of FY21 continuing into this year. Inflationary cost pressures have also continued, in particular OCC, but also other costs such as energy, transport and labour. Packaging prices have started to increase and we expect to fully recover these increasing costs.

Accordingly, while there remains uncertainty in the overall economic environment, demand is strong and we expect to make good progress this year.

Robust performance despite challenging environment

"Excellent box volume growth year-on-year and strong cash performance demonstrated the resilience of our business model, with uninterrupted operation through the extraordinary pandemic challenges, working to meet customers' needs. Our new greenfield investments provide further growth and reflect our ongoing commitment to supplying sustainable, innovative fibre based packaging solutions, providing the leadership our customers expect from us."

Adrian Marsh, Group Finance Director

Overview

2020/21 presented a variety of challenges, most notably the economic contraction triggered by the Covid-19 pandemic. From an operations standpoint the business continued uninterrupted throughout the year in all regions, providing essential products and services to its customers.

After a challenging first half year influenced by the pandemic, the second half year saw a strong recovery in box volumes across all regions with momentum continuing to build throughout the period. The recent commencement of work on greenfield sites in Italy and Poland will add further capacity to the growing demand in these markets. The Indiana site in North America continues to drive both packaging volume growth and a shortening of the paper position in this market, in line with our long-term strategic objectives.

The business experienced higher input costs in 2020/21, most notably the cost of recyclate. The final quarter of 2019/20 saw fibre prices close to record lows; however, dual price spikes in Q1 and Q4 of 2020/21 drove the average cost of paper production significantly higher. During the first half of the year, paper prices continued the decline seen in H2 of 2019/20. However, the second half saw prices increase above pre-pandemic levels, driven by both tightness of demand and increases in core input costs.

The effective pass-through of these higher prices on to customers in both the Paper and Packaging businesses mitigated some of the input cost impact and will continue to be a key focus area in 2021/22.

During this significant period of macro-economic uncertainty, the Group remains committed to achieving its medium-term financial measures and key performance indicators, as established by the Board. The results, which do not make any adjustments for the impact of Covid-19, are described below:

- Organic corrugated box volume growth of 3.5 per cent (2019/20: +0.6 per cent)
- Revenue down 1 per cent on a constant currency and reported basis to £5,976 million (2019/20: £6,043 million)
- Adjusted operating profit of £502 million, a decrease of 24 per cent on a reported and constant currency basis (2019/20: £660 million)
- 32 per cent decrease in operating profit to £311 million on a statutory basis; 32 per cent decrease on a constant currency basis (2019/20: £455 million)
- 38 per cent decrease in statutory profit before tax to £231 million on a constant currency basis and 37 per cent decrease on a reported basis (2019/20: £368 million)

- Decrease in adjusted return on sales of 250 bps to 8.4 per cent (2019/20: 10.9 per cent)
- Adjusted return on average capital employed of 8.2 per cent (2019/20: 10.6 per cent)
- Net debt to EBITDA ratio of 2.2 times (2019/20: 2.1 times)
- Cash conversion 150 per cent (2019/20: 103 per cent).

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

Non-GAAP performance measures

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

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

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

Trading results

Revenue decreased by 1 per cent on a reported basis to £5,976 million (2019/20: £6,043 million). Despite higher box volumes, Packaging revenue saw a reduction in realised selling prices, largely reflecting the decline in paper price benchmarks in H2 2019/20 and H1 2020/21. Strong internal demand for paper meant that the Group continued to integrate further in 2020/21. This also contributed to lower revenues as a higher proportion of the paper produced in the Group's own paper mills was consumed internally by the Group's box plants rather than being sold externally. These impacts were partially offset by higher recyclate prices sold externally in both Europe and North America.

Reported revenues are subject to foreign currency translation effects. In the year, the euro accounted for 59 per cent of Group revenue. As such, the movements of the euro against sterling during the year constituted the majority of the £20 million of positive foreign exchange translation impact. On a constant currency basis, revenues decreased by 1 per cent.

Corrugated box volume growth of 3.5 per cent (2019/20: 0.6 per cent growth) reflects the resilience of the Group's business model and the momentum seen in its core markets and segments, with market share gains in all segments.

While Q1 growth was constrained by the unfolding pandemic, box volumes rebounded progressively from Q2 onwards. The Group was well positioned to meet the corresponding changes in consumer behaviour which drove higher demand for both e-commerce and FMCG products.

The Group target of volume growth of GDP+1 per cent was achieved during 2020/21, with GDP (weighted by the countries' mix) estimated at -6.5 per cent for the 12 months to April 2021. As a Group, c. 82 per cent of corrugated box volumes are sold to consumer goods customers, substantially ahead of the industry average, an indicator that the continued development of tailored and innovative packaging solutions is regarded as a differential offering in the market.

Adjusted operating profit of £502 million on a reported basis is a decrease of 24 per cent (2019/20: £660 million). This reduction is largely attributable to pandemic effects with a lower average selling price and mix in the Packaging and Paper business (£(137) million) as a result of declining paper benchmarks, volatile input costs (£(66) million) and lower other volumes of £(19) million.

These impacts were partially offset by higher box volume (£40 million), continued strong delivery of Europac synergies (£21 million) and FX and other impacts (£3 million).

Operating profit at £311 million, is a decrease of 32 per cent both on a constant currency and reported basis (2019/20: £455 million). The Group benefitted from a strong performance by the Packaging business in mitigating various commercial pressures, including the headwinds of cost inflation prior to the pandemic and lately the impact of rising paper prices. In addition, the strong focus on value-added packaging and overall performance improvement targeted in North America more than offset the start-up costs associated with the commissioning and progression towards full operation of the new facility in Indiana, US.

Depreciation increased to £304 million on a reported basis (2019/20: £296 million), an £8 million increase driven by the additional capital commissioned during the year to support the Group's growth programme. Amortisation decreased marginally to £142 million.

The Group has continued to focus on margin recovery through commercial disciplines and ongoing cost management and efficiency programmes, but the impact of the pandemic, in spite of the resilience demonstrated by the Group, led to an adjusted return on sales decrease of 250 basis points to 8.4 per cent (2019/20: 10.9 per cent). The Group does not expect a repeat of the costs incurred specifically in keeping our colleagues safe and our factories open.

The adjusted return on average capital employed (ROACE) decreased to 8.2 per cent (2019/20: 10.6 per cent). The ROACE remains below the target set by the Board of 12 to 15 per cent and the Board remains fully committed to achieving this target again as global economies recover from the pandemic

Income statement – from continuing operations (unless otherwise stated)	**2020/21 £m**	2019/20 £m
Revenue	5,976	6,043
Adjusted operating profit[1]	502	660
Operating profit	311	455
Adjusted return on sales[1]	8.4%	10.9%
Adjusted net financing costs	(78)	(87)
Share of profit of equity-accounted investments, net of tax	5	7
Profit before income tax	**231**	**368**
Adjusted profit before income tax[1]	**429**	**580**
Adjusted income tax expense[1]	(97)	(125)
Adjusted earnings[1]	**332**	**455**
Profit from discontinued operations, net of tax	12	237
Basic adjusted earnings per share	24.2p	33.2p
Profit for the year attributable to owners of the parent (including discontinued operations)	**194**	**527**
Basic earnings per share from continuing and discontinued operations[1]	14.2p	38.5p
Basic earnings per share	13.3p	21.2p

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

Covid-19

The Group's operations across all its regions were affected throughout the year by the pandemic. However, as an essential supplier for critical supply chains in areas such as FMCG food and drink, pharmaceuticals and other essential suppliers the Group's sites remained fully operational throughout the period. The Group adapted quickly to changes in the box demand profile as a result of the pandemic, with strong volume growth achieved in both e-commerce and FMCG segments.

Lockdown-induced disruption in waste collections has resulted in a volatile year in the recyclate market. Prices spiked in Q1 and then fell across the summer months before spiking again in the final quarter of the year with prices now at or near a historical high in certain core markets.

Adjusting items

Adjusting items before tax and financing costs were £49 million (2019/20: £62 million).

The costs primarily consisted of ongoing integration programmes relating to acquisitions made in prior years of £17 million (2019/20: £30 million) and other restructuring programmes of £27 million (2019/20: £24 million). Of the integration costs, £14 million related to the Europac integration programme, including costs to deliver synergy projects implemented during the year, IT operational costs and site rebranding, and £3 million related to the North American integration programme, which included the centralisation of transaction processing in that region. Both these integration programmes were highlighted in their respective Class 1 circulars and have now completed in this financial year.

Within restructuring costs, £23 million principally relates to a major restructuring programme in Germany and a structured review of the underlying, indirect cost base of the European Packaging business.

Merger and acquisition-related costs of £2 million (2019/20: £10 million) were incurred, being predominantly professional advisory fees, and contractual deferred consideration payments on prior year acquisitions.

Loss on divestments was £3 million primarily relating to the disposal of a small sheet plant operation in North America.

Within discontinued operations, the gain related to the finalisation of certain provisions made on disposal of the Plastics business and the recognition of a deferred tax asset of £9 million arising on tax losses in relation to the disposal. The Group continues to provide transitional support services to the buyer.

Adjusting items in 2021/22 are estimated to be less than £10 million.

Interest, tax and earnings per share

Net finance costs were £85 million (2019/20: £94 million). The decrease of £9 million on last year is primarily a result of lower levels of debt throughout the year. The employment benefit net finance expense of £3 million has remained at a similar level to the prior year.

Adjusting financing costs of £7 million (2019/20: £7 million) represents the unwind of the Interstate Resources put option.

The share of profits of equity-accounted investments was £5 million (2019/20: £7 million).

Profit before tax decreased by 37 per cent on a reported basis to £231 million (2019/20: £368 million), driven by the decrease in operating profit, partly offset by a reduction in financing costs. Adjusted profit before tax of £429 million (2019/20: £580 million) decreased by 26 per cent on a reported basis, again due to the decrease in the underlying adjusted operating profit.

The tax charge of £49 million (2019/20: £78 million) reflects the impact of lower profits and recognition of a deferred tax asset on losses in France, partially offset by an increase in provisions in relation to uncertain tax positions on non-adjusting items. The Group's effective tax rate on adjusted profit, excluding amortisation, adjusting items and associates was 23.0 per cent (2019/20: 22.0 per cent). The tax credit through adjusting items was £16 million (2019/20: £14 million).

The previous year discontinued operations profit after tax of £237 million includes the £230 million net gain on sale of the Plastics business.

Reported profit after tax, amortisation and adjusting items for continuing and discontinued operations was £194 million (2019/20: £527 million).

The decrease in operating profit led to a decrease of 37 per cent in basic earnings per share on a reported basis to 13.3 pence (2019/20: 21.2 pence), with adjusted earnings per share 27 per cent lower at 24.2 pence (2019/20: 33.2 pence).

Acquisitions and disposals

In recent years, the Group's strategy has focused on growth in order to support our global customers in the regions in which they operate. Throughout 2020/21, the Group continued to successfully integrate earlier acquisitions, including Europac in Iberia and Corrugated Container Corporation in North America, both acquired in 2018/19 and Interstate Resources in North America, acquired in 2017/18. As set out in the respective Class 1 acquisition circulars for Interstate and Europac, the integration programmes have now concluded.

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

Cash flow

Reported net debt of £1,795 million (30 April 2020: £2,101 million) has decreased from the prior year, driven by higher cash inflows from operating activities and steps taken during the year to conserve cash during the pandemic.

Net working capital inflows of £173 million are driven by a strong focus on cash management, in particular cash collection, inventory management and influenced by higher commodity prices, most notably the cost of recyclate and paper costs at the end of the year leading to increases in trade payables at the year-end compared to the prior year. The Group has demonstrated ongoing success in driving sustainable working capital improvements. Trade receivables factoring is £21 million lower than April 2020 at £407 million. Going forward the Group expects to continue to sell high credit quality receivables under this programme within the range £350-400 million outstanding at any one time. This is a reduction of some 30 per cent from the peak balance of £565 million in 2018.

Net capital expenditure decreased by £41 million to £323 million in the year. Spending on some capital projects was initially delayed until greater confidence in the economic outlook was established. However, despite these constraints, the Group continued to focus on growth and efficiency capital projects, which represented 53 per cent of the reported spend in the year. Proceeds from the disposal of property, plant and equipment were £8 million (2019/20: £12 million).

Tax paid of £66 million is £28 million lower than the prior year, as a result of tax receipts of £20 million in North America, lower tax payments in general and the timing of certain payments.

Net interest payments of £68 million decreased by £9 million over the prior year driven by the maturity of debt bearing higher interest rates and a lower net debt position throughout the year. The remainder of interest principally comprises interest on the Euro medium-term notes and US private placements, with amortisation of debt issuance and other finance costs accounting for the majority of the difference between cash interest paid and finance costs reported in the income statement. Cash outflows associated with adjusting items decreased by £5 million to £48 million, and include restructuring and integration costs. The current year reduction is driven by a further decrease in merger and acquisition costs incurred in the prior year.

No dividend payments were made during the year, with payments resumed in May 2021.

Cash generated from operations before adjusting cash items increased by £54 million to £943 million. Net cash inflow was £366 million, a £195 million decrease on the prior year, which benefitted from the disposal proceeds of the Plastics business and the Europac remedy disposals of £480 million.

Acquisitions and disposals of £74 million in the year include payments made for the 10 per cent settlement of the Interstate put option of £82 million and proceeds from the sale of a small sheet business in North America of £16 million.

Cash flow	**2020/21 £m**	2019/20 £m
Cash generated from operations before adjusting cash items	943	889
Capital expenditure (net of disposal of fixed assets)	(323)	(364)
Tax paid	(66)	(94)
Net interest paid	(68)	(77)
Free cash flow	**486**	**354**
Cash outflow for adjusting items	(48)	(53)
Dividends	–	(222)
Acquisitions and disposals of businesses, net of cash and cash equivalents	(74)	480
Other	2	2
Net cash flow	**366**	**561**
Issue of share capital	3	2
Loans, borrowings and finance leases divested	3	2
Foreign exchange, fair value and other movements	(56)	(118)
Net debt movement - continuing operations	**316**	**447**
Net debt movement - discontinued operations	(10)	(29)
IFRS 16 right-of-use obligation at 1 May 2019	–	(242)
Opening net debt	(2,101)	(2,277)
Closing net debt	**(1,795)**	**(2,101)**

Statement of financial position

At 30 April 2021, shareholder funds increased to £3,533 million, from £3,350 million in the prior year. Profit attributable to shareholders of £194 million contributed to the growth (2019/20: £527 million), which was increased by a net change in cash flow hedges of £112 million (2019/20: £32 million loss), offset by actuarial losses on employee benefits of £5 million (2019/20: £46 million loss) and foreign currency translation effects of £95 million (2019/20: credit of £39 million). There were no dividends paid in the year (2019/20: £222 million). Equity attributable to non-controlling interests was £2 million (2019/20: £1 million).

The Group's bank and private placement debt covenants stipulate the methodology upon which the net debt to adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) ratio is to be calculated. Factored receivables and the effects of IFRS 16 *Leases*, adopted since 1 May 2019, are excluded from the ratio's determination. The ratio has increased to 2.2 times, as the reduction in EBITDA more than offset the improvement in debt, but represents an improvement from the H1 position of 2.4 times. The ratio remains compliant with the covenant requirements, which across all banking debt is 3.75 times. We retain a 3.25 times level in the remaining US Private Placement loan notes ($298 million) of which $30 million will mature by August 2021 and the balance by August 2022. As the exercise of the second tranche of the Interstate Resources put option is still outstanding at 30 April 2021, this has not been factored in to the calculated ratio. If the exercise of the remaining 10 per cent stake subject to the put option was included, the ratio would increase to c. 2.4 times. The Group's publicly traded euro and sterling bonds are not subject to any financial covenants. The bonds are, however, subject to a coupon step up of 125 basis points for any period the Group falls below an investment grade credit rating.

The Group is also compliant with a second banking covenant requiring an EBITDA to net interest payable ratio of not less than 4.50 times.

The covenant calculations also exclude income statement items identified as adjusting by the Group and any interest arising from the defined benefit pension schemes. At 30 April 2021, the Group has substantial headroom under its covenants, with the future outlook assessed as part of the annual going concern review. The Group's investment grade credit rating from Standard and Poor's remains stable at BBB-, which takes into account all the items excluded from covenant calculations and working capital.

Statement of financial position	**30 April 2021 £m**	30 April 2020 £m
Intangible assets	2,995	3,197
Property, plant and equipment	3,050	3,042
Right-of-use assets	226	256
Inventories	537	518
Trade and other receivables	819	772
Cash and cash equivalents	813	595
Other	260	245
Total assets	**8,700**	**8,625**
Bank overdrafts	(94)	(90)
Borrowings	(2,301)	(2,398)
Trade and other payables	(1,849)	(1,723)
Provisions	(56)	(70)
Employee benefits	(175)	(199)
Lease liabilities	(230)	(255)
Other	(460)	(539)
Total liabilities	**(5,165)**	**(5,274)**
Net assets	**3,535**	**3,351**
Net debt	**1,795**	**2,101**
Net debt to EBITDA ratio	**2.2x**	**2.1x**

Energy costs

Production facilities, in particular paper mills, are energy intensive, therefore energy costs are significant for the Group. In 2020/21, costs for gas, electricity and other fuels, net of periodic local incentives, were £325 million (2019/20: £318 million). This year-on-year comparison does, however, mask a significant increase in energy costs from H1 £146 million to H2 £179 million. The Group continues to invest in energy efficiency projects and limits the exposure to volatile energy pricing by hedging energy costs with suppliers and financial institutions, managed by the Group's Energy Procurement team.

Capital structure and treasury management

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

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

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

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

Available cash and debt facilities are reviewed regularly to ensure sufficient funds are available to support the Group's activities. At 30 April 2021, the Group's committed facilities totalled £3.7 billion, of which £1.5 billion remained undrawn and £3.5 billion matures beyond one year or more. Undrawn committed borrowing facilities are maintained to provide protection against refinancing risk.

At 30 April 2021, the committed borrowing facilities had a weighted average maturity of 3.9 years (30 April 2020: 4.5 years). Additional detail on these facilities is provided below. Total gross borrowings at 30 April 2021 were £2,301 million (30 April 2020: £2,398 million). The committed borrowing facilities described do not include the £460 million of three-year committed factoring facilities, which allow the sale of receivables without recourse. Given the three-year committed nature of these facilities, they fully protect the Group from any short-term liquidity risks which may arise from volatility in financial markets.

The balance of trade receivables sold as part of the factoring programme decreased by £21 million to £407 million at 30 April 2021 (30 April 2020: £428 million).

In November 2019, the Group established a €1 billion Euro Commercial Paper Programme. At 30 April 2021, the programme was undrawn due to the positive cash position in the Group.

Facilities	Currency	Maturity Date	£m equivalent
Syndicated RCF 2018	Various	2024-25	1,400
Euro medium-term notes	EUR	2022-26	1,608
Euro RCF 2020	EUR	2023	52
Sterling bond medium-term note	GBP	2029	250
Euro bilateral loans	EUR	2021-23	130
US dollar private placement	USD	2021-22	215
Euro term loan	EUR	2025	35
Committed facilities at 30 April 2021			**3,690**

Impairment

The net book value of goodwill and other intangibles at 30 April 2021 was £2,995 million (30 April 2020: £3,197 million).

IAS 36 *Impairment of Assets* requires annual testing of goodwill and other intangible assets, as well as an assessment of any other assets for which there may be indicators of impairment. As part of this testing, the Group compares the carrying amount of the assets subject to testing with the higher of their net realisable value and value-in-use to identify whether any impairment exists. The asset or group of assets value-in-use is determined by discounting the future cash flows they expect to generate by the assumed pre-tax discount rate of 9.5 per cent, plus a blended country risk premium for each group of assets. Asset values were tested as at 30 April 2021, with no impairment identified as a result of the testing performed.

Pensions

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

A summary of the balance sheet position as at 30 April is as follows:

	30 April 2021 £m	30 April 2020 £m
Aggregate gross assets of schemes	1,178	1,164
Aggregate gross liabilities of schemes	(1,353)	(1,363)
Gross balance sheet deficit	(175)	(199)
Deferred tax assets	40	45
Net balance sheet deficit	(135)	(154)

The net deficit has decreased versus prior year driven by two scheme settlements and discount rate assumptions having a small impact at 30 April 2021, as well as the asset valuations increasing.

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

Total cash contributions paid into the Group pension schemes, reported within cash generated from operations in the cash flow, were £20 million in 2020/21 (2019/20: £20 million), which primarily constitute the agreed contributions under the UK defined benefit scheme deficit recovery plan.

Discontinued operations

The consolidated statement of cash flows presents a single amount of net cash flow from discontinued operations.

During the previous year, 2019/20, the Plastics business was sold, representing £230 million of the £237 million profit from discontinued operations, net of tax. In the current year the gain of £12 million predominantly relates to the recognition of a deferred tax asset (£9 million) relating to the Plastics business disposal.

Evolving the way we manage risk

Our Group risk policy

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

Changes in 2020/21

We recognise that risks are evolving rapidly in our changing world and that requires new ways of thinking and working to identify, assess and manage risks effectively. We continue to build on the solid foundation that we have already established. Our preparedness for events such as the Covid-19 pandemic and the resulting consequences enabled the Group to take a more detailed review and further improve the risk process to obtain better quality output from the corporate planning process and year-end risk assessments. Changes included:

- Simplified assessments to clearly make the link between key risks and our Corporate Plan priorities/opportunities
- In-depth reviews of principal and emerging risks with our Group Strategy Committee (GSC), Group Operating Committee (GOC) and Audit Committee
- Surveyed a wide internal audience to rate the severity, likelihood and speed of a large range of relevant risks
- Implemented regular and focused risk reviews within existing management team meetings to assess mitigations
- Stress tested our business continuity strategies in preparation for subsequent waves of Covid-19 following the first wave
- Launched our refreshed 'Management Standards' where governance, risk management and compliance are at the core.

Risk governance

Our governance framework remains robust and largely unchanged in the past year, and has also proven pivotal in managing the business impacts of Covid-19. In summary:

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

The Group's risk policy sets out how this governance framework translates into the annual risk reporting cycle, which links with our internal audit cycle (see page 77) and informs our management and governance processes specifically for climate related risks (see pages 56 to 58).

Report on our principal risks

Like many other businesses we are subject to general risks such as changes in social, political, financial, regulatory and legislative changes. Our principal risks and uncertainties are those that may have the greatest impact on our key priorities when assessed by considering our controls and other mitigating factors on a net risk basis. These risks have been discussed at Audit Committee meetings during 2020/21. They are summarised with details of our key mitigating activities on pages 52 to 55.

Risks identified

Our key risks continue to follow similar themes to those in previous years but they evolved over the past year, mainly due to the impacts and learnings from the Covid-19 pandemic. 12 principal risks have been identified in our latest assessment across strategic, market, operational, financial, geopolitical and technological risk categories. The changes compared to 2019/20 include:

- The risk of fibre packaging being substituted by non-fibre based materials has returned to the top 12
- A new demand-led principal risk reflects the need to satisfy significant packaging volume growth with limited production capacity
- The recognition of increasing digitalisation risk, or missed digital opportunities, within our operations and supply chain
- Cyber risk was previously split between a) ransomware and b) phishing, but they are now treated on a combined basis
- Two talent-related risks have been combined and redefined to focus on the organisation capability of our people and assets
- Sustainability risk has been redefined to be more specific about our carbon and circular economy commitments (i.e. climate-related 'transition' risks)
- Disruptive markets risk has been redefined to focus on specific and potentially highly damaging strategies of major players, compared to a general view of market-place activity
- Recent and projected changes in shopping habits are now more likely to present opportunities for our business than risks
- Increased confidence of liquidity risk mitigation has regraded the risk to outside of the principal risk level.

Risks assessed

There are four risks that are considered to be the most disruptive to our plans. These have been placed in the highest priority category. These four risks are:

- Macro-economic and political environments in Europe, the US and broader world economies, given the international nature of our supply chain, the competitive nature of the markets within which we operate, and weakening major economies impacting the level of consumer spend and demand for our packaging products
- Volatile paper/fibre price cycles continue to put pressure on our integrated paper and packaging business model and our ability to capture appropriate margins
- Cyber attacks targeting business' informational or operational technologies are becoming more frequent and increasingly sophisticated and, despite our defences, we and our suppliers and customers cannot be complacent
- Sustainability has remained at the forefront throughout the pandemic and expectations on large organisations to transition to a low-carbon circular economy have continued to accelerate, and present our manufacturing operations with a variety of challenges as well as significant opportunities.

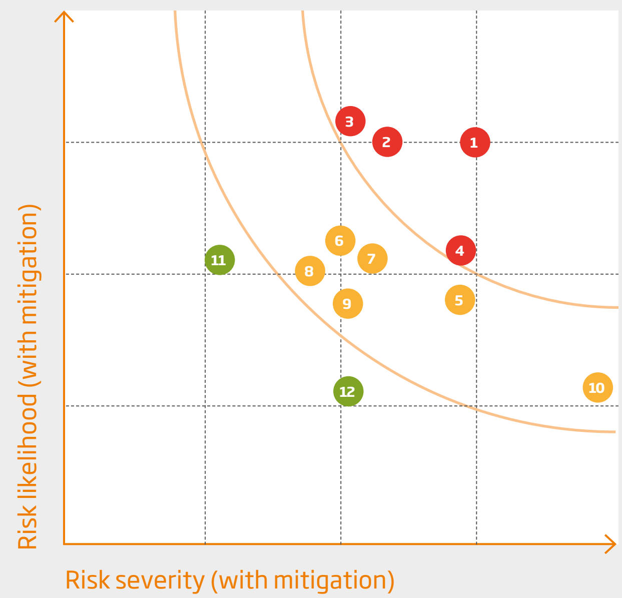
Emerging risks

Our risk management programme includes a formal review of emerging risks. We define emerging risks as those which take the form of a systemic issue or business practice that has either not previously been identified, has been identified but has remained dormant, or has yet to rise to an area of significant concern. The impacts of the pandemic and 'what if' scenario discussions over the past year have created a heightened awareness of new and emerging risks that could impact the Group, our suppliers and customers; for example, post-pandemic ways of working and longer-term skill requirements may emerge as workforce planning risks. Furthermore, scenario work to follow the TCFD guidelines has also focused the identification and assessment of potential short to longer-term emerging risks linked with climate change. The Group continues to develop a more detailed understanding of this specific area of risk management.

Prioritising our risk management efforts

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

Net (mitigated) risk heat map results



List of risks

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

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

Viability Statement

Context

The Group's strategy and key differentiators are detailed on page 2 and pages 18 and 19, and our risk management framework is described on pages 76 and 77. Understanding of our business model, our strategy and our principal risks is a key element in the assessment of the Group's prospects, as well as the formal consideration of viability.

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

The most recent Corporate Plan process was undertaken against the backdrop of the ongoing Covid-19 pandemic but anticipated a return to pre-Covid-19 levels of activity/profitability in 2022/23. The budget process for 2021/22, conducted subsequent to the Corporate Planning process, reflected different dynamics, particularly with regard to fibre and paper prices, but validated the overall Group profitability as set out in the Corporate Plan in the first financial year. Similarly, the going concern exercise which builds on the budget validated the overall Group profitability as set out in the Corporate Plan for the second year. On that basis, the Directors are satisfied that the Corporate Plan provides a suitable basis for the viability assessment.

The Group's trading performance will be reviewed by the senior management team and the Board in the context of the objectives and targets of the re-forecast, within which the Group's strategy remains embedded.

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

Assessment of longer-term viability

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period to 30 April 2024, which is a longer period than the 12-month outlook required in adopting the going concern basis of accounting. This assessment period remains appropriate given the timescale of the Group's planning and investment cycle.

The Directors confirm that they have performed a robust assessment of the principal risks facing the Group as detailed on pages 47 and 48, including those that will threaten its business model, future performance and solvency or liquidity.

The assessment of the Group's viability considers a severe but plausible scenario aligned to the principal risks and uncertainties set out on pages 52 to 55 where the realisation of these risks is considered remote, considering the effectiveness of the Group's risk management and control systems and current risk appetite. The degree of severity applied in this scenario was based on management's experience and knowledge of the industry to determine plausible movements in assumptions. The Directors note that the Group enjoyed a large degree of resilience to the consequential downturns from the Covid-19 pandemic.

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

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

Confirmation of viability

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

Going concern

Overview

In determining the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic Report, Operating review and Financial review sections of this Annual Report. The performance of the Group was impacted during the year by the Covid-19 pandemic but, as an essential supplier, the Group continued to operate throughout the most restrictive lockdown periods. In preparing the financial statements, the Directors have undertaken a going concern review. Further details, including the analysis performed and conclusion reached, are set out below.

Liquidity and financing position

The Group's liquidity and funding arrangements are described in notes 19 and 20 to the consolidated financial statements, as well as in the capital structure and treasury management section of the strategic report. The total drawn debt facilities at 30 April 2021 were £2.3 billion, £1.9 billion is publicly listed debt with no attached covenants and £0.2 billion carries a covenant of net debt: EBITDA of less than 3.25 times. In addition, the Group has access to c. £1.4 billion committed bank facilities, which were undrawn at 30 April 2021, which provide liquidity to the Group and carry the same covenant of net debt: EBITDA of less than 3.75 times. The Group is not forecast to increase net debt in the going concern analysis to 30 April 2023.

There is significant liquidity/financing headroom (in excess of £1 billion) across the going concern forecast period in all scenarios considered and outlined in more detail below. For this reason, the going concern review has focused more on forecast covenant compliance which is considered further below.

Operational and business impact of Covid-19

As a critical part of the supply chain across each of the geographies in which the Group operates, our operations were designated as essential businesses throughout the initial and subsequent lockdown periods. The Group has therefore continued to trade fully throughout the pandemic. Changes were made to operating processes and practices to ensure the business could respond to the specific local government requirements in each country in which it operates.

Although the duration and severity of the lockdown restrictions varied from country to country, in general Covid-19 impacted trading during the first wave of the pandemic from March to June 2020. The Group experienced modest growth towards the end of the first half, with higher and consistent monthly growth in the second half, including those periods impacted by subsequent waves and restrictions. This experience informs the going concern modelling undertaken, which anticipates less impact from Covid-19 going forward than was experienced in the year to 30 April 2021.

While the outlook for the Group is more certain than it was during the last annual going concern review process, there is still uncertainty in a number of key areas. Ongoing variability in the speed of the economic recovery across the regions we operate in, continued restrictions on movement across Europe and volatility in the price of core materials mean that a level of uncertainty persists going into the new financial year.

Financial modelling

The Group has modelled two scenarios in its assessment of going concern. These are:

- The base case
- The downside case.

The base case:

The base case is derived from the full year 2022 budget, which was approved by the Board in April 2021, and anticipates Covid-19 restrictions and impacts to reduce as the 2021/22 year progresses. The key inputs and assumptions in the base case include:

- Packaging volume growth consistent with 2020/2021 reflected across the period considered by the modelling, driven by continued strong levels of FMCG and ecommerce demand, together with a recovery in industrial volumes from current levels
- The price of paper is included in the modelling at levels consistent with those experienced in the final quarter of 2020/21 and reflecting the upward trajectory from the market lows seen in October 2020
- Fibre prices are included in this scenario at levels consistent with the paper price, taking into account the high entry point anticipated for 2021/22 in the first quarter of the fiscal year.

The downside case:

In addition to the base case, a downside case has been constructed from the more conservative scenario compiled during the Corporate Plan process. Key assumptions are as follows:

- European packaging volumes largely stagnate at current levels in 2021/22
- A rise in fibre prices from 2020/21 levels not mitigated by a commensurate increase in paper prices. With a significant portion of our packaging contracts being either directly linked/ referenced to a paper index, this results in higher input costs for the Group that those are more difficult to pass through to end customers
- A substantial cash outflow from working capital is incorporated into 2021/22, providing an additional headwind to the Group's net debt and covenant ratios.

Outturns

The purpose of the assessment was to consider if there was a significant risk that the Group would breach its key financial covenants on the committed bank facilities of net debt: EBITDA less than 3.75 times. Under neither scenario was the covenant breached at any of the forecast testing dates – 31 October 2021, 30 April 2022, 31 October 2022 and 30 April 2023 – and significant headroom was available in each case.

An explicit reverse stress test scenario has not been modelled on the basis that the Board feels that the downside case already represents conservative assumptions that are considered unlikely to occur in combination and, even if they did occur, there remains considerable headroom over the going concern period. At a high level, we have estimated that the Group's EBITA would have to fall by around half from the £502 million achieved in the year ended 30 April 2021 before the net debt: EBITDA covenant 3.75 times ratio would be breached in the going concern assessment period. Given the current and expected future market conditions, this reduction, and the factors that would need to occur for this scenario to materialise, is considered to be extremely remote.

Mitigating actions

The outturns of the above scenario modelling, combined with the strong performance operating throughout the pandemic in 2020/21, provide the Group a level of comfort that no significant cost/cash flow mitigations need to be built into the going concern modelling. However, a range of options remain at the Group's disposal should they be required which provide the opportunity to support operating profit, cash flow and net debt, including:

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

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

Going concern basis

Based on the forecast and the scenarios modelled, together with the performance of the Group in 2020/21, the Directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities to continue in operational existence for the foreseeable future. Accordingly, at the June 2021 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The long-term impact of Covid-19 is uncertain and should the impact of the pandemic on trading conditions be more prolonged or severe than currently anticipated by the Directors under the downside scenario, the Group has sufficient operational or financial options available to mitigate any risk to this going concern assumption.

Risk priority classification	1	1	1
Risk	**1. Eurozone and macro-economic impacts** Multiple political/economic factors from Brexit, foreign exchange/interest rates, to weakening major economies significantly impact the level of consumer spend and customer demand for our packaging products.	**2. Paper / fibre price volatility** Volatile commodity pricing for recovered paper (including old corrugated cases (OCC)) and containerboard grades can create significant short-term challenges to capture appropriate margins by aligning raw material costs to packaging sales revenues.	**3. Cyber attacks** A major cyber incident on our information or operational technology (i.e. ransomware) and/or a failure to stop/identify sophisticated malicious cyber intruders on our IT infrastructure (i.e. phishing attacks) resulting in short-term trading impacts, financial losses and reputational harm – impacting us, our suppliers and customers.
Inherent risk expected change	↗	↗	↗
Key mitigating actions	• Focus remains on supplying packaging to fast moving consumer goods (FMCG) customers with a constant focus on quality, service and volume growth, as these customers tend to show greatest resilience against GDP volatility • Investments in cost base and production efficiencies and working capital initiatives to balance macro-economic trends with sustainable growth priorities • Procurement transformations and new supply chain flows due to Brexit are helping to evolve our operating model.	• Our focus is to provide sufficient paper from internal paper manufacturing operations to support our Packaging division, whilst determining the optimal integration level, to ensure that we can balance the external effects of paper price volatility over the long term • Initiatives to implement productivity improvements, demand forecasting improvements and the development of skills and tools in our sales and paper sourcing teams • Continual focus on contract management to fully recover input costs.	• Regular awareness training to better equip our employees with the knowledge to identify potential phishing/other social engineering techniques, supported by our Group Head of IT Security and expanding internal resourcing as well as external expert advice • Investments in specific IT security controls to improve our capability to detect, respond to, and prevent cyber attacks, such as tools and services to monitor the IT estate • Regular improvements in, and testing of, IT disaster recovery planning, including penetration/vulnerability testing, to ensure the Group's ability to recover from outages, identify gaps and progress along our risk remediation roadmap.
Net risk expected change	↗	↗	↗
Perceived Covid-19 impact	Prolonged challenging economic conditions	Supply / demand dynamics affected by changes in FMCG and industrial markets	Increased threat potential of infiltrating IT security controls given remote working
Key Risk Indicator	Eurozone GDP growth rate	Paper / recovered fibre market price and box selling price	IT security phishing campaign statistics
Risk tolerance to Corporate Plan priorities			
Opportunity examples	Ability to reposition our business model outside of our traditional geographic markets and sources of supply.	Accelerate improvements in commercial awareness and expertise of pricing fluctuations and strengthen the effectiveness of fibre and efficiency programmes.	Accelerated investments to strengthen our technology infrastructure and operational resilience to prevent losses and enhance business continuity credentials.
Alignment with strategic priority	To double our size and profitability	To double our size and profitability	To double our size and profitability
Governance oversight	Group Chief Executive and Group Finance Director present reviews and forecasts on the impact of the macro-economic environment at each Board meeting.	The Group Chief Executive and Group Finance Director present regular updates on paper prices to the Board.	Cyber security assessment reports, IT network management and external advisory guidance are reviewed by the Executive Directors and Audit Committee.

Net risk tolerance key

Unacceptable | Re-assess | Acceptable

Risk change key

Increasing | Stable | Decreasing

1	2	2
4. Sustainability commitments Our efforts to decarbonise and transition our supply chain to a circular, low carbon economy are not enough or are too slow against the growing expectations of the Group to play a positive role in society and address global climate change and related environmental, social and business challenges.	**5. Regulation and governance** Our governance model fails to support the way we are organised and our geographical spread, resulting in unauthorised, illegal, unethical or inappropriate actions (including breach of anti-bribery, data privacy, etc.).	**6. Security of paper/fibre supply** Large fluctuations in the availability of recovered paper (including OCC) and containerboard adversely affect our performance, as the Group remains a net purchaser of specific grades of paper and faces recycling collection/segregation challenges.
• Deploying our roadmap of carbon reduction investments, focused on energy efficiency, plant upgrades and switching to alternative energy sources across our production sites, whilst monitoring and adapting to regulatory changes in carbon taxes and resource extraction • Ensuring we meet the growing consumer and investor demand for sustainable packaging through a focus on packaging design, use and disposal of our products for a circular economy • Regular review, update and reporting on our sustainability priorities to ensure they align with the expectations of stakeholders, wider society and scientific climate projections, as well as implementing the TCFD recommendations and submission to ESG ratings such as CDP.	• The Group continues to maintain detailed and extensive arrangements for the management of standards, domestic and international compliance rules and new regulations with clearly defined divisional reviews including health, safety, environment, supply chain and product integrity/safety • Training employees on a variety of compliance modules including antitrust, anti-bribery and corruption, and modern slavery to ensure full understanding of the applicable laws and high standards expected • The Group operates a workplace malpractice helpline ('Speak Up!'), providing a confidential route for employees to report perceived malpractice of any type.	• Optimising the level of integration of all our paper mills for internal supply and committed external supplies using open market purchases, to deliver the 'best fit' alignment between paper production, quality fibre sourcing and performance packaging demand • Footprint alignment and capex investments for our mill network to optimise internal paper supplies against forecasted packaging needs • Focus on re-balancing and de-risking fibre sourcing strategies in our Recycling division as well as technology investments for reject solutions and recovered fibre quality testing.
Delays to certain sustainability projects due to government / site safety restrictions	Additional requirements to meet, and demonstrate compliance with, new and changing regulations	Heightened demand for key paper grades and disrupted supply chains
Reduction of CO_2e per tonne of production	Group and divisional compliance training reviews	Paper/recovered fibre supply volumes
Capitalise on efficiencies in energy upgrade projects and meet the growing societal demand for sustainable products in a circular economy.	Ability to demonstrate a standard of ethics and behaviours beyond the standards requested of us and potentially influence how the regulatory landscape changes.	Our closed loop model and paper sourcing strategy offer significant customer opportunities and ability to generate a 'best fit' cost and quality solution.
To lead the way in sustainability	To delight our customers	To double our size and profitability
The Board receive regular updates on the Group's sustainability performance and strategy.	Results of internal control reports and internal corporate governance, ethics and compliance updates are regularly reviewed by the Audit Committee and Board.	Paper sourcing opportunities are discussed with the Board, with specific focus on critical papers.

Risk priority classification	2	2	2
Risk	**7. Packaging capacity limits to growth** Our performance and volume growth expectations, and an increasing demand for packaging, is limited by our production capacity and ability to grow organically at the pace required.	**8. Organisation capability** Our management approach to our people and assets, including succession planning, talent retention and development, and strategy for ageing assets, fails to identify and resource for future capability needs, resulting in critical gaps in skills, knowledge and equipment, limiting productivity gains across key business areas.	**9. Substitution of fibre packaging** Fibre-based packaging loses its credentials as a sustainable product of choice against developments in plastic packaging or other materials that can be reused and recycled, resulting in our products being substituted and/or replaced by competitor products.
Inherent risk expected change	↗	↗	↗
Key mitigating actions	• Targeted organic growth in our existing key markets from strategic investments in new greenfield packaging manufacturing sites, including our operational start-up in Indiana (USA), and new builds commencing in Poland and Italy • Further expansions/developments of our current packaging sites through multi-year capital plans, enhancing equipment utilisation and efficiency, whilst improving the customer-production footprint alignment • Developing clusters of production sites to improve capacity loading, and sales and operational performance programmes to optimise a full system of supply/demand loading, inventory and logistics planning.	• People performance, potential and succession management is formally reviewed and subject to calibration by senior management, and core skills gaps are identified to inform clear action plans and address key talent retention or attraction risks, including a diversity and inclusion action plan • Annual senior talent reviews address strategic workforce questions, and evaluate the capability profile of the senior leadership population, the bench strength of the talent pipeline, and actions progressed throughout the following year • Our HR and operational leaders collaborate to prioritise key business transformation activities aimed at new and foreseeable work realities and operating models, to work to deliver a step change in organisation flexibility and productivity.	• Collaboration between our Paper and Packaging divisions and research and development teams to deliver innovative papers and corrugated products, and develop new materials with our suppliers and partners for barrier/lamination concepts and plastic replacements • Our Recycling division uses commercial insights and works to create pan-European alignment in our services, including providing our key packaging customers with closed loop opportunities • Focused communication strategies to maintain and build the reputation of fibre-based materials in terms of recyclability, innovations and sustainability credentials, and working with the industry to develop quality standards.
Net risk expected change	↗	↗	↗
Perceived Covid-19 impact	Record volume demand for certain customers and/or markets	Potential opportunities to secure critical talent but challenges our skills development and culture	Heightened interest for hygienic packaging but not to the detriment of sustainable solutions
Key Risk Indicator	Packaging demand and production volumes	Employee turnover including external/internal hiring ratios and diversity and inclusion metrics	Fibre packaging volume and market share growth
Risk tolerance to Corporate Plan priorities			
Opportunity examples	Develop and grow our own business in line with our customers' growth, working together to serve the changing consumer demand, whilst maintaining high quality and service offering.	Our HR and operational priorities focused on improving processes, productivity and ways of working to capture and enhance people and equipment capabilities.	Accelerated research, development and investment into new and enhanced fibre-based products to serve the sustainable packaging demand and grow our reputation.
Alignment with strategic priority	To delight our customers	To realise the potential of our people	To lead the way in sustainability
Governance oversight	Demand and production metrics are reported through monthly divisional trading update meetings, and multi-year demand forecasts reviewed by the GSC.	The Nomination Committee regularly reviews Board succession planning and receives updates on senior talent management programmes.	The Board receives regular product innovation updates.

Net risk tolerance key
Unacceptable | Re-assess | Acceptable

Risk impact key
Increasing | Stable | Decreasing

2	3	3
10. Disruptive market players	**11. Digitalisation**	**12. Shopping habits**
Disruptive behaviours in our key markets, should significant suppliers or competitors combine, reduces our capability to purchase paper or restricts our ability to compete more effectively, and these larger combined groups could also dispose of assets leading to new market entrants, increasing competition and causing loss in market share.	Digital transformation initiatives, from point-of-sale through to manufacture and delivery to customers, are too slow or the investments required too high to adequately adapt our ways of working or we miss the opportunity to meet the demand for smart products, including customer ease of access to our products and services.	We fail to match or adapt our offer to the pace and direction of change in consumer spending across the full retail FMCG spectrum, from the mega-large brands, micro-brands and omni-channel distribution networks of the big box superstores and discounters, to the rise in e-commerce and importance of the consumer's values.
• Focused on further developing long-standing and strong relationships with all of our existing customers, across large FMCG, regional and local customers, whilst providing a differentiated position from our competitors to attract new business • Continuous improvement of our procurement and supply chain processes for all paper grades and critical raw materials, including enhanced contingency plans if critical suppliers were to be disrupted • Industry body memberships allow for monitoring of market conditions, building our influence and brand reputation, and ensuring we can remain competitive with our pricing models.	• The DS Smith ePack webshop is expanding to meet small and medium sized business's packaging needs, providing a wide product range online, including bespoke design offers through digital printing, and a complete online ordering experience and fast delivery • Transitioned our Impact Centre experience and other customer and investor interactions online due to Covid-19 restrictions, setting the foundation for continuing to better utilise and trial different technologies going forward • Expanding the use of systems and tracking technology in logistics to provide enhanced transport market intelligence, transport order management, route planning and real time visibility of our vehicles.	• Focused on growing e-commerce packaging volumes, including bespoke offers and product innovations, and continuing to explore business opportunities such as plastic replacements, point-of-sale packaging, social distancing essential solutions and end-to-end services • Trend and insights teams working on understanding customer and consumer habits, needs and behavioural changes to inform research and development options and operational capabilities • Applying a clear sales platform to serve new/different customer categories, including the development of technology for customer interactions with our Impact Centres.
Erratic fluctuations in business activity and heightened competition	Accelerated the move to online purchasing and instant virtual interactions	Accelerated the existing trend of changes in shopping habits
Proportion of market share	Customer satisfaction surveys and website visitor traffic	Revenue growth from FMCG sector
Strengthen our differentiation and reputation, and capture additional market share during times of disruption amongst key competitors.	Capitalise on digital investments which build our reputation as an easy and accessible business to work with and buy from.	Changes in consumer needs and behaviours lead to new opportunities to actively engage customers on cardboard packaging solutions.
To double our size and profitability	To delight our customers	To double our size and profitability
The Group Finance Director provides the Board with regular updates on market and competitor activity.	The GOC and Board are provided with updates on digital initiatives and customer experience.	Trading, customer and consumer trends and the innovation pipeline are regularly discussed with the Board.

Adapting to a changing climate

As the pace of change in the world around us increases, it is becoming more apparent that we only have limited time in which to act if the world is to avoid the worst effects of climate change. This presents businesses and policymakers with a range of challenges and opportunities, not least for energy-intensive industries such as paper and pulp. In our circular business model, materials are kept in use for longer, which reduces waste and pollution. Energy is used to transform materials as they move through this system in a circular process. Lowering carbon emissions requires a combination of resource efficiency, technological advances, renewables deployment and policy measures, as set out in the CEPI 2050 roadmap.

We are supportive of the Paris Agreement on climate change, recognising the urgent need to limit the increase in global average temperature to 1.5°C above pre-industrial levels by the end of the century, substantially reducing the impact of climate change. We have implemented the recommendations set out by the Task Force on Climate-related Financial Disclosures (TCFD), taking the opportunity to evaluate potential financial and strategic implications arising from climate change and develop appropriate responses.

Strategy

Our Purpose is 'Redefining Packaging for a Changing World'. Amongst other megatrends, climate change is a force reshaping the world, calling for rapid decarbonisation of the global economy. Consumers demand greater performance from our circular packaging solutions, which reduce emissions through reusability and recyclability. The environmental performance of our packaging is driven largely by energy consumed during manufacture, which exposes the Group to regulation aimed at increasing the cost of greenhouse gas emissions (for example, carbon taxes such as the EU Emissions Trading Scheme (ETS)). There is therefore an opportunity to minimise our spend on carbon taxes by lowering our emissions through utilisation of renewable energy sources and energy efficiency measures that in turn improve the environmental performance of our product. Our greatest opportunity is to meet the increasing demand for environmental performance in the design, use and disposal of our products, responding to consumer preferences that favour low-impact packaging. Once deployed, our roadmap of carbon reduction investments will increase the long-term resilience of our energy supply, providing reliable, affordable and clean energy and improving the environmental performance of our packaging. In the long term, shifts in market forces and changes in weather patterns have the potential to threaten the supply or cost of key raw materials such as recyclate, pulp and starch. There is a chance that without substantial climate action, more disruptive physical risks such as water scarcity take hold. This invites opportunities to reduce reliance on key resources through efficiency and technological measures that reduce operating costs, and increase supply chain resilience and our ability to operate under various conditions.

Scenario analysis

We applied several peer-reviewed reference scenarios to our most material risks and opportunities to consider the effect of various plausible future conditions on our business. In each scenario, we assumed that we have the same business activities that we have today and focus on a specific material risk or opportunity. We used a combination of quantitative and qualitative methods in our analysis, giving preference to quantitative information where good quality, decision-useful data is available from reputable sources. We worked with a leading climate change consultancy, who validated our climate scenario analysis findings to date and have recommended that we continue to develop this work to inform our approach to climate change. Where good quality data is available from these scenarios, we calculated the financial implications of material risks and opportunities as illustrative estimates based on present day costs and in the context given within each scenario.

The estimated impacts therefore should be considered in the context of current financial performance and the actual future impact will vary according to prevailing costs and pricing at that time.

IEA SDS 1.5°C Pulp & Paper[1]: In this scenario, growth in production and energy consumption are decoupled to achieve decarbonisation to the extent required to be on track with the Sustainable Development Scenario by 2030.

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

IPPC RCP 8.5 6°C[3]: In this scenario, a 'business as usual' state of no policy changes leads to growth in emissions, causing some of the physical effects of climate change to be felt with greater severity.

Quantifying our climate risks

Increasing spend on carbon taxes

Under EU ETS, our European mills must purchase additional carbon allowances to cover their emissions. In 2020, we paid €39 million to the scheme. The free-issued allowances are being reduced whilst the price of additional allowances is increasing, therefore increasing our operating costs. There is a risk that by 2030 the price could increase, for example, from €50 to €110 per tonne of carbon which were this to happen could result in an annual cost of c. €80 million by 2030, depending on the allocation of free allowances. There is the possibility that the scheme could be extended or that new carbon taxes could be introduced in other parts of the world to incentivise decarbonisation. For example, the IEA ETP 2°C scenario describes the introduction of a North American carbon tax rising to $210 per tonne by 2050. If this tax were applied to our projected future emissions, this could result in an additional cost of c. £9 million annually by 2030.

Increasing cost of raw materials or threat to supply

Key raw materials (e.g. pulp, recyclate or starch) could become more expensive and/or difficult to acquire because of climate change. This could be due to chronic physical reasons (e.g. extreme variability in weather patterns), regulatory change (e.g. caps on resource extraction) or market disincentives (e.g. licences for extraction). Aspects of climate change are likely to affect forest growth and productivity, impacting the virgin fibre market. Although our exposure to this market is limited as our packaging is primarily manufactured from recycled fibres (c. 83 per cent of the papers used by our Packaging division are from 100 per cent recycled content), potential future yield losses could drive up the price of virgin fibre and changing input prices may be passed on to us by suppliers and have a subsequent impact on papers for recycling. Using data from the Global Forest Products Model to assume, for example, that average virgin paper price increases by 5 per cent by 2030, this could result in an additional cost, which would likely have to be recovered through increased pricing to our end customers. Paper and fibre price volatility and security of supply are considered principal risks for the Group and are balanced over the long term by optimising the best fit between paper production, fibre sourcing and packaging demand.

Increasing likelihood of water stress

Competition for limited water resources could increase in the long term in river basins. Using the WRI Aqueduct tool[4], we identified 25 sites at risk of future water stress and in 2020/21 we achieved our target to implement a water stress mitigation plan at these sites. This involves business continuity planning and regular water performance reviews, requiring that sites maintain contact with external stakeholders (e.g. water authority and community). We are implementing water reduction, reuse and recycle opportunities, for example at our De Hoop and Lucca Mills, where water is recirculated before it is returned to the natural environment. In the IPCC RCP 8.5°C scenario, the worst-case scenario suggests that ten further sites become at risk of water stress during the period 2030-40. Initial analysis suggests that this would be unlikely to have a material impact in our most pessimistic scenario, valued at less than c. £1 million business interruption value at risk by 2030.

Quantifying our climate opportunities

Growth in demand for sustainable packaging

As society transitions to a low emissions economy, we see an opportunity for circular packaging to play a powerful role in helping brands and consumers reduce their carbon footprint. There is an opportunity to grow market share and value in meeting the demand for sustainable packaging and we continue to invest in innovation that balances cost, service, quality and sustainability. Led by our strategic goal, 'to double in size and profitability', we continue to drive organic growth, maximise the opportunities from acquired businesses and invest in growing areas of the corrugated packaging market. In the IEA SDS 1.5°C scenario, annual paper production is described as growing by 1.2 per cent annually over the decade to 2030, meeting demand for packaging and necessitating greater recycling. This presents a growth opportunity that could be valued at c. £32 million increase in EBITDA per year by 2030.

Use of emerging renewable technologies

In order to avoid the worst consequences of climate change, the global energy system must radically reduce emissions, calling for rapid deployment of low carbon energy generation. Delivering our carbon reduction target requires a mixture of energy efficiency, fuel-switching and plant upgrade measures. As energy systems and technologies evolve, there is an opportunity to be at the forefront of adoption, for example increasing the use of alternative fuels to reduce reliance on fossil fuels. In the IEA SDS 1.5°C scenario, energy use in the Pulp and Paper sector is described as declining by 0.6 per cent per year to get on track with the Sustainable Development Scenario (SDS) by 2030. A reduction in energy consumption results in a lesser cost, an opportunity that could be valued at c. £16 million per year by 2030 based on current energy costs. An example of realising this opportunity is at our Lucca Mill, where in 2020/21 in partnership with GE Gas Power, we deployed a new gas turbine which will result in a 2 per cent improvement in efficiency, reducing gas consumption and carbon emissions per tonne of product.

Increasing resource efficiency

We can achieve greater resource efficiency by encouraging markets to improve recycling infrastructure, including increasing waste segregation to create raw material streams that are cleaner and require less processing. Access to high quality wastepaper for recycling means less processing (therefore less energy and water consumption) and less volume of recyclate needed overall, which generates cost savings for our papermaking operations. We continue to advocate for separate collection of paper and cardboard recyclables to improve quality of material by reducing contamination, increasing recycling rates, lowering environmental impact and cost for local authorities as part of our engagement with policymakers to contribute to realising this opportunity.

Summary of our climate scenario analysis

Whilst the climate scenario analysis suggests that there could be some financial risk to DS Smith by 2030, predominantly due to increased costs which would need to be managed, we would not have to make material changes to our business model. There are opportunities to increase the sophistication of our modelling. For example, we have not considered the financial implications of secondary impacts, for example reputational damage that may occur under some of the scenarios. Particularly as new, higher quality data becomes available (for example, better long-term projections of future raw material supply under various conditions), we will continue to use climate scenario analysis to understand the effects climate change may have on our business and ensure we have appropriate mitigations in place to remain competitive in the future environment in which we will operate.

1. IEA Pulp & Paper Analysis: https://www.iea.org/reports/pulp-and-paper.
2. IEA Energy Technology Perspectives – Sustainable Development Scenario: https://www.iea.org/reports/world-energy-model/sustainable-development-scenario.
3. Intergovernmental Panel on Climate Change Representative Concentration Pathways: https://www.wri.org/resources/data-sets/aqueduct-water-stress-projections-data.
4. WRI Aqueduct Water Risk Atlas: https://www.wri.org/aqueduct.

"As society transitions to a low emissions economy, we see an opportunity for circular packaging to play a powerful role in helping brands and consumers reduce their carbon footprint."

Risk management

We undertake regular materiality analysis to ensure our sustainability priorities remain aligned to those of our stakeholders. In our most recent analysis, conducted in late 2019, we consulted stakeholders on a range of climate issues, asking them about their perception of each issue as a risk or opportunity to our sustainability strategy. This assessment, combined with a range of other credible sources (such as CEPI and CDP), is used to evaluate the likelihood of occurrence and the estimated severity of resulting financial or strategic impact over the short term (0-1 year), medium term (1-3 years) and long term (3+ years). Based on this assessment, material risks are evaluated in greater depth, considering our operations, supply chain, stakeholder expectations and regulation. Transition risks are assessed by Group strategy and Group sustainability teams, collaborating across multiple functions to develop responses to the financial and strategic implications. Physical risks are assessed by each division, supported by the Group Risk and Insurance team, involving other internal stakeholders and drawing on expertise from specialist organisations. Whether to mitigate, transfer or accept a risk is influenced by a range of factors, including but not limited to site location and added value, prioritising strategic locations. Our risk management processes require that our material business risks, including climate risks, are graded on a scoring scale from negligible to critical using specific impact criteria such as a financial value range. By way of example, a financial impact between 2.5 per cent and 10 per cent of operating income or net profit is considered moderate financial or strategic impact. Climate risks are evaluated using the Group's common risk language and are incorporated into our enterprise risk assessments where such risks could materially affect the business during our Corporate Plan time horizon. All divisions produce formal principal risk assessment reports twice per year, and undertake frequent risk reviews, considering the ratings, trends and controls. The most material climate risks and opportunities have been selected for climate scenario analysis, prioritising those for which good quality data is available.

Governance

Members of the Board, Audit Committee and Health, Safety, Environment and Sustainability (HSES) Committee maintain oversight of climate risk. Risks are monitored as part of our standard operating processes to ensure that appropriate mitigations are in place and are regularly reviewed by management. Climate issues are assessed by the sustainability leadership team (SUS LT) and HSES Committee when developing strategies and policies. These are reported to executive management on an ongoing basis, providing updates on the delivery of plans. Progress against our targets for addressing climate issues is monitored by the Board and Group Operating Committee (GOC), chaired by the Group Chief Executive. The Board receives regular updates on risk mitigation methods and progress.

Metrics and targets

We use metrics and targets to report progress to external audiences annually and review performance internally on a monthly basis. We have set a range of targets in our Now and Next sustainability strategy that address climate risk such as our carbon reduction target and water stewardship targets (pages 12 and 13). Metrics are used to monitor progress towards these targets, including monitoring metrics, such as 'carbon intensity per tonne of production (kg CO_2e/tnsp)' (page 33) and 'total water consumption in areas at risk of water stress (%)' (page 31), in addition to mitigation metrics, such as 'total energy consumption (GWh)' (page 33) and 'sites at risk of current or future water stress with mitigation plans in place (%)' (page 31). In addition, in recognition of the importance and commitment to sustainability, an ESG underpin has been introduced into the 2021/22 Executive Director annual bonus plan.

For more information about how we are leading the way in sustainability, please see the latest DS Smith Sustainability Report.

Non-financial information statement

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

Reporting requirements	Some of the relevant policies	Where to read more in this report about our impact, including the principal risks relating to these matters	Page(s)
Environmental matters	• Group Sustainability policy[1]	• Our sustainability approach, strategy, focus and targets	12
		• Our sustainability performance	30-33
		• Our differentiators	18
		• Risk – sustainability	53
Employees	• Code of Conduct[2]	• What we create for our people	24
	• 'Speak Up!'[2]	• Diversity and Inclusion	28
	• Group Health and Safety policy[2]	• To realise the potential of our people – performance	24
	• Equal Opportunities and Anti-Discrimination policy[1]	Health, safety and wellbeing	25
		• Risk – organisation capability	54
	• Personal Data Protection policy[1]	• Gender pay gap reporting	29
	• Data Retention policy[1]	• Our Purpose	2
Human rights	• Code of Conduct[2]	• Sustainable governance	53
	• Anti-Slavery and Human Trafficking policy[2]	• Risk – governance	53
Social matters	• Code of Conduct[2]	• Contributing to our communities	32
	• Gifts and Hospitality policy[2]		
Compliance	• Compliance Framework policy (Corporate Criminal Offence)[2]	• Risk – governance	53
	• Anti-Bribery and Anti-Corruption policy[2]		
	• Competition Law Compliance policy[1]		
	• Commercial Agents policy[1]		
Business model		• Our business model	16
Non-financial KPIs		• Employees: accident frequency rate	24
		• Sustainability: CO_2 equivalent emissions	33
		• Customers: on-time in-full deliveries	22

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

Our policies

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

Policy	Description
Code of Conduct	The Company, its subsidiaries and affiliates (Group) are committed to the highest ethical standards in the way in which we engage with each other, our customers, employees, shareholders, suppliers and other stakeholders. Our Code of Conduct sets out what these commitments mean and the behaviours which are expected of all its employees, consultants and officers. Alongside the Code of Conduct we have an Employee Charter drawn up in partnership with the European Works Council which builds on our Code of Conduct and reinforces our standing commitment to comply with applicable legislation and regulatory requirements. We also have other key Group policies outlined below, which serve to further expand upon the provisions in the Code of Conduct. We are firmly committed to both the principle and realisation of equal opportunities and have further underlined our expectations with a new Equal Opportunities and Anti-Discrimination policy launched this year supported by comprehensive training and awareness.
Anti-Bribery and Anti-Corruption policy	DS Smith has zero tolerance for any form of bribery or corruption and is committed to complying with all applicable anti-bribery and corruption laws. In addition to ensuring that our employees and contractors are compliant with the Group's Anti-Bribery and Anti-Corruption policy, we require that all third parties engaging with any DS Smith entity comply with this policy in order to ensure compliance with applicable anti-bribery and corruption laws and preserve our own and our customers' reputations.
Anti-Slavery and Human Trafficking policy	DS Smith has a zero tolerance approach to modern slavery both within the Group and within its supply chain. We respect fundamental human rights and is committed to the principles set out in the United Nations Universal Declaration of Human Rights and this is documented in our Code of Conduct, Employee Charter and Anti-Slavery and Human Trafficking policy. Our progress in the area of modern slavery is set out in our annual Modern Slavery statement. The ultimate responsibility for prevention of modern slavery rests with the Group's leadership, with the Board of Directors having overall responsibility for ensuring this policy is implemented across the Group.
Commercial Agents policy	It is important to our ongoing success that we avoid damage to our reputation due to an act carried out by an agent in our name. The Commercial Agents policy outlines the rules that we expect to be followed across the Group when engaging and monitoring our relationships with agents. This policy also offers guidance to our agents on what is expected of them as an agent of DS Smith. This ensures that agents are properly vetted and monitored.
Competition Law Compliance policy	DS Smith is committed to ensuring that our activities within the European Union (EU) and outside the EU are conducted in compliance with the principles of the EU competition rules as well as all applicable national rules that apply to DS Smith. Group Legal is tasked with assessing and identifying antitrust risks faced within the Group.
Compliance Framework policy (Corporate Criminal Offence)	DS Smith's Compliance Framework policy sets out compliance processes for Corporate Criminal Offence (CCO) which are communicated to all suppliers and is part of due diligence when considering new acquisitions. Training on this policy takes place virtually and where possible face to face with relevant personnel across the Group encompassing all new acquisitions as well as all new joiners. The Group General Counsel and Company Secretary reports on CCO compliance to the Audit Committee at least twice a year.
Document Retention policy	In the course of carrying out its various business activities, we collect information from individuals and external organisations and generates a wide range of data and information which is recorded and stored. We are therefore committed to ensuring that data (especially personal data) is only retained for as long as this is necessary.
Equal Opportunities and Anti-Discrimination policy	DS Smith is committed to promoting equal opportunities in employment. Job applicants, employees and contingent workers will receive equal treatment regardless of age, disability, race, religion or belief, sex, sexual orientation, gender reassignment, marriage and civil partnership, pregnancy and maternity or any other characteristic protected by applicable law. For DS Smith it is imperative to provide a respectful work environment and we have a zero tolerance approach to discrimination. All parties are encouraged to raise concerns if they find conduct within DS Smith that is offensive or a violation of this policy, through their line manager, local human resources (HR) or the 'Speak Up!' process so the Group can investigate and take appropriate remedial measures to end any conduct that violates this policy. The Group Operational Committee (GOC) has overall responsibility for the effective operation of this policy and for ensuring compliance with anti-discrimination laws. The HR team has responsibility for implementation, management and ensuring compliance. All managers must set an appropriate standard of behaviour, lead by example and promote the Company's policies and standards on this matter.

Policy	Description
Gifts and Hospitality policy	We recognise that the act of giving and accepting gifts and hospitality can be part of building normal business relationships. However, our Gifts and Hospitality policy aims to ensure that our employees and contractors never accept gifts or hospitality which could break the law, compromise their judgement, conflict with their duty to DS Smith or our customers, or which could appear to others that their business judgement has been improperly influenced. Equally, our employees and contractors must never offer a gift or hospitality which could have this effect on the recipient. In order to monitor compliance with these principles, each division is required to maintain a gifts and hospitality register in accordance with the policy.
Group Health and Safety policy	Health and safety is the top priority and we actively strive for the continuous improvement of health and safety in the workplace. We aim to provide a healthy and safe working environment for all our employees and to ensure the safety of our contractors, site visitors, the public and all others affected by our operations. The ultimate responsibility for health and safety rests with the Group Chief Executive, the Board members and the executive management team. This responsibility is cascaded through the organisation via divisional/regional Chief Executive Officers and their leadership teams, enabling us to comply with local health and safety laws and regulations in addition to our own standards and guidelines.
Group Procure to Pay policy	This policy establishes a framework for payment of procured goods and services and must be applied when purchasing on behalf of DS Smith. This provides, amongst other benefits, for a uniform and adequate control over these purchases and their payment which is essential for DS Smith's financial management, ensures best practice in full compliance of ethical and statutory obligations, ensures that transactions are transparent and support audit and regulatory requirement and ensures adherence to all governance and controls to reduce risk and potentially fraudulent activity.
Group Sustainability policy	Our sustainability strategy is supported by policies which align the management of sustainability issues across our organisation. Risks arising from sustainability issues are considered as being among the key risks to the Group's operations. To manage and mitigate such risks we have policies for existing and emerging sustainability issues. Our policies include Conflict Minerals, Carbon and Energy Efficiency, Community Engagement, Global Supplier Standards, Water Stewardship, Zero Waste to Landfill and Sustainable Forest Management and Fibre Sourcing. These policies are periodically reviewed and updated, with action plans communicated to the heads of each business unit. The Board receives regular reports on performance and the Group Chief Executive is responsible for addressing sustainability-related issues. The Health, Safety, Environment and Sustainability Committee meets monthly and the Sustainability Steering Group oversees the process for addressing sustainability-related issues and sets and monitors internal targets and strategies to ensure sustainability-related risks and opportunities are appropriately managed.
Personal Data Protection policy	DS Smith takes the issue of the protection of individuals' personal data very seriously. Compliance with data protection laws is critical to the success of our business. Compliance with statutory data protection is the basis of the relationship with our employees, customers, suppliers and business partners. The management of the relevant DS Smith company is responsible for compliance with the data protection principles and must be able to verify their compliance.
'Speak Up!' policy	All DS Smith employees, those providing services to DS Smith (contingent workers), shareholders, and Non-Executive Directors are expected to conduct Company business in a legal and ethical manner as detailed in our Code of Conduct. They have a responsibility not only to be aware of the Code of Conduct but to bring to the attention of management any activity which may be in violation of Company policy, local law or does not meet the standards set out in the Code of Conduct. Employees are encouraged in the first instance to report any concerns to their line manager, local HR or employee representative. If not comfortable to do so, then there are three 'Speak Up!' options available, where a report can be made through a dedicated free phone line or a website (both maintained by an independent third party that is under a duty of confidentiality). The phone and website support a majority of languages spoken across DS Smith. Alternatively the Group General Counsel and Company Secretary can be contacted via email or letter. All options are available 24 hours a day seven days a week. All 'Speak Up!' reports are treated in the strictest confidence. It is our policy to build a climate of support if concerns are raised, including suspected breach of our Code of Conduct, where there is an avenue to report and be confidentially investigated.

Statement of approval

This Strategic Report, including pages 1 to 61, was approved by the Board of Directors on 21 June 2021 and is signed on its behalf by

Miles Roberts
Group Chief Executive