18 Juin 2018

DS SMITH PLC – RESULTATS ANNUELS 2017/18

CROISSANCE, RENTABILITE ET DYNAMIQUE

12 mois jusqu'au 30 Avril 2018		Variation (déclarée)	Variation (à taux de change constant)
Chiffre d'affaires	£5,765m	+21%	+17%
Résultat opérationnel ajusté (1)	£530m	+20%	+16%
Résultat ajusté avant impôts(1)	£473m	+21%	+17%
Bénéfice avant impôts	£292m	+11%	+8%
Bénéfice par action ajusté(1)	35.5p	+9%	+7%
Bénéfice par action	24.9p	+13%	+10%
Dividende par action			
Accompte	4.9p	+7%	+7%
Solde	9.8p	Voir note (8) ci-dessous	
Rentabilité des ventes(4)	9.2%	(10)pts de base	(10)pts de base
Rentabilité des Capitaux Employés Moyens(5)	14.1%	(80)pts de base	(70)pts de base

Pour les notes du tableau financier, voir ci-dessous

Points clés

- Forte croissance organique du volume des caisses avec +5.2%
  - Croissance dans toutes les régions
- Résultats alignés aux objectifs à moyen terme
  - Forte performance des marges malgré l'impact du coût des matières premières
  - Retours financiers durables
- Poursuite du leadership en matière d'emballage pour le commerce électronique
- Excellente performance des entreprises nord-américaines
  - Résultats bien au-delà des attentes initiales
  - Retours plus élevés que WACC dans la période qui a suivie l'acquisition
- D'autres acquisitions en Europe et aux États-Unis
  - EcoPack et EcoPaper (Roumanie) en Mars 2018
  - Corrugated Container Corporation (EU) en Mai 2018
- Proposition d'acquisition d'Europac
  - Projet stratégique et rendement financier très attractif
- Examen stratégique de la division Plastics en cours
- Bonne dynamique pour 2018/19

Miles Roberts, Group Chief Executive, se réjouit:

"DS Smith fait état de résultats solides pour l'année écoulée, preuve de notre performance dans un marché très dynamique. Grâce à notre approche de l'innovation et à nos relations étroites avec les clients, nous capitalisons sur les tendances de croissance du moment telles que l'essor du commerce électronique, le succès des produits durables et l'évolution des habitudes d'achat des consommateurs. Nous gagnons des parts de marché et affichons de solides performances en termes de marge, malgré l'impact du coût des matières premières. La croissance en volume de caisse reste élevée avec +5%, preuve de la forte demande pour nos produits durables et de haute qualité.

Nous avons été ravis d'annoncer le projet d'acquisition d'Europac le 4 juin dernier, qui s'appuie sur nos récentes acquisitions en Europe d'EcoPack et d'EcoPaper ainsi qu'aux Etats-Unis, où l'intégration d'Interstate Resources se traduit par une excellente performance, largement supérieure aux attentes. Nous constatons une bonne dynamique pour 2018/19, nous estimons que notre modèle est plus pertinent que jamais pour nos clients et envisageons l'avenir avec confiance. "

Livraison durable conforme aux objectifs à moyen terme

Objectifs à moyen terme	Réel en 2017/18
Croissance organique en termes de volume([2]) au moins PIB([3])+1%	5.2%
Rentabilité des ventes([4]) 8% – 10%	9.2%
Rentabilité des Capitaux Employés Moyens([5]) 12% – 15%	14.1%
Dette nette / EBITDA([6]) ≤2.0x	2.2x
Cash flow opérationnel/profit opérationnel([7]) ≥ 100%	100%

Pour les notes du tableau financier, voir ci-dessous

Questions
DS Smith Plc +44 (0)20 7756 1800

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

Media
Greg Dawson, Corporate Affairs Director

Brunswick +44 (0)20 7404 5959
Simon Sporborg
Emma Walsh

Notes to the financial tables

Note 13 explains the use of non-GAAP performance measures. 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 establishing the targets against which compensation is determined. Reported results are presented in the Consolidated Income Statement and reconciliations to adjusted results are presented on the face of the Consolidated Income Statement, in note 2, note 7, and note 13.

(1) Before adjusting items and amortisation
(2) Corrugated box volumes, adjusted for the number of working days
(3) GDP growth (year-on-year) for the countries in which DS Smith operates, weighted by our sales by country, for the period April 2017 – March 2018 = 2.5%. Source: Eurostat (15/5/2018)
(4) Operating profit before amortisation and adjusting items as percentage of revenue. Comparative on a constant currency basis
(5) Operating profit before amortisation and adjusting items as a percentage of the average monthly capital employed over the previous 12 month period. Average capital employed includes property, plant and equipment, intangible assets (including goodwill), working capital, provisions, capital debtors/creditors and assets/liabilities held for sale. Comparative on a constant currency basis
(6) EBITDA being operating profit before adjusting items, depreciation and amortisation and adjusted for the full year effect of acquisitions and disposals in the period. Net debt is calculated at average exchange rates as opposed to closing rates. Ratio as calculated in accordance with bank covenants
(7) Free cash flow before tax, net interest, growth capital expenditure, pension payments and adjusting cash flows as a percentage of operating profit before amortisation and adjusting items
(8) The final dividend will be paid to all shareholders at the record date, including shares issued as part of the rights issue. Historic DPS, including the 2017/18 interim dividend, will be adjusted for the bonus element, following calculation of the bonus factor as at the last trading day before the shares go ex-rights.

Overview
The past year has seen a backdrop of strong economic growth in Europe and in particular, growth in e-commerce. In the financial year 2017/18, DS Smith once again achieved very strong growth driven both organically and through acquisitions and we are particularly pleased with our volume growth and gain in market share. The ongoing recovery of very substantial input cost rises, through pricing, has resulted in a broadly stable margin year-on-year. The business took a further major step in August 2017 with the acquisition in north America of Interstate Resources. We are delighted with the initial performance and integration of what is now our North America Packaging and Paper (NAPP) business. The positive response from customers to this acquisition is reflected in the strong volume growth since ownership. We made further investments in our fast growing south eastern Europe region with the acquisition of a Romanian integrated packaging business with a newly commissioned light-weight paper mill. Since the financial year end, we have announced the proposed acquisition of Europac a leading integrated packaging business in western Europe and of Corrugated Container Corporation, a four site box business in north America.

Strong organic growth
Organic corrugated box volumes have grown strongly throughout the year by 5.2 per cent. As with last year all regions have again reported growth, with particularly strong regional volumes in DCH and Northern Europe, Central Europe and Italy, and North America. This rate of box volume growth is ahead of our GDP +1 per cent target, which equates to 3.5 per cent. Growth again comes from our multinational customers, particularly e-commerce and shelf ready packaging. Our core strategy has been built around providing consistent quality and service on a pan-European and now also trans-Atlantic basis providing opportunities for our customers to benefit from our investment in innovation and leading solutions. We fully expect the current trends around sustainable packaging solutions and rationalising supply chains to continue and we continue to seek to drive our market share gains. Our long-standing approach of working with customers to increase their sales, reduce their costs and manage their risks, remains as relevant as ever.

For the full-year, revenue growth of 17 per cent on a constant currency basis was broadly equally weighted between the contribution from organic growth and from acquired businesses. Organic growth was driven principally by volume growth and increases in sales price, implemented in response to rises in underlying paper prices.

Adjusted operating profit increased by 16 per cent on a constant currency basis (20 per cent on a reported basis) to £530 million (2016/17: £443 million). This was driven by the significant contribution from volume growth, contributing 13 per cent growth (£59 million) compared to the prior year, and from the contribution of businesses acquired, in particular our north America assets. Input cost increases were driven by a very substantial rise in the cost of paper and other operating costs, which were substantially passed through to customers, with the usual timing lag, with a net negative impact on profit of £52 million.

Adjusted earnings per share increased by 7 per cent on a constant currency basis to 35.5 pence (9 per cent on a reported basis) (2016/17: 32.5 pence). This result builds on eight years of consistently strong growth, with the eight year compound annual growth rate for adjusted EPS being 26 per cent.

The Board considers the dividend to be an important component of shareholder returns and, as such, has a policy to deliver a progressive dividend, where dividend cover is between 2.0 and 2.5 times, through the cycle. For the year 2017/18, in accordance with our dividend policy, the Board recommends a final dividend of 9.8 pence per share, which will be paid to all shares on the record date, including those to be issued in the rights issue. The 2017/18 interim dividend of 4.9 pence, and prior dividends, will be restated in future accounts to reflect the bonus factor adjustment resulting from the rights issue.

Growing the business

DS Smith has grown the business very profitably, organically and through consolidating acquisitions. We believe that the success of our multinational customer strategy demonstrates that there is significant customer demand for high quality packaging and consistent service on both a pan-European and now trans-Atlantic basis. As such, we continue to see this demand as a significant growth driver. Our capital and target acquisition investments are set out each year in our three year corporate plan and agreed with the Board. All investments are evaluated to determine that they fulfil our strict financial criteria of being consistent with our financial KPIs, in the medium-term. Our strategic aim is to become the leader in sustainable packaging solutions by any measure. We will continue to build on our strong customer demand for our packaging solutions and maintain our investment in innovation and design, allowing our customers to participate in these benefits to drive their businesses.

Acquisition of Interstate Resources

In 2017/18, we responded to customer demands and brought our solutions to north America, through the acquisition of Interstate Resources. We also added strategically required capacity in the fast growing south eastern Europe region through the acquisition of the EcoPack and EcoPaper businesses in Romania.

The creation of our North America Packaging and Paper (NAPP) business has been a success on numerous measures and the acquisition of Interstate Resources has materially outperformed our initial expectations. Engagement from new colleagues in north America has been excellent, with a huge enthusiasm to deliver our business plans. The integration of their paper assets into our global supply chain has already yielded significant value and we are progressing extremely well with our multinational customers. The NAPP division is managed by a senior team made up of a mix of those who have worked in that business for many years, and those with a background in DS Smith, with the overall approach being getting the "best from both" and all parties learning from one another. We are also implementing OWN IT!, our employee engagement programme which helps colleagues around the organisation actively participate in delivering the corporate strategy. Since the year end we acquired box plants in four new sites in the US.

Strategic review of Plastics Division

Consistent with our strategy to be the leading supplier of sustainable packaging solutions and increasing focus on the production of high quality, cost effective corrugated packaging, we have initiated a strategic review of our Plastics business.

Proposed acquisition of Europac

On 4 June 2018, we announced the proposed acquisition of Papeles y Cartones de Europe, S.A., known as Europac, a leading integrated packaging business in Western Europe. The acquisition has a highly compelling strategic rationale and we expect that it will create significant value for customers and consistent and attractive returns for DS Smith shareholders.

Operating review

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

UK

	Year ended 30 April 2018	Year ended 30 April 2017	Change
Revenue	£1,078m	£962m	+12%
Adjusted operating profit*	£109m	£94m	+16%
Return on sales*	10.1%	9.8%	+30bps

*Adjusted to exclude amortisation and adjusting items

Our UK corrugated packaging business has performed well despite the uncertain economic backdrop. E-commerce volumes have been particularly good, and we recently launched an online e-commerce supply platform for small businesses in addition to our focus on large e-commerce customers. We have made very good progress on input cost recovery and continue to drive operational efficiencies. The UK business is long paper and recycling, which has benefited from the rising paper price environment over the past 12 months.

Western Europe

	Year ended 30 April 2018	Year ended 30 April 2017	Change-reported	Change-constant currency
Revenue	£1,450m	£1,264m	+15%	+10%
Adjusted operating profit*	£102m	£104m	(2%)	(6%)
Return on sales*	7.0%	8.2%	(120bps)	(120bps)

*Adjusted to exclude amortisation and adjusting items

Like-for-like corrugated packaging volumes in the region have been strong, with both France and Iberia gaining market share with pan-European and e-commerce customers, offsetting continued flat market conditions in Benelux. Revenues have grown by 10 per cent, principally from good organic growth and a small contribution from the full year benefit of the acquisitions of GoPaca and P&I Display in Iberia in 2016/17.

There has been good recovery of paper cost rises to date in the region, with a short-term lag. Adjusted operating profit fell slightly reflecting input costs not yet fully recovered in absolute terms although this is expected to be completed in the new financial year. Return on sales has fallen by 120 basis points reflecting the short-term lag in input cost recovery described above and are expected to be restored in the new financial year.

DCH and Northern Europe

	Year ended 30 April 2017	Year ended 30 April 2017	Change-reported	Change – constant currency
Revenue	£1,083m	£989m	+10%	+6%
Adjusted operating profit*	£90m	£82m	+10%	+6%
Return on sales*	8.3%	8.3%	-	-

*Adjusted to exclude amortisation and adjusting items

Volumes in this region have continued to be very positive, with very good volume growth in Northern Europe and excellent growth in the DCH (Germany and Switzerland) region. Revenues grew by 6 per cent, reflecting the benefit of positive corrugated box volumes throughout the region.

Adjusted operating profit increased by 6 per cent, in line with revenue growth, reflecting the benefit of the drop through of profit from volume growth and the benefit of the contribution from our paper manufacturing operations in the region. Consequently, return on sales was stable at 8.3 per cent.

Central Europe and Italy

	Year ended 30 April 2018	Year ended 30 April 2017	Change – reported	Change – constant currency
Revenue	£1,429m	£1,239m	+15%	+10%
Adjusted operating profit*	£129m	£125m	+3%	(2%)
Return on sales*	9.0%	10.1%	(110bps)	(110bps)

* Adjusted to exclude amortisation and adjusting items

Volumes in this region have again been very good, particularly in Poland and the Baltic region, and also in south eastern Europe. Revenue growth of 10 per cent reflects the strong organic volume growth, sales price increases implemented to recover input costs, and a modest early contribution from the EcoPaper and EcoPack business acquired on 6 March 2018.

Adjusted operating profit is marginally lower, reflecting a small contribution from the acquired businesses and the benefit of drop-through from volume and sales price increases, offset by the increases in paper and other input costs, as described earlier. As a result, return on sales reduced by 110 basis points which as with other regions should be fully restored in the new financial year.

North America

	Year ended 30 April 2018	Year ended 30 April 2017
Revenue	£379m	-
Adjusted operating profit*	£62m	-
Return on sales*	16.4%	

* Adjusted for amortisation and adjusting items

The performance of the North America packaging and paper division has been excellent, with corrugated box volume growth compared to the comparative period (prior to DS Smith ownership) ahead of the Group average. The return for the period on a run-rate basis, is above our weighted average cost of capital, well ahead of our initial expectations. Both the paper and packaging assets have performed very well in a rising paper price environment. Synergies of $10 million (c. £8 million) have been realised, principally from global supply chain benefits versus our target of $35 million (upgraded from $25 million at the time of announcement of the acquisition), the remainder of which we expect to realise over the coming two financial years, broadly evenly split.

Plastics

	Year ended 30 April 2018	Year ended 30 April 2017	Change – reported	Change – constant currency
Revenue	£346m	£327m	+6%	+5%
Adjusted operating profit*	£38m	£38m	-	-
Return on sales*	11.0%	11.6%	(60bps)	(50bps)

* Adjusted for amortisation and adjusting items

Constant currency revenue increased 5 per cent, the majority of which was driven from volume and pricing increases, and also with a contribution from the acquisition of Parish, a small but highly complementary bag-in-box business in north America acquired in January 2017. Adjusted operating profit was stable at £38 million, principally reflecting the impact of rising raw material and other costs, which, as expected, were only partially recovered in the year with the remainder to be recovered early on the next year.

Delivering on our medium-term targets and key performance indicators

We continue to deliver in line with our medium-term targets and key performance indicators. As set out above, corrugated box volumes grew by 5.2 per cent. This exceeded our target of GDP+1 per cent, with year-on-year GDP growth, weighted by our sales in the markets in which we operate, estimated at 2.5 per cent (Source: Eurostat) resulting in a 170 basis point outperformance against the target of 3.5 per cent. All regions have again recorded volume growth in the year, with a particularly strong contribution from DCH and Northern Europe region, Central Europe and Italy, and from North America. Underlying the regional performances has been the growth of our pan-European customer base, where we continue to make significant gains with existing customers as we increase our market share with them, further demonstrating the demand for a high quality pan-European supplier of corrugated packaging, operating on a co-ordinated multinational basis.

Adjusted return on sales has remained broadly flat at 9.2 per cent (2016/17: 9.3 per cent), in the upper half of our target range of 8 to 10 per cent, reflecting the benefit of good drop-through from incremental revenues into profit, offset by substantial input cost pressure over the period and the recovery of this through selling price.

Adjusted return on average capital employed (ROACE) is 14.1 per cent (2016/17: 14.9 per cent), continuing near the top of our medium-term target range of 12 to 15 per cent and significantly above our cost of capital, despite the recent significant acquisition of Interstate Resources in North America, which has a dilutive impact on this ratio. The ongoing high ROACE reflects significant focus on an efficient capital base, in addition to profitability. We have maintained our continual focus on tight capital allocation and management within the business, including working capital, which has been closely managed as shown by a reduction in the ratio of average working capital to revenue. ROACE is our primary financial measure of success, and is measured and calculated on a monthly basis.

Net debt as at 30 April 2018 was £1,680 million (30 April 2017: £1,092 million) reflecting the significant acquisitions made in the period of £819 million (including debt assumed of £204 million), less cash raised from the issue of new equity of £283 million. Cash generated from operations before adjusting items of £656 million was used to invest in capex of £329 million (net) and one off adjusting items of £80 million primarily in acquiring and integrating the new businesses. Net debt/EBITDA (calculated in accordance with our banking covenant requirements) is 2.2 times (2016/17: 1.8 times). This reflects the acquisitions made as well as ongoing cash and balance sheet management throughout the business.

During the year, the Group generated free cash flow of £204 million (2016/17: £363 million). Cash conversion, as defined in our financial KPIs (note 13) was 100 per cent, in line with 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 have again reported 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 9 per cent from 3.0 to 2.8, reflecting our ongoing commitment to best practice in health and safety. We are proud to report that 239 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. In the year we achieved 93 per cent, an improvement versus the prior year, but still below our target. Management remains extremely dissatisfied with this outcome and is fully committed to delivering the highest standards of service, quality and innovation to all our customers and will continue to challenge ourselves to meet the demanding standards our customers expect.

One part of the DS Smith strategy is to lead the way in sustainability. Corrugated packaging is a key part of the sustainable economy, providing essential protection to products as they are transported and, at the end of use, it is fully recyclable. Corrugated packaging is also substantially constructed from recycled material, as are many of our plastic packaging products. Our Recycling business works with customers across Europe to improve their recycling operations and overall environmental performance. In calendar 2017, compared to calendar 2016, on a restated basis to reflect acquisitions, our CO_2 equivalent emissions, relative to production, have increased by 5 per cent, reflecting an increase in energy usage relating to increased volume growth, and the impact of light-weighting our paper and packaging.

Outlook

The current year has started well, with the volume growth momentum seen in 2017/18 continuing into the new financial year and the ongoing recovery of the paper price rises announced earlier this calendar year progressing as expected.

The drivers for growth of sustainable packaging in a dynamic consumer and retail environment are more relevant than ever. Our differentiated position with customers, built on our geographic scale and innovation-led expertise reinforces our confidence in the prospects for the business.

Financial Review

Overview

The Group performed very strongly in 2017/18, with significant organic volume growth, revenue growth reflecting the recovery of paper prices and growth from acquisitions more than offsetting input cost headwinds. In the year we acquired Interstate Resources in the US and EcoPack and EcoPaper in Romania. DS Smith maintains the widest reach in Europe of any packaging group and, as a result, is able to offer a complete pan-European solution to all our customers, and through the creation of our North America Packaging and Paper business we can offer transatlantic solutions too.

The Group continues to deliver against the targets that the Board has set for its financial key performance indicators, as well as being confident that it will achieve all of its medium-term financial measures:

- Adjusted operating profit before adjusting items and amortisation up 16 per cent on a constant currency basis and 20 per cent on a reported basis at £530 million (2016/17: £443 million)
- Operating profit at £361 million is up 14 per cent (2016/17: £316 million)
- Organic corrugated box volume growth of 5.2 per cent (2016/17: 3.2 per cent)
- Adjusted return on sales[1] of 9.2 per cent (2016/17: 9.3 per cent)
- Adjusted return on average capital employed[1] of 14.1 per cent (2016/17: 14.9 per cent)
- Net debt/EBITDA of 2.2 times (2016/17: 1.8 times)

1 Adjusted for amortisation and adjusting items.

Non-GAAP performance measures

The Group uses certain key non-GAAP measures in order to provide a balanced view of the Group's overall performance and position, eliminating 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 establishing the targets against which compensation is determined. Amortisation relates primarily to customer contracts and relationships arising from business combinations – significant costs are incurred in maintaining, developing and increasing these, costs which are charged in determining adjusted profit; exclusion of amortisation remedies the double count which would otherwise occur. Unusual or non-operational items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments, and are referred to as adjusting items.

Reporting of non-GAAP measures alongside reported measures is considered useful to investors to understand how management evaluates performance and value creation internally, 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 13 of the consolidated financial statements explains further the use of non-GAAP performance measures and provides reconciliations as appropriate to information stemming 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

Group revenue increased to £5,765 million (2016/17: £4,781 million), a growth of 21 per cent on a reported basis, reflecting volume and sales price growth, the impact of acquisitions and a positive currency translation effect. Corrugated box volume growth was significantly ahead of target, of GDP +1 per cent, at 5.2 per cent, and sales price growth reflected the price increases that took place to recover paper price increases in the year. The euro accounted for 57 per cent of Group revenue and its strength against sterling during the year represented the majority of the £143 million of currency impact. On a constant currency basis, revenue increased by 17 per cent, including organic growth of £401 million.

Operating profit of £361 million increased from the prior year (2016/17: £316 million) due to business growth, partially offset by higher adjusting items of £76 million (2016/17: £62 million) and higher amortisation of £93 million (2016/17: £65 million) driven by the significant acquisitions made in the year.

Adjusted operating profit rose by 20 per cent on a reported basis to £530 million (2016/17: £443 million), with currency having a positive impact of £13 million. Growth on a constant currency basis was 16 per cent, benefitting from a £67 million impact from the acquisitions of Interstate Resources in the US and EcoPack and EcoPaper in Romania during the financial year. These acquisitions have already begun to generate synergies in the short time that they have been part of the Group and are on track to deliver or outperform their acquisition business cases. This strong result is testament to the Group's experience in the effective integration of, and support for, acquired businesses.

The profit drop-through from higher volumes (£59 million) and the benefit of higher pricing and sales mix (£204 million) was offset by higher input and other costs (£256 million). Input costs were substantially higher than in the prior year, reflecting significant increases in paper prices (which are the largest single component of input costs) and general inflationary pressures on other costs with a particularly large impact on distribution. The commercial finance function within the Group has worked closely with sales teams to ensure that increased paper prices are recovered through pass through mechanisms to our customers, and packaging strategists work with our customers to mitigate these impacts through performance packaging and innovation. The Group looks to mitigate the impact of other input costs through improvements in efficiency and procurement initiatives.

Depreciation increased by £20 million in the year on a reported basis mainly from the acquisition of Interstate Resources and previous capital investments. The increase in amortisation for the year from £65 million in 2016/17 to £93 million in 2017/18 was driven primarily by intangible assets recognised through the acquisition of Interstate Resources.

Group margins continue to benefit from both operational leverage and continuous focus on cost and efficiency, which mitigated increases in other direct material costs, resulting in a broadly flat return on sales of 9.2 per cent (2016/17: 9.3 per cent). In 2015 the return on sales target range was increased to 8-10 per cent and again performance has been fully in line with this upgraded target. The return on average capital employed for the year was 14.1 per cent (2016/17: 14.9 per cent), which is at the higher end of the target set by the Board of 12-15 per cent, significantly above the Group cost of capital. Given the measure of capital employed is the average balance and not a single point in time, this current year ratio is affected fully by acquisitions made in 2016/17 and partially by acquisitions made in 2017/18.

Adjusting items

Adjusting items before tax, financing costs and share of results of associates were £76 million (2016/17: £62 million).

Acquisition related costs of £29 million (2016/17: £7 million) were the largest element of adjusting items in 2017/18 driven by the acquisition costs of Interstate Resources which comprised £14m million of the total, but also reflecting a year of significant deal activity. They comprise professional advisory and legal fees, and directly attributable staff costs related to acquisitions evaluated and completed during the year as well as to deals which are still in the pipeline, as well as a £2 million fair value remeasurement on the redemption liability related to the acquisition of Interstate Resources. Integration costs of £13 million related to both current and prior year acquisitions.

Restructuring and reorganisation costs of £17 million were incurred primarily in DCH and Northern Europe (£4 million) and in the UK (£4 million). Approximately half of the restructuring charges relate to initiatives that commenced in the prior year, with the remainder attributable to new initiatives launched in the current year.

Other adjusting items of £16 million (2016/17: £9 million) principally relate to significant multi-year European centralisation and optimisation projects, including the development of a Group wide financial enterprise resource planning (ERP) solution, shared service centres and major IT integration projects. These projects arise primarily as a consequence of the Group's acquisition activities, where the existing ERP, general IT systems and infrastructure are limited. The total costs of individual projects are significant and tend to be incurred over more than one financial period.

Finance costs adjusting items relate to financing costs incurred in the acquisition of Interstate Resources of £5 million, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources. The finance cost which would have been incurred had the put option been exercised is recorded in underlying finance costs.

Interest, tax and earnings per share

Net financing costs were £74 million (2016/17: £55 million). Net financing costs before adjusting items were £62 million, up £7 million from the prior year. The increase from the prior year was primarily due to the acquisition of Interstate Resources. Interest costs include a charge of £2 million to reflect the additional finance cost which would be incurred if the Interstate Resources put option had been exercised. Adjusting financing costs of £12 million (2016/17: nil) comprise the unwind of the discount on the put option liability recognised on the acquisition of Interstate Resources, and bridge financing and bond issue costs associated with this acquisition. The employment benefit net finance expense was £4 million (2016/17: £5 million).

Profit before tax was higher at £292 million (2016/17: £264 million), due to flow through of higher operating profit and improved share of results of associates, partially offset by higher finance costs. Adjusted profit before tax of £473 million (2016/17: £391 million) was higher due to the growth in adjusted operating profit. The share of the profit of equity accounted investments was £5 million (2016/17: £3 million).

The tax charge of £33 million was £23 million lower than the prior year primarily due to the recognition of a reduction in current and deferred tax liabilities as a result of the major tax reform in the US. The Group's effective tax rate on adjusted profit, excluding amortisation, adjusting items and associates was 22.5 per cent (2016/17: 22.0 per cent). The adjusting items tax credit was £47 million (2016/17: £13 million), driven by a £37 million credit arising from the US tax reform in December 2017.

Reported profit after tax, amortisation and adjusting items was £259 million (2016/17: £208 million).

Basic earnings per share were 24.9 pence (2016/17: 22.1 pence) despite higher amortisation and adjusting items, together with the equity issues noted below. Adjusted earnings per share were 35.5 pence (2016/17: 32.5 pence), an increase of 9 per cent on a reported basis and 7 per cent on a constant currency basis, driven by the growth in operating profit. Earnings per share were impacted in the period by the equity issue on 29 June 2017 which raised funds for the Interstate Resources acquisition, that completed approximately two months later on 25 August 2017, in addition to the equity issues to the vendors of both Interstate Resources and EcoPack and EcoPaper.

Dividend

The proposed final dividend is 9.8 pence (2016/17: 10.6 pence), will be paid on 1 November 2018 to ordinary shareholders on the register at close of business on 5 October 2018, including those shares to be issued in the rights issue.

Acquisitions and disposals

In line with its strategic aims, the Group has continued to grow the business in order to meet the requirements of its major customers. This year the Group made significant strategic steps with the acquisition of an 80 per cent holding in Interstate Resources in the US on 25 August 2017 and of EcoPack and EcoPaper in Romania on 6 March 2018.

Interstate Resources is an integrated packaging business based on the East Coast of the US and comprised the Group's North America segment. In the year ended 30 April 2018, Interstate Resources contributed revenue of £379 million and adjusted operating profit before amortisation and adjusting items of £62 million. The total consideration of £772 million plus debt acquired of £140 million was funded in part by a placement of ordinary shares in the market and to the seller. A redemption liability for the sale and/or acquisition of the remaining 20 per cent was also recognised as a liability, initially at £152 million.

EcoPack and EcoPaper is a leading integrated packaging business in Romania. It will significantly enhance the Group's capacity to serve customers in this high growth region as well as supporting our wider substantial eastern European presence. The total consideration of £128 million plus debt acquired of £60 million was funded by existing debt facilities and the issue of ordinary shares to the seller. In addition the two box plants of the DPF Groupe in France were acquired in the period.

Acquisitions in 2016/17 included Creo in the UK, Deku-Pack in Denmark, Parish in the USA and GoPaca and P&I Display in Portugal.

Cash flow

Closing net debt of £1,680 million (30 April 2017: £1,092 million) has increased year on year with outflows on strategic acquisitions and borrowings acquired more than offsetting cash inflows from operating activities. Working capital outflows of £16 million are an effect of higher input prices in inventory, offset by trade payables, and higher selling prices increasing trade receivables.

Capital expenditure net of asset disposals increased to £329 million in the year (2016/17: £226 million). The Group capital expenditure strategy of balancing asset renewal/replacement and investment in growth and efficiency has been maintained. Growth and efficiency together account for 65 per cent of expenditure. Proceeds from the disposal of property, plant and equipment were £18 million (2016/17: £18 million), resulting in profits of £1 million (2016/17: £14 million).

Net interest payments of £41 million were £4 million lower than the prior year. Interest on the Euro Medium Term Notes (EMTN) issued in July 2017 is payable annually, which accounts for the majority of the difference between cash interest paid and finance costs in the income statement.

Cash costs of adjusting items amounted to £80 million, representing the cash investment in acquisition costs, restructuring and infrastructure. Acquisition of subsidiary businesses, net of cash and cash equivalents (but before acquired debt), totalled £615 million in the year. No businesses were disposed of in 2017/18.

During the year dividends of £157 million, representing the 2016/17 interim dividend and final dividend, were paid.

The £656 million cash generated from operations before adjusting cash items and net acquisitions made in the year has contributed to a net cash outflow for the year of £652 million, compared to an inflow of £105 million in the prior year.

Loans and borrowings from acquired businesses were £204 million. Net proceeds from the issue of share capital were £283 million in the year, primarily due to the equity issue on 29 June 2017 which raised funds for the Interstate Resources acquisition. Foreign exchange, fair value and other non-cash movements increased net debt by £15 million.

Statement of financial position

Shareholders' funds have increased to £2,109 million at 30 April 2018, an increase of £756 million over the reported position of the prior year. The improvement in shareholders' funds is principally due to profit attributable to shareholders of £259 million (2016/17: £209 million) and actuarial gains on employee benefits of £57 million partly offset by income tax on items which will not be reclassified to profit or loss of £14 million. This net increase was further offset by the dividend payments of £157 million (2016/17: £121 million). Equity attributable to non-controlling interests was £1 million (30 April 2017: £2 million).

The net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) ratio, calculated in accordance with the Group's debt covenants, was 2.2 times at 30 April 2018, up from 1.8 times at the previous year end. The Group is in compliance with all financial covenants, which specify an EBITDA to net interest payable ratio of not less than 4.50 times and a maximum ratio of net debt to EBITDA of 3.25 times. This calculation excludes the Interstate Resources put option which, if exercised, would increase leverage to c. 2.4 times.

The covenant calculations exclude from the income statement adjusting items and any interest arising from the defined benefit pension schemes. At 30 April 2018, the Group had substantial headroom under its covenants. The Group has an investment grade credit rating from Standard and Poor's of BBB- which takes into account all of the items excluded from covenant calculations and working capital.

Energy costs

Energy is a significant cost for the Group and gas, electricity and diesel costs totalled £207 million in the year (2016/17: £179 million). Capital invested in combined heat and power facilities, lower prices and energy efficiency initiatives have all contributed to the management of energy costs. The Group continues to manage the risks associated with its purchases of energy through its Energy Procurement Group. By hedging energy costs with suppliers and financial institutions the Group aims to reduce the volatility of energy costs and provide a degree of certainty over future energy costs.

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

The Group's overall treasury objectives are to ensure that sufficient funds are available for the Group to carry out its strategy and to manage financial risks to which the Group is exposed.

The Group regularly reviews the level of cash and debt facilities required to fund its activities. At 30 April 2018, the Group's committed borrowing facilities totalled c. £2.8 billion of which c. £800 million were undrawn. Undrawn committed borrowing facilities are held to provide protection against any refinancing risk on maturing facilities or deterioration in working capital balances. The Group's committed borrowing facilities at 30 April 2018 had a weighted average maturity of 6.2 years (30 April 2017: 3.8 years). The Group's total gross borrowings at 30 April 2018 were £1,973 million (30 April 2017: £1,263 million).

During the year, the Group issued €750 million and £250 million of new debt under the EMTN programme. The proceeds were used for the acquisition of Interstate Resources and to repay drawings under the Group's syndicate bank revolving credit facility. The Group is committed to maintain its investment grade credit rating from Standard and Poor's and has structured the financing of the recently announced acquisition of Europac to try and achieve this. The proposed acquisition of Europac for an implied enterprise value €1,904 million will be financed by the issue of new equity (c. £1 billion) with the balance funded through new debt. It is expected that reported leverage (excluding the Interstate put option) will be under 2.5 times at year end following the acquisition.

The Group has for many years sold without recourse certain trade receivables and on realisation the receivable is de-recognised and proceeds are presented within operating cash flows. These arrangements have systematically reduced early payment discounts and have thus provided the Group with more economic alternatives. The facilities available are committed for three years and are not relied upon by the Group for liquidity. Balances have increased in the year to £559m in line with the increase in turnover derived from higher prices for our products and the increase in size of the Group. Similarly, during the year inventories and trade payables grew by a similar amount for the same reasons.

Impairment
When applying IAS 36 *Impairment of Assets*, the Group compares the carrying amounts of goodwill and intangible assets with the higher of their net realisable value and their value-in-use to determine whether impairment exists. The value-in-use is calculated by discounting the future cash flows expected to be generated by the assets or group of assets being tested for

impairment. In April 2018 tests were undertaken to determine whether there had been any impairment to the balance sheet carrying values of goodwill and other intangible assets. The key assumptions behind the calculations are based on the regional long-term growth rates and a pre-tax discount rate of 9.5 per cent which is a basic weighted average cost of capital of 8.8 per cent plus a blended country risk premium of 0.7 per cent. No impairments were identified as a result of the testing.

The net book value of goodwill and other intangibles at 30 April 2018 was £2,043 million (30 April 2017: £1,178 million) with the increase a result of the acquisitions of Interstate Resources and EcoPack and EcoPaper in the year.

Pensions

The Group's principal funded defined benefit pension scheme is in the UK and is closed to future accrual. The Group also operates various local post-retirement and other employee benefit arrangements for overseas operations, as well as a small UK unfunded scheme relating to two former directors and secured against assets of the UK business.

IAS 19 *Employee Benefits (Revised 2011)* requires the Group to make assumptions including, but not limited to, rates of inflation, discount rates and current and future life expectancies. The use of different assumptions could have a material effect on the accounting values of the relevant assets and liabilities, which in turn could result in a change to the cost of such liabilities as recognised in the income statement over time. The assumptions involved are subject to periodic review.

The aggregate gross assets of the schemes at 30 April 2018 were £1,086 million and the gross liabilities at 30 April 2018 were £1,192 million, resulting in the recognition of a gross balance sheet deficit of £106 million (30 April 2017: £181 million).The net deficit was £80 million (30 April 2017: £139 million) after taking into account deferred tax assets of £26 million (30 April 2017: £42 million).

A triennial valuation of the main UK scheme was carried out at 30 April 2016, following which a deficit recovery plan was agreed with the Trustee Board on 28 April 2017.The Group agreed to increase existing annual cash contributions under the deficit recovery plan by 10 per cent per annum commencing with 2016/17. The recovery plan is expected to be completed on or around November 2025.

The total cash contributions paid into the Group pension schemes were £25 million in 2017/18 (2016/17: £17 million), principally comprising £20 million (2016/17: £16 million) in respect of the agreed contributions to the pension scheme deficit (for the deficit recovery plan) and are included in cash generated from operations. During the year, the Group reached an agreement regarding contributions made in respect of unfunded pension arrangements. There is no impact on the gross liabilities in respect of these arrangements, and a gain of £4 million has been recognised. The reduction in the gross balance sheet deficit of £75 million is principally attributable to an increase in discount rates and a reduction in inflation assumptions in the main UK scheme.

Consolidated income statement

Year ended 30 April 2018

	Note	Before adjusting items 2018 £m	Adjusting items (note 3) 2018 £m	2018 £m	Before adjusting items 2017 £m	Adjusting items (note 3) 2017 £m	2017 £m
Revenue	2	5,765	–	5,765	4,781	–	4,781
Operating costs		(5,235)	(47)	(5,282)	(4,338)	(57)	(4,395)
Operating profit before amortisation, acquisitions and disposals	2	530	(47)	483	443	(57)	386
Amortisation of intangible assets; acquisitions and disposals	3	(93)	(29)	(122)	(65)	(5)	(70)
Operating profit		437	(76)	361	378	(62)	316
Finance income	5	2	–	2	1	–	1
Finance costs	3, 5	(60)	(12)	(72)	(51)	–	(51)
Employment benefit net finance expense		(4)	–	(4)	(5)	–	(5)
Net financing costs		(62)	(12)	(74)	(55)	–	(55)
Profit after financing costs		375	(88)	287	323	(62)	261
Share of profit of equity accounted investments, net of tax		5	–	5	3	–	3
Profit before income tax		380	(88)	292	326	(62)	264
Income tax (expense)/credit	6, 3	(80)	47	(33)	(69)	13	(56)
Profit for the year		300	(41)	259	257	(49)	208
Profit for the year attributable to:							
Owners of the parent		300	(41)	259	258	(49)	209
Non-controlling interests		–	–	–	(1)	–	(1)
Earnings per share							
Earnings per share							
Basic	7			24.9p			22.1p
Diluted	7			24.8p			22.0p

All activities comprise continuing operations.

(a) Subject to approval of shareholders at the Annual General Meeting to be held on 4 September 2018, the final dividend of 9.8p will be paid on 1 November 2018 to ordinary shareholders on the register at the close of business on 5 October 2018.

(b) The financial information presented in this preliminary announcement is extracted from, and is consistent with, the Group's audited financial statements for the year ended 30 April 2018. The financial information set out above does not constitute the Company's statutory financial statements for the years ended 30 April 2018 or 30 April 2017 but is derived from those financial statements. Statutory accounts for the year ended 30 April 2017 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 30 April 2018 will be delivered following the Company's Annual General Meeting. The Auditor's report on these accounts was not qualified or modified and did not contain any statement under Sections 498(2) or (3) of the Companies Act 2006.

(c) The Group's audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The preliminary announcement has been agreed with the Company's Auditor for release.

(d) Items are presented as adjusting in the accounts where they are significant items of financial performance that the Directors consider should be separately disclosed to assist in the understanding of the trading and financial results achieved by the Group (note 3).

Consolidated statement of comprehensive income

Year ended 30 April 2018

		2018 £m	2017 £m
Profit for the year		259	208
Items which will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on employee benefits	4	57	(1)
Income tax on items which will not be reclassified subsequently to profit or loss		(14)	(3)
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		1	71
Cash flow hedges fair value changes		8	1
Reclassification from cash flow hedge reserve to income statement		10	8
Share of other comprehensive income of equity accounted investments		–	1
Income tax on items which may be reclassified subsequently to profit or loss		5	35
Other comprehensive income for the year, net of tax		67	112
Total comprehensive income for the year		326	320
Total comprehensive income/(expense) attributable to:			
Owners of the parent		326	321
Non-controlling interests		–	(1)

Consolidated statement of financial position

At 30 April 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Intangible assets		2,043	1,178
Biological assets		3	–
Property, plant and equipment		2,396	1,866
Equity accounted investments		24	9
Other investments		11	3
Deferred tax assets		64	79
Other receivables		7	3
Derivative financial instruments		15	19
Total non-current assets		4,563	3,157
Current assets			
Inventories		543	406
Biological assets		4	–
Income tax receivable		15	10
Trade and other receivables		863	766
Cash and cash equivalents		297	139
Derivative financial instruments		44	13
Assets held for sale		–	2
Total current assets		1,766	1,336
Total assets		6,329	4,493
Liabilities			
Non-current liabilities			
Borrowings		(1,811)	(1,144)
Employee benefits	4	(106)	(181)
Other payables		(14)	(14)
Provisions		(4)	(5)
Deferred tax liabilities		(195)	(133)
Derivative financial instruments		(35)	(11)
Total non-current liabilities		(2,165)	(1,488)
Current liabilities			
Bank overdrafts		(29)	(16)
Borrowings		(162)	(119)
Trade and other payables		(1,705)	(1,358)
Income tax liabilities		(118)	(120)
Provisions		(16)	(24)
Derivative financial instruments		(24)	(13)
Total current liabilities		(2,054)	(1,650)
Total liabilities		(4,219)	(3,138)
Net assets		2,110	1,355
Equity			
Issued capital		107	95
Share premium		1,260	728
Reserves		742	530
Total equity attributable to owners of the parent		2,109	1,353
Non-controlling interests		1	2
Total equity		2,110	1,355

Approved by the Board of Directors of DS Smith Plc on 17 June 2018 and signed on its behalf by:

M W Roberts	A R T Marsh
Director	Director

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

Consolidated statement of changes in equity

Year ended 30 April 2018

	Note	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Own shares £m	Retained earnings[1] £m	Total reserves attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 May 2016		94	716	(29)	(69)	(3)	428	1,137	3	1,140
Profit for the year		–	–	–	–	–	209	209	(1)	208
Actuarial loss on employee benefits		–	–	–	–	–	(1)	(1)	–	(1)
Foreign currency translation differences		–	–	–	71	–	–	71	–	71
Cash flow hedges fair value changes		–	–	1	–	–	–	1	–	1
Reclassification from cash flow hedge reserve to income statement		–	–	8	–	–	–	8	–	8
Share of other comprehensive income of equity accounted investment		–	–	–	1	–	–	1	–	1
Income tax on other comprehensive income		–	–	(2)	37	–	(3)	32	–	32
Total comprehensive income/(expense)		–	–	7	109	–	205	321	(1)	320
Issue of share capital		1	12	–	–	–	–	13	–	13
Employee share trust		–	–	–	–	(1)	(5)	(6)	–	(6)
Share-based payment expense (net of tax)		–	–	–	–	–	9	9	–	9
Dividends paid	8	–	–	–	–	–	(121)	(121)	–	(121)
Other changes in equity in the year		1	12	–	–	(1)	(117)	(105)	–	(105)
At 30 April 2017		95	728	(22)	40	(4)	516	1,353	2	1,355
Profit for the year		–	–	–	–	–	259	259	–	259
Actuarial gain on employee benefits		–	–	–	–	–	57	57	–	57
Foreign currency translation differences		–	–	–	1	–	–	1	–	1
Cash flow hedges fair value changes		–	–	8	–	–	–	8	–	8
Reclassification from cash flow hedge reserve to income statement		–	–	10	–	–	–	10	–	10
Income tax on other comprehensive income		–	–	(3)	8	–	(14)	(9)	–	(9)
Total comprehensive income		–	–	15	9	–	302	326	–	326
Issue of share capital		12	532	–	–	–	32	576	–	576
Employee share trust		–	–	–	–	3	(7)	(4)	–	(4)
Share-based payment expense (net of tax)		–	–	–	–	–	15	15	–	15
Dividends paid	8	–	–	–	–	–	(157)	(157)	–	(157)
Transaction with non-controlling interests		–	–	–	–	–	–	–	(1)	(1)
Other changes in equity in the year		12	532	–	–	3	(117)	430	(1)	429
At 30 April 2018		107	1,260	(7)	49	(1)	701	2,109	1	2,110

1. Retained earnings include a reserve related to merger relief.

Consolidated statement of cash flows

Year ended 30 April 2018

Continuing operations	Note	2018 £m	2017 £m
Operating activities			
Cash generated from operations	10	576	629
Interest received		1	1
Interest paid		(42)	(46)
Tax paid		(82)	(61)
Cash flows from operating activities		453	523
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	12	(615)	(71)
Capital expenditure		(347)	(244)
Proceeds from sale of property, plant and equipment and intangible assets		18	18
Cash flows from restricted cash and other deposits		(6)	–
Cash flows used in investing activities		(950)	(297)
Financing activities			
Proceeds from issue of share capital		283	13
Repayment of borrowings		(490)	(924)
Proceeds from borrowings		1,008	785
Proceeds from settlement of derivative financial instruments		2	31
Repayment of finance lease obligations		(4)	(9)
Dividends paid to Group shareholders	8	(157)	(121)
Other		(4)	–
Cash flows from/(used in) financing activities		638	(225)
Increase in cash and cash equivalents		141	1
Net cash and cash equivalents at 1 May		123	115
Exchange gains on cash and cash equivalents		4	7
Net cash and cash equivalents at 30 April		268	123

1. Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'), and have also applied IFRSs as issued by the International Accounting Standards Board (IASB).

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

The consolidated financial statements have been prepared on a going concern basis.

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect whether and how policies are applied, and the reported amounts of assets and liabilities, income and expenses.

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2017:

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- *IAS 7 Disclosure Initiative – Amendments to IAS 7*; and
- Annual Improvements to IFRSs 2014-2016 Cycle.

The adoption of these standards, amendments and interpretations has not had a material effect on the results for the year.

The accounting policies, presentation methods and methods of computation followed are the same as those detailed in the 2017 Annual Report and Accounts, which is available on the Group's website (www.dssmith.com/investors/results-and-presentations). Whilst the financial information included in the preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

2. Segment reporting

Operating segments

To accommodate the Group's acquisition of Interstate Resources in August 2017, an additional operating segment, 'North America' has been added for the year ended 30 April 2018.

Year ended 30 April 2018	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Plastics £m	Total continuing operations £m
External revenue		1,078	1,450	1,083	1,429	379	346	5,765
Adjusted EBITDA [1]		138	147	121	167	76	49	698
Depreciation		(29)	(45)	(31)	(38)	(14)	(11)	(168)
Adjusted operating profit[1]		109	102	90	129	62	38	530
Unallocated items:								
Amortisation								(93)
Adjusting items in operating profit	3							(76)
Total operating profit (continuing operations)								361
Unallocated items:								
Net financing costs								(74)
Share of profit of equity accounted investments, net of tax								5
Profit before income tax								292
Income tax expense								(33)
Profit for the year								259
Analysis of total assets and total liabilities								
Segment assets		835	1,182	1,000	1,481	1,147	214	5,859
Unallocated items:								
Equity accounted investments and other investments								35
Derivative financial instruments								59
Cash and cash equivalents								297
Tax								79
Total assets								6,329
Segment liabilities		(280)	(680)	(208)	(394)	(62)	(82)	(1,706)
Unallocated items:								
Borrowings and accrued interest								(2,035)
Derivative financial instruments								(59)
Tax								(313)
Employee benefits								(106)
Total liabilities								(4,219)
Capital expenditure		64	83	60	88	32	20	347

1. Adjusted to exclude amortisation and adjusting items.

2. Segment reporting continued

Year ended 30 April 2017	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Plastics £m	Total continuing operations £m
External revenue		962	1,264	989	1,239	–	327	4,781
Adjusted EBITDA [1]		122	144	112	165	–	48	591
Depreciation		(28)	(40)	(30)	(40)	–	(10)	(148)
Adjusted operating profit[1]		94	104	82	125	–	38	443
Unallocated items:								
Amortisation								(65)
Adjusting items in operating profit	3							(62)
Total operating profit (continuing operations)								316
Unallocated items:								
Net financing costs								(55)
Share of profit of equity accounted investment, net of tax								3
Profit before income tax								264
Income tax expense								(56)
Profit for the year								208
Analysis of total assets and total liabilities								
Segment assets		823	1,062	951	1,170	–	215	4,221
Unallocated items:								
Equity accounted investment and other investments								12
Derivative financial instruments								32
Cash and cash equivalents								139
Tax								89
Total assets								4,493
Segment liabilities		(292)	(533)	(192)	(299)	–	(65)	(1,381)
Unallocated items:								
Borrowings and accrued interest								(1,299)
Derivative financial instruments								(24)
Tax								(253)
Employee benefits								(181)
Total liabilities								(3,138)
Capital expenditure		53	57	38	81	–	15	244

1. Adjusted to exclude amortisation and adjusting items.

Geographical areas

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

	External revenue	
Continuing operations	2018 £m	2017 £m
UK	969	932
France	776	704
Germany	697	606
Italy	564	512
USA	437	93
Rest of the world	2,322	1,934
	5,765	4,781

3. Adjusting items

Items are presented as adjusting in the financial statements where they are significant items of financial performance that the Directors consider should be separately disclosed to assist in the understanding of the trading and financial results of the Group. Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments. With effect from 1 May 2017, the Group has changed the description of these items from 'exceptional' to 'adjusting', to better represent their nature.

Continuing operations	2018 £m	2017 £m
Acquisition related costs	(29)	(7)
Gains on acquisitions and disposals	–	2
Acquisitions and disposals	(29)	(5)
Integration costs	(13)	(17)
Other restructuring costs	(17)	(26)
Impairment of assets	(1)	(5)
Other	(16)	(9)
Total pre-tax adjusting items (recognised in operating profit)	(76)	(62)
Finance costs adjusting items	(12)	–
Adjusting tax items	33	(1)
Current tax credit on adjusting items	14	13
Deferred tax credit on adjusting items	–	1
Total post-tax adjusting items	(41)	(49)

2017/18

Acquisition related costs of £29m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review of potential deals, and deals completed during the period, including the acquisition of Interstate Resources, DPF Groupe and EcoPack and EcoPaper. Of the total, £14m relates to the acquisition of Interstate Resources, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence and advice costs. Also included within acquisition costs is £2m for the year end remeasurement of fair value on the redemption liability related to the purchase of Interstate Resources.

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the acquisitions made in the current period and previous financial years (of which Interstate Resources comprises £6m). They include those directly attributable internal salary costs which would otherwise not be incurred.

Other restructuring costs of £17m include reorganisation and restructuring in DCH and Northern Europe (£4m), the UK (£4m) and Plastics (£2m), primarily relating to completion of projects commenced in the previous year.

Other adjusting items of £16m principally relate to significant multi-year European centralisation and optimisation projects, including the development of a Group-wide financial ERP solution, shared service centre and major IT projects. The costs of these programmes extend over several years and as well as adjusting items include capitalisation of intangible assets, particularly in the case of the financial ERP system. Those costs are primarily as a result of the Group's acquisition activity, which has been focused on businesses where the IT and financial infrastructure is limited.

Finance costs adjusting items relate to financing costs incurred in the acquisition of Interstate Resources of £5m, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

On 22 December 2017, the US enacted a major tax reform bill, which included, inter alia, the reduction in corporation tax rate from 35% to 21%. The revised rate has been used to revalue net deferred tax liabilities in the US, leading to a credit to profit and loss of £37m to adjusting tax items, of which the most significant element relates to the deferred tax liabilities arising on the recognition of intangibles in business combinations. The remaining £4m debit is an increase in tax provisions in respect of tax risks in acquired businesses.

The current tax credit on adjusting items of £14m in the year ended 30 April 2018 is the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excludes non-tax deductible deal related advisory fees in relation to acquisitions and disposals.

3. Adjusting items continued

2016/17

Acquisition costs of £7m relate to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review and execution of potential deals, and deals completed during the year, including the acquisition of Creo, Deku-Pack, Gopaca, P&I Display and Parish.

Integration costs relate to integration projects underway to ensure appropriate health and safety standards are operating and to achieve cost synergies from the acquisitions made in the current year and previous financial year. They include those directly attributable internal salary costs which would otherwise not be incurred.

The £26m other restructuring costs include reorganisation and restructuring in DCH and Northern Europe (£11m), the UK (£6m), Western Europe (£4m) and Plastics (£2m).

Other adjusting items of £9m principally relate to infrastructure optimisation and efficiency projects.

The income tax credit on adjusting items includes an increase in tax provisions arising from the acquisition of a business (£1m), and the tax effect at the local applicable tax rate of adjusting items that are subject to tax. The adjusting items in the year give rise to a net income tax effect, with the exception of non-deductible deal related advisory fees in relation to acquisitions and disposals.

4. Employee benefits

	2018 £m	2017 £m
Employee benefit deficit at 1 May	(181)	(188)
Acquisitions	(8)	–
Expense recognised in operating profit	(6)	(5)
Employment benefit net finance expense (excluding Pension Protection Fund levy)	(3)	(4)
Employer contributions	25	17
Other payments and contributions	13	7
Actuarial gains/(losses)	57	(1)
Currency translation	(3)	(8)
Reclassification	–	1
Employee benefit deficit at 30 April	(106)	(181)
Deferred tax asset	26	42
Net employee benefit deficit at 30 April	(80)	(139)

The table above is the aggregate value of all Group employee benefit schemes including both overseas and UK schemes. The Group's principal funded, defined benefit pension scheme, the DS Smith Group Pension scheme, is in the UK and is now closed to future accrual.

The Group also operates various local post-retirement arrangements for overseas operations, pre-retirement benefits and long-service awards and a small UK unfunded scheme.

5. Finance income and costs

Continuing operations	2018 £m	2017 £m
Interest income from financial assets	(2)	(1)
Finance income	(2)	(1)
Interest on borrowings and overdrafts	54	46
Other	6	5
Finance costs before adjusting items	60	51
Finance costs adjusting items	12	–
Finance costs	72	51

6. Income tax expense

	2018 £m	2017 £m
Current tax expense		
Current year	(106)	(99)
Adjustment in respect of prior years	13	9
	(93)	(90)
Deferred tax credit		
Origination and reversal of temporary differences	4	18
Reduction in tax rates	(1)	(3)
Adjustment in respect of prior years	10	6
	13	21
Total income tax expense before adjusting items	(80)	(69)
Adjusting tax items (note 3)	33	(1)
Current tax credit on adjusting items (note 3)	14	13
Deferred tax credit relating to adjusting items (note 3)	–	1
Total income tax expense in the income statement from continuing operations	(33)	(56)

The tax credit on amortisation was £24m (2016/17: £16m).

The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

	2018 £m	2017 £m
Profit before income tax	292	264
Share of profit of equity accounted investments, net of tax	(5)	(3)
Profit before tax and share of profit of equity accounted investments, net of tax	287	261
Income tax at the domestic corporation tax rate of 19.00% (2016/17: 19.92%)	(55)	(52)
Effect of additional taxes and tax rates in overseas jurisdictions	(27)	(30)
Additional items deductible for tax purposes	19	18
Non-deductible expenses	(20)	(5)
Non-taxable gains	–	1
Release of prior year provisions in relation to acquired businesses	3	4
Deferred tax not recognised	(4)	–
Foreign exchange	(5)	–
Adjustment in respect of prior years	20	11
Effect of change in corporation tax rates	36	(3)
Income tax expense – total Group	(33)	(56)

The Group's effective tax rate, excluding amortisation, adjusting items and share of result from equity accounted investments was 22.5% (2016/17: 22.0%).

7. Earnings per share

Basic earnings per share from continuing operations

	2018	2017
Profit from continuing operations attributable to ordinary shareholders	£259m	£209m
Weighted average number of ordinary shares	1,039m	945m
Basic earnings per share	24.9p	22.1p

Diluted earnings per share from continuing operations

	2018	2017
Profit from continuing operations attributable to ordinary shareholders	£259m	£209m
Weighted average number of ordinary shares	1,039m	945m
Potentially dilutive shares issuable under share-based payment arrangements	7m	6m
Weighted average number of ordinary shares (diluted)	1,046m	951m
Diluted earnings per share	24.8p	22.0p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2016/17: 2m).

Adjusted earnings per share from continuing operations

Adjusted earnings per share is a key performance measure for management long-term remuneration and is widely used by the Group's shareholders. Adjusted earnings is calculated by adding back the post-tax effects of both amortisation and adjusting items.

Further detail about the use of non-GAAP performance measures, including details of why amortisation is excluded, is given in note 13.

A reconciliation of basic to adjusted earnings per share is as follows:

	2018			2017		
	£m	Basic – pence per share	Diluted – pence per share	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	259	24.9p	24.8p	209	22.1p	22.0p
Add back:						
Amortisation of intangible assets	93	8.9p	8.9p	65	6.9p	6.8p
Tax credit on amortisation	(24)	(2.3p)	(2.3p)	(16)	(1.7p)	(1.7p)
Adjusting items, before tax	88	8.5p	8.4p	62	6.6p	6.6p
Tax on adjusting items and adjusting tax items	(47)	(4.5p)	(4.5p)	(13)	(1.4p)	(1.4p)
Adjusted earnings	369	35.5p	35.3p	307	32.5p	32.3p

8. Dividends proposed and paid

	2018		2017	
	Pence per share	£m	Pence per share	£m
2016/17 interim dividend – paid	–	–	4.6p	44
2016/17 final dividend – paid	–	–	10.6p	113
2017/18 interim dividend – paid	4.9p	53	–	–
2017/18 final dividend – proposed	9.8p	* see note	–	–

	2018 £m	2017 £m
Paid during the year	157	121

The interim dividend in respect of 2017/18 of 4.9 pence per share (£53m) was paid after the year end on 1 May 2018. The 2016/17 interim and final dividends were paid during the 2017/18 financial year.

* A final dividend in respect of 2017/18 of 9.8 pence per share has been proposed by the Directors after the reporting date, payable to all shares on the record date, including those to be issued in the rights issue (see note 14(a)).

9. Net debt

	2018 £m	2017 £m
Cash and cash equivalents	297	139
Overdrafts	(29)	(16)
Net cash and cash equivalents	268	123
Other investments – restricted cash	3	–
Other deposits	45	40
Borrowings due – after one year	(1,802)	(1,133)
Borrowings due – within one year	(158)	(115)
Finance leases	(13)	(15)
Derivative financial instruments		
assets	12	14
liabilities	(35)	(6)
	(1,948)	(1,215)
Net debt	(1,680)	(1,092)

Net debt is a non-GAAP measure not defined by IFRS, calculated in accordance with the Group's banking covenant requirements. Further detail on the use of non-GAAP measures is included in note 13.

Derivative financial instruments above relate to forward foreign exchange contracts, interest rate and cross-currency swaps used to hedge the Group's borrowings and the ratio of net debt to adjusted EBITDA. The difference between the amounts shown above and the total derivative financial instrument assets and liabilities in the consolidated statement of financial position relates to derivative financial instruments that hedge forecast foreign currency transactions and the Group's purchases of energy.

Other deposits are included, as these short-term receivables have the characteristics of net debt.

10. Cash generated from operations

Continuing operations	2018 £m	2017 £m
Profit for the year	259	208
Adjustments for:		
Pre-tax integration costs and other adjusting items	47	57
Amortisation of intangible assets and acquisitions and disposals	122	70
Cash outflow for adjusting items	(80)	(66)
Depreciation	168	148
Profit on sale of non-current assets	(1)	(14)
Share of profit of equity accounted investments, net of tax	(5)	(3)
Employment benefit net finance expense	4	5
Share-based payment expense	9	10
Finance income	(2)	(1)
Finance costs	72	51
Other non-cash items	2	9
Income tax expense	33	56
Change in provisions	(9)	(6)
Change in employee benefits	(27)	(19)
Cash generation before working capital movement	592	505
Changes in:		
Inventories	(82)	(49)
Trade and other receivables	(19)	10
Trade and other payables	85	163
Working capital movement	(16)	124
Cash generated from continuing operations	576	629

11. Reconciliation of net cash flow to movement in net debt

	2018 £m	2017 £m
Profit for the year	259	208
Income tax expense	33	56
Share of profit of equity accounted investments, net of tax	(5)	(3)
Net financing costs	74	55
Amortisation	93	65
Adjusting items	76	62
Operating profit before amortisation and adjusting items	530	443
Depreciation	168	148
Adjusted EBITDA	698	591
Working capital movement	(16)	124
Change in provisions	(9)	(6)
Change in employee benefits	(27)	(19)
Other	10	5
Cash generated from operations before adjusting cash items	656	695
Capital expenditure	(347)	(244)
Proceeds from sale of property, plant and equipment and other investments	18	18
Tax paid	(82)	(61)
Net interest paid	(41)	(45)
Free cash flow	204	363
Cash outflow for adjusting items	(80)	(66)
Dividends paid	(157)	(121)
Acquisition of subsidiary businesses, net of cash and cash equivalents	(615)	(71)
Other	(4)	–
Net cash flow	(652)	105
Proceeds from issue of share capital	283	13
Borrowings acquired	(204)	(14)
Net movement on debt	(573)	104
Foreign exchange, fair value and other non-cash movements	(15)	(97)
Net debt movement – continuing operations	(588)	7
Opening net debt	(1,092)	(1,099)
Closing net debt	(1,680)	(1,092)

Adjusted EBITDA, free cash flow, and net debt are non-GAAP measures not defined by IFRS. Further detail on the use of non-GAAP measures is included in note 13.

12. Acquisitions and disposals

(a) Acquisition of Interstate Resources

On 29 June 2017, the Group entered into a conditional agreement to acquire an 80% interest in Indevco Management Resources Inc. (IMRI), the owner of Interstate Resources Inc. (Interstate Resources), from Merpas Co. Sàrl. ('Merpas'), which completed on 25 August 2017.

Interstate Resources is an integrated packaging and paper producer based on the East Coast of the USA. It operates from 19 production sites and has approximately 1,500 employees.

Interstate Resources operates across the entire packaging chain including wood procurement, paper manufacturing, design, packaging manufacturing and customer logistics, with the majority of its customer base for its packaging products being FMCG and food customers.

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

The acquisition was funded by the issue of a placing on 29 June 2017 of shares in the Company with proceeds net of commissions and expenses of £280m, existing debt facilities, new debt facilities of £400m agreed by the Company on 28 June 2017, and the issue of 52,474,156 ordinary shares to the seller.

In the year ended 30 April 2018, Interstate Resources contributed combined revenue of £379m and adjusted operating profit before amortisation and adjusting items of £62m to the Group's results. If the acquisition had occurred on 1 May 2017, estimated revenue and adjusted operating profit before amortisation and adjusting items for the combined group would have been £5,954m and £557m respectively.

The following table summarises the consideration paid for the Interstate Resources business and provisional fair value of assets acquired and liabilities assumed:

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	1	258
Biological assets	8	8
Property, plant and equipment	272	276
Equity accounted and other investments	16	19
Inventories	33	31
Net income tax assets	3	2
Trade and other receivables	63	61
Cash and cash equivalents	1	1
Borrowings	(140)	(140)
Trade and other payables	(54)	(42)
Provisions and employee benefits	(11)	(13)
Net deferred tax liabilities	(37)	(118)
Total identifiable net assets acquired	155	343
Redemption liability relating to non-controlling interest		(152)
Goodwill		581
Total consideration		772
Satisfied by:		
Cash consideration		511
Equity instruments (52,474,156 ordinary shares)		261
Total consideration transferred		772
Net cash flow arising on acquisition		
Cash consideration		511
Cash and cash equivalents acquired		(1)
Total cash outflow		510

The fair value of the ordinary shares issued was based on the listed share price of the Company at 25 August 2017 of £4.97 per share.

A detailed exercise has been undertaken to assess the provisional fair values of assets acquired and liabilities assumed, with the use of third party experts where appropriate. The provisional fair values of intangible assets and property, plant and equipment have been assessed by reference to work performed by an independent valuation specialist. The intangible assets acquired as part of the acquisition relate to customer relationships.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

The redemption liability relating to the non-controlling interest of £152m relates to the 20% minority stake in IMRI retained by Merpas. On fixed dates over the next four years, Merpas can require the Group to acquire some or all of the remaining shares in IMRI on agreed terms under a put option, and, on the fifth anniversary of Completion, the Group will (unless agreed otherwise) acquire any shares in IMRI that it does not already own. The Group has concluded that the risks and rewards related to the put option have substantially transferred to the Group as acquirer and, as such, a financial liability has been recognised, with no non-controlling interest recognised in the statement of financial position. The redemption liability is held at discounted fair value, with subsequent movements taken to the income statement; movements due to re-measurement using the multiple based formula as specified in the contract and the unwind of the discount are recorded in adjusting items. The redemption liability is included in trade and other payables in the consolidated statement of financial position.

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

The trade and other receivables comprise gross contractual amounts due of £62m. At the acquisition date, it is estimated that contractual cash flows of £1m will not be collected.

The provisional goodwill balance of £581m arising on the acquisition of Interstate Resources (which is not expected to be tax deductible) includes anticipated synergies from integrating Interstate Resources into the Group, and the skills and technical talent of the Interstate Resources workforce.

(b) Acquisition of EcoPack/EcoPaper

On 18 October 2017, the Group announced it had entered into an agreement to acquire EcoPack and EcoPaper, (collectively “the Business”) for an enterprise value of c. €208 million, which completed on 6 March 2018.

The Business is a leading integrated packaging and paper group in Romania; family owned for many years. It will significantly enhance the Group’s capacity to serve customers in this high growth region as well as supporting our wider substantial Eastern European presence. The Business includes both high quality packaging assets, focused on the local FMCG market, as well as a new paper machine, built in 2017, that specialises in high quality, light-weight paper, which is particularly well-suited to supporting the Group’s performance packaging solutions.

The acquisition was funded by existing cash and debt facilities and the issue of 6,492,411 ordinary shares to the seller.

In the year ended 30 April 2018, EcoPack/EcoPaper contributed combined revenue of £10m and adjusted operating profit before amortisation and adjusting items of £3m to the Group’s results. If the acquisition had occurred on 1 May 2017, estimated revenue and adjusted operating profit before amortisation and adjusting items for the combined group would have been £5,836m and £538m respectively.

The following table summarises the consideration paid for the EcoPack/EcoPaper business and provisional fair value of assets acquired and liabilities assumed:

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	–	39
Property, plant and equipment	94	94
Inventories	6	5
Net income tax liabilities	–	(1)
Trade and other receivables	12	12
Borrowings	(60)	(60)
Trade and other payables	(8)	(8)
Net deferred tax liabilities	–	(6)
Total identifiable net assets acquired	44	75
Goodwill		53
Total consideration		128
Satisfied by:		
Cash consideration		95
Equity instruments (6,492,411 ordinary shares)		33
Total consideration transferred		128
Net cash flow arising on acquisition		
Cash consideration		95
Cash and cash equivalents acquired		–
Total cash outflow		95

The fair value of the ordinary shares issued was based on the listed share price of the Company at 6 March 2018 of £5.06 per share.

The intangible assets acquired as part of the acquisition relate to customer relationships.

Given that the acquisition was completed on 6 March, fair values for assets and liabilities acquired are provisional. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

Deferred tax is recognised on the temporary timing differences created by the fair value adjustments.

The provisional goodwill balance of £53m arising on the acquisition of EcoPack/EcoPaper (which is not expected to be tax deductible) includes anticipated synergies from integrating EcoPack/EcoPaper into the Group, and the skills and technical talent of the EcoPack/EcoPaper workforce.

(c) Other 2017/18 acquisitions and disposals

In total, during the year ended 30 April 2018, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents was £615m, and borrowings acquired were £204m, giving a total impact on net debt from acquisitions of £819m. Apart from the acquisitions of Interstate Resources and EcoPack/EcoPaper, the remaining acquisitions are not material to the Group individually or in aggregate.

(d) 2016/17 acquisitions and disposals

In the year ended 30 April 2017, the Group made various business acquisitions, which included the acquisition of two businesses specialising in point of sale and display product and services for in-store marketing, Creo in the UK and Deku-Pack in Denmark, the acquisition of Parish (a US manufacturer and supplier of bag-in-box systems), Gopaca (a corrugated producer in Portugal) and P&I Display (a specialist corrugated display business in Portugal).

These acquisitions were not considered material to the Group individually or in aggregate and were for a total of £71m (net of cash and cash equivalents). Borrowings acquired from these transactions were £14m.

(e) Acquisition related costs

The Group incurred acquisition related costs of £29m (2016/17: £7m) which primarily related to the acquisition of Interstate Resources as detailed in note 12(a). In addition to the total of £29m which was included in administrative expenses within adjusting items, £5m of costs related to the share placing with existing DS Smith equity holders has been netted against share premium.

13. Non-GAAP performance measures

The Group presents reported and adjusted financial information in order to provide shareholders with additional information to further understand the Group's operational performance and financial position.

The principal adjustments to financial information are made to exclude the effects of adjusting items and amortisation.

Total reported financial information represents the Group's overall performance and financial position, but can contain significant unusual or non-operational items that may obscure understanding of the key trends and position. These unusual or non-operational items include business disposals, restructuring and optimisation project costs, acquisition-related and integration costs, and impairments. Restructuring and optimisation items treated as adjusting items are major programmes usually spanning more than one year, with uneven impact on the profit and loss for those years affected. Other adjusting items, such as business disposals, impairments, integration and acquisition costs, which are by nature either highly variable and can also have a similar distorting effect. Therefore, the Directors consider that presenting non-GAAP measures which exclude adjusting items enable comparability of the recurring core business, complementing the IFRS measures presented.

Amortisation relates primarily to customer contracts and relationships arising from business combinations. Significant costs are incurred in maintaining, developing and increasing the value of such intangibles, costs which are charged in determining adjusted profit. Exclusion of amortisation remedies this double count as well as providing comparability over the accounting treatment of customer contracts and relationships arising from the acquisition of businesses and those generated internally.

The Group's key non-GAAP measures are used both internally and externally to evaluate business performance against the Group's KPIs and banking and debt covenants, as a key constituent of the Group's planning process, as well as comprising targets against which compensation is determined.

Certain non-GAAP performance measures can be, and are, reconciled to information presented in the financial statements. Other financial key performance measures are calculated using information which is not presented in the financial statements and is based on, for example, average twelve month balances or average exchange rates.

The key non-GAAP performance measures used by the Group and their calculation methods are as follows:

Adjusted operating profit

Adjusted operating profit is operating profit excluding the pre-tax effects of both amortisation and adjusting items. Adjusting items include business disposal gains and losses, restructuring and optimisation costs, acquisition related and integration costs and impairments.

A reconciliation between reported and adjusted operating profit is set out on the face of the consolidated income statement.

Operating profit before adjusting items

A reconciliation between operating profit and operating profit before adjusting items is set out on the face of the consolidated income statement.

Other similar profit measures before adjusting items are quoted, such as profit before income tax and adjusting items, and are directly derived from the consolidated income statement, from which they can be directly reconciled.

Return on sales

Return on sales is adjusted operating profit measured as a percentage of revenue and can be derived directly from the face of the consolidated income statement. Return on sales is used to measure the value we deliver to customers and the Group's ability to charge for that value.

	2018 £m	2017 £m
Adjusted operating profit	530	443
Revenue	5,765	4,781
Return on sales	9.2%	9.3%

Adjusted earnings per share

Adjusted earnings per share is basic earnings per share adjusted to exclude the post-tax effects of adjusting items and amortisation. Adjusted earnings per share is a key performance measure for management long-term remuneration and is widely used by the Group's shareholders.

A reconciliation between basic and adjusted earnings per share is provided in note 7.

Adjusted return on average capital employed (ROACE)

ROACE is the last 12 months' adjusted operating profit as a percentage of the average monthly capital employed over the previous 12 month period. Capital employed is the sum of property, plant and equipment, goodwill and intangible assets, working capital, capital debtors/creditors, provisions, biological assets and assets/liabilities held for sale.

	2018 £m	2017 £m
Capital employed at 30 April	4,106	2,796
Currency, inter-month and acquisition movements	(353)	182
Last 12 months' average capital employed	3,753	2,978
Last 12 months' adjusted operating profit	530	443
Adjusted return on average capital employed	14.1%	14.9%

Adjusted EBITDA

Earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) is adjusted operating profit excluding depreciation. A reconciliation from adjusted operating profit to adjusted EBITDA is provided in note 11.

Net debt

Net debt is the measure by which the Group assesses its level of overall indebtedness within its financial position. A split showing the components of net debt is provided in note 9.

Net debt/EBITDA

Net debt/EBITDA is the ratio of net debt to adjusted EBITDA, calculated in accordance with the Group's banking covenant requirements.

Net debt/EBITDA is considered a key measure of balance sheet strength and financial stability by which the Group assesses its financial position.

In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and adjusting EBITDA is adjusted operating profit before depreciation from the previous 12 month period adjusted for the full year effect of acquisitions and disposals in the period.

	2018 £m	2017 £m
Net debt – reported basis (see note 9)	1,680	1,092
Currency effects	7	–
Net debt – adjusted basis	1,687	1,092
Adjusted EBITDA – last 12 months' reported basis	698	591
Acquisition effects	52	6
Adjusted EBITDA – banking covenant basis	750	597

Free cash flow

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.

A reconciliation of free cash flow is set out in note 11.

Cash conversion

Cash conversion is free cash flow, as defined above, adjusted to exclude tax, net interest, growth capital expenditure and pension payments as a percentage of adjusted operating profit and can be derived directly from note 11, other than growth capital expenditure, which is capital expenditure necessary for the development or expansion of the business as follows:

	2018 £m	2017 £m
Growth capital expenditure	175	103
Non-growth capital expenditure	172	141
Total capital expenditure	347	244
Free cash flow (note 11)	204	363
Tax paid (note 11)	82	61
Net interest paid (note 11)	41	45
Growth capital expenditure	175	103
Pension payments (note 11)	27	19
	529	591
Adjusted operating profit	530	443
Cash conversion	100%	133%

Average working capital to sales

Average working capital to sales measures the level of investment the Group makes in working capital to conduct its operations. It is measured by comparing the monthly working capital balances for the previous 12 months as a percentage of revenue over the same period. Working capital is the sum of inventories, trade and other receivables, and trade and other payables, excluding capital and acquisition related debtors and creditors.

	2018 £m	2017 £m
Inventories	543	406
Trade and other receivables	870	769
Trade and other payables	(1,719)	(1,372)
Inter-month movements and exclusion of capital and acquisition related items	308	239
Last 12 months' average working capital	2	42
Last 12 months' revenue	5,765	4,781
Average working capital to sales	0.0%	0.9%

Constant currency

The Group presents commentary on both reported and constant currency revenue and adjusted operating profit comparatives in order to explain the impact of exchange rates on the Group's key income statement captions. Constant currency comparatives recalculate the prior period revenue and adjusted operating profit as if they had been generated at the current year exchange rates. The table below shows the calculation:

	Comparative year ended 30 April 2017	
	Revenue £m	Adjusted operating profit £m
Reported basis	4,781	443
Currency effects	143	13
Constant currency basis	4,924	456

14. Subsequent events

(a) Acquisition of Papeles y Cartones de Europa, S.A., (Europac)

On 4 June 2018, the Group announced the proposed acquisition of Papeles y Cartones de Europa, S.A. (Europac), a leading western European integrated packaging business, for €1,667m plus acquired cash and debt of €237m.

The acquisition will be funded by a rights issue of c. £1,000m net and a new committed debt facility of €740m.

The acquisition is expected to complete in the last quarter of 2018; completion is subject to certain conditions including approval by the Company's shareholders and the receipt of regulatory approvals.

An initial accounting and fair value exercise will be conducted shortly after completion.

The following table summarises the financial position of Europac at 31 December 2017 and its profit for the year then ended:

	Carrying values at 31 December 2017 £m
Non-current assets	739
Current assets	222
Non-current liabilities	(351)
Current liabilities	(247)
Total identifiable net assets acquired	363

	Results for year ended 31 December 2017 £m
Revenue	760
Operating costs	(663)
Operating profit	97
Net finance costs	(8)
Profit before tax	89
Income tax expense	(20)
Profit after tax	69

(b) Other subsequent events

On 22 May 2018, the Group announced an agreement to acquire Corrugated Container Corporation, a high-quality corrugated packaging Company in north America. The acquisition is not material to the Group.

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