13 June 2019

DS SMITH PLC – 2018/19 FULL YEAR RESULTS

A YEAR OF SIGNIFICANT DELIVERY

12 months to 30 April 2019 Continuing operations		Change (reported)	Change (constant currency)
Revenue	£6,171m	+12%	+12%
Adjusted operating profit(1)	£631m	+28%	+28%
Adjusted profit before tax(1)	£569m	+31%	+31%
Profit before tax	£350m	+35%	+35%
Adjusted EPS(1)	33.3p	+8%	+8%
Basic EPS	19.7p	(7%)	(8%)
Dividend per share	16.2p	+13%	+13%
Return on sales(4)	10.2%	+130bps	+120bps
ROACE(5)	13.6%	-10bps	-10bps

See notes to financial table below

Highlights

- Strong operational performance
  - Market outperformance - volume growth at 2.4%(2)
  - Volume growth in all regions through FMCG and e-commerce focus
  - Continued success of US operations
- Strong financial performance
  - Record return on sales and upgrade of medium-term target to 10 – 12%
  - Organic adjusted operating profit growth(8) of 9%
  - Profit before tax up 35%
  - Free cash flow up 84%
  - Robust balance sheet – pro-forma net debt/EBITDA(9) <2.0X
- Strategic delivery
  - Acquisition of Europac - upgrade to synergies from €50m to €70m
  - Sale of plastics division agreed

Miles Roberts, Group Chief Executive, commented:

"This strong set of results from DS Smith demonstrates the company's growing scale and strategic progress in key markets. We are continuing to gain market share throughout Europe, particularly among more resilient FMCG customers, and our US business is performing well following our recent acquisition there.

I am very pleased to be able to raise our medium-term return on sales target, up to 10 - 12 per cent, as well as adding to our cost synergy estimate following successful initial progress in integrating Europac, which we acquired during the year. DS Smith is increasingly well-placed to capitalise on rising consumer demand for sustainable corrugated packaging as well as greater convenience from both e-commerce and more traditional retail channels.

The underlying drivers of demand for sustainable corrugated packaging and our differentiated offering give us confidence in ongoing volume and market share growth. We saw some volume weakness in certain export-led markets in the second half of 2018/19, including Germany, but we expect this to improve during the current year. While volatility in the macro-economic environment and input costs remains, our focus on pricing discipline, operating efficiencies and cash flows supports our expectations of further good progress in the coming year."

Delivery against our medium-term targets

Medium-term targets	Delivery in 2018/19
Organic volume growth(2) at least GDP(3)+1% (2.9%)	2.4%
Return on sales(4) 8% – 10%	10.2%
ROACE(5) 12% – 15%	13.6%
Net Debt / EBITDA(6) ≤2.0x	2.3x
Operating cash flow/operating profit(7) ≥ 100%	102%

See notes to the financial tables, below

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A presentation for investors and analysts will be held today at 9:00am at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Due to security at the London Stock Exchange, please bring photographic identity, e.g. passport, driving licence or European ID card. Coffee will be available from 8:30am.

The event is available by webcast by registering via the link on our website https://www.dssmith.com/investors/results-and-presentations. Alternatively, dial-in access for the presentation is available on the details as follows:
+44 (0)20 3003 2666 (standard access) or 0808 109 0700 (UK toll free) Password: DS Smith. The slides accompanying the presentation will be available on our website shortly before the start of the presentation, as well as on the webcast.

A replay of the event is available for seven days, on +44 (0)20 8196 1998, PIN 0331153. An audio file and transcript will also be available on www.dssmith.com/investors/results-and-presentations.

Notes to the financial tables

Note 15 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 15.

(1) Before adjusting items of £90 million (as set out in note 3) and amortisation of £114 million
(2) Corrugated box volumes (excluding Europac) and 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 2018 – March 2019 = 1.9%. Source: Eurostat (15/5/2019)
(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. Ratio as calculated in accordance with bank covenants. See note 15 on non-GAAP measures for reconciliation
(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) See note 15 on non-GAAP measures for reconciliation
(9) Pro-forma net debt to EBITDA is derived by adjusting the 30 April 2019 calculation of net debt for the expected sale proceeds of the anticipated Plastics and remedy disposals and adjusting for the EBITDA of these businesses

Cautionary statement: This announcement contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this announcement and DS Smith Plc undertakes no obligation to update these forward-looking statements. Nothing in this statement should be construed as a profit forecast.

Overview
2018/19 has been another year of good delivery from DS Smith, with substantial progress developing our strategic position in Europe along with further organic growth. We have delivered record return on sales margins of 10.2 per cent alongside continued market share gains and return on capital of 13.6 per cent, in the middle of our target range. We also made the significant acquisition of Europac, which was announced in June 2018 and completed in January 2019. Europac represented an exceptional scale opportunity to enhance our customer offer in Iberia, a key packaging growth region, and strengthen our global supply platform, in particular with the addition of a strategically important kraftliner mill to our assets. Initial integration work has been excellent and I am pleased to announce that we are now able to increase our initial cost synergy target for this acquisition, from €50 million per annum to €70 million per annum, by the end of 2021/22. Our North America operations, comprising Interstate Resources (acquired in August 2017), along with Corrugated Container Corporation (acquired in May 2018), have continued to perform ahead of plan with $33 million of the target $40 million cost synergies now achieved. We have also agreed the disposal of our plastics business for c. £400 million (net), with completion expected by the end of this calendar year.

The success of these acquisitions means that we are now able to look at how we best optimise our paper assets so that we maintain the optimum balance between paper and packaging manufacturing, consistent with our short paper strategy, as well as leveraging further efficiency across the Group.

Strong organic growth
Organic corrugated box volumes have grown 2.4 per cent across the year (excluding Europac), reflecting a strong H1 period and a lower growth rate through H2, due to some weakness in export-led markets, including Germany, as well as some capacity constraints in North America. Once again, all regions have reported growth, with particularly strong regional volumes in the UK and in Central Europe and Italy. Growth once again has been particularly strong from our multinational customers, particularly FMCG, e-commerce and shelf-ready packaging. We have been particularly focused on achieving sales price increases to reflect increasing input costs, resulting in a record return on sales achieved in the year. Our focus is on corrugated packaging, where we see continued market growth, and to be differentiated to succeed in that market. The core market growth drivers of e-commerce, plastic substitution and retail changes are more relevant than ever. In particular, public awareness of the importance of alternatives to plastic packaging has increased substantially over the past 12 months and we have corrugated packaging alternatives that are currently marketed to take advantage of this opportunity. Our differentiators of scale, innovation, end-to-end solutions and partnership approach continue to resonate with customers as we help them to increase their sales, reduce their costs and manage their risks.

For the full year, revenue growth of 12 per cent on a constant currency basis was due to organic growth, the contribution from Europac (which was owned for just over three months of the period) and the incremental four month contribution from Interstate Resources (which was acquired part way through the prior year). Organic growth was driven principally by increases in sales price reflecting rises in underlying costs, plus a contribution from volume growth in corrugated boxes, partially offset by reduced volume in external recycling and paper sales reflecting greater matching of our paper manufacturing with the requirements of our packaging operations.

Adjusted operating profit (continuing operations) increased by 28 per cent on a constant currency basis to £631 million (2017/18: £492 million). This was driven by the significant contribution from acquisitions, including just over three months from Europac, the full year effect of ownership of Interstate Resources, and synergies delivered from the North America business, together with strong organic profit growth. Volume growth together with increases in the sales price due to the lagged pass-through of paper price rises, principally in calendar 2018, offset in part by rising costs, contributed 8.8 per cent growth (£46 million) compared to the prior year. Operating profit increased 29 per cent on a constant currency basis to £427 million.

Adjusted earnings per share for continuing operations increased by 8 per cent on a constant currency basis to 33.3 pence (2017/18: 30.7 pence). Including the earnings per share contribution from discontinued operations i.e. the Plastics division, of 1.7 pence, total adjusted earnings per share was 35.0 pence. This result builds on nine years of consistently strong growth, with the nine year compound annual growth rate for adjusted EPS being 23 per cent. Earnings per share for continuing operations decreased by 8 per cent to 19.7 pence per share, reflecting the benefit of profit growth offset by the increase in number of shares in issue.

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 and having taken into account the future financing requirements of the Group. For the year 2018/19, in accordance with our dividend policy, the Board recommends a final dividend of 11.0 pence per share, which will be paid to all shares on the record date. This, combined with the 2018/19 interim dividend of 5.2 pence, makes a total dividend for the year of 16.2 pence (2017/18: 14.4 pence).

Developing the business

The year 2018/19 has been one of substantial strategic progress. It has been the first full year of ownership of our North America business Interstate Resources, we have acquired Europac in Iberia, and we have also agreed the disposal of our plastics business. These steps together mean that DS Smith will be a fibre-based packaging focused, strategically aligned and financially strengthened business.

Our North America business has performed well ahead of our initial expectations. Integration work has continued through the year such that the majority of the upgraded cost synergy target of $40 million has been achieved, well ahead of schedule. Meanwhile, the customer reaction to our packaging continues to be very good, with a number of customer wins from large multinational groups that we had previously served only in Europe. Our success means that we are now expanding our packaging operations in the region with a new greenfield site in Indiana, substantially increasing our capacity in the region. That site is expected to begin production towards the end of calendar 2019. A one-off impact on divisional profitability of £15 million is expected in 2019/20 relating to start-up losses from this new site.

Europac was acquired on 22 January 2019 and integration work is going very well, with the management team established and positive engagement from employees. We are now announcing an increase to our estimate of cost synergies from Europac from €50 million to €70 million, due to additional synergies from head office cost reductions and paper optimisation.

Optimisation programme in paper

DS Smith has grown substantially over the past nine years with a unique footprint of European capability and operations, and this presents an opportunity to optimise our paper operations.

Our paper assets are managed to support our packaging operations, for example, producing specific paper grades required for our performance packaging, particularly in regions where external supply is scarce. The strategy of DS Smith has consistently been to be 'short' paper, i.e. a net buyer of paper in the market, in order to maintain the consistency of our profitability. The recent acquisitions have resulted in a much improved network of high quality paper mills (in addition to our packaging operations), both geographically and from a product perspective. We have added mills in key locations where there is a shortage of specialist grades, such as the lightweight paper mill of EcoPaper, and significant kraftliner production though the acquisition of Europac. We now plan to optimise our footprint and capability. Taking into account the full operational run-rate of Europac, DS Smith has an annual external corrugated case material (CCM) requirement of around 800 thousand tonnes in Europe. This is equivalent to c. 20 per cent of our total paper requirement, and as such we are c. 80 per cent integrated. Taking into account future growth in packaging, we expect to reduce integration to towards 60 per cent in Europe, in the medium-term. In the US, our strategy has always been to have full security of supply given the differences in market structure in that region. At present we are 'long' c. 275 thousand tonnes CCM per annum in the US and expect to bring this to a balanced position as we continue to build the packaging side of our business, including the new site in Indiana currently under construction.

Upgrading our medium-term margin targets

DS Smith has reported a record return on sales margin in 2018/19 of 10.2 per cent, ahead of our medium-term financial KPI of 8 – 10 per cent. We expect margin to continue to grow in the medium-term due to our value-adding customer proposition, the benefit of contribution from NAPP and Europac, and from a continuous focus on cost and efficiency. As a result, the Board intends to increase the medium-term target for return on sales up to 10 – 12 per cent.

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 2019	Year ended 30 April 2018	Change
Revenue	£1,134m	£1,088m	+4%
Adjusted operating profit*	£121m	£109m	+11%
Return on sales*	10.7%	10.0%	+70bps

*Adjusted to exclude amortisation and adjusting items

Our UK corrugated packaging business has performed very well despite the uncertain political and economic backdrop. Overall volumes were very good, driven by both FMCG and e-commerce. Revenue increased reflecting volume gains and price recovery, with the additional revenue dropping through to profit, leading to a 11 per cent increase in adjusted operating profit and a 70 basis points increase in margin.

The Group has considered and planned for the potential impact of Brexit on our business. The UK operations utilise paper manufactured at our Kemsley mill in Kent, UK, in addition to paper from other mills on continental Europe. We also import some other input materials such as starch. The substantial majority of our packaging product is distributed to customers in the UK with our Kemsley mill exporting an element of its production to continental Europe. We have also made plans for contingency levels of spare parts and other essential items for continuous running. As such, while not immune from disruption that might occur in the event of a disorderly Brexit, including the impact of changes in order patterns from customers, we expect disruption to our own operations to be relatively contained.

Western Europe

	Year ended 30 April 2019	Year ended 30 April 2018	Change-reported	Change-constant currency
Revenue	£1,739m	£1,476m	+18%	+18%
Adjusted operating profit*	£139m	£102m	+36%	+36%
Return on sales*	8.0%	6.9%	+110bps	+110bps

*Adjusted to exclude amortisation and adjusting items

The Western Europe division has seen like-for-like volume growth ahead of market growth in the period, although volume growth was behind the Group average. While volume growth in France was impacted somewhat by the periods of civil disruption in the country, this was partially offset by good growth in Iberia and very good growth in the Benelux region. The growth in revenue was largely driven by the inclusion of Europac for just over three months, having been acquired on 22 January 2019, in addition to the increase in sales price from recovery of historic paper price rises. The increase in adjusted operating profit relates to the inclusion of Europac as described above and good recovery of operating costs through pricing from the underlying business. Return on sales increased significantly by 110 basis points, broadly in line with the Group margin increase, to 8.0 per cent.

DCH and Northern Europe

	Year ended 30 April 2019	Year ended 30 April 2018	Change- reported	Change – constant currency
Revenue	£1,076m	£1,106m	(3%)	(2%)
Adjusted operating profit*	£100m	£90m	+11%	+12%
Return on sales*	9.3%	8.1%	+120bps	+120bps

*Adjusted to exclude amortisation and adjusting items

Volumes have grown modestly across the region, driven by very good volume growth in Northern Europe, offset by a contraction in Germany and Switzerland due to a focus on price discipline and difficult market conditions. These tough trading conditions related to packaging for export-led industrial customers in Germany, particularly in the second half of 2018/19, where a wider economic slow-down has been seen. Revenues fell 2 per cent due to a reduction in external volumes from paper and recycling and, in addition, reduced pricing from recycling, partially offset by sales price recovery in packaging.

Adjusted operating profit increased by 12 per cent, reflecting the contribution from our paper manufacturing operations in the region. Consequently, return on sales increased to the upper end of our target range at 9.3 per cent.

Central Europe and Italy

	Year ended 30 April 2019	Year ended 30 April 2018	Change – reported	Change – constant currency
Revenue	£1,583m	£1,462m	+8%	+9%
Adjusted operating profit*	£165m	£129m	+28%	+29%
Return on sales*	10.4%	8.8%	+160bps	+150bps

* Adjusted to exclude amortisation and adjusting items

Volumes in this region have again been good, slightly ahead of Group growth, with performance in Italy particularly pleasing. Revenue growth of 9 per cent was driven in approximately equal parts due to the inclusion of EcoPaper and EcoPack, and from organic growth in packaging, particularly sales price. EcoPack and EcoPaper were acquired on 6 March 2018 and hence this year was the first full year of inclusion and represented an incremental 10 months contribution.

Adjusted operating profit increased 29 per cent, reflecting a small contribution from the acquired businesses and organic growth from the benefit of drop-through from volume and sales price increases. As a result, return on sales increased by 150 basis points.

North America

	Year ended 30 April 2019	Year ended 30 April 2018	Change – reported	Change – constant currency
Revenue	£639m	£386m	+66%	+59%
Adjusted operating profit*	£106m	£62m	+71%	+63%
Return on sales*	16.6%	16.1%	+50bps	+40bps

* Adjusted for amortisation and adjusting items

The performance of the North America Packaging and Paper division has been very good once again, with margins considerably above that of the Group. Corrugated box volumes have continued to grow, though have been constrained to some degree by our available capacity. We are, at present, part way through the construction of a new packaging site in Indiana which will address this issue, and which is expected to be operational by the end of calendar 2019. Revenue grew 59 per cent principally driven by the incremental four months contribution from the Interstate Resources business, acquired in late August 2017, and from Corrugated Container Corporation, acquired in May 2018. Increases in sales price also contributed to revenue growth. Adjusted operating profit for the division grew by 63 per cent, reflecting both the incremental contribution from the acquired businesses and the benefit of synergies ($23 million) from the Interstate Resources acquisition. Combined with the synergies delivered in 2017/18, this brings the total synergies to $33 million, close to the total of $40 million targeted, substantially earlier than planned.

Our medium-term targets and key performance indicators

We measure our performance according to both our financial and non-financial medium-term targets and key performance indicators.

As set out above, like-for-like corrugated box volumes grew by 2.4 per cent (excluding Europac). This was modestly lower than 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 1.9 per cent (source: Eurostat). All regions have again recorded volume growth in the year, with a particularly strong contribution from the UK and Central Europe and Italy regions. Towards the end of the year we have seen some weakness, particularly in industrial customers in export-led markets including Germany, reflecting wider macroeconomic conditions. In addition, the North America business was capacity constrained. Underlying the regional performances has been the strong 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 increased 120 basis points to 10.2 per cent (2017/18: 8.9 per cent), above the top of our target range of 8 to 10 per cent, reflecting our strong commercial offering and the benefit of the sales price increases, partially offset by increased overall input costs.

Adjusted return on average capital employed (ROACE) is 13.6 per cent (2017/18: 13.7 per cent), around the middle of our medium-term target range of 12 to 15 per cent and significantly above our cost of capital, despite the recent significant acquisitions of Interstate Resources in North America and of Europac in Europe, and the exclusion of our plastic packaging business (now discontinued), all of which has a dilutive impact on this ratio. This result reflects a continuous 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 capex, which has been closely managed as shown by the year-on-year reduction despite the increased size of the business. ROACE is our primary financial measure of success, and is measured and calculated on a monthly basis.

Net debt as at 30 April 2019 was £2,277 million (30 April 2018: £1,680 million) reflecting the significant acquisitions made in the year of £1,702 million (including debt assumed of £204 million including deposits), less the issue of new equity of £1,006 million net. Cash generated from operations before adjusting items of £774 million was used to invest in net capex of £289 million which included £17 million in relation to Europac, a reduction from £312 million in 2017/18, reflecting our focus on cash management, while still including substantial growth capex. Adjusting items of £93 million primarily related to the acquisition and integration of the new businesses. Net debt/EBITDA (calculated in accordance with our banking covenant requirements) is 2.3 times (2017/18: 2.2 times). This reflects the acquisitions made as well as ongoing tight cash management and control throughout the business and is 0.2 times lower than anticipated at the time of the 2018 rights issue. This ratio excludes the cash required to fulfil the Interstate Resources put option which, if exercised, would take reported leverage to c. 2.5 times. On a pro forma basis, taking into account the disposal of the Plastics business for £400 million (net) and remedy disposals of c. £54 million (as discussed in the financial review), and the relevant adjustment to EBITDA, net debt/EBITDA at 30 April 2019 would have been under 2.0 times. The Group remains fully committed to its investment grade credit rating.

During the year, the Group generated free cash flow of £339 million (2017/18: £184 million), an improvement of 84 per cent. Cash conversion, as defined in our financial KPIs (note 15) was 102 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 are pleased once again to report improvements in our safety record, with our accident frequency rate (defined as the number of lost time accidents per million hours worked) reducing by a further 23 per cent from 3.0 to 2.3, reflecting our ongoing commitment to best practice in health and safety. The prior year figure of 3.0 is based on the full inclusion of Interstate Resources on a like-for-like basis. We are proud to report that 265 sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole. We did, however, have a tragic accident in our Tallinn plant in the year that resulted in the fatality of a colleague, which overshadows all our performance improvements. Our thoughts are with the family, colleagues and friends of the deceased as we support them and the local authority investigation.

The Group has a challenging target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved 95 per cent, a further year on year improvement but still below our target. While there has been improvement, management remains 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 key 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 year 2018, compared to calendar year 2017, on a restated basis to reflect acquisitions, our CO_2 equivalent emissions, relative to production, has reduced by 6 per cent, a good step towards our overall goal of 30 per cent reduction (compared to 2015) by 2030. We have also become a global partner of the Ellen MacArthur Foundation, a leading environmental charity focused on sustainability, in line with our corporate purpose.

Outlook
The underlying drivers of demand for sustainable corrugated packaging and our differentiated offering give us confidence in ongoing volume and market share growth. We saw some volume weakness in certain export-led markets, including Germany, but we expect this to improve during the current year. While volatility in the macro-economic environment and input costs remains, our focus on pricing discipline, operating efficiencies and cash flows supports our expectations of further good progress in the coming year.

Financial review

Delivering strong financial performance
Unless otherwise stated, the following commentary relates to the continuing operations of the Group. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the effect of the bonus element of the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

Overview
The Group performed strongly in 2018/19, with good organic volume and revenue growth, reflecting the recovery of input costs in box prices and growth from acquisitions. As usual the benefits of Group procurement, ongoing efficiency programmes and prior year capital investments compensated for other input cost headwinds. In the year we acquired Papeles y Cartones de Europa, S.A. (Europac), a leading western European integrated packaging business. Through this important acquisition DS Smith has strengthened its position in having the widest reach in Europe of any packaging group and, as a result, is perfectly placed to offer a complete pan-European solution to all of our customers. In addition, the acquisition of Interstate Resources and the creation of our North American Packaging and Paper business in the previous year has allowed us to now deliver our solutions to our customers that operate in both continents.

The Group continues to perform well 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:

- Revenue up 12 per cent on a constant currency and reported basis at £6,171 million (2017/18: £5,518 million)
- Adjusted operating profit before adjusting items and amortisation up 28 per cent on a constant currency and reported basis at £631 million (2017/18: £492 million)
- Operating profit at £427 million is up 30 per cent (2017/18: £329 million)
- Organic corrugated box volume growth[2] of 2.4 per cent (2017/18: 5.2 per cent)
- Adjusted return on sales[1] of 10.2 per cent (2017/18: 8.9 per cent)
- Adjusted return on average capital employed[1] of 13.6 per cent (2017/18: 13.7 per cent)
- Net debt/EBITDA of 2.3 times (2017/18: 2.2 times)

Non-GAAP performance measures
The Group uses certain key non-GAAP measures in order to provide a balanced and comparable 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 15 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 £6,171 million (2017/18: £5,518 million), a growth of 12 per cent on a reported basis, reflecting volume and sales price growth and the impact of acquisitions partly offset by a negative currency translation effect. Corrugated box volume growth was lower than expected in the second half of the year driven largely by overall economic slowdown in Germany resulting in the target, of GDP +1 per cent, at 2.9 per cent not being achieved. Revenue growth reflected the sales price increases that took place to recover the significant paper price increases seen last year and in the first half of this year. The euro accounted for 56 per cent of Group revenue and the slight weakening of the euro and other European currencies against sterling during the year represented the majority of the £21 million of negative currency impact. On a constant currency basis, revenue increased by 12 per cent, including organic growth of £190 million.

Operating profit of £427 million increased from the prior year (2017/18: £329 million) following our initiatives to recover the impact of higher paper prices, partially offset by higher adjusting items of £90 million (2017/18: £73 million) and higher amortisation of £114 million (2017/18: £90 million) driven by the significant acquisitions made in the last two years.

Adjusted operating profit rose by 28 per cent on a reported basis to £631 million (2017/18: £492 million), with currency having a small positive impact of £1 million. Growth on a constant currency basis was also 28 per cent, benefiting from a £40 million impact from the acquisition of Europac in the financial year and a £32 million impact from the acquisitions of Interstate Resources in the US and EcoPack and EcoPaper in Romania in the previous financial year. These acquisitions are all contributing significant synergies and are on track to deliver or outperform their targets. These strong results are testament to the Group's experience in the effective integration of, and support for, acquired businesses.

The profit drop-through from higher box volumes (£27 million) and the benefit of higher pricing and sales mix (£174 million) was offset in part by lower other volumes (£20 million) and higher input costs (£115 million). Input costs were substantially higher than in the prior year, reflecting increases in paper prices, which are the largest single component of input costs, and general inflationary pressures on other costs with large impacts coming from energy and distribution costs. The commercial finance function within the Group continues to work 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. Towards the end of the 2018 calendar year we started to see paper prices falling which has broadly continued each month until April 2019. This will result in a time lag similar to that which is experienced when paper prices rise albeit this will be beneficial until the price reductions are fully passed on to customers or paper prices start to rise again.

Depreciation increased by £32 million in the year on a reported basis mainly from the acquisition of Europac and Interstate Resources and previous capital investments. The increase in amortisation for the year from £90 million in 2017/18 to £114 million in 2018/19 was driven primarily by intangible assets recognised through the acquisition of Europac and Interstate Resources. Amortisation in the year ahead is expected to be £140 million.

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 growth in adjusted return on sales to 10.2 per cent (2017/18: 8.9 per cent). In 2015 the return on sales target range was increased to 8-10 per cent and performance this year has exceeded this upgraded target. Consequently, the Board has again decided to raise the medium-term margin target to 10-12 per cent.

The return on average capital employed for the year was 13.6 per cent (2017/18: 13.7 per cent), which is well within 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 2017/18 and partially by acquisitions made in 2018/19.

Adjusting items

Adjusting items before tax, financing costs and share of results of associates were £90 million (2017/18: £73 million).

Acquisition related costs of £32 million (2017/18: £28 million) were the largest element of adjusting items in 2018/19 driven by the costs of Europac which accounted for £22 million of the total. They comprise professional advisory and legal fees, and directly attributable staff costs related to acquisition activity during the year as well as transactions which have either not yet concluded or been shelved. Integration costs of £27 million related to both current and prior year acquisitions. Restructuring costs of £3 million relate to the completion of projects started in the previous year.

On 26 October 2018, the High Court issued a judgement with respect to the equalisation between men and women of guaranteed minimum pension (GMP) benefits accrued between 1990 and 1997, in order to comply with sex discrimination legislation. An adjustment for the UK defined benefit scheme of £8 million has been charged to the income statement as an adjusting item. The estimate is based on broad assumptions about the scheme's characteristics and represents a reduction from £15m estimated at the half year based on data available at the time.

Other adjusting items of £20 million (2017/18: £16 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 although most of the projects which incurred expenditure in this year have now come to an end.

Finance costs adjusting items of £15 million (2017/18: £12 million) relate to financing costs incurred in the acquisition of Europac of £7 million, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

Adjusting items in the new financial year are expected to be c. £76 million.

Interest, tax and earnings per share
Net financing costs were £86 million (2017/18: £74 million). Net financing costs before adjusting items were £71 million, up £9 million from the prior year. The increase from the prior year was primarily due to the acquisitions of Europac and Interstate Resources. Interest costs include a charge of £3 million (2017/18: £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 £15 million (2017/18: £12 million) include the unwind of the discount on the put option liability recognised on the acquisition of Interstate Resources, and debt bridge financing costs associated with the acquisition of Europac. The employment benefit net finance expense was £2 million (2017/18: £4 million).

The share of the profit of equity accounted investments was £9 million (2017/18: £5 million).

Profit before tax was higher at £350 million (2017/18: £260 million), due to flow through of higher operating profit and improved share of results of associates, partially offset by higher amortisation and higher finance costs. Adjusted profit before tax of £569 million (2017/18: £435 million) was higher due to the growth in adjusted operating profit.

The tax charge of £88 million was £65 million higher than the prior year primarily due to higher adjusted profits and the recognition in the prior year of a reduction in tax liabilities as a result of major tax reform in the US (tax credit £37 million). The Group's effective tax rate on adjusted profit, excluding amortisation, adjusting items and associates was 22.8 per cent (2017/18: 21.5 per cent). The tax credit on adjusting items was £14 million (2017/18: £13 million).

In addition, there was a net tax adjusting charge of £1 million, comprising a release of a provision of £32 million in respect of a tax dispute in connection with a business closure prior to the Group ownership of SCA Packaging, offset by a provision of £33 million which represents the maximum potential tax exposure which could arise in connection with the recent decision by the EU Commission on State Aid in relation to the UK Controlled Foreign Company regime.

On 25 April 2019, the EU Commission released its final decision which concluded that, up until 31 December 2018, the UK Controlled Foreign Company legislation partially represents State Aid.

There is significant uncertainty surrounding the quantum of additional tax exposure due to a number of different factors which are likely to impact the overall State Aid collection process. To date, no formal guidance has been issued by the UK Government in relation to its likely approach to identifying and recovering any State Aid. The potential additional liability ranges from nil to £33 million depending upon the method of calculation. In view of the significant level of uncertainty and the potentially broad range of outcomes, the Group has recognised a provision for the maximum potential exposure of £33 million, which includes an estimate of £2 million for interest on overdue tax.

Profit for the year from discontinued operations was £12 million (2017/18: £22 million). Reported profit after tax, amortisation and adjusting items was £274 million (2017/18: £259 million).

Basic earnings per share were 19.7 pence (2017/18: 21.2 pence). Adjusted earnings per share from continuing operations were 33.3 pence (2017/18: 30.7 pence), an increase of 8 per cent on a reported basis and on a constant currency basis, driven by the growth in operating profit. Earnings per share were impacted in the period by the equity rights issue on 25 July 2018 which raised c. £1 billion of funds for the Europac acquisition that completed on 22 January 2019, in addition to the equity raise and equity issues to the vendors of both Interstate Resources and EcoPack and EcoPaper in the previous year.

Dividend
The proposed final dividend is 11.0 pence (2017/18: 9.8 pence), which will be paid on 1 November 2019 to ordinary shareholders on the register at close of business on 4 October 2019. As at 30 April 2019, the Company had distributable reserves of £1,469 million (30 April 2018: £1,651 million).

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 another significant strategic step with the acquisition of Papeles y Cartones de Europa, S.A. (Europac) on 22 January 2019. Europac is a highly complementary, vertically integrated packaging business with a strategically important kraftliner mill in Portugal giving us for the first time capacity to supply an element of our kraft paper needs in Europe. Europac has a diversified customer portfolio with strong customer relationships and FMCG orientation. In the year ended 30 April 2019 Europac contributed revenue of £191 million and adjusted operating profit before amortisation and adjusting items of £40 million. The total consideration of £1,460 million plus debt acquired, including deposits, of £200 million was funded in part by an equity rights issue. The fair value exercise is on-going and values presented are provisional.

On 31 May 2018 the Group acquired Corrugated Container Corporation and integrated it into its existing North America Packaging and Paper business.

In the prior year the Group acquired an 80 per cent holding in Interstate Resources in the US on 25 August 2017, EcoPack and EcoPaper in Romania on 6 March 2018 and also the two box plants of the DPF Groupe in France.

On 8 March 2019, the Group announced an agreement to sell its Plastics business for an enterprise value of $585 million (approximately £450 million). We expect net cash proceeds after taxation, transaction adjustments and expenses of approximately £400 million. This sale represents an important step in the Group's continued progress as a leader in sustainable packaging and accelerates the programme of deleveraging, alongside organic cash flow. The sale is expected to result in a substantial adjusting gain and be marginally EPS dilutive. The effective date for the sale is 1 November 2018, with completion expected in the second half of this calendar year following customary closing conditions including regulatory approvals, which are proceeding as expected.

On 16 April 2019, the Group also reached agreement for the proposed sale of two packaging businesses in North Western France and Portugal for €63 million (£54 million). The sales are to fulfil the commitment made to the European Commission in relation to the clearance of the Group's acquisition of Europac, which completed on 22 January 2019. Completion of these sales is subject to customary closing conditions including works council consultation and regulatory approvals and are expected to take place in the first quarter of the new financial year.

The cash proceeds of these disposals are expected to be used to reduce the financial gearing of the Group, in line with its medium-term target of net debt/EBITDA at or below 2.0 times.

Cash flow

Closing net debt of £2,277 million (30 April 2018: £1,680 million) has increased year-on-year with outflows on strategic acquisitions and borrowings acquired more than offsetting higher cash inflows from operating activities. Working capital outflows of £12 million, including a reduction in underlying trade receivables of £32 million and trade receivables acquired with Europac of £41 million, represent an underlying working capital inflow of £70 million offset by the planned reduction in factored trade receivables.

Capital expenditure net of asset disposals decreased to £289 million in the year (2017/18: £312 million) inclusive of £17 million related to Europac. 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 67 per cent of expenditure. Proceeds from the disposal of property, plant and equipment were £14 million (2017/18: £16 million), resulting in profits of £4 million (2017/18: £1 million). Net capital expenditure in the year ahead is expected to be £370 million. This will include the investment in a greenfield box plant in Indiana and £85 million for Europac.

Net interest payments of £61 million were £20 million higher than the prior year principally driven by interest on the Euro Medium Term Notes (EMTN) issued in July 2017 being payable annually. Amortisation of debt issue costs and other finance costs 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 £93 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 £1,498 million in the year. No businesses were disposed of in 2018/19.

During the year dividends of £187 million, representing the 2017/18 interim dividend and final dividend, were paid.

Cash generated from operations before adjusting cash items was £774 million, £169 million higher than the prior year. The net cash outflow of £1,445 million (2017/18: £670 million) reflects significantly higher acquisition costs in the year.

Loans and borrowings from acquired businesses were £204 million. Net proceeds from the issue of share capital were £1,006 million in the year, primarily due to an equity rights issue on 25 July 2018 which raised funds for the Europac acquisition. Foreign exchange, fair value and other non-cash movements decreased net debt by £49 million.

Statement of financial position

Shareholders' funds have increased to £3,111 million at 30 April 2019, an increase of £1,002 million over the reported position of the prior year. The improvement in shareholders' funds is principally due to profit attributable to shareholders of £274 million (2017/18: £259 million) and the issue of share capital of £1,006 million (2017/18: £576 million) partly offset by actuarial losses on employee benefits of £62 million (2017/18: £57 million gain) and the dividend payments of £187 million (2017/18: £157 million). Equity attributable to non-controlling interests was £1 million (30 April 2018: £1 million).

The net debt to adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) ratio, calculated in accordance with the Group's debt covenants, was 2.3 times at 30 April 2019, slightly up from 2.2 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. 2.5 times.

The Group has announced the sale of the Plastics business for \$585 million, and the Europac acquisition related remedy disposals for €63 million. The cash receipts from these disposals will reduce net debt by c. £450 million and the net debt to EBITDA ratio to under 2.0 times.

Sold receivables are not treated as debt by the Group's lending banks and are, therefore, not included in financial indebtedness from a covenant perspective.

The covenant calculations also exclude from the income statement adjusting items and any interest arising from the defined benefit pension schemes. At 30 April 2019, 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 other fuel costs totalled £327 million in the year, including £63 million related to recent acquisitions (2017/18: £246 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 2019, the Group's committed borrowing facilities totalled c. £3.6 billion of which c. £1.1 billion were undrawn. Undrawn committed borrowing facilities are held to provide protection against any refinancing risk on maturing facilities, the exercise of the Interstate put option or deterioration in working capital balances. These committed borrowing facilities do not include £538 million of three year committed factoring lines which allow the without recourse sale of receivables described below. The Group's committed borrowing facilities at 30 April 2019 had a weighted average maturity of 4.6 years (30 April 2018: 4.4 years). The Group's total gross borrowings at 30 April 2019 were £2,625 million (30 April 2018: £1,973 million).

On 29 November 2018 the Group signed a £1.4 billion five year (up to seven years including extension options) revolving credit facility (RCF) with our banking group to replace our existing £800 million RCF and to ensure liquidity for the five to seven years following the

Europac acquisition. In March 2019, the Group signed a €44 million seven year term loan which benefits from material subsidies as a result of its use to finance environmentally beneficial capital expenditure projects in Germany. During the year, the Group inherited €336 million of committed debt facilities when it acquired Europac. This principally consists of a €261 million syndicated bank facility, split between term loan and RCF. The remaining €75 million are bilateral term loans. In addition to this committed funding, the Group has also maintained the Europac €200 million Spanish Commercial Paper programme which offers the Group access to short term financing at attractive interest rates.

The Group has for many years sold without recourse certain trade receivables and on realisation the trade 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 generally committed for three years and are not relied upon by the Group for liquidity.

There has been an underlying reduction in factoring balances of £82 million to £483 million, partly offset by additional arrangements acquired with Europac of £42 million, resulting in a 30 April 2019 balance of £525 million. The reduction of £82 million reflects a planned programme to bring the prior year balance of £559 million to under £500 million and has been achieved through more efficient management of working capital in general and receivables in particular, as the Group seeks to optimise its working capital profile through non-financial arrangement initiatives.

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 2019, 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. In addition, testing is undertaken when there is an indication of impairment. No impairments were identified as a result of the testing.
The net book value of goodwill and other intangibles at 30 April 2019 was £3,211 million (30 April 2018: £2,043 million) with the increase a result of the acquisitions of Europac and Corrugated Container Corporation 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 2019 were £1,102 million and the gross liabilities at 30 April 2019 were £1,272 million, resulting in the recognition of a gross balance sheet deficit of £170 million (30 April 2018: £106 million). The net deficit was £133 million (30 April 2018: £80 million) after taking into account deferred tax assets of £37 million (30 April 2018: £26 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 2019 triennial valuation has commenced.

The total cash contributions paid into the Group pension schemes were £20 million in 2018/19 (2017/18: £25 million), principally comprising £19 million (2017/18: £20 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. The increase in the gross balance sheet deficit of £64 million is principally attributable to a decrease in discount rates, an increase in inflation assumptions in the main UK scheme and the GMP adjustment detailed above.

IFRS 16
On implementation of IFRS 16 *Leases* there will be a material increase in lease liabilities, along with a corresponding increase in right of use assets within property, plant and equipment. The Group's most significant leases relate to property and production equipment and the undiscounted commitments under non-cancellable operating leases in accordance with IAS 17 *Leases* total £259 million at 30 April 2019 (30 April 2018: £209 million).

The Group will adopt the modified retrospective approach using practical expedients available, with a cumulative adjustment to equity at 1 May 2019, and as such will not restate comparatives. The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease.

Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* will continue to apply to those leases entered or modified before 1 May 2019. On transition, the Group will measure all right-of-use assets at the amount of the lease liability on adoption. The adoption of IFRS 16 is expected to have the following impact on the Group's results:

Property, plant and equipment	Increase	c. £235m
Net debt	Increase	c. £235m
EBITDA	Increase	c. £75m
Adjusted profit before tax	Decrease	c. £5m
Net debt to EBITDA	Increase	Negligible
Return on average capital employed	Decrease	30 bps

Discontinued operations and disposal group held for sale
The Plastics business has been classified as 'held for sale' and treated as a discontinued operation following Board approval, prior to the period-end, to explore a potential sale of the business.

The consolidated income statement has been restated to present the Plastics business as a discontinued operation. The consolidated statement of financial position presents the discontinued assets and liabilities as 'assets held for sale' and 'liabilities held for sale' respectively. The consolidated statement of cash flows has also been restated, presenting a single amount of net cash flow from discontinued operations.

Consolidated income statement

Year ended 30 April 2019

	Note	Before adjusting items 2019 £m	Adjusting items (note 3) 2019 £m	2019 £m	Before adjusting items 2018 (restated)[1] £m	Adjusting items 2018 (note 3) (restated)[1] £m	2018 (restated)[1] £m
Continuing operations							
Revenue	2	**6,171**	**-**	**6,171**	5,518	–	5,518
Operating costs		**(5,540)**	**(50)**	**(5,590)**	(5,026)	(45)	(5,071)
Operating profit before amortisation, acquisitions, disposals and guaranteed minimum pension equalisation	2	**631**	**(50)**	**581**	492	(45)	447
Amortisation of intangible assets; acquisitions and disposals	3	**(114)**	**(32)**	**(146)**	(90)	(28)	(118)
Guaranteed minimum pension equalisation	3	**-**	**(8)**	**(8)**	-	-	-
Operating profit		**517**	**(90)**	**427**	402	(73)	329
Finance income	5	**-**	**-**	**-**	-	–	-
Finance costs	3, 5	**(69)**	**(15)**	**(84)**	(58)	(12)	(70)
Employment benefit net finance expense		**(2)**	**-**	**(2)**	(4)	–	(4)
Net financing costs		**(71)**	**(15)**	**(86)**	(62)	(12)	(74)
Profit after financing costs		**446**	**(105)**	**341**	340	(85)	255
Share of profit of equity accounted investments, net of tax		**9**	**-**	**9**	5	–	5
Profit before income tax		**455**	**(105)**	**350**	345	(85)	260
Income tax (expense)/credit	6, 3	**(101)**	**13**	**(88)**	(69)	46	(23)
Profit for the year from continuing operations		**354**	**(92)**	**262**	276	(39)	237
Discontinued operations							
Profit for the year from discontinued operations, net of tax	13	**22**	**(10)**	**12**	24	(2)	22
Profit for the year		**376**	**(102)**	**274**	300	(41)	259
Profit for the year attributable to:							
Owners of the parent		**376**	**(102)**	**274**	300	(41)	259
Non-controlling interests		**-**	**-**	**-**	–	–	–

	Note	2019	2018 (restated)[1]
Earnings per share			
From continuing operations and discontinued operations			
Basic	7	**20.6p**	23.2p
Diluted	7	**20.6p**	23.1p
From continuing operations			
Basic		**19.7p**	21.2p
Diluted		**19.7p**	21.1p
Adjusted earnings per share from continuing operations			
Basic		**33.3p**	30.7p
Diluted		**33.2p**	30.5p

1. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

(a) Subject to approval of shareholders at the Annual General Meeting to be held on 3 September 2019, the final dividend of 11p will be paid on 1 November 2019 to ordinary shareholders on the register at the close of business on 4 October 2019.

(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 2019. The financial information set out above does not constitute the Company's statutory financial statements for the years ended 30 April 2019 or 30 April 2018 but is derived from those financial statements. Statutory accounts for the year ended 30 April 2018 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 30 April 2019 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.

Consolidated statement of comprehensive income

Year ended 30 April 2019

		2019 £m	2018 (restated) £m
Profit for the year		**274**	259
Items which will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on employee benefits	4	**(62)**	57
Income tax on items which will not be reclassified subsequently to profit or loss		**11**	(14)
Items which may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**(45)**	1
Cash flow hedges fair value changes		**29**	8
Reclassification from cash flow hedge reserve to income statement		**(37)**	10
Movement in investment hedge		**17**	-
Income tax on items which may be reclassified subsequently to profit or loss		**3**	5
Other comprehensive (expense) / income for the year, net of tax		**(84)**	67
Total comprehensive income for the year		**190**	326
Total comprehensive income attributable to:			
Owners of the parent		**190**	326
Non-controlling interests		**-**	-

1. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

Consolidated statement of financial position

At 30 April 2019

	Note	**2019 £m**	2018 £m
Assets			
Non-current assets			
Intangible assets		**3,211**	2,043
Biological assets		**9**	3
Property, plant and equipment		**2,993**	2,396
Equity accounted investments		**33**	24
Other investments		**12**	11
Deferred tax assets		**64**	64
Other receivables		**9**	7
Derivative financial instruments		**12**	15
Total non-current assets		**6,343**	4,563
Current assets			
Inventories		**584**	543
Biological assets		**6**	4
Income tax receivable		**18**	15
Trade and other receivables		**914**	863
Cash and cash equivalents		**382**	297
Derivative financial instruments		**35**	44
Assets held for sale		**237**	–
Total current assets		**2,176**	1,766
Total assets		**8,519**	6,329
Liabilities			
Non-current liabilities			
Borrowings		**(2,392)**	(1,811)
Employee benefits	4	**(170)**	(106)
Other payables		**(16)**	(14)
Provisions		**(16)**	(4)
Deferred tax liabilities		**(323)**	(195)
Derivative financial instruments		**(14)**	(35)
Total non-current liabilities		**(2,931)**	(2,165)
Current liabilities			
Bank overdrafts		**(129)**	(29)
Borrowings		**(233)**	(162)
Trade and other payables		**(1,855)**	(1,705)
Income tax liabilities		**(133)**	(118)
Provisions		**(17)**	(16)
Derivative financial instruments		**(16)**	(24)
Liabilities classified as held for sale		**(93)**	-
Total current liabilities		**(2,476)**	(2,054)
Total liabilities		**(5,407)**	(4,219)
Net assets		**3,112**	2,110
Equity			
Issued capital		**137**	107
Share premium		**2,236**	1,260
Reserves		**738**	742
Total equity attributable to owners of the parent		**3,111**	2,109
Non-controlling interests		**1**	1
Total equity		**3,112**	2,110

Approved by the Board of Directors of DS Smith Plc on 12 June 2019 and signed on its behalf by:

M W Roberts
Director

A R T Marsh
Director

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

Consolidated statement of changes in equity

Year ended 30 April 2019

	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 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)
Transactions 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**
Profit for the year		-	-	-	-	-	274	274	-	274
Actuarial loss on employee benefits		-	-	-	-	-	(62)	(62)	-	(62)
Foreign currency translation differences		-	-	-	(44)	-	(1)	(45)	-	(45)
Cash flow hedges fair value changes		-	-	29	-	-	-	29	-	29
Reclassification from cash flow hedge reserve to income statement		-	-	(37)	-	-	-	(37)	-	(37)
Movement in net investment hedge		-	-	-	17	-	-	17	-	17
Income tax on other comprehensive income		-	-	2	1	-	11	14	-	14
Total comprehensive (expense)/income		**-**	-	(6)	(26)	-	222	190	-	190
Issue of share capital		30	976	-	-	-	-	1,006	-	1,006
Employee share trust		-	-	-	-	-	(8)	(8)	-	(8)
Share-based payment expense (net of tax)		-	-	-	-	-	1	1	-	1
Dividends paid	8	-	-	-	-	-	(187)	(187)	-	(187)
Other changes in equity in the year		**30**	**976**	**-**	**-**	**-**	**(194)**	**812**	**-**	**812**
At 30 April 2019		**137**	**2,236**	**(13)**	**23**	**(1)**	**729**	**3,111**	**1**	**3,112**

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

Consolidated statement of cash flows

Year ended 30 April 2019

Continuing operations	Note	2019 £m	2018 (restated)[1] £m
Operating activities			
Cash generated from operations	10	**681**	527
Interest received		**1**	1
Interest paid		**(62)**	(42)
Tax paid		**(85)**	(68)
Cash flows from operating activities		**535**	418
Investing activities			
Acquisition of subsidiary businesses, net of cash and cash equivalents	14	**(1,498)**	(615)
Capital expenditure		**(303)**	(328)
Proceeds from sale of property, plant and equipment and intangible assets		**14**	16
Cash flows from restricted cash and other deposits		**(4)**	(6)
Cash flows used in investing activities		**(1,791)**	(933)
Financing activities			
Proceeds from issue of share capital		**1,006**	283
Repayment of borrowings		**(3,335)**	(490)
Proceeds from borrowings		**3,810**	1,008
(Payments in respect of)/proceeds from settlement of derivative financial instruments		**(36)**	2
Repayment of finance lease obligations		**(4)**	(4)
Dividends paid to Group shareholders	8	**(187)**	(157)
Other		**(6)**	(4)
Cash flows from financing activities		**1,248**	638
(Decrease)/increase in cash and cash equivalents from continuing operations		**(8)**	123
Discontinued operations			
Cash flows from discontinued operations	13	**(3)**	18
(Decrease)/increase in cash and cash equivalents		**(11)**	141
Net cash and cash equivalents at beginning of the year		**268**	123
Exchange (losses)/gains on cash and cash equivalents		**(4)**	4
Net cash and cash equivalents at end of the year		**253**	268

1. Restated for the classification of the Plastics business as a discontinued operation (note 13)

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 comparative information presented in this report has been restated as a result of the adoption of IFRS 15 *Revenue from Contracts with Customers* , the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

Discontinued operation

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

On 6 March 2019, the Group announced the agreement to sell the Plastics division. Accordingly, the Group considered the Plastics division to meet the criteria of a discontinued operation as the sale is expected to be completed within one year from the reporting date.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Cash flows generated from discontinued operations are presented as a single item in the statement of cash flows.

All other notes to the financial statements include amounts for continuing operations, unless otherwise stated comparative information has been restated.

New accounting standards adopted

The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2018:

- IFRS 15 *Revenue from Contracts with Customers*;
- IFRS 9 *Financial Instruments;*
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*; and
- Amendments to IFRS 2 *Classification and Measurements of Share-based Payment Transactions*.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18 *Revenue* and related interpretations, introducing a single, principles-based approach to the recognition and measurement of revenue from all contracts with customers. The new approach requires identification of performance obligations in a contract and revenue to be recognised when or as those performance obligations are satisfied, as well as additional disclosure.

The Group's review of the requirements of IFRS 15 against existing policy and practice concluded that timing of revenue recognition was materially consistent with the requirements of IFRS 15. For the majority of the Group's contracts, the performance obligation is the delivery of goods, which under IFRS 15 would be recognised at a single point of time, on delivery of goods, consistent with the current accounting treatment under IAS 18.

The Group utilises customised dies, tools and moulds in order to fulfil customer orders, which vary considerably in value and treatment in the customer contracts. While some are immaterial in the context of the contract, others are of more significant value and contractually distinct and are therefore considered a separate performance obligation under IFRS 15. Previously, revenue from dies, tools and moulds was netted within operating costs, while under IFRS 15 it represents a separate performance obligation and is included within revenue. In addition to the IFRS 15 adjustment relating to dies, tools and moulds, energy income, historically netted within operating costs while not material, has been determined to be more appropriately stated within revenue.

The Group has applied IFRS 15 with effect from 1 May 2018, with full restatement of prior periods to ensure comparability of the consolidated income statement. The impact of applying the changes described above on the restatement of the results for the year ended 30 April 2018 was to increase revenue and increase operating costs relating to continuing operations by £99 million with no impact on net profit and loss. There was no impact on discontinued operations revenue. Other areas identified in the review of IFRS 15 were concluded not to have material differences to current practice.

IFRS 9 *Financial Instruments*

IFRS 9 has replaced IAS 39 *Financial Instruments: Recognition and Measurement* and concerns the classification, measurement and de-recognition of financial assets and financial liabilities, introduces the expected credit loss model for the assessment of impairment of financial assets, introduces new classification and measurement rules for financial assets affecting the Group's other investments previously classified as available for sale and held at fair value, and changes the hedge accounting requirements.

The Group has determined that all existing effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has elected to continue to apply the hedge accounting requirements of IAS 39, as allowed under IFRS 9.

The Group's other investments previously classified as available for sale under IAS 39 and held at fair value have been designated on transition as fair value through other comprehensive income, after which the Group will record their fair value movements in other comprehensive income.

On the date of initial application, 1 May 2018, the financial instruments of the group were as follows, with any reclassifications noted:

Financial instruments	**Measurement**		**Carrying amount at 1 May 2018**		
			Original	**New**	
Non-current financial assets	**Original (IAS 39)**	**New (IFRS 9)**	**£m**	**£m**	**Difference**
Other investments	Available for sale	FVOCI	11	11	-
Other receivables	Amortised cost	Amortised cost	7	7	-
Derivative financial instruments	FVTOCI	FVTOCI	15	15	-
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	863	863	-
Cash and cash equivalents	Amortised cost	Amortised cost	297	297	-
Derivative financial instruments	FVTOCI	FVTOCI	44	44	-
Non-current borrowings					
Borrowings	Amortised cost	Amortised cost	(1,811)	(1,811)	-
Other payables	Amortised cost	Amortised cost	(14)	(14)	-
Derivative financial instruments	FVTOCI	FVTOCI	(35)	(35)	-
Current borrowings					
Borrowings	Amortised cost	Amortised cost	(162)	(162)	-
Bank overdrafts	Amortised cost	Amortised cost	(29)	(29)	
Derivative financial instruments	FVTOCI	FVTOCI	(24)	(24)	-
Trade and other payables	Amortised cost	Amortised cost	(1,705)	(1.705)	-

The Group has adopted the simplified approach to provide for losses on receivables within the scope of IFRS 9. The impact of applying the expected credit loss model has been concluded not to be material considering the quality and short-term nature of the Group's trade receivables. As the anticipated impact of adopting IFRS 9 is not material, the Group has not restated prior periods on adoption of IFRS 9.

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

Except for the new accounting standards adopted during the year, the accounting policies, presentation methods and methods of computation followed are the same as those detailed in the 2018 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.

New and revised IFRS standards in issue but not yet effective

IFRS 16 *Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the current lease guidance including IAS 17 *Leases* and the related Interpretations for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 1 May 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

IFRS 16 prescribes a single lessee accounting model that requires the recognition of a right of use asset and corresponding liability for all leases with terms over 12 months unless the underlying asset is of low value. The liability is initially measured as the present value of future lease payments for the lease term. Depreciation of right of use assets and interest on the corresponding lease liabilities are recognised in the income statement over the lease term. In the cash flow statement, the total amount of cash paid is separated into a principal portion (within financing activities) and an interest portion (within operating activities) in the cash flow statement.

On implementation of IFRS 16 there will be a material increase in lease liabilities, along with a corresponding increase in right of use assets within property, plant and equipment. The Group's most significant leases relate to property and production equipment and the undiscounted commitments under non-cancellable operating leases in accordance with IAS 17 total £259m for continuing operations at 30 April 2019 (2018: £209m).

The Group will adopt the modified retrospective approach using practical expedients available, with a cumulative adjustment to equity at 1 May 2019, and as such will not restate comparatives. The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 May 2019. On transition, the Group will measure all right-of-use assets at the amount of the lease liability on adoption.

Additionally, the adoption of IFRS 16 does not have any material impact on the Group's current accounting for finance leases.

2. Segment reporting
Operating segments

Year ended 30 April 2019	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Total continuing operations £m
External revenue		1,134	1,739	1,076	1,583	639	6,171
Adjusted EBITDA [1]		152	196	132	210	130	820
Depreciation		(31)	(57)	(32)	(45)	(24)	(189)
Adjusted operating profit[1]		121	139	100	165	106	631
Unallocated items:							
Amortisation							(114)
Adjusting items in operating profit	3						(90)
Total operating profit (continuing operations)							427
Unallocated items:							
Net financing costs							(86)
Share of profit of equity accounted investments, net of tax							9
Profit before income tax							350
Income tax expense							(88)
Profit for the year (continuing operations)							262
Analysis of total assets and total liabilities							
Segment assets		870	3,112	974	1,508	1,262	7,726
Unallocated items:							
Equity accounted investments and other investments							45
Derivative financial instruments							47
Cash and cash equivalents							382
Tax							82
Assets classified as held for sale							237
Total assets							8,519
Segment liabilities		(306)	(847)	(223)	(407)	(88)	(1,871)
Unallocated items:							
Borrowings and accrued interest							(2,787)
Derivative financial instruments							(30)
Tax							(456)
Employee benefits							(170)
Liabilities classified as held for sale							(93)
Total liabilities							(5,407)
Capital expenditure		54	91	42	78	38	303

1. Adjusted to exclude amortisation and adjusting items.

2. Segment reporting continued

Year ended 30 April 2018 (restated)	Note	UK £m	Western Europe £m	DCH and Northern Europe £m	Central Europe and Italy £m	North America £m	Total continuing operations £m
External revenue		1,088	1,476	1,106	1,462	386	5,518
Adjusted EBITDA [1]		138	147	121	167	76	649
Depreciation		(29)	(45)	(31)	(38)	(14)	(157)
Adjusted operating profit[1]		109	102	90	129	62	492
Unallocated items:							
Amortisation							(90)
Adjusting items in operating profit	3						(73)
Total operating profit (continuing operations)							329
Unallocated items:							
Net financing costs							(74)
Share of profit of equity accounted investment, net of tax							5
Profit before income tax							260
Income tax expense							(23)
Profit for the year (continuing operations)							237
Analysis of total assets and total liabilities							
Segment assets		835	1,182	1,000	1,481	1,147	5,645
Unallocated items:							
Equity accounted investment and other investments							35
Derivative financial instruments							59
Cash and cash equivalents							297
Tax							79
Assets relating to discontinued operations[2]							214
Total assets							6,329
Segment liabilities		(280)	(680)	(208)	(394)	(62)	(1,624)
Unallocated items:							
Borrowings and accrued interest							(2,035)
Derivative financial instruments							(59)
Tax							(313)
Employee benefits							(106)
Liabilities relating to discontinued operations							(82)
Total liabilities							(4,219)
Capital expenditure		65	83	60	88	32	328

1. Adjusted to exclude amortisation and adjusting items.
2. Plastics division is classified as a discontinued operation in FY2018/19

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	**2019 £m**	2018 (restated) £m
UK	**1,053**	920
France	**933**	711
Germany	**680**	696
Italy	**649**	586
USA	**652**	350
Rest of the world	**2,204**	2,255
	6,171	5,518

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	2019 £m	2018 (restated) £m
Acquisition related costs	**(32)**	(28)
Integration costs	**(27)**	(13)
Other restructuring costs	**(3)**	(15)
Impairment of assets	**-**	(1)
Guaranteed minimum pension equalisation	**(8)**	-
Other	**(20)**	(16)
Total pre-tax adjusting items (recognised in operating profit)	**(90)**	(73)
Finance costs adjusting items	**(15)**	(12)
Adjusting tax items	**(1)**	33
Current tax credit on adjusting items	**14**	13
Deferred tax credit on adjusting items	**-**	–
Total post-tax adjusting items	**(92)**	(39)

2018/19

Acquisition related costs of £32m 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 year. Of the total, £22m relates to the acquisition of Europac, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence and advice costs.

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in the current year and previous financial years (of which £14m relate to Europac and £9m relate to Interstate Resources). They include those directly attributable internal salary costs which would otherwise not be incurred.

On 26 October 2018, the High Court issued a judgment with respect to the equalisation between men and women of guaranteed minimum pension (GMP) benefits accrued between 1990 and 1997, in order to comply with sex discrimination legislation. The impact of this judgment was a charge of £8m for the Group.

Other restructuring costs of £3m include reorganisation and restructuring in Western Europe (£1m), and various projects commenced in the previous year.

Other adjusting items of £20m principally relate to a significant multi-year major IT project which has been substantially completed in this year. The costs of this project extend over several years and as well as adjusting items include capitalisation of intangible assets, particularly in the case of IT systems. Those costs are primarily as a result of the Group's acquisition activity, where the businesses acquired typically have a limited IT and financial infrastructure.

Finance costs adjusting items relate to financing costs incurred in the acquisition of Europac of £7m, with the remainder relating to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

Adjusting tax items

Adjusting tax items comprise the release of a provision of £32m in relation to the closure of a business in Denmark by SCA Packaging prior to ownership by the Group. This amount has been offset by a provision of £33m which represents the maximum potential tax exposure which could arise in connection with the recent decision by the EU Commission on State Aid in relation to the UK Controlled Foreign Company regime.

On 25 April 2019, the EU Commission released its final decision which concluded that up until 31 December 2018, the UK Controlled Foreign Company legislation partially represents State Aid.

There is significant uncertainty surrounding the quantum of the additional tax exposure due to a number of different factors which are likely to impact the overall State Aid collection process. To date, no formal guidance has been issued by the UK Government in relation to their likely approach to identifying and recovering any State Aid. The potential additional liability ranges from nil to £33 million depending upon the method of calculation. In view of the significant uncertainty and the broad range of possible outcomes, the Group has recognised a provision for the maximum potential exposure of £33 million, which includes an estimate of £2 million for interest on overdue tax.

The current tax credit on adjusting items of £14m in the year ended 30 April 2019 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

2017/18

Acquisition related costs of £28m 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 year, 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 financial year 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 £15m include reorganisation and restructuring in DCH and Northern Europe (£4m) and the UK (£4m), 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 £13m 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.

4. Employee benefits

	2019 £m	2018 £m
Employee benefit deficit at beginning of the year	**(106)**	(181)
Acquisitions	**(12)**	(8)
Expense recognised in operating profit	**(6)**	(6)
Curtailment	**2**	-
Past service costs (GMP equalisation) recognised in adjusting items	**(8)**	-
Employment benefit net finance expense	**(2)**	(3)
Employer contributions	**20**	25
Other payments and contributions	**-**	13
Actuarial (losses)/gains	**(62)**	57
Currency translation	**2**	(3)
Reclassification	**2**	–
Employee benefit deficit at 30 April	**(170)**	(106)
Deferred tax asset	**37**	26
Net employee benefit deficit at end of the year	**(133)**	(80)

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	**2019 £m**	2018 (restated) £m
Interest income from financial assets	-	-
Finance income	-	-
Interest on borrowings and overdrafts	**62**	54
Other	**7**	4
Finance costs before adjusting items	**69**	58
Finance costs adjusting items	**15**	12
Finance costs	**84**	70

6. Income tax expense

	2019 £m	2018 (restated) £m
Current tax expense		
Current year	**(123)**	(95)
Adjustment in respect of prior years	**8**	13
	(115)	(82)
Deferred tax credit		
Origination and reversal of temporary differences	**5**	4
Reduction in tax rates	**(2)**	(1)
Adjustment in respect of prior years	**11**	10
	14	13
Total income tax expense before adjusting items	**(101)**	(69)
Adjusting tax items (note 3)	**(1)**	33
Current tax credit on adjusting items (note 3)	**14**	13
Total income tax expense in the income statement from continuing operations	**(88)**	(23)
Total income tax expense in the income statement from discontinued operations	**(6)**	(10)
Total income tax expense in the income statement - total Group	**(94)**	(33)

The tax credit on amortisation was £26m (2017/18: £23m).

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

	2019 £m	2018 £m
Profit before income tax on continuing operations	**350**	260
Profit before income tax on discontinued operations	**18**	32
Share of profit of equity accounted investments, net of tax	**(9)**	(5)
Profit before tax and share of profit of equity accounted investments, net of tax	**359**	287
Income tax at the domestic corporation tax rate of 19.00% (2017/18: 19.00%)	**(68)**	(55)
Effect of additional taxes and tax rates in overseas jurisdictions	**(36)**	(27)
Additional items deductible for tax purposes	**19**	19
Non-deductible expenses	**(25)**	(20)
Release of prior year provisions in relation to acquired businesses	**38**	3
Deferred tax not recognised	**(2)**	(4)
Foreign exchange	**1**	(5)
Adjustment in respect of prior years	**(19)**	20
Effect of change in corporation tax rates	**(2)**	36
Income tax expense – total Group	**(94)**	(33)

The Group's effective tax rate, excluding amortisation, adjusting items and share of result from equity accounted investments was 22.8% (2017/18: 21.5%).

7. Earnings per share

Basic earnings per share from continuing operations

	2019	2018 (restated)[1]
Profit from continuing operations attributable to ordinary shareholders	**£262m**	£237m
Weighted average number of ordinary shares	**1,327**	1,117m
Basic earnings per share	**19.7p**	21.2p

Diluted earnings per share from continuing operations

	2019	2018 (restated)
Profit from continuing operations attributable to ordinary shareholders	**£262**	£237m
Weighted average number of ordinary shares	**1,327m**	1,117m
Potentially dilutive shares issuable under share-based payment arrangements	**6m**	7m
Weighted average number of ordinary shares (diluted)	**1,333m**	1,124m
Diluted earnings per share	**19.7p**	21.1p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2017/18: 1m).

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:

	2019			2018 (restated)[1]		
	£m	**Basic – pence per share**	**Diluted – pence per share**	£m	Basic – pence per share	Diluted – pence per share
Basic earnings	**262**	**19.7p**	**19.7p**	237	21.2p	21.1p
Add back:						
Amortisation of intangible assets	**114**	**8.7p**	**8.6p**	90	8.1p	8.0p
Tax credit on amortisation	**(26)**	**(2.0p)**	**(2.0p)**	(23)	(2.1p)	(2.1p)
Adjusting items, before tax	**105**	**7.9p**	**7.9p**	85	7.6p	7.6p
Tax on adjusting items and adjusting tax items	**(13)**	**(1.0p)**	**(1.0p)**	(46)	(4.1p)	(4.1p)
Adjusted earnings	**442**	**33.3p**	**33.2p**	343	30.7p	30.5p

8. Dividends proposed and paid

	2019		2018	
	Pence per share	**£m**	Pence per share	£m
2017/18 interim dividend – paid (restated)[1]	**–**	**–**	4.6p	53
2017/18 final dividend – paid	**–**	**–**	9.8p	134
2018/19 interim dividend – paid	**5.2p**	**71**	–	–
2018/19 final dividend – proposed	**11.0p**	**151**	–	–

[1] Restated for rights issue 2017/18 interim dividend restated to 4.56 pence per share

	2019 £m	2018 £m
Paid during the year	**187**	157

The interim dividend in respect of 2018/19 of 5.2 pence per share (£71m) was paid after the year end on 1 May 2019. The 2017/18 interim and final dividends were paid during the 2018/19 financial year. A final dividend in respect of 2018/19 of 11 pence per share has been proposed by the Directors after the reporting date.

9. Net debt

	2019 £m	2018 £m
Cash and cash equivalents	**382**	297
Overdrafts	**(129)**	(29)
Net cash and cash equivalents	**253**	268
Other investments – restricted cash	**3**	3
Other deposits	**89**	45
Borrowings – due after one year	**(2,385)**	(1,802)
Borrowings - due within one year	**(230)**	(158)
Finance leases	**(10)**	(13)
Derivative financial instruments		
assets	**12**	12
liabilities	**(9)**	(35)
	(2,530)	(1,948)
Net debt	**(2,277)**	(1,680)

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 15.

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	2019 £m	2018 (restated) £m[1]
Profit for the year	**262**	237
Adjustments for:		
Pre-tax integration costs and other adjusting items	**50**	45
Amortisation of intangible assets; acquisitions and disposals	**146**	118
Guaranteed minimum pension equalisation	**8**	-
Cash outflow for adjusting items	**(93)**	(78)
Depreciation	**189**	157
Profit on sale of non-current assets	**(4)**	(1)
Share of profit of equity accounted investments, net of tax	**(9)**	(5)
Employment benefit net finance expense	**2**	4
Share-based payment expense	**7**	9
Finance income	**-**	-
Finance costs	**84**	70
Other non-cash items	**(1)**	2
Income tax expense	**88**	23
Change in provisions	**(19)**	(9)
Change in employee benefits	**(17)**	(27)
Cash generation before working capital movement	**693**	545
Changes in:		
Inventories	**(7)**	(81)
Trade and other receivables – gross	**85**	(136)
Factored trade receivables	**(82)**	118
Trade and other payables	**(8)**	81
Working capital movement	**(12)**	(18)
Cash generated from continuing operations	**681**	527

[1] Restated for the classification of the Plastics business as a discontinued operation (note 14).

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

	2019 £m	2018 (restated) £m[1]
Continuing operations		
Profit for the year	**262**	237
Income tax expense	**88**	23
Share of profit of equity accounted investments, net of tax	**(9)**	(5)
Net financing costs	**86**	74
Amortisation of intangible assets; acquisitions and disposals	**146**	118
Guaranteed minimum pension equalisation	**8**	-
Adjusting items	**50**	45
Adjusted operating profit	**631**	492
Depreciation	**189**	157
Adjusted EBITDA	**820**	649
Working capital movement	**(12)**	(18)
Change in provisions	**(19)**	(9)
Change in employee benefits	**(17)**	(27)
Other	**2**	10
Cash generated from operations before adjusting cash items	**774**	605
Capital expenditure	**(303)**	(328)
Proceeds from sale of property, plant and equipment and other investments	**14**	16
Tax paid	**(85)**	(68)
Net interest paid	**(61)**	(41)
Free cash flow	**339**	184
Cash outflow for adjusting items	**(93)**	(78)
Dividends paid	**(187)**	(157)
Acquisition of subsidiary businesses, net of cash and cash equivalents	**(1,498)**	(615)
Other	**(6)**	(4)
Net cash flow	**(1,445)**	(670)
Proceeds from issue of share capital	**1,006**	283
Borrowings acquired, including deposits	**(204)**	(204)
Net movement on debt	**(643)**	(591)
Foreign exchange, fair value and other non-cash movements	**49**	(15)
Net debt movement – continuing operations	**(594)**	(606)
Net debt movement – discontinued operations	**(3)**	18
Opening net debt	**(1,680)**	(1,092)
Closing net debt	**(2,277)**	(1,680)

[1] Restated for the classification of the Plastics business as a discontinued operation (note 13).

Adjusted operating profit, 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 15.

12. Financial instruments

Carrying amounts and fair values of financial assets and liabilities

Set out below is the accounting classification of the carrying amounts and fair values of all of the Group's financial assets and liabilities:

		2019		2018	
	Category	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Cash and cash equivalents	Amortised cost	**382**	**382**	297	297
Available for sale – other investments	FVTOCI	**12**	**12**	11	11
Trade and other receivables	Amortised cost	**923**	**923**	870	870
Derivative financial instruments	FVTOCI	**47**	**47**	59	59
Total financial assets		**1,364**	**1,364**	1,237	1,237
Financial liabilities					
Trade and other payables	Amortised cost	**(1,871)**	**(1,871)**	(1,719)	(1,719)
Bank and other loans	Amortised cost	**(448)**	**(448)**	(1)	(1)
Commercial paper	Amortised cost	**(148)**	**(148)**	-	-
Medium-term notes and other fixed-term debt	Amortised cost	**(2,019)**	**(2,069)**	(1,959)	(1,995)
Finance lease liabilities	Amortised cost	**(10)**	**(10)**	(13)	(13)
Bank overdrafts	Amortised cost	**(129)**	**(129)**	(29)	(29)
Derivative financial instruments	FVTOCI	**(30)**	**(30)**	(59)	(59)
Total financial liabilities		**(4,655)**	**(4,705)**	**(3,780)**	(3,816)

The fair value is the amount for which an asset or liability could be exchanged or settled on an arm's-length basis. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value note purchase agreements, the medium-term note, cross-currency swaps and interest rate swaps. All derivative financial instruments are shown at fair value in the Consolidated Statement of Financial Position.

The Group's medium-term notes and other fixed-term debt are in effective cash flow and net investment hedges and are therefore held at amortised cost. The fair values of financial assets and liabilities which bear floating rates of interest are estimated to be equivalent to their carrying amounts.

IFRS 7 *Financial Instruments: Disclosures* requires the classification of fair value measurements using the fair value hierarchy that reflects the significance of the inputs used in making the assessments.

All of the Group's financial instruments are Level 2 financial instruments in accordance with the fair value hierarchy, meaning although the instruments are not traded in an active market, inputs to fair value are observable for the asset and liability, either directly (i.e. quoted market prices) or indirectly (i.e. derived from prices).

13. Discontinued operations and disposal group held for sale

The Plastics segment has been classified as discontinued operations as disclosed in note 1.

Plastics principally comprises flexible packaging and dispensing solutions, extruded and injection moulded products and foam products. The Condensed consolidated income statement has been restated to present the Plastics segment as a discontinued operation. The Condensed consolidated statement of financial position presents the discontinued assets and liabilities as 'assets held for sale' and 'liabilities held for sale' respectively. The Condensed consolidated statement of cash flows has also been restated, presenting a single amount of net cash flow from discontinued operations.

(a) Condensed consolidated income statement – discontinued operations

	Year ended 30 April 2019 £m	Year ended 30 April 2018 £m
Revenue	**352**	346
Operating costs	**(324)**	(308)
Operating profit before amortisation and adjusting items	**28**	38
Amortisation of intangible assets	**(1)**	(3)
Pre-tax adjusting items	**(10)**	(3)
Net finance income/(cost)	**1**	–
Profit before income tax	**18**	32
Income tax expense	**(6)**	(10)
Profit for the year from discontinued operations	**12**	22

The income tax expense is net of a tax credit on adjusting items of nil (30 April 2018: £1m credit).

Basic earnings per share from discontinued operations

	2019	2018 (restated)[1]
Profit from discontinued operations attributable to ordinary shareholders	**£12m**	£22m
Weighted average number of ordinary shares	**1,327m**	1,117m
Basic earnings per share	**0.9p**	2.0p

Diluted earnings per share from discontinued operations

	2019	2018
Profit from discontinued operations attributable to ordinary shareholders	**£12m**	£22m
Weighted average number of ordinary shares	**1,327m**	1,117m
Potentially dilutive shares issuable under share-based payment arrangements	**6m**	7m
Weighted average number of ordinary shares (diluted)	**1,333m**	1,124m
Diluted earnings per share	**0.9p**	2.0p

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2017/18: 1m).

Adjusted earnings per share from discontinued operations for the year is 1.7p (30 April 2018:2.3p).

(b) Assets and liabilities held for sale

	At 30 April 2019 £m
Intangible assets	74
Property, plant and equipment	74
Deferred tax assets	4
Inventories	29
Income tax receivable	6
Trade and other receivables	50
Assets held for sale	**237**
Employee benefits	(2)
Trade and other payables	(73)
Deferred tax liabilities	(5)
Income tax liabilities	(13)
Liabilities held for sale	**(93)**

13. Discontinued operations and disposal group held for sale continued

(c) Cash flows from discontinued operations

	Year ended 30 April 2019 £m	Year ended 30 April 2018 £m
Net cash from operating activities	16	34
Net cash from investing activities	(19)	(16)
Net cash flows for the year	(3)	18

Net cash from operating activities is stated after cash outflows in respect of adjusting items of £10m (30 April 2018: £2m).

14. Acquisitions and disposals

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

On 22 January 2019, the Group completed its acquisition of a 100% interest in Papeles y Cartones de Europa, S.A. (Europac), a leading integrated packaging business in Iberia and France.

The acquisition was funded by the rights issue of 3 for 11 ordinary shares at 350 pence per share on 25 July 2018 (gross proceeds of £1,027m offset by related transaction costs of £25m) and a new committed debt facility entered into on 20 November 2018.

In the year ended 30 April 2019, Europac contributed combined revenue of £191m and adjusted operating profit before amortisation and adjusting items of £40m to the Group's results. If the acquisition had occurred on 1 May 2018, estimated revenue and adjusted operating profit before amortisation and adjusting items for the combined group would have been £780m and £130m, respectively.

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

	Carrying values before acquisition £m	Provisional fair values £m
Intangible assets	5	488
Biological assets	6	6
Property, plant and equipment	623	604
Other non-current assets	9	9
Inventories	76	73
Income tax receivable	16	16
Trade and other receivables	117	117
Cash and cash equivalents	6	6
Borrowings, including deposits	(200)	(200)
Other non-current payables	(94)	(94)
Trade and other payables	(126)	(125)
Provisions and employee benefits	(42)	(50)
Income tax liabilities	(23)	(23)
Net deferred tax liabilities	(31)	(148)
Total identifiable net assets acquired	342	679
Goodwill		787
Total consideration		1,466
Satisfied by:		
Cash consideration		1,466
Total consideration transferred		
Net cash flow arising on acquisition		
Cash consideration		1,466
Cash and cash equivalents acquired		(6)
Total cash outflow		1,460

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.

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

14. Acquisitions and disposals continued

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

The provisional goodwill balance of £787m arising on the acquisition of Europac (which is not expected to be tax deductible) includes anticipated synergies from integrating Europac into the Group, and the skills and technical talent of the Europac workforce.

(b) Other 2018/19 acquisitions and disposals

In total, during the year ended 30 April 2019, cash consideration for acquisition of subsidiary businesses, net of cash and cash equivalents was £1,498m, and borrowings acquired, including deposits, were £204m, giving a total impact on net debt from acquisitions of £1,702m. Apart from the acquisitions of Europac, the remaining acquisitions are not material to the Group individually or in aggregate.

(c) 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. Acquisitions included Interstate Resources, and EcoPack /EcoPaper.

On 25 August 2017, the Group acquired 80% of Indevco Management Resources Inc. (IMRI), the owner of Interstate Resources Inc. (Interstate Resources), for total consideration of £777m. Interstate Resources is an integrated packaging and paper producer based on the East Coast of the USA. 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 £270m, existing debt facilities, new debt facilities of £400m and the issue of 52,474,156 ordinary shares to the seller. During the year, fair value adjustments were made in relation to property, plant and equipment and liabilities, leading to an increase in goodwill of £10m.

On 6 March 2018, the Group acquired EcoPack and EcoPaper, a leading integrated packaging and paper group in Romania, for total consideration of £128m. The acquisition was funded by existing cash and debt facilities and the issue of 6,492,411 ordinary shares to the seller. During the year, fair value adjustments were made in relation to property, plant and equipment and trade and other payables, resulting in an increase to goodwill of £2m.

(d) Acquisition related costs

The Group incurred acquisition related costs of £32m (2017/18: £28m) which primarily related to the acquisition of Europac as detailed in note 14(a). In addition to the total of £32m which was included in administrative expenses within adjusting items, £25m of costs related to the share placing with existing DS Smith equity holders has been netted against share premium.

15. 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 (refer to note 3) 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 or 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.

15. Non-GAAP performance measures continued

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.

	2019 £m	2018 (restated) £m
Adjusted operating profit	**631**	492
Revenue	**6,171**	5,518
Return on sales	**10.2%**	8.9%

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.

	2019 £m	2018 (restated) £m
Capital employed at 30 April	**5,674**	3,967
Currency, inter-month and acquisition movements	**(1,022)**	(364)
Last 12 months' average capital employed	**4,652**	3,603
Last 12 months' adjusted operating profit	**631**	492
Adjusted return on average capital employed	**13.6%**	13.7%

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. The components of net debt as they reconcile to the primary financial statements and notes to the accounts is disclosed 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.

	2019 £m	2018 £m
Net debt – reported basis (see note 9)	**2,277**	1,680
Currency effects	**41**	7
Net debt – adjusted basis	**2,318**	1,687
Continuing operations adjusted EBITDA – last 12 months' reported basis	**820**	649
Acquisition effects	**136**	52
Add back of discontinued operations	**40**	49
Adjusted EBITDA – banking covenant basis	**996**	750

15. Non-GAAP performance measures continued

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 from Adjusted EBITDA to 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:

	2019 £m	2018 (restated)[1] £m
Growth capital expenditure	**140**	165
Non-growth capital expenditure	**163**	163
Total capital expenditure (note 11)	**303**	328
Free cash flow (note 11)	**339**	184
Tax paid (note 11)	**85**	68
Net interest paid (note 11)	**61**	41
Growth capital expenditure	**140**	165
Pension payments (note 11)	**17**	27
Adjusted free cash flow	**642**	485
Adjusted operating profit	**631**	492
Cash conversion	**102%**	99%

1. Comparatives have been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers*, the rights issue during the year, and the classification of the Plastics business as a discontinued operation.

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.

Continuing operations	**2019 £m**	2018 (restated) £m
Inventories	**584**	514
Trade and other receivables	**833**	781
Trade and other payables	**(1,587)**	(1,420)
Inter-month movements and exclusion of capital and acquisition related items	**174**	114
Last 12 months' average working capital	**4**	(11)
Last 12 months' revenue	**6,171**	5,518
Average working capital to sales	**0.1%**	(0.2%)

Constant currency and organic growth

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 year revenue and adjusted operating profit as if they had been generated at the current year exchange rates. In addition, the Group then separates the first full year effects of acquisitions to determine underlying organic growth. The table below shows the calculations:

	Revenue £m	**Adjusted operating profit £m**
Reported basis – comparative year ended 30 April 2018 (restated)	**5,518**	**492**
Currency effects	**(21)**	**1**
Constant currency basis – comparative year ended 30 April 2018 (restated)	**5,497**	**493**
Prior year acquisitions	**293**	**32**
	5,790	**525**
Current year acquisitions	**191**	**35**
Synergies	**-**	**25**
Organic growth	**190**	**46**
Reported basis – year ended 30 April 2019	**6,171**	**631**

16. Subsequent events

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