THIS CIRCULAR AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000, as amended, if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you sell or otherwise transfer, or have sold or otherwise transferred, all your Ordinary Shares, please forward this Circular, but not the accompanying personalised Form of Proxy, as soon as possible to the purchaser or the transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or the transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this Circular to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any action. The distribution of this Circular and any accompanying document into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

This Circular should be read as a whole. Your attention is drawn to the letter from the Chairman of the Company which is set out in Part 1 (*Letter from the Chairman*) of this Circular and which contains a recommendation from the Board that you vote in favour of the Resolution to be proposed at the General Meeting referred to below. Your attention is also drawn to the risk factors which are set out in Part 2 (*Risk Factors*) of this Circular.

DS Smith Plc

(*a public company incorporated in England and Wales with registered number 1377658)*

Proposed Acquisition of Interstate Resources

Circular to Shareholders

and

Notice of General Meeting

Notice of a General Meeting of the Company, to be held at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 2.00 p.m. on 25 July 2017, is set out at the end of this Circular. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom by no later than 2.00 p.m. on 21 July 2017 (or, in the case of an adjournment, not later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting). Shareholders wishing to appoint a proxy online can do so by visiting www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number printed on the enclosed Form of Proxy. Members who have already registered with the Registrar's online portfolio service Shareview can appoint a proxy by logging into their profile at www.shareview.co.uk using their usual user ID and password. Once logged in, members should click "View" on the "My Investments" page, click on the link to vote and then follow the on-screen instructions. Shareholders that hold their Ordinary Shares in CREST may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Equiniti Limited (CREST Participant ID RA19), so that it is received no later than 2.00 p.m. on 21 July 2017 (or, in the case of an adjournment, not later than 48 hours (excluding non-business days) before the time fixed for the holding of the adjourned meeting). The completion and return of a Form of Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the General Meeting or any adjournment of the General Meeting, if you wish to do so and are so entitled.

A summary of the actions to be taken by Shareholders is set out on page 23 of this Circular and in the Notice of General Meeting set out at the end of this Circular.

This Circular is not a prospectus, but a shareholder circular relating to the Acquisition and the Resolution, and it is not intended to and does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of an offer to sell, dispose of, issue, purchase, acquire or subscribe for, any security, including any Consideration Shares to be issued in connection with the Acquisition. This Circular has been prepared in accordance with the Listing Rules and approved by the FCA.

The information provided in this Circular is provided solely in compliance with the Listing Rules for the purpose of enabling Shareholders to consider the Resolution.

Citigroup Global Markets Limited (**Citi**) and J.P. Morgan Securities plc (**JPMS**), each of which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, and J.P. Morgan Limited (**JPML** and, together with JPMS, **JPM**), which is authorised and regulated in the United Kingdom by the FCA, are acting solely for the Company and no one else in connection with this Circular and the Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Citi or JPM, respectively, nor for providing advice in relation to this Circular or the Acquisition. Neither Citi, JPM nor any of their respective subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Citi or JPM, respectively, in connection with this Circular, the Acquisition, any statement contained in this Circular or otherwise.

Save for the responsibilities and liabilities, if any, of Citi and/or JPM under FSMA or the regulatory regime established under FSMA, neither Citi nor JPM assumes any responsibility whatsoever and makes no representations or warranties, express or implied, in relation to the contents of this Circular, including its accuracy, completeness or verification or for any other statement made or purported to be made by the Company, or on the Company's behalf, or by Citi and/or JPM, or on its behalf, and nothing contained in this Circular is, or shall be, relied on as a promise or representation in this respect, whether as to the past or the future, in connection with the Company or the Acquisition. Each of Citi and JPM disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this Circular or any such statement.

Notice to all Shareholders

The information provided in this Circular is provided solely for the purpose of considering the Resolution. Any reproduction or distribution of this Circular, in whole or in part, and any disclosure of its contents or use of any information contained in this Circular for any purpose other than considering the Resolution is prohibited.

No person has been authorised to give any information or make any representations other than those contained in this Circular or incorporated by reference into it and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, Citi or JPM. None of the above take any responsibility or liability for, and can provide no assurance as to the reliability of, other information that you may be given. Subject to the Listing Rules, the Prospectus Rules and the Disclosure Guidance and Transparency Rules, the delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of DS Smith or the IRI Group since the date of this Circular or that the information in this Circular is correct as at any time subsequent to the date of this Circular.

The contents of this Circular and the information incorporated by reference into it should not be construed as legal, business or tax advice. Each Shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice respectively.

Notice to overseas Shareholders

This Circular is not an offer of securities for sale in the United States and there will be no public offer of securities in the United States. The securities discussed in this Circular have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or under any securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, within the United States, except pursuant to an applicable exemption from, or a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The securities discussed in this Circular have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of these securities or the accuracy or adequacy of this Circular. Any representation to the contrary is a criminal offence in the United States.

Distribution of this Circular by any recipient may be restricted or prohibited by US law. Recipients are required to inform themselves of, and comply with, all such restrictions or prohibitions.

This Circular is dated 7 July 2017.

CONTENTS

IMPORTANT INFORMATION

1. Forward-looking statements

Certain statements contained in this Circular or incorporated by reference into it constitute, or may be deemed to constitute, "forward-looking statements" with respect to the financial condition, results of operations and business of the DS Smith Group and, upon Completion, the Enlarged Group and certain plans and objectives of the Directors with respect thereto. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use forward-looking terminology including words such as "anticipate", "target", "expect", "estimate", "intend", "aim", "plan", "predict", "projects", "continue", "assume", "goal", "believe", "will", "may", "should", "would", "could" or, in each case, their negative, or other variations thereon or words of similar meaning, which identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. In particular, any statements regarding the Company's strategy, plans, objectives, goals and other future events or prospects are forward-looking statements.

An investor should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the Company's control. Forward-looking statements are based on assumptions and assessments made by the Directors in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, including the principal risks and uncertainties facing the business as described in Part 2 (*Risk Factors*) of this Circular, because they relate to events and depend on circumstances that will occur in the future. The factors described in the context of such forward-looking statements in this Circular could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements.

The Company cautions investors that forward-looking statements are not guarantees of future performance and that its actual results of operations and financial condition, and the development of the industry in which it operates, may differ materially from those made in or suggested by the forward-looking statements contained in this Circular and/or information incorporated by reference into it. Factors that may cause the Company's actual results to differ materially from those expressed or implied by the forward-looking statements in this Circular include but are not limited to the risks described in Part 2 (*Risk Factors*) of this Circular.

Each forward-looking statement speaks only as of the date it was made and is not intended to give any assurances as to future results. Furthermore, forward-looking statements contained in this Circular that are based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as required by the FSMA, the Listing Rules and/or the Disclosure Guidance and Transparency Rules, none of the Company, JPM or Citi undertakes any obligation to update or revise these forward-looking statements, and will not publicly release any revisions it may make to these forward-looking statements that may result from new information, events or circumstances arising after the date of this Circular. The Company will comply with its obligations to publish updated information as required by the FSMA, the Listing Rules and/or the Disclosure Guidance and Transparency Rules or otherwise by law and/or by any regulatory authority, but assumes no further obligation to publish additional information.

For the avoidance of doubt, nothing in this paragraph 1 (*Forward-looking statements*) is intended to qualify the working capital statements set out in paragraph 11 (*Working Capital*) of Part 6 (*Additional Information*) of this Circular.

2. Currency and exchange rate presentation

Unless otherwise indicated, references to **pounds sterling, sterling, pounds, pence, p** or **£** are to the lawful currency of the United Kingdom, references to **US dollars, dollars, $** or **US$** are to the lawful currency of the United States and references to **Euros** or **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Unless otherwise specified, the financial information contained in this Circular has been expressed in sterling.

The basis of translation of foreign currency transactions and amounts in the financial information set out in Note 1.9 of the Historical Financial Information relating to the IRI Group in Section A of Part 4 (*Historical Financial Information relating to the IRI Group*) is described in that Part. Unless otherwise stated, information derived from this financial information set out elsewhere in this Circular has been translated on the same basis.

For current US$ amounts, a rate of £1 to US$1.2750 has been used, unless otherwise stated in this Circular.

3. Market, economic and industry data

This Circular contains information regarding the DS Smith Group's, the IRI Group's and the Enlarged Group's business and the market in which they operate and compete, which DS Smith has obtained from various third party sources. Where information has been sourced from a third party it has been accurately reproduced and, so far as DS Smith is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information has not been audited or independently verified. Where third party information has been used in this Circular, the source of such information has been identified.

4. Rounding

Certain data in this Circular, including financial, statistical and operating information, has been rounded. As a result of rounding, the totals of data presented in this Circular may vary slightly from the actual arithmetic totals of such data. Percentages have also been rounded and accordingly may not add to 100 per cent.

5. Presentation of financial information

Unless otherwise stated:

(a) financial information relating to the DS Smith Group has been extracted without material adjustment from the audited consolidated financial statements of the DS Smith Group;

(b) financial information relating to the IRI Group has been extracted without material adjustment from the combined historical financial information relating to the IRI Group set out in Section A of Part 4 (*Historical Financial Information relating to the IRI Group*) of this Circular;

(c) any reference to "pro forma" financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information set out in Section A of Part 5 (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*) of this Circular; and

(d) all prices quoted for the Ordinary Shares are the Closing Prices in pounds sterling.

Unless otherwise indicated, financial information in this Circular relating to the DS Smith Group and the IRI Group has been prepared in accordance with IFRS and in accordance with the accounting policies adopted by DS Smith in preparing its financial statements for the 2017 Financial Year.

6. Non-IFRS financial information

6.1 DS Smith Group

Introduction

In the reporting of financial information, the DS Smith Group has adopted various non-IFRS measures of historical or future financial performance, position or cash flows other than those defined or specified under IFRS.

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' non-IFRS measures, including those in the DS Smith Group's industry.

Non-IFRS measures should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The DS Smith Group presents reported and adjusted financial information in order to help shareholders better understand the DS Smith Group's operational performance and financial position.

Total reported financial information represents the DS Smith Group's overall performance and financial position, but can contain significant unusual or non-operational items or involve calculations that may obscure understanding of the key trends and position.

Certain non-IFRS 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 non-IFRS performance measures of the DS Smith Group used in this Circular and their calculation methods are as follows:

Adjusted Operating Profit

Adjusted operating profit is operating profit excluding amortisation and exceptional items. Exceptional items include business disposal gains and losses, restructuring and optimisation, acquisition related and integration costs and impairments. A reconciliation between reported and adjusted operating profit, as reflected in the DS Smith Group's preliminary results announcement, is set out below:

	Year Ended 30 April 2017		
£m	**Before exceptional items[(1)]**	**Exceptional items**	**After exceptional items**
Operating profit before amortisation, acquisitions and disposals	**443**	**(57)**	**386**

(1) Operating profit before amortisation, acquisitions and disposals before exceptional items represents adjusted operating profit.

Operating Profit Before Exceptional Items

Operating profit before exceptional items is operating profit including amortisation and excluding exceptional items. Exceptional items include business disposal gains and losses, restructuring and optimisation, acquisition related and integration costs and impairments. A reconciliation between reported operating profit and operating profit before exceptional items, as reflected in the DS Smith Group's preliminary results announcement, is set out below:

	Year Ended 30 April 2017		
£m	**Before exceptional items**	**Exceptional items**	**After exceptional items[(1)]**
Operating profit	**378**	**(62)**	**316**

(1) Operating profit after exceptional items reflects the DS Smith Group's reported operating profit.

Profit before income tax and exceptional items

A reconciliation between profit before income tax and exceptional items and profit before income tax, as reflected in the DS Smith Group's preliminary results announcement, is set out below:

	Year Ended 30 April 2017		
£m	**Before exceptional items**	**Exceptional items**	**After exceptional items[(1)]**
Profit before income tax	**326**	**(62)**	**264**

(1) Profit before income tax after exceptional items reflects the DS Smith Group's reported profit before income tax.

6.2 IRI Group

The non-IFRS performance measures of the IRI Group used in this Circular and their calculation methods are as follows:

Adjusted Operating Profit

Adjusted operating profit refers to operating profit before exceptional items and amortisation. A reconciliation between reported and adjusted operating profit for the IRI Group is available on the face of the IRI Group's combined income statement of the combined historical financial information in Part 4 (*Historical Financial Information relating to the IRI Group*) of this Circular.

7. No profit forecast

No statement in this Circular is intended as a profit forecast or profit estimate and no statement in this Circular should be interpreted to mean that earnings per Ordinary Share for the current or future financial years would necessarily match or exceed the historical published earnings per Ordinary Share.

8. No incorporation of website information

Without prejudice to the documents incorporated by reference into this Circular, which will be made available on DS Smith's website (www.dssmith.com), neither the contents of DS Smith's website nor of any website accessible via hyperlinks from DS Smith's website are incorporated into, or form part of, this Circular and Shareholders and prospective investors should not rely on them.

9. Defined terms

Defined terms, including all capitalised terms, are defined and explained in Part 7 (*Definitions*) of this Circular.

10. Times

All references to time in this Circular are, unless otherwise stated, references to time in London, United Kingdom.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates in the table below is indicative only and may be subject to change.[(1)]

Announcement of the Acquisition and the Placing	29 June 2017
Publication and posting of this Circular and the Forms of Proxy	7 July 2017
Latest time and date for receipt of Forms of Proxy, CREST Proxy Instructions and registration of online votes from Shareholders for the General Meeting	2.00 p.m. on 21 July 2017
Record date for voting at the General Meeting	6.30 p.m. on 21 July 2017
General Meeting	2.00 p.m. on 25 July 2017
Expected Completion and Admission	Third quarter of 2017
Long-stop date for Completion	31 December 2017 (extendable to 31 March 2018)

Notes:

(1) The times and dates set out in the expected timetable of principal events above and mentioned throughout this Circular are indicative only and are subject to change. If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders via a Regulatory Information Service and will be available on www.dssmith.com.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Gareth Davis (*Non-executive Chairman*) Miles Roberts (*Group Chief Executive*) Adrian Marsh (*Group Finance Director*) Jonathan Nicholls (*Senior Independent Director*) Christopher Britton (*Independent Non-executive Director*) Ian Griffiths (*Independent Non-executive Director*) Kathleen O'Donovan (*Independent Non-executive Director*) Louise Smalley (*Independent Non-executive Director*)
Company Secretary	Iain Simm
Registered Office	DS Smith Plc 350 Euston Road London NW1 3AX
Joint Financial Advisers	Citigroup Global Markets Limited Citigroup Centre 33 Canada Square London E14 5LB J.P. Morgan Limited 25 Bank Street London E14 5JP
Joint Sponsors	Citigroup Global Markets Limited Citigroup Centre 33 Canada Square London E14 5LB J.P. Morgan Securities plc 25 Bank Street London E14 5JP
Reporting Accountants	Deloitte LLP 2 New Street Square London EC4A 3BZ
Legal Advisers to the Company as to English law and US securities law	Allen & Overy LLP One Bishops Square London E1 6AD
Legal Advisers to the Company as to US law	Sullivan & Cromwell LLP 125 Broad Street New York, New York 10004-2498
Legal Advisers to the Joint Sponsors as to English and US law	Linklaters LLP One Silk Street London EC2Y 8HQ

Registrar . . . . Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

PART 1

LETTER FROM THE CHAIRMAN

DS Smith Plc

(*Incorporated and registered in England and Wales with registered number 1377658*)

Registered and Head Office
DS Smith Plc
350 Euston Road
London
NW1 3AX

Directors

Gareth Davis	*(Non-executive Chairman)*
Miles Roberts	*(Group Chief Executive)*
Adrian Marsh	*(Group Finance Director)*
Jonathan Nicholls	*(Senior Independent Director)*
Christopher Britton	*(Independent Non-executive Director)*
Ian Griffiths	*(Independent Non-executive Director)*
Kathleen O'Donovan	*(Independent Non-executive Director)*
Louise Smalley	*(Independent Non-executive Director)*

7 July 2017

Dear Shareholder

Proposed Acquisition and Notice of General Meeting

1. Introduction

On 29 June 2017, DS Smith announced that it, along with its wholly-owned U.S. subsidiary, DS Smith Holdings, Inc. (together with DS Smith, the **Buyer**), had entered into a conditional agreement (the **Acquisition Agreement**) to acquire 80 per cent. of the total issued share capital of Indevco Management Resources, Inc. (**IMRI**), the holding company for the Interstate Resources, Inc. group (IMRI and its subsidiaries together, the **IRI Group**), from Merpas Co. S.à r.l. (**Merpas**) for consideration of US$920 million (approximately £722 million) (the **Initial Acquisition**). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration for the Initial Acquisition will be subject to customary post-Completion net debt and working capital adjustments.

The Buyer intends to satisfy the consideration through:

(a) a payment of US$846 million (approximately £664 million) in cash, to be satisfied out of the proceeds of a £280 million cash placing (net of commissions and expenses) (the **Placing**), utilisation of up to £400 million from a new bridge facility (the **New Debt Facilities**) and the rest from existing cash resources; and

(b) the issue of 52,474,156 new Ordinary Shares (the **Consideration Shares**) with an aggregate value of US$300 million (approximately £235 million), calculated by reference to the average Closing Price of the Ordinary Shares on 23 June 2017, 26 June 2017 and 27 June 2017, to Merpas.

The Buyer, IMRI and the entity within the INDEVCO group that will hold shares in IMRI at the time of Completion (**Merpas Newco**) will enter into a Shareholders' Agreement on Completion which will govern the relationship between the shareholders in respect of the governance of IMRI and pursuant to which, among other things, on fixed dates over the next four years, Merpas Newco can require the Buyer to acquire, directly or indirectly, some or all of the remaining shares in IMRI on agreed terms and, on the fifth anniversary of Completion, the Buyer shall (unless the Buyer and Merpas Newco agree otherwise) acquire, directly or indirectly, any shares in IMRI that it does not already own, on agreed terms (any such further acquisition of shares in IMRI being a **Further Acquisition** and, together with the Initial Acquisition, the **Acquisition**). DS Smith proposes to fund any Further Acquisition through cash and debt facilities available to it at such time.

Merpas has undertaken that, for a period of six months from Completion, neither it nor any of its group members will, except with the prior written consent of the Buyer, directly or indirectly, sell, transfer, pledge, encumber, assign or otherwise dispose of or cause any change in the beneficial ownership of any Consideration Shares, subject to certain limited exceptions. This restriction will continue to apply for a further six months in respect of 50 per cent. of the Consideration Shares and, in respect of those shares not subject to the restriction after the first six months, Merpas has undertaken that any sales of such shares will be made only through Citi and JPMS. This commitment highlights Merpas's confidence in the outlook of the Enlarged Group.

The IRI Group is a family-owned integrated packaging and paper producer concentrated on the East Coast of the United States, operating from 19 production sites and having approximately 1,500 employees. For the year ended 31 December 2016, the IRI Group had revenues of $618 million.

The IRI Group operates across the entire packaging chain including wood procurement, paper manufacturing, design, packaging manufacturing and customer logistics. Customers in the United States accounted for 94 per cent. of turnover in the year ended 31 December 2016. The IRI Group produces an excess of paper of approximately 40 per cent. over the amount required for its packaging products, which is sold externally.

The majority of the IRI Group's customer base for its packaging products is FMCG and food customers with the balance being made up of corrugated sheets, industrial and wholesale distribution customers. The IRI Group's largest customer accounts for approximately 8 per cent. of the IRI Group's revenues with the top five customers accounting for approximately 25 per cent. of revenues. Levels of utilisation in the packaging operations offer potential for further organic growth in the IRI Group's current plants.

DS Smith believes that the Acquisition represents a compelling and attractive opportunity for DS Smith to expand its international fibre-based packaging footprint in the US market with a well-established, high quality and reputable independent group with an experienced management team.

DS Smith is a leading Pan-European provider of corrugated packaging in Europe and specialist plastic packaging worldwide, supported by paper and recycling operations. DS Smith has a growing business with multi-national customers, some of whom, including Mondelēz and Nestlé, have indicated their support for working with DS Smith in providing its solutions in the US. The IRI Group provides a strong platform for DS Smith to address these customer opportunities and DS Smith intends to invest further to develop its business in the US, a large, profitable and growing market.

Specifically, DS Smith plans to build upon the IRI Group's well-invested operational asset base, technology and distribution network in the Eastern United States to support the IRI Group's existing customers and DS Smith's global and multi-national customers, many of whom have operations in the US. DS Smith will draw upon its experience in previous integrations to leverage the IRI Group's US market presence and management expertise to realise the combined strength of DS Smith and the IRI Group.

The Board believes that the Acquisition is strategically and financially attractive and expects it to create significant value for customers and consistent and attractive returns for Shareholders.

Due to the size of the Acquisition in relation to the size of DS Smith, the Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules and, therefore, requires the approval of DS Smith's Shareholders. The Acquisition is conditional on, among other things, such approval being given. Accordingly, a General Meeting has been convened for 2.00 p.m. on 25 July 2017 at which Shareholders will be asked to approve the Acquisition. An explanation of the Resolution to be proposed at the General Meeting is set out at paragraph 12 (*General Meeting and Resolution*) of this Part 1 (*Letter from the Chairman*).

Assuming Completion occurs, the cash portion of the consideration for the Initial Acquisition will be financed by a combination of the net proceeds of the Placing, which closed on 3 July 2017 and raised net proceeds of approximately £280 million, utilisation of the New Debt Facilities and existing cash resources.

DS Smith has received the net proceeds of the Placing. In the event that Completion does not occur, the DS Smith Directors' current intention is that the net proceeds of the Placing will be invested on a short-term basis while the DS Smith Directors evaluate other acquisition opportunities. If no acquisitions can be found over the medium term that are a suitable strategic fit and pass DS Smith's investment decision criteria, the DS Smith Directors will consider how best to return capital to Shareholders.

The Board considers that the Acquisition is in the best interests of DS Smith and its Shareholders as a whole and recommends that Shareholders vote in favour of the Resolution, as each DS Smith Director intends to do (or seeks to procure to be done) in respect of his or her own legal and beneficial holdings of Ordinary Shares.

I am writing to you to give you further details of the Acquisition, including the background to and reasons for it, to explain why the Board considers it to be in the best interests of DS Smith and to seek your approval of the Resolution.

2. Strategy

The DS Smith Group's vision is to be the leading supplier of sustainable packaging solutions. Its goal is to deliver growth through offering a comprehensive consumer service, high quality products and innovative and sustainable solutions to its customers. To build a successful and sustainable business model that consistently delivers returns above its cost of capital, the DS Smith Group focuses on the following strategic priorities:

- **To delight its customers** by delivering outstanding results to them as it increases their sales, reduces their costs and manage their risk.
- **To realise the potential of its people** by creating a safe environment where every colleague can use and develop their skills and ideas.
- **To double its size and profitability** by driving operational excellence, growing market share and expanding into new markets.
- **To lead the way in sustainability** by championing sustainable supply cycle solutions and using materials responsibly throughout its production processes and beyond.

Over the last seven years, DS Smith has built a leading position in its core European markets, through acquisitions and growing its existing operations organically. This position has been built on the careful deployment of capital into new markets and the delivery of best in class customer service to DS Smith's multi-national clients. Alongside this expansion across Europe, DS Smith has also been exploring the opportunity to replicate this success in the North American market.

The Board believes that the Initial Acquisition represents a logical next step in broadening and strengthening the DS Smith business, in support of its multi-national customers' requirements and DS Smith's vision to be the leading supplier of sustainable packaging solutions whilst continuing to produce consistent and attractive returns for Shareholders.

In order to achieve this DS Smith intends to continue to focus on leveraging its innovative packaging solutions strategy across the Enlarged Group's Pan-European and multi-national FMCG and e-commerce orientated customer base whilst targeting new global brand orientated customers based within the IRI Group's US home market.

DS Smith has continued to realise significant cost and capital efficiencies through the Group's global operational structure, processes and supply chain. The Board believes that the Acquisition will further strengthen and secure the Group's global supply chain.

Since 2010, DS Smith has targeted five medium term financial criteria that underpin its strategy and has made consistent progress against all of these metrics. The Board believes that the Acquisition is consistent with these medium term financial criteria and that, following the Acquisition, the Enlarged Group will continue to target these criteria, which are:

- organic corrugated box volume growth (organic volume of corrugated box products sold measured by area) from packaging at GDP plus 1 per cent.;
- a return on sales (earnings before interest, tax, amortisation and exceptional items as a percentage of revenue) target of between 8 and 10 per cent. This metric was upgraded from between 6 and 8 per cent. for the financial year ended 30 April 2011 and between 7 and 9 per cent. for the financial years ended 30 April 2012 to 30 April 2015;
- a return on average capital employed (earnings before interest, tax amortisation and exceptional items as a percentage of average capital employed over the financial year) of between 12 and 15 per cent.;
- a net debt/EBITDA ratio (net debt at the period end, over earnings before interest, tax, depreciation, amortisation and exceptional items over the financial year) of less than or equal to 2.0 times; and
- cash conversion (free cash flow before tax, net interest, growth capital expenditure, pension payments and exceptional cash flows as a percentage of earnings before interest, tax amortisation and exceptional items) of greater or equal to 100 per cent. of operating profit.

Since 2010, DS Smith has transformed both its geographic footprint and customer offering capability. Its major acquisitions during the period comprise:

- 2010—Otor (€247 million), a leading French corrugated packaging producer, provided DS Smith with an established business in this large market, broader international customers, more technical innovation capability and greater exposure to the large, and more resilient, FMCG market segment.
- 2012—SCA Packaging (€1.6 billion), the second largest corrugated packaging business in Europe, taking DS Smith's reach from five to twenty countries across Europe, better matching the location and scale of the Group's key Pan-European FMCG customers.
- 2015—Duropack (€305 million), a leading recycled corrugated packaging business with operations across South Eastern Europe which, combined with DS Smith's existing operations in Hungary, Slovakia and Austria, enabled DS Smith to develop a leading position in the region.
- 2015—The corrugated activities of Grupo Lantero (€190 million), a well-invested Spanish corrugated producer with a strong focus in the FMCG sector, operating across the Iberian peninsula. This acquisition significantly strengthened DS Smith's operations in Spain, the fourth largest market for corrugated packaging within Europe, facilitating the serving of Pan-European customers.

In addition, DS Smith has acquired smaller corrugated packaging businesses in Greece, Spain, the UK and Portugal, and display businesses in Denmark, Turkey, the UK and Portugal. Together, the acquisitions have created a group which has a leading position across Europe and is increasingly well positioned to serve the growing requirement from large multi-national customers for a limited number of strategic suppliers together with additional innovation and capability to benefit from changing dynamics within the retail environment.

As a result of the acquisitions, DS Smith has driven further value to customers and shareholders through efficiencies and economies of scale, in particular in the area of procurement. DS Smith has also leveraged the impact of innovation through the roll-out of Impact and PackRight Centres and has been able to roll out programmes for the more efficient and effective manufacture of corrugated packaging.

DS Smith's acquisition history has been predominantly focussed on expanding its corrugated packaging footprint and capability in those geographic areas where it was underrepresented. To date this has been principally within Europe, in response to customer demand for its products and services. As multi-national customers continue to seek to consolidate their global supplier base in order to drive efficiencies into their supply chains, DS Smith has served more customers on a multi-country basis within Europe and believes there is a similar opportunity to expand in the US market through the proposed Acquisition.

In addition to the acquisition led strategy, DS Smith has also taken other significant strategic actions, including:

- focussing capital investment on areas and products that support recycled packaging for Pan-European and multi-national FMCG customers and global brands;
- strengthening the business portfolio of the DS Smith Group through the expansion of its Pan-European point of sale, display and e-commerce capabilities both organically and via acquisition; and
- strengthening the DS Smith Group's operational structure, adding additional resources in key commercial and operational functions of the business, with the objective of improving key processes for managing a growing business with global customers, operations and supply chains.

The Board remains committed to owning paper manufacturing assets where they are strategically necessary, such as the case with the IRI Group in the US, and will continue to evaluate the Enlarged Group's paper requirements on a commercial basis.

DS Smith plans to build upon the IRI Group's well-invested operational asset base, technology and distribution network in the Eastern United States to support the IRI Group's existing customers and DS Smith's multi-national customers, many of whom have operations in the US. DS Smith will draw upon its experience in previous integrations to realise the combined strength of DS Smith and the IRI Group.

3. Background to and reasons for the Acquisition

The Board believes that the Acquisition represents a compelling and attractive opportunity to enter one of the largest fibre-based packaging markets and accelerate DS Smith's vision to be the leading supplier of sustainable packaging solutions on a broader geographic basis. The Acquisition responds to requests from some of DS Smith's multi-national customers for DS Smith to provide its solutions in the US.

The Board believes that the Acquisition will create significant value for customers and expects it to create consistent and attractive returns for Shareholders by:

- leveraging the significant DS Smith customer pull and demand for DS Smith's innovative fibre-based packaging solutions in one of the world's largest packaging markets, thereby enhancing DS Smith's customer relationships;
- providing DS Smith with a well-positioned, balanced and invested platform to build a significant market position, replicate its success in Europe and drive growth from fibre-based packaging in an attractive geography (the US), thereby strengthening DS Smith's business model;
- delivering estimated annualised pre-tax cost synergies from procurement and operational efficiencies at an annual run-rate of approximately $25 million by 30 April 2021 and working capital benefits of approximately $95 million by 30 April 2020 (with estimated one-off cash costs to implement the integration and deliver these synergies of $55 million to $60 million); and
- offering an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019 and anticipated to be accretive immediately to EPS following Completion.[1]

Overall, the Acquisition is expected to create a higher quality, higher margin group with more growth potential. The Board believes that the Acquisition provides a compelling and attractive entry point into one of the largest packaging markets globally and significantly strengthens the Group's global supply chain capabilities. In doing so, DS Smith expects to create significant value for its customers and offer DS Smith shareholders attractive financial returns.

3.1 Leveraging the significant DS Smith customer pull and demand for DS Smith's innovative fibre-based packaging solutions in one of the world's largest packaging markets, thereby enhancing DS Smith's customer relationships

In 2016, the US fibre-based corrugated packaging market produced approximately 35 billion square meters and had a value of approximately $48 billion. Relative to Europe, this market is characterised as being well positioned for development, in terms of the provision of innovative lightweight, fibre-based packaging solutions. DS Smith's customers' requirements are converging globally and these customers are very supportive of DS Smith deploying its capabilities, innovation and partnership credentials, in the US.

The US is also home to some of the largest global brands, many of which are consumer brands, requiring high volumes of high-quality, shelf-ready packaging solutions to cater for their global brand and product offerings.

DS Smith engages with its customers with the aim to help them sell more of their primary product, while reducing their overall customer supply chain costs, delivering value and managing their risk. In order to do so, DS Smith uses its market insights and innovation as well as detailed understanding of supply chains.

This consumer and retail insight is based on frequent engagement with customers and retailers, and is communicated to its customers through its network of Impact Centres which demonstrate the interaction between packaging, the retail environment, and buying decisions. This is particularly relevant to packaging that becomes part of the retail display, known as retail-ready packaging (or shelf-ready packaging), whilst at the same time delivering the usual protection functions through the supply chain, where DS Smith has significant experience within Europe.

DS Smith seeks to offer its products to customers on the basis of the quality and necessary performance characteristics (principally, strength) of the corrugated packaging supplied. DS Smith has developed proprietary technology to be able to test the strength characteristics of corrugated board as it is produced and converted into boxes, which enables DS Smith to deliver consistent product on this basis. This compares to the historic industry practice of pricing corrugated boxes on weight, which could lead to boxes being manufactured to be heavier than required. Even taking into account differences in supply chains and historic customer preference for heavier solutions, the average weight of corrugated board remains relatively high in the US as compared to Europe and has fallen more slowly. Given the high cost of raw materials as a proportion of the manufacturing cost of a corrugated box, DS Smith sees substantial efficiency from using the optimum quantity and grade of paper fibre for corrugated board, and engineering the product to a quality standard, providing important benefits to both customers and DS Smith.

Many of DS Smith's customers, in particular its multi-national customers, are seeking to improve the efficiency of their supplier bases through more central procurement of products such as corrugated packaging, which

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historically have been procured locally. This offers a company of the size and capability of DS Smith the opportunity to work strategically with major customers across multiple regions and countries, for example with Mondelēz in Europe, where DS Smith has supplied all its corrugated packaging since 2014. DS Smith sees a material opportunity to replicate this successful strategy in the United States.

3.2 Providing DS Smith with a well-positioned, balanced and invested platform to build a significant market position, replicate its success in Europe and drive growth from fibre-based packaging in an attractive geography (the US), thereby strengthening DS Smith's business model

The IRI Group is a well-established and well-invested integrated packaging and paper production group. Since becoming part of the INDEVCO group in 1982, management has demonstrated its commitment to developing a high-quality asset base across the Eastern United States. Over the past five years, the IRI Group has invested approximately $175 million of capex to continue providing high-performance, innovative packaging and paper solutions in a sustainable manner. The IRI Group has a highly experienced management team and a long-standing key operational team. The IRI Group management has a proven track record of delivering growth via greenfield packaging sites and bolt-on acquisitions. With the IRI Group well positioned to capitalize on the strong fundamentals of the US market, the DS Smith Group will look to build on this position to further drive organic and inorganic growth opportunities.

The US economy is forecast to grow 2.3 per cent. in 2017 and 2.5 per cent. in 2018, compared to 1.7 per cent. and 1.6 per cent. in the Euro Area over the same periods and is expected to support growth in US containerboard demand which is forecast to grow at 1.6 per cent. CAGR between 2016 and 2019.

The IRI Group (including the effect of certain joint ventures and excluding the effects of discontinued operations) owns 12 corrugated manufacturing plants, seven warehouses, two paper mills (one kraft and one recycled corrugated medium), a timber plant, a lumber plant and a biomass power plant, all of which are located in the US. The Acquisition is therefore expected to transform the scale and breadth of the Group's operations in the US.

There is a clear opportunity to work more closely with a number of DS Smith's existing customers in the US where the IRI Group has existing operations, and to leverage DS Smith's expertise in a new market, thereby further differentiating DS Smith with its customers. Accordingly, and in direct response to DS Smith customer requests, the Enlarged Group will be able to efficiently supply existing Pan-European and multi-national FMCG and global e-commerce customers with innovative packaging solutions from the Enlarged Group's manufacturing facilities across Europe and the US. The substantial pull that DS Smith is experiencing from within its current European customer base includes global brands such as Mondelēz and Nestlé.

In addition to the opportunities from the IRI Group's existing customer base, the Board believes that, given the concentration of strong global brands present in the US market, there is also considerable potential to drive additional revenue growth through the development of relationships with new customers.

The Board believes that the Enlarged Group will benefit from an increased and more balanced geographic scope, a greater focus on global brands, and will continue to build on its growth within its core Pan-European and multi-national customer base.

The Board believes there is also an opportunity to leverage DS Smith's innovative lightweight, fibre-based packaging expertise. The IRI Group shares DS Smith's strong emphasis on design and innovation. DS Smith's strategy to focus on value-added technology and new products has enabled DS Smith to reduce its customers' supply chain costs, increasing the value of DS Smith's products to customers, and therefore assisting the recovery of raw material inflation. The Enlarged Group will continue to invest in packaging innovation and drive value into all areas of the supply chain.

3.3 Delivering estimated annualised pre-tax cost synergies from procurement and operational efficiencies at an annual run-rate of approximately $25 million by 30 April 2021 and working capital benefits of approximately $95 million by 30 April 2020 (with estimated one-off cash costs to implement the integration and deliver these synergies of $55 million to $60 million)

DS Smith has a strong track record of integrating acquisitions, realising cost and working capital synergies and driving revenue growth. DS Smith is confident from the market research conducted, customer engagement and due diligence conducted that it will achieve similar success in respect of the acquisition of the IRI Group.

The Board believes the Enlarged Group will also, with a broader geographical presence, be well positioned to benefit from enhanced growth prospects. The attractive returns delivered by DS Smith's Duropack, Lantero, Otor and SCA Packaging acquisitions demonstrate the benefit accruing from functional disciplines (including commercial, procurement, human resources and finance) operating across a broader business. The experience accumulated within DS Smith also provides the framework to execute a successful combination of DS Smith and the IRI Group.

The Board has developed clear paths to synergy achievement and believes that the Acquisition presents significant opportunities for recurring pre-tax synergies of approximately $25 million (£20 million) by 30 April 2021.

These synergies are expected to be realised through cost reduction, with approximately 80 per cent. through operational efficiencies, including the optimisation of paper uses and implementing DS Smith's technology and operational practices in the IRI Group, and approximately 20 per cent. through the introduction of centralised procurement processes. Approximately two thirds of the run-rate pre-tax cost synergies will be implemented by 30 April 2020, with the full run-rate pre-tax cost synergies by 30 April 2021.

In addition, the DS Smith Board believes that one-off working capital benefits of approximately $95 million (£75 million) may arise owing to opportunities to enhance cash performance given the combined capabilities of the manufacturing and operational infrastructure of the Enlarged Group, two thirds achieved by 30 April 2019, with the remaining one third by 30 April 2020.

DS Smith estimates one-off cash costs to implement the integration and deliver these synergies of $55 million (£43 million) to $60 million (£47 million), of which the full one-off costs will be incurred by 30 April 2021.

The estimated synergies are contingent on the Initial Acquisition completing, could not be achieved independently and reflect both beneficial elements and relevant costs. The expected cost synergies have been calculated on the basis of the existing procurement and operational structures of DS Smith and the IRI Group. In assessing the estimate of cost synergies, the Board and management have been aided by their integration experience, having completed 15 acquisitions since 2010 including the integration of Otor and SCA Packaging and, more recently, Duropack in South-Eastern Europe and Lantero in Spain. However, the above statement of estimated synergies relates to future actions and circumstances, which, by their nature involve risks, uncertainties, contingencies and other factors. The figures set out in the preceding paragraphs are unaudited numbers based on management estimates.

3.4 **Offering an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019 and anticipated to be accretive immediately to EPS following Completion**[2]

The Board believes that the Acquisition will be financially beneficial to Shareholders taking into account the terms of the Acquisition and the expected cost synergies. The Directors believe that the Acquisition will offer an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019, using only cost synergies and before exceptional costs. The Directors believe the Enlarged Group will also benefit from increased scale and diversity that will enable it to further reduce its weighted average cost of capital.

The Acquisition is expected to be accretive immediately to EPS following Completion[3], excluding any benefit other than cost synergies.

In light of the scale and size of the proposed Initial Acquisition, the Board believes that it has taken a prudent approach to structuring and financing the Initial Acquisition and associated expenses through a mixture of equity and debt, approximately: £280 million from the Placing (net of commissions and expenses); up to £400 million from the New Debt Facilities; and the rest from existing cash resources, balancing a conservative financing structure and returns for Shareholders. The Board believes it is prudent to create a diverse funding structure that combines existing cash resources, the New Debt Facilities and the use of DS Smith equity (in the form of the Placing and the Consideration Shares) to provide the flexibility both to acquire the IRI Group and to retain financial strength and flexibility given the current macroeconomic climate and future growth opportunities.

Based on DS Smith's consolidated financials for the year ended 30 April 2017, the IRI Group's combined financials for the year ended 31 December 2016 and utilisation of the New Debt Facilities to fund part of the cash portion of the consideration for the Initial Acquisition, the net debt/EBITDA ratio of the Enlarged Group from Completion is expected to be approximately 2.2 times. The Board remains committed to DS Smith's

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medium-term financial criteria of a net debt/EBITDA ratio of less than or equal to 2.0 times and to DS Smith's existing investment grade rating. This targeted leverage profile is intended to give DS Smith significant headroom against its current banking covenants and is consistent with the Group's aim to maintain a strong balance sheet, and to provide continuity of financing by having a range of maturities, and borrowings from a variety of sources, supported by its investment grade rating.

4. Information on the IRI Group

The IRI Group (including the effect of certain joint ventures and excluding the effects of discontinued operations) operates facilities in the United States, which include 12 corrugated manufacturing plants, seven warehouses, two paper mills (one kraft and one recycled corrugated medium), a timber plant, a lumber plant and a biomass power plant. In the year ended 31 December 2016, the IRI Group (including the effect of certain joint ventures and excluding discontinued operations) sold 534 kilotonnes of CCM (of which 342 kilotonnnes was kraftliner and 192 kilotonnes was recycled linerboard) and had corrugated sales volumes of 0.44 billion square metres (approximately 260 kilotonnes). The Board believes the IRI Group has significant capacity to support growth and customer acquisition. The IRI Group has approximately 1,500 employees. For the year ended 31 December 2016, the IRI Group had revenues of $618 million.

The IRI Group has four main product divisions: paper division, container division, timber division, and other. The IRI Group's paper division consists of paper mills in Riceboro, Georgia and Reading, Pennsylvania. The IRI Group produces kraft linerboard at its mill in Riceboro and corrugated medium at its mill in Reading. The IRI Group's Riceboro kraft linerboard paper mill is located in an area with abundant fibre, a primary material in the production of kraft linerboard. The kraft linerboard paper mill produced an average of 954 tonnes per day of linerboard in 2016. The IRI Group's corrugated medium paper mill in Reading is located in an area with good access to OCC, a primary material used in the production of corrugated medium. The corrugated medium paper mill produces 100 per cent. recycled lightweight and high performance corrugated medium. In 2016, it produced an average of 529 tonnes of corrugated medium per day. Kraft linerboard and corrugated medium are the two types of paper that make up CCM. The IRI Group's paper division supplies its container division with CCM for the production of corrugated packaging.

The IRI Group's 12 corrugated manufacturing plants in the eastern United States that comprise its container division produce a variety of corrugated solutions. Corrugated containers include high graphic corrugated retail and shelf-ready packaging, point-of-purchase displays, shipping and transport boxes, corrugated sheets, and top sheets.

The IRI Group's container division provides the following key products and services:

- *Custom corrugated display solutions*: Custom corrugated display solutions include retail ready packaging which is eye-catching and ready for the shelf, floor displays, pallet displays, promotional packaging and other packages designed for display.
- *Corrugated shipping containers*: Corrugated shipping containers are designed to be durable packaging in a variety of sizes and strengths to meet customers' packaging and shipping needs. These include corrugated boxes, bulk bins, corrugated trays, edge and corner protectors, folders, internal partitions, protective foam and packaging and void fillers.
- *Specialty applications*: The container division offers a variety of specialty services including design, colour management and a testing lab. Speciality applications also include digital cutting and creasing, top sheets and wax boxes, as well as a lithographic label printing operation, with specialised printing and labelling services.
- *Supply chain solutions*: The container division offers supply chain solutions including fulfilment and distribution, inventory management and warehousing services.

The IRI Group's timber division consists of Newport Timber LLC, a timber plant, RB Lumber LLC, a lumber plant, and St. George Timberland Holding Inc., a land and timberland business, all located in Riceboro, Georgia. The IRI Group initiated the development of St. George Timberland Holding Inc., in November 2012. St. George Timberland Holding Inc.'s operations consist of approximately 19,000 owned acres of timberland in the southeastern region of the United States.

The IRI Group has other additional operations, primarily power producing assets, that support its packaging and paper production operations. The IRI Group manages energy costs through its Evergreen Community Power (**ECP**) project, a biomass cogeneration power plant which transforms waste products into heat, located adjacent to its corrugated medium paper mill in Reading, and a solar field located near one of its corrugated container production plants, the RFC Container Co. in Vineland, New Jersey. The ECP project provides for the entire steam and electricity needs of the IRI Group's corrugated medium paper mill in Reading, Pennsylvania and sells its excess electricity to a regional power plant. The solar field supplies all of the energy needs of the IRI Group's adjacent corrugated container plant in New Jersey.

5. Information on the DS Smith Group

DS Smith is a leading international supplier of recycled packaging for consumer goods through its recycling, packaging, paper and plastics operations. As at 30 April 2017, DS Smith employed approximately 26,000 people across its approximately 200 manufacturing locations and 36 Impact and PackRight Centres, in 37 countries. DS Smith operates five core divisions: UK, Western Europe, DCH and Northern Europe, Central Europe and Italy and Plastics. For the 2017 Financial Year, the Group's customer base for its corrugated box products was made up of approximately 67 per cent. FMCG and food, with no customer accounting for more than three per cent. of Group revenues.

For the 2017 Financial Year, DS Smith reported revenue of £4,781 million, Adjusted Operating Profit of £443 million, operating profit before exceptional items of £378 million and profit before income tax and exceptional items of £326 million.

DS Smith is listed on the main market of the London Stock Exchange and is a member of the FTSE 250 index. As at the Latest Practicable Date, DS Smith had a market capitalisation of approximately £4,912 million. In the 2017 Financial Year, DS Smith's sales volumes included 2.5 million tonnes of CCM, 3.7 million tonnes of corrugated board and 5.2 million tonnes of recycled fibre.

The DS Smith Group's principal operations are designing and manufacturing corrugated packaging. In order to support its packaging business, the DS Smith Group has a recycling business that collects used paper and corrugated cardboard, from which the DS Smith Group's paper manufacturing facilities make the CCM used in corrugated packaging. The DS Smith Group also designs and manufactures certain types of plastic packaging, in particular, the plastic bags and taps for bag-in-box packaging and rigid crates for bottled liquids.

Since 2010, DS Smith has transformed both its geographic footprint and customer offering capability. Its major acquisitions during the period comprise Otor (€247 million), SCA Packaging (€1.6 billion), Duropack (€305 million) and Lantero (€190 million). Consistent with its strategic goal of increasing size and profitability, DS Smith is continuously seeking further opportunities to expand its scale and improve the quality of its businesses through strategic acquisitions.

The DS Smith Group also has an independent consultancy business to help its customers make their designs work harder for their brands by enhancing product utility and reducing environmental impact. Its consultants offer a global solution from offices based in the UK, Belgium, the US, India and China. The DS Smith Group also offers global sourcing support through its Total Marketing Support operations for customers who seek a consistent approach from their display packaging sourced in regions beyond DS Smith's current manufacturing footprint.

6. Principal terms and conditions of the Acquisition

6.1 **Acquisition Agreement**

On 28 June 2017, the Buyer, Merpas and IMRI entered into the Acquisition Agreement for the acquisition by DS Smith and DS Smith Holdings of 80 per cent. of the total issued share capital of IMRI from Merpas for consideration of US$920 million (approximately £722 million). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration will be subject to customary post-Completion net debt and working capital adjustments.

The Buyer intends to satisfy the consideration through: (i) a payment of US$846 million (approximately £664 million) in cash, to be satisfied out of the net proceeds of the Placing, utilisation of the New Debt Facilities and existing cash resources; and (ii) the issue of the Consideration Shares with a value of US$300 million (approximately £235 million), calculated by reference to the average Closing Price of the Ordinary Shares on 23 June 2017, 26 June 2017 and 27 June 2017, to Merpas. At Completion, DS Smith will acquire a number of shares in IMRI equivalent in value to the Consideration Shares, and DS Smith Holdings will acquire the remaining shares in IMRI that are the subject of the Initial Acquisition.

The Directors believe that the separation of the Acquisition into the Initial Acquisition and the Further Acquisition will be mutually beneficial for DS Smith and the IRI Group, as it allows the interests of DS Smith and Merpas to be aligned for an initial period during which time DS Smith will benefit from the input and expertise of the IRI Group's senior management team. The shareholders of Merpas, who have owned the IRI Group since 1982, believe the integration of the IRI Group into an international packaging focused group will provide significant opportunities for the development of the IRI Group's business and accordingly Merpas (through Merpas Newco) is initially retaining a 20 per cent. equity participation in the IRI Group, as well as receiving $300 million of the consideration for the Initial Acquisition in Consideration Shares.

The Acquisition Agreement contains representations, warranties, covenants, undertakings and conditions that are customary for a transaction of this size and nature.

Completion is conditional upon the satisfaction or, where applicable, waiver of the conditions set out in the Acquisition Agreement. These conditions include, among other things: (a) the Resolution being passed at the General Meeting; (b) all applicable waiting periods under the HSR Act in the US having expired or been terminated without the imposition of specified remedies; (c) the approval of the application for Admission and authorisation for issuance of the Consideration Shares; and (d) the absence of a material adverse change in the IRI Group.

The Acquisition Agreement contains certain termination rights for each of the Buyer and Merpas that are exercisable by mutual written consent or written notice to the other in the event that, among other things: (a) Completion has not occurred on or before 31 December 2017 or, if either party has exercised its right to extend the period within which the conditions to Completion must occur, on or before 31 March 2018, unless there is a knowing and intentional breach of any provision of the Acquisition Agreement by that party that is the primary reason for Completion not occurring on or before such date; (b) the DS Smith Board changes its recommendation that Shareholders vote in favour of the Resolution at the General Meeting; (c) the Resolution has not been duly passed at the General Meeting; or (d) any party is in breach of any provision of the Acquisition Agreement such that certain conditions to Completion cannot be satisfied, which breach has not been remedied by the offending party within 30 days of the offending party receiving notice of its breach.

DS Smith expects the Initial Acquisition to complete in the third quarter of the 2017 calendar year.

Pursuant to the Acquisition Agreement, Merpas has undertaken that, for a period of six months from Completion, neither it nor any of its group members will, except with the prior written consent of DS Smith, directly or indirectly, sell, transfer, pledge, encumber, assign or otherwise dispose of or cause any change in the beneficial ownership of any Consideration Shares, subject to certain limited exceptions including, among other things, transferring any Consideration Shares to a wholly owned subsidiary of Merpas or to any third party pursuant to an offer by such third party to all Shareholders to purchase all the Ordinary Shares or pursuant to any scheme of arrangement of DS Smith. This restriction will continue to apply for a further six months in respect of 50 per cent. of the Consideration Shares and, in respect of those shares not subject to the restriction after the first six months, Merpas has undertaken that any sales of such shares will be made only through Citi and JPMS.

Further details of the terms of the Acquisition Agreement are set out in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular.

6.2 **Shareholders' Agreement**

Following Completion, the respective governance and other rights of DS Smith, DS Smith Holdings, IMRI and Merpas Newco will be governed by the Shareholders' Agreement to be entered into at Completion.

The Shareholders' Agreement contains customary governance provisions, reserved matters and restrictions on transfers of shares. The Shareholders' Agreement also contains certain customary warranties given by Merpas Newco and the Buyer as of the date of Completion and customary post-Completion undertakings given by Merpas Newco.

Pursuant to the Shareholders' Agreement, on 1 September 2018, 1 September 2019, 1 September 2020 and 1 September 2021, Merpas Newco will have the option to sell to the Buyer either all of the shares in IMRI then held by Merpas Newco or a number of shares in IMRI held by Merpas Newco representing not less than 10 per cent. of the shares in IMRI then issued and outstanding. If Merpas Newco holds shares in IMRI on 1 September 2022 or Merpas Newco holds less than 10 per cent. of the shares in IMRI then issued and outstanding on any date before 1 September 2022, Merpas Newco will be required to sell all of the shares in IMRI then held by it to the Buyer. Further, within one month of a change of control of DS Smith, Merpas Newco will have option to sell to the Buyer all of the shares in IMRI then held by it. If any of the above circumstances occur (each, a Further Acquisition), the Buyer will pay cash for any shares in IMRI sold to it by Merpas Newco with such shares valued on the basis of the higher of: (i) the initial enterprise value of the IRI

Group; and (ii) IRI Group's consolidated EBITDA for the last 12 months multiplied by eight (or ten in the event of a change of control of DS Smith), adjusted for cash, debt and working capital pursuant to the adjustment mechanics provided in the Acquisition Agreement. DS Smith proposes to fund any Further Acquisition through cash and debt facilities available to it at such time.

Further details of the terms of the Shareholders' Agreement are set out in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular.

6.3 Greencoat Licence Agreement

On Completion, IMRI and Indevco Plastics, Inc. (Indevco Plastics), an affiliate of IMRI that is not being acquired by DS Smith pursuant to the Acquisition, will enter into an exclusive licence agreement (the Licence Agreement), under which Indevco Plastics will grant IMRI an exclusive licence under certain Greencoat-related patents, trademarks and trade secrets for use by IMRI in the field of packaging in the United States for a one time licensing fee of US$1,000. Under the terms of the Licence Agreement, responsibility for prosecution, maintenance and enforcement of the licensed intellectual property will be allocated between the parties. The Licence Agreement will include customary representations, warranties, covenants and indemnities. Each party will indemnify the other party and its affiliates and representative against claims made against them or losses incurred by them as a result of the other party's breach of the representations, warranties and covenants. The term of the Licence Agreement will be until the end of the term of the last expired patent right or trademark right thereunder (whichever is latest). The Licence Agreement will be terminable by IMRI for convenience and by either party for a material uncured breach by the other party.

7. Financing of the Initial Acquisition

The consideration for the Initial Acquisition will be US$920 million (approximately £722 million). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration will be subject to customary post-Completion net debt and working capital adjustments.

The Buyer intends to satisfy the consideration for the Initial Acquisition through: (i) a payment of US$846 million (approximately £664 million) in cash; and (ii) the issue of the Consideration Shares with a value of US$300 million (approximately £235 million) to Merpas.

Sources of financing for the cash portion of the consideration for the Initial Acquisition

(a) *Proceeds of the Placing*

DS Smith announced on 29 June 2017 that it raised total proceeds of approximately £285 million (before commissions and expenses) through the Placing to fund part of the cash portion of the consideration for the Initial Acquisition.

(b) *New Debt Facilities*

On 28 June 2017, DS Smith entered into a £400 million bridge facility agreement (the **New Debt Facilities Agreement**) with Citi and JPMS as bookrunners and mandated lead arrangers, Citibank N.A., London Branch and JPMorgan Chase Bank, N.A., London Branch as original lenders (the **Original Lenders**) and Citibank Europe Plc, UK Branch as agent. The New Debt Facilities Agreement provides for DS Smith to receive one loan (the **Loan**) from the Original Lenders, which may be used to finance the Initial Acquisition and pay related costs and expenses, and for general corporate purposes. The Loan is available to be drawn until the date falling six months after the date of the New Debt Facilities Agreement.

For more information on the New Debt Facilities, please refer to paragraph 9.1(m) of Part 6 (*Additional Information*) of this Circular.

(c) *Existing cash resources*

DS Smith's net cash reserves were approximately £139 million as at 30 April 2017.

Consideration Shares

The number of Consideration Shares to be allotted and issued to Merpas will be 52,474,156 new Ordinary Shares with an aggregate value of US$300 million (approximately £235 million), calculated by reference to the average Closing Price of the Ordinary Shares on 23 June 2017, 26 June 2017 and 27 June 2017. For the purpose of this calculation, such average Closing Price has been converted from pounds sterling into US dollars using the average London closing mid-point on 23 June 2017, 26 June 2017 and 27 June 2017, as obtained from Reuters.

Subject to the receipt of any documents required to be delivered by Merpas at Completion in respect of the allotment and issue of the Consideration Shares, the Consideration Shares will be allotted and issued to Merpas at Completion in registered form and will be capable of being held in both certificated and uncertificated form.

The Consideration Shares will be issued as fully paid and will rank *pari passu* in all respects with the Ordinary Shares, including the right to receive and retain in full all dividends and other distributions (if any) declared, made or paid by reference to a record date after the issuance of the relevant Consideration Shares. Applications will be made to the FCA for the Consideration Shares to be admitted to listing on the premium segment of the Official List and to the London Stock Exchange for the Consideration Shares to be admitted to trading on the Main Market. It is expected that the Consideration Shares will be issued, and that Admission will become effective, at 8.00 a.m. on the day following the date of Completion. Dealings in the Consideration Shares by Merpas are restricted for a period of twelve months from Completion by the terms of the Acquisition Agreement, subject to certain limited exceptions, as discussed above and in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular.

8. Dividend policy

The Board considers dividends to be an important component of the Enlarged Group shareholders' returns. It is the Board's intention to continue DS Smith's current dividend policy for the Enlarged Group, taking into account the Enlarged Group's leverage, earnings growth potential and future expansion plans. The Board currently intends to set the amount of the dividend so that dividends are progressive and the Board anticipates that dividend cover should be, on average, 2.0 to 2.5 times throughout the cycle.

Further details on DS Smith's dividend policy can be found in paragraph 10 (*Dividends*) of Part 6 (*Additional Information*) of this Circular.

9. Current trading, prospects and trend information

DS Smith

On 29 June 2017, the Company published its preliminary consolidated financial statements for the year ended 30 April 2017. The Company has continued to trade in line with management's expectations.

IRI Group

Net revenues in the five months to 31 May 2017 showed positive growth over the prior year, driven by higher containerboard prices, increased shipment volumes from the paper mills and from the acquisition of RFC Container Co., a corrugated container production plant, on 3 January 2017. Adjusted operating profit for the five months to 31 May 2017 was ahead of the prior year with net revenue growth partly offset by increased cost of goods sold resulting primarily from higher OCC prices. An additional recently announced containerboard price increase across all grades gives the Directors confidence in further progression for the year to 31 December 2017.

10. Management and employees

No changes will be made to the DS Smith Board as a result of the Acquisition, and the DS Smith Board will continue to comprise the Chairman, two Executive Directors (the Group Chief Executive and the Group Finance Director) and five independent Non-Executive Directors. The Board will continue to adhere to the UK Corporate Governance Code.

Neemat Frem, CEO of Interstate Resources, Inc., will be appointed to DS Smith's U.S. sub-committee.

The IRI Group has high-quality employees and an experienced management team which is expected to contribute further to the success of the Enlarged Group. Upon Completion, the IMRI Board will consist of five directors, four of which will be appointed by the Buyer and one of which will be appointed by Merpas Newco. IMRI management will continue to conduct the day-to-day operations of the IRI Group. The Board intends to fully respect the existing rights of all employees of the IRI Group.

The organisational structure of the Enlarged Group will be established with the intention of maximising available synergies and benefits. An Integration Programme Office has been established to support the executive management team which will run the Enlarged Group.

11. Financial effects of the Acquisition on DS Smith

The Board believes that the Acquisition will be financially beneficial to Shareholders taking into account the terms of the Acquisition and the expected cost synergies. The Directors believe that the Acquisition will offer an expected pre-tax return on invested capital above DS Smith's pre-tax weighted average cost of capital by 30 April 2019, using only cost synergies and before exceptional costs. The Directors believe the Enlarged Group will also benefit from increased scale and diversity that will enable it to further reduce its weighted average cost of capital.

The Acquisition is expected to be accretive immediately to EPS following Completion[4], excluding any benefit other than cost synergies.

The DS Smith Directors are confident in the outlook for the IRI Group in 2017 in light of recent positive corrugated box volume growth, increased shipment volumes from the paper mills and recently announced containerboard price increases. In the five months to 31 May 2017, the IRI Group's net revenue and adjusted operating profit both showed positive growth over the prior year and will also benefit from prior year acquisitions, providing confidence in further progression for the year to 31 December 2017.

Based on DS Smith's consolidated financials for the year ended 30 April 2017, the IRI Group's combined financials for the year ended 31 December 2016 and utilisation of the New Debt Facilities to fund part of the cash portion of the consideration for the Initial Acquisition, the net debt/EBITDA ratio of the Enlarged Group from Completion is expected to be approximately 2.2 times. The Board remains committed to DS Smith's medium-term financial criteria of a net debt/EBITDA ratio of less than or equal to 2.0 times and to DS Smith's existing investment grade rating. This targeted leverage profile is intended to give DS Smith significant headroom against its current banking covenants and is consistent with the Group's aim to maintain a strong balance sheet, and to provide continuity of financing by having a range of maturities, and borrowings from a variety of sources, supported by its investment grade rating.

The Directors believe that, following the Acquisition, the Enlarged Group should continue to achieve DS Smith's stated medium-term financial return criteria.

12. General Meeting and Resolution

The implementation of the Acquisition is conditional upon, among other things, the Shareholders' approval of the Resolution being obtained at the General Meeting. Accordingly, you will find set out at the end of this Circular a Notice of General Meeting convening a General Meeting to be held at 2.00 p.m. on 25 July 2017 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.

At the General Meeting, the Resolution will be proposed to approve the Acquisition and certain other matters.

A summary of the Resolution is set out below. The full text of the Resolution is included in the Notice of General Meeting, which is set out in Part 8 (*Notice of General Meeting*) of this Circular.

Resolution

The Resolution will be proposed as an ordinary resolution requiring a simple majority of votes in favour.

The Resolution proposes that the Acquisition (including any subsequent acquisition by the Company, DS Smith Holdings or any other subsidiary of the Company of ordinary shares in the capital of IMRI, directly or indirectly, pursuant to the terms of and subject to the conditions contained in the Shareholders' Agreement) be approved and the DS Smith Directors be authorised to take all steps and enter into all agreements and arrangements necessary or desirable to implement the Acquisition.

If the Resolution is not passed, the Acquisition will not complete.

Your attention is again drawn to the fact that the Acquisition is conditional and dependent upon the Resolution being passed. There are also additional conditions which must be satisfied before the Acquisition can be completed.

Shareholders should be aware that it is possible that the Acquisition could fail to complete. The possibility of the Acquisition failing to complete is explained further in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular.

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[4] This should not be construed as a profit forecast or interpreted to mean that the future earnings per share, profits, margins or cashflows of the DS Smith Group will necessarily be greater than the historic published figures.

13. Risk Factors

For a discussion of the risks and uncertainties which you should take into account when considering whether to vote in favour of the Resolution, please refer to Part 2 (*Risk Factors*) of this Circular.

14. Employee Share Plans

Outstanding options and awards granted under the Employee Share Plans may be adjusted in accordance with the rules of the relevant Employee Share Plan for any effect the Placing and the issue of the Consideration Shares may have on those options and awards. Participants in the Employee Share Plans will be contacted separately with further information on their rights and how their options and awards will be affected by the Placing and the issue of the Consideration Shares.

15. Action to be taken

You will find enclosed with this Circular a Form of Proxy for use at the General Meeting. **Whether or not you intend to be present at the General Meeting in person, it is important that you complete and return the Form of Proxy in accordance with the instructions printed on it to Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom, so as to arrive no later than at 2.00 p.m. on 21 July 2017.** Completion and return of the Form of Proxy will not preclude you from attending the General Meeting in person, if you so wish and are entitled.

You may also submit your proxies electronically using your investor code detailed on the Form of Proxy. If you hold shares in CREST, in order for a proxy appointment by means of CREST to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear's specification and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Registrar (ID RA19) by 2.00 p.m. on 21 July 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the Registrar is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

Shareholders wishing to appoint a proxy online can do so by visiting www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number printed on the enclosed Form of Proxy. Members who have already registered with the Registrar's online portfolio service Shareview can appoint a proxy by logging into their profile at www.shareview.co.uk using their usual user ID and password. Once logged in, members should click "View" on the "My Investments" page, click on the link to vote and then follow the on-screen instructions.

16. Further information

Your attention is drawn to the further information set out in Part 6 (*Additional Information*) of this Circular. **Shareholders should read the whole of this Circular and not just rely on the summarised information set out in this letter.**

17. Recommendation

The Board considers that the Acquisition and the Resolution are in the best interests of DS Smith and the Shareholders as a whole. Accordingly, the DS Smith Board unanimously recommends that Shareholders vote in favour of the Resolution to be proposed at the General Meeting, as all Directors intend to do (or procure to be done, as the case may be) in respect of their own beneficial shareholdings, which in aggregate amount to 1,939,373 Ordinary Shares, representing approximately 0.2 per cent. of the total number of voting rights in the Company as at the Latest Practicable Date.

Yours faithfully,
for and on behalf of DS Smith Plc

Gareth Davis
Chairman

PART 2

RISK FACTORS

A number of factors affect the operating results, financial condition and prospects of the DS Smith Group and, if the Acquisition is completed, will affect the IRI Group and the Enlarged Group. This Part 2 (Risk Factors) addresses the risks known to DS Smith and the DS Smith Directors which are material risk factors to the Acquisition, will be material new risk factors to the DS Smith Group as a result of the Acquisition, or are existing material risk factors to the DS Smith Group which will be impacted by the Acquisition. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties currently unknown to DS Smith and the DS Smith Directors, or which DS Smith and the DS Smith Directors currently deem immaterial or deem material to DS Smith but which will not result from or be impacted by the Acquisition, may also have an adverse effect on the business, financial condition, operating results or prospects of the DS Smith Group and the Enlarged Group. If any or a combination of the following risks materialise, the Enlarged Group's business, financial condition, operating results and prospects could be materially adversely affected. In such circumstances, the market price of the Company's Ordinary Shares could decline and Shareholders may lose all or part of their investment. The information given is as of the date of this Circular and, except as required by the FCA, the London Stock Exchange, or any other applicable law, will not be updated. Shareholders should consider carefully the risks and uncertainties described below, together with all other information contained in this Circular.

You should consider carefully the risks and uncertainties described below, together with all other information contained in this Circular (including any information incorporated into this Circular by reference) before deciding whether or how to vote in respect of the Resolution. The risks described below are not set out in any order of priority.

References in this Part 2 (Risk Factors) to: (i) the acquisition of a company or a business, or an acquired company or business, shall include references to the acquisition of an interest in such business or company; (ii) the IRI Group shall be construed as relevant to the Enlarged Group subject to Completion; and (iii) the Enlarged Group shall be construed as the DS Smith Group and the IRI Group together if the Initial Acquisition is completed or the DS Smith Group if the Initial Acquisition is not completed, as applicable.

1. RISKS RELATING TO THE ACQUISITION

Completion is subject to conditions which may not be satisfied

Completion is conditional upon the satisfaction of certain conditions including, among other things: (i) approval of the Acquisition by the Shareholders at the General Meeting; and (ii) any waiting periods under the applicable US competition laws relating to the Acquisition having expired.

There can be no assurance that these conditions will be satisfied or waived, if applicable. If these conditions are not satisfied or waived, the Acquisition will not take effect, either at all or in the manner currently envisaged.

If Completion does not occur, DS Smith would nonetheless be required to pay significant fees and other costs incurred in connection with the Acquisition (which would include financing, financial advisory, legal and accounting fees and expenses).

Management attention may be diverted from the DS Smith Group's existing business by the Acquisition and the process of integrating the IRI Group following Completion

The Acquisition has required, and will continue to require, substantial amounts of both time and focus from the DS Smith Group's management teams, which could divert the attention of those teams from maintaining standards of operation in their respective businesses. If the Acquisition is approved, following the Acquisition, the Enlarged Group's management team will also be required to devote significant attention and resources to integrating the IRI Group. There is a risk that the challenges associated with managing the Acquisition will result in management teams of the Enlarged Group being distracted and that consequently the underlying businesses will not perform in line with expectations.

DS Smith will have foreign exchange risk related to the purchase price for the Acquisition

The Acquisition will be funded by a combination of the net proceeds of the Placing, which closed on 3 July 2017, the utilisation of the New Debt Facilities, existing cash resources and the Consideration Shares. The proceeds of the Placing, the New Debt Facilities and existing cash resources are denominated in pounds sterling. There could be a period of several months between the date of the Acquisition Agreement and

DS Smith's obligation to acquire IMRI for which the payment will be made in US dollars. During this time, the DS Smith Group will be exposed to foreign exchange risk. The DS Smith Group may decide to enter into currency hedges in order to limit its total exposure in respect of the Acquisition to adverse currency movements.

The DS Smith Group has incurred and will incur substantial transaction and offer related costs in connection with the Acquisition

The DS Smith Group has incurred and will incur significant transaction fees and other costs associated with completing the Acquisition, combining operations and achieving desired synergies. These fees and costs are substantial and include financing, financial advisory, legal and accounting fees and expenses. Additional unanticipated costs may be incurred in the integration of the IRI Group into the Enlarged Group. Although the DS Smith Directors expect that the realisation of other efficiencies related to the Acquisition will offset the incremental and transaction costs over time, this net benefit may not be achieved in the near term, or at all.

2. RISKS RELATING TO ADMISSION

Existing Shareholders will be subject to dilution of ownership of their Ordinary Shares upon the issue of the Consideration Shares

Immediately following Admission, existing Shareholders will have their proportionate shareholdings in DS Smith diluted by approximately 4.9 per cent. as a consequence of the issue of the Consideration Shares. This could result in a decrease in the share price of DS Smith's Ordinary Shares.

3. RISKS RELATING TO THE ENLARGED GROUP WHICH RESULT FROM OR ARE IMPACTED BY THE ACQUISITION

The DS Smith Group's management of the IRI Group's business will be limited by certain provisions of the Shareholder's Agreement

Upon Completion, the Buyer will own 80 per cent. of the total issued share capital of IMRI. The Buyer will have the right to appoint a majority of directors to the board of IMRI and the other members of the IRI Group. Whilst its majority ownership of IMRI and majority board representation will give the Buyer day-to-day control of the IRI Group, certain limited matters shall be reserved for unanimous shareholder approval such that these matters cannot be undertaken without the approval of the Buyer and Merpas Newco. This requirement means that Merpas Newco approval will be required for certain limited matters, which could require DS Smith to devote more time to its relationship with Merpas Newco and the INDEVCO group than if IMRI were a wholly-owned subsidiary. In addition, the benefits from the IRI Group will be shared among the Buyer and Merpas Newco in proportion to their respective shareholdings in IMRI, so the Enlarged Group will not receive all the benefits from the IRI Group's business unless DS Smith or DS Smith Holdings has acquired the remaining IMRIshares from Merpas Newco.

The Enlarged Group may need to rely on certain key management for the successful operation of the Enlarged Group

The future success of the Enlarged Group will in part be dependent upon the successful retention and motivation of key members of the IRI Group's management and staff. Failure to retain certain individuals may affect the Enlarged Group's ability successfully to manage the Enlarged Group. For example, the Enlarged Group plans to rely primarily on the existing management of the IRI Group for its expertise in relation to operation at the kraft mill which introduces a new pulping process capability for the DS Smith Group. Any failure to retain certain individuals may have a detrimental effect on the future performance of the Enlarged Group.

The Enlarged Group may be unable to implement its growth strategy successfully

The DS Smith Group's vision is to be the leading supplier of sustainable packaging solutions. The Enlarged Group may not be able to implement its growth strategy if its acquisition plans are unsuccessful and it fails to support its Pan-European and multi-national FMCG customers as these companies seek to expand and become more global in their supply chain. There can be no assurance that the Enlarged Group will be successful in implementing its growth strategy, including integrating newly acquired businesses, including the IRI Group. The inability of the Enlarged Group to implement its growth strategy successfully could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

The Enlarged Group may not realise the targeted synergies and other benefits from the Acquisition

The DS Smith Group is targeting estimated annualised pre-tax cost synergies from procurement and operational efficiencies at an annual run-rate of approximately $25 million by 30 April 2021 and working capital benefits of approximately $95 million by 30 April 2020 from the Acquisition, and the Enlarged Group's financial planning and funding strategies are based in part on realising these synergies. Achieving the advantages of the Acquisition will depend partly on the rapid and efficient management and co-ordination of the activities of the DS Smith Group and the IRI Group, two businesses of considerable size that functioned independently and are located in different countries, with geographically dispersed operations, and with different business cultures and compensation structures. In addition, the loss of, or reduction in orders from, any of the IRI Group's largest customer accounts or other significant customer accounts or significant customer disputes regarding shipments, price, quality, or other matters may adversely affect the advantages and other benefits of the Acquisition. Furthermore, the Acquisition and any uncertainty regarding the effect of the Acquisition could cause disruptions to the businesses of the Enlarged Group. These uncertainties may materially and adversely affect the Enlarged Group's business and its operations and could cause customers, distributors, other business partners and other parties that have business relationships with the Enlarged Group to defer the consummation of other transactions or other decisions concerning the Enlarged Group's business, or to seek to change existing business relationships with these companies. Any of these factors could prevent the synergy benefits from the Acquisition from materialising, or they may be materially lower than estimated. In addition, the costs of funding these synergies may exceed expectations. Such eventualities may have a material adverse effect on the financial position of the Enlarged Group, and, ultimately, the trading price of the Ordinary Shares.

The IRI Group may not perform in line with expectations which may result in a write-down or impairment

Upon Completion, a significant portion of the difference between the purchase price, the IRI Group's net assets at that date and the allocation of costs of the combination to the assets acquired and the liabilities assumed, will be recorded as goodwill. In addition, other intangible assets will be recorded as a result of the purchase price allocation. While the DS Smith Group believes the combination of the IRI Group with the Company is strategically and financially compelling, economic, regulatory, competitive, contractual or other factors may result in the Enlarged Group meeting with unexpected difficulties. Furthermore, the business of the Enlarged Group or the synergies expected from the Acquisition may not develop as expected. If any of these factors result in the value of the IRI Group proving to be less than the consideration paid by the Buyer, accounting rules would require that the DS Smith Group reduces the carrying value and recognises an impairment charge, which would reduce the DS Smith Group's reported assets and statutory earnings in the year that the impairment charge is recognised.

The financial results of the Enlarged Group will, as a result of the Acquisition and the resulting increased portion of assets, liabilities and earnings denominated in US dollars, be more exposed to fluctuations in the exchange rate between the pound sterling and the US dollar

The Enlarged Group will present its financial statements in pounds sterling and will have a significant portion of US dollar-denominated assets, liabilities and earnings as a result of the significant assets and revenues of the IRI Group in the United States. The operational and financial results, as well as the equity of the Enlarged Group, will therefore be more sensitive to fluctuations in the exchange rate of the pound sterling against the US dollar than they are currently. There has been a high degree of volatility in exchange rates with the pound sterling since June 2016 when a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum, with continued volatility following the UK General elections in June 2017. A depreciation of the US dollar relative to the pound sterling could have an adverse impact on the consolidated financial condition and results of operations of the Enlarged Group.

The Enlarged Group will be dependent on economic and political conditions in the markets in which it operates and will face increased exposure to economic and political conditions in the United States as a result of the Acquisition

As is the case for the DS Smith Group, the IRI Group's packaging products are generally sold to manufacturers and other intermediaries in both the consumer goods and industrial sectors. Since the markets for packaging products in many industrialised countries are generally mature, there is a significant degree of correlation between economic growth and demand for packaging products, especially with respect to customers outside the FMCG sector. As a result, the Enlarged Group's performance will depend to a significant extent on a number of macroeconomic factors which impact consumer and commercial spending, with increased exposure to those impacting the US market, all of which are outside their control and difficult to predict. There is continuing uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States. The majority of the IRI Group's business is carried out within the United States with exports to a number of countries around the world. Any significant shifts in the United States tax, regulatory or trade and foreign policy under the Trump administration (or otherwise) could have an adverse impact on the Enlarged Group's business, including any restrictions or taxes on imports implemented. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets.

The occurrence of major operational problems or natural disasters at certain of the Enlarged Group's facilities, which exposure will increase for the Enlarged Group as a result of the addition of the IRI Group's facilities, could have a material adverse effect on the Enlarged Group

As is the case in respect of the DS Smith Group, the revenues of the IRI Group are dependent on the continued operation of its various manufacturing facilities. As a result of the Acquisition, the Enlarged Group will face increased operational risk due to the growth in the size of its operations as well as new risks relating to the geographic location of certain IRI Group operations and the addition of operations related to the IRI Group's timber division and kraft mill. Operational risks include fire, floods or other natural disasters, equipment failure (including any failure of information technology systems), failure to comply with applicable regulations and industry standards, raw material supply disruptions, labour force shortages or work stoppages, and events impeding, or increasing the cost of, transporting the Enlarged Group's products. Certain IRI Group operations will result in new operational risks for the Enlarged Group. For example, the IRI Group has certain production facilities, such as its facilities in Riceboro, Georgia, in regions that are regularly subject to hurricanes, which have in the past required the IRI Group to stop production for a period of time.

The IRI Group also faces certain risks due to its timber division, which stores substantial quantities of wood products and maintains forest. Wood and forests are exposed to a number of natural risks and hazards which are outside the control of the IRI Group, including fire, insect infestation, epidemics, extreme weather, droughts or floods and other natural events, which in each case may have an adverse impact on the timing of harvest, the volume and value of the wood harvested and stored and impact the IRI Group's ability to produce timber and lumber products.

If the Enlarged Group is unable to obtain timely replacements for damaged inventory or equipment, or if it is unable to find an acceptable third-party manufacturer as a substitute for production facilities damaged by a catastrophic event, then major disruptions to production could result which would have significant adverse effects on the Enlarged Group's business, financial condition, results of operations or prospects. If certain equipment were to fail, the Enlarged Group may need to rely on sourcing products or materials from the open market that it would typically produce, which could increase costs significantly if the repair or replacements took some time to address. The Enlarged Group will carry both property insurance and business interruption insurance, but these may not be sufficient to cover certain damages or lost profits as a result of the disruption to production.

Whilst the manufacturing of certain products can be transferred to other sites or replaced with open market purchases, any disruption of the manufacturing processes could result in delivery delays, interrupt the production or even lead to a full cessation of production. The resulting loss of revenue and the impact on the Enlarged Group's relationships with its customers could be significant and may adversely affect the Enlarged Group's business, financial condition, results of operations or prospects.

The Enlarged Group will be subject to a number of environmental, health and safety and tax laws and regulations, and the cost of compliance with, and any liabilities under, current and future laws and regulations and will face increased exposure to such laws and regulations in the United States as a result of the Acquisition

As is the case in respect of the DS Smith Group, the IRI Group is, and the Enlarged Group is expected to continue to be, subject to a wide range of environmental, tax and health and safety laws and regulations in all the jurisdictions in which it operates, including international, national, state and local laws and regulations. These requirements are complex, subject to frequent changes and have tended to become more stringent over time. There can be no assurance that the requirements of such laws and regulations will not change in the future or that the associated cost of compliance will not increase. Due to the scale of the IRI Group's operations in the United States, the Enlarged Group will face increased exposure in particular to such laws and regulations in the United States. Such cost increases could have a negative impact on the Enlarged Group's business, financial condition, results of operations or prospects.

As is the case in respect of the DS Smith Group, the IRI Group uses, handles, stores and disposes of hazardous materials in the course of its operations and production processes and may be subject to fines or clean-up liabilities for contamination at past and present operating sites under statutory regimes. Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for the clean-up of contamination at, or arising from, such facilities, without regard to causation or knowledge of contamination. Investigations in the future may lead to discoveries of contamination that the Enlarged Group is required to remedy or damage that may subject the Enlarged Group to claims. Closure of facilities may trigger compliance requirements that are not applicable to facilities that are operating. Due to the scale of the IRI Group's operations in the United States and the number of facilities being acquired as well as the number of facilities formerly operated by the IRI Group or its predecessors, the Enlarged Group will face increased exposure in particular to such environmental laws and regulations in the United States.

Managing health and safety compliance will continue to be key priorities of the Enlarged Group. In particular, due to the nature of the paper manufacturing process, paper mills tend to be inherently hazardous relative to the other types of facilities that the DS Smith Group and the IRI Group operates. The DS Smith Group currently operates nine paper mills and if the Acquisition is completed, the Enlarged Group will operate 11 paper mills. The increase in the number of paper mills that the Enlarged Group operates as a result of the Acquisition could increase the degree of health and safety risk.

While the DS Smith Group and the IRI Group have procedures to comply with applicable environmental and health and safety requirements, there can be no assurance that Enlarged Group will be at all times in compliance with such requirements, that the Enlarged Group will not incur material costs or liabilities in connection with such requirements in the future (which costs and liabilities could increase as a result of the Acquisition) or that the Enlarged Group will be able to obtain and maintain all licences, consents or other permits necessary to operate the Enlarged Group's business. Similarly, there can be no assurance that the Enlarged Group will not experience an environmental spill or accident or discover or otherwise become liable for environmental contamination in the future (including such liability for contamination resulting from historical activities relating to properties or businesses that they have sold), with exposure to such risk increasing as a result of the scale of the IRI Group's operations in the United States and the number of facilities being acquired.Depending on the nature of the spill or accident, its location and the period during which it occurred, such incidents may not be covered by the Enlarged Group's insurance policies, since certain contaminants are typically excluded from insurance coverage available to Enlarged Group in most of its markets and the Enlarged Group's insurance is subject to certain time limits. The Enlarged Group may incur significant expenditure in connection with the required remediation of past environmental conditions at both facilities that are currently owned and formerly owned , including at the additional facilities acquired from the IRI Group and those facilities previously owned by the IRI Group or its predecessors. The Enlarged Group's control mechanisms, on-going programmes and systems, and special initiatives in place for monitoring health and safety compliance may not always be successful in achieving their objectives of requiring all employees to comply with all relevant laws and regulations in the countries in which they operate. The Enlarged Group cannot be certain that employees always adhere to such policies and values. Furthermore, the Enlarged Group cannot completely prevent injury to employees or others, or other harms related to the use, handling, storage and disposal of hazardous material. In the event of future incidents, the Enlarged Group could be liable for any damages that may result, including potentially significant monetary damages for any civil litigation or government proceedings related to a personal injury claim, with the exposure to such risks increasing as a result of the scale of the IRI Group's operations in the United States and its number of employees there. Failure to comply with environmental or health and safety laws may also damage the Enlarged Group's reputation.

Tax laws and tax rates in the markets in which the IRI Group operates, as is the case in respect of the DS Smith Group, are subject to frequent changes and the Enlarged Group is exposed to the risk of changes in tax legislation, and its interpretation and increases in the rate of corporate and other taxes in the jurisdictions in which the Enlarged Group operates. The costs associated with compliance with these laws and regulations are substantial and possible future laws and regulations or changes to existing laws and regulations (including the imposition of higher taxes) could require the Enlarged Group to incur additional expenses or capital expenditures or result in restrictions on or suspensions of the Enlarged Group's operations. Due to the scale of the IRI Group's operations in the United States, the Enlarged Group will face increased exposure in particular to such tax laws, rates and regulations in the United States. Any such cost increases could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

The cost of compliance with, and any liabilities under, current and future laws and regulations relating to the environment, health and safety or tax laws, including any increased compliance costs or liabilities experienced as a result of the Acquisition, and particularly with those in the United States, could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

Failure to maintain product quality controls leading to the production of defective goods could lead to an increase in product liability claims or recalls against the Enlarged Group, including those originating from the United States as a result of the Acquisition, or damage to the Enlarged Group's reputation

As is the case in respect of the DS Smith Group, the IRI Group's packaging products, many of which are supplied to the food and beverage industries, may give rise to potentially substantial product liability claims in the event of a failure of the packaging to perform its function when in use or from contamination of the product by its packaging. Further, if any of its products are defective as a result of a failure in the Enlarged Group's quality controls, the Enlarged Group may be subject to product liability claims or may have to engage in a product recall. The Enlarged Group will face increased exposure to such product liability claims or recalls as a result of the expansion of its operations in the United States as a result of the Acquisition. Any significant damage to the Enlarged Group's reputation and any material claims that arise in these areas could have an adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

Failure to maintain good employee relations may affect the Enlarged Group's operations

Future developments in relation to the Enlarged Group's business could adversely affect relations with employees. The IRI Group has collective bargaining agreements in place with unions at a number of its production facilities. If the terms of any collective bargaining agreements entered into by the IRI Group change substantially or an acceptable agreement to the Enlarged Group cannot be reached at all when the collective bargaining agreements are renewed, the Enlarged Group could face increased labour costs or disruptions as a result of labour union activity relating to the IRI Group in the future. Labour disputes or other problems could lead to a substantial interruption to the Enlarged Group's business and have a material adverse effect on the Enlarged Group's business, financial condition, results of operations or prospects.

PART 3

PRINCIPAL TERMS AND CONDITIONS OF THE ACQUISITION AGREEMENT AND THE SHAREHOLDERS' AGREEMENT

1. Overview

The Initial Acquisition will be effected by way of an acquisition by DS Smith and DS Smith Holdings (together, the **Buyer**) of 80 per cent. of the total issued share capital of IMRI from Merpas for consideration of US$920 million (approximately £722 million). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million). The consideration will be subject to customary post-Completion net debt and working capital adjustments.

Following Completion, DS Smith will hold (directly or indirectly) 80 per cent. of the total issued share capital of IMRI and Merpas (or another entity within the INDEVCO group) will hold the remaining 20 per cent. At Completion, DS Smith will acquire a number of shares in IMRI equivalent in value to the Consideration Shares, and DS Smith Holdings will acquire the remaining shares in IMRI that are the subject of the Initial Acquisition.

The Buyer, Merpas Newco (an entity within the INDEVCO group that will hold shares in IMRI at the time of Completion) and IMRI will enter into a Shareholders' Agreement on Completion which will govern the relationship between the Buyer and Merpas Newco in respect of the governance of IMRI and pursuant to which, among other things, on fixed dates over the next four years, Merpas Newco can require the Buyer to acquire some or all of the remaining shares in IMRI on agreed terms and, on the fifth anniversary of Completion, the Buyer shall (unless the Buyer and Merpas Newco agree otherwise) acquire any shares in IMRI that it does not already own, on agreed terms.

2. Principal terms of the Acquisition Agreement

The principal terms of the Acquisition Agreement are summarised below.

2.1 Introduction

The Acquisition Agreement was entered into on 28 June 2017 among DS Smith, DS Smith Holdings, Merpas and IMRI. In accordance with the provisions of the Acquisition Agreement and subject to the satisfaction or, if applicable, waiver of the conditions set out in the Acquisition Agreement, the Buyer has agreed to acquire the Initial Interest from Merpas.

2.2 Consideration

The consideration for the Initial Acquisition is US$920 million (approximately £722 million). The Buyer will also assume or procure repayment of 100 per cent. of the IRI Group's financial indebtedness at Completion, expected to be approximately US$226 million (approximately £177 million).

The consideration for the Initial Acquisiton will be subject to the following post-Completion adjustments: (a) an adjustment to reflect the amount of cash and debt at Completion; and (b) a customary working capital adjustment by reference to an agreed target amount of working capital. An estimated consideration amount will be paid at Completion, with an adjusting payment to be made by either the Buyer or Merpas following determination of any required post-Completion adjustment.

The Buyer intends to satisfy the consideration through: (i) a payment of US$846 million (approximately £664 million) in cash; and (ii) the issue of 52,474,156 new Ordinary Shares (the **Consideration Shares**) with an aggregate value of US$300 million (approximately £235 million), calculated by reference to the average Closing Price of the Ordinary Shares on 23 June 2017, 26 June 2017 and 27 June 2017, to Merpas. For the purpose of this calculation, such average Closing Price has been converted from pounds sterling into US dollars using the average London closing mid-point on 23 June 2017, 26 June 2017 and 27 June 2017, as obtained from Reuters. At Completion, DS Smith will deliver the Consideration Shares to Merpas and DS Smith Holdings will make the cash payment to Merpas.

2.3 **Conditions to Completion**

Completion is conditional upon the satisfaction (or, where applicable, waiver) of the conditions set out in the Acquisition Agreement, which include, among others:

(a) the Resolution being passed at the General Meeting;

(b) all applicable waiting periods under the HSR Act having expired or been terminated without the imposition of specified remedies;

(c) no governmental order being in force specifically enjoining or prohibiting Completion;

(d) the approval of the application for Admission and authorisation for issuance of the Consideration Shares;

(e) the receipt of certain consents and waivers relating to certain joint ventures of the IRI Group;

(f) the absence of certain litigation if it would reasonably be expected to result in a material liability of the IRI Group;

(g) the accuracy (at certain agreed levels of materiality) of each party's representations and warranties under the Acquisition Agreement;

(h) the compliance in all material respects by each party with its covenants under the Acquisition Agreement; and

(i) the absence of a material adverse effect on the IRI Group.

2.4 **Termination rights**

The Buyer and Merpas may terminate the Acquisition Agreement by mutual written consent, or written notice to the other, in the event that:

(a) Completion has not occurred on or before 31 December 2017 or, if either party has exercised its right to extend the period within which the conditions to Completion must occur, on or before 31 March 2018, unless there is a knowing and intentional breach of any provision of the Acquisition Agreement by that party that is the primary reason for Completion not occurring on or before such date;

(b) Completion is permanently enjoined or prohibited by the terms of a final, non-appealable governmental order;

(c) the DS Smith Board changes its recommendation that Shareholders vote in favour of the Resolution at the General Meeting;

(d) the Resolution has not been duly passed at the General Meeting; or

(e) any party is in breach of any provision of the Acquisition Agreement such that certain conditions to Completion cannot be satisfied, which breach has not been remedied by the offending party within 30 days of the offending party receiving notice of its breach.

In the event of termination, the Acquisition Agreement will become void and of no effect with no liability to any party, except that termination will not relieve any party of any liability or damages to the other parties resulting from any breach of the Acquisition Agreement, and the provisions set forth in the termination provisions of the Acquisition Agreement will survive termination.

2.5 **Warranties of Merpas**

The Acquisition Agreement contains warranties (which are customary for an acquisition of the size and nature of the Acquisition and are at certain agreed levels of materiality), given by Merpas (as to both Merpas and IMRI), and which are limited under the Acquisition Agreement, as to, among others:

(a) Merpas's ownership of the Initial Interest;

(b) the due organisation and valid existence of Merpas and IMRI;

(c) the due authority of Merpas and IMRI to execute the Acquisition Agreement;

(d) the absence of certain conflicts;

(e) there being no failure of Merpas and IMRI to make any material government filings;

(f) there being no litigation or arbitration proceedings pending or, to the knowledge of Merpas, threated against Merpas and IMRI that relate to the Initial Interest or challenge the validity of or enforceability of Merpas's or IMRI's obligations under the Acquisition Agreement, or, as to IMRI, that would reasonably be expected to have a material adverse effect;

(g) the fair presentation of financial statements;

(h) the absence of undisclosed liabilities, a material adverse effect on the IRI Group and certain changes to the IRI Group;

(i) employee, labour and benefits matters;

(j) compliance with applicable laws;

(k) brokers and finders;

(l) material contracts;

(m) commercial relationships;

(n) real property;

(o) machinery, equipment and personal property;

(p) insurance;

(q) accounts receivable;

(r) environmental matters;

(s) tax;

(t) intellectual property; and

(u) the accuracy of certain information supplied by Merpas to the Buyer.

2.6 **Warranties of the Buyer**

The Acquisition Agreement contains warranties (which are customary for an acquisition of the size and nature of the Acquisition and are at certain agreed levels of materiality), given by the Buyer, and which are limited under the Acquisition Agreement, as to, among others:

(a) the valid issuance of the Consideration Shares;

(b) the due organisation and valid existence of the Buyer;

(c) the due authority of the Buyer to execute the Acquisition Agreement;

(d) the absence of certain conflicts;

(e) there being no failure to make any material government filings;

(f) the capital structure of the Buyer;

(g) there being no litigation or arbitration proceedings pending or, to the knowledge of the Buyer, threatened against the Buyer or any of its subsidiaries that relate to the Initial Interest or challenge the validity of or enforceability of the Buyer's obligations under the Acquisition Agreement;

(h) brokers and finders; and

(i) available funds and financing.

2.7 **Pre-Completion undertaking of IMRI and Merpas**

Pursuant to the Acquisition Agreement, among other undertakings, IMRI has agreed to operate its business in the ordinary course in accordance with past practice, which includes, but is not limited to, restrictions on amending its organisational documents, declaring any non-cash dividends, modifying or terminating existing material contracts or entering into certain new material contracts and borrowing or incurring certain indebtedness, in each case, without the Buyer's prior written consent.

Merpas has agreed to effect certain pre-Completion and post-Completion restructuring transactions in accordance with agreed principles and to provide certain assistance to the Buyer in connection with the repayment as at Completion of all amounts under IMRI's existing intercompany arrangements and indebtedness, to the extent requested by the Buyer.

2.8 **Pre-Completion undertaking of the Buyer**

Pursuant to the Acquisition Agreement, among other undertakings, the Buyer has agreed to use its reasonable best efforts to obtain support of Shareholders for the Resolution and to obtain the necessary equity financing under the Placing Agreement.

2.9 **Pre-Completion undertaking of the Buyer, IMRI and Merpas**

Pursuant to the Acquisition Agreement, among other undertakings, the Buyer, IMRI and Merpas have agreed to use their commercially reasonable efforts to seek all governmental approvals, including antitrust approval, necessary for Completion.

2.10 **Transfer restrictions**

Pursuant to the Acquisition Agreement, Merpas has undertaken that, for a period of six months from Completion, neither it nor any of its group members will, except with the prior written consent of the Buyer, directly or indirectly, sell, transfer, pledge, encumber, assign or otherwise dispose of or cause any change in the beneficial ownership of any Consideration Shares, subject to certain limited exceptions. This restriction will continue to apply for a further six months in respect of 50 per cent. of the Consideration Shares and, in respect of those shares not subject to the restriction after the first six months, Merpas has undertaken that any sales of such shares will be made only through Citi and JPMS.

2.11 **Indemnification**

Pursuant to the Acquisition Agreement, from and after Completion, Merpas has agreed to indemnify the Buyer for certain damages arising from breaches of representations or warranties of Merpas or IMRI and breaches of IMRI's pre-Completion covenants. Except for certain fundamental and other specified representations and warranties (regarding which Merpas's liability is uncapped and generally not time limited), the aggregate amount of damages to which the Buyer will be entitled for indemnification from Merpas will not exceed $114 million (approximately £89 million), with such indemnity lasting for a period of 18 months.

To fund its indemnification obligations, Merpas has agreed to place $57 million (approximately £45 million) in an escrow account at Completion, representing approximately 6.2 per cent. of the consideration to be paid at Completion. Unless otherwise distributed to the Buyer or subject to pending indemnification claims, one third of the escrow amount will released to Merpas six months after Completion, a further one third of the escrow amount will released to Merpas 12 months after Completion and the remainder of the escrow amount, if any, will be released to Merpas 18 months after Completion. The Buyer is not limited in its ability to recover from Merpas for amounts owed pursuant to Merpas's indemnification obligations over and above the escrow amount. In addition, the Shareholders' Agreement permits the Buyer to: (i) offset any amounts payable to Merpas pursuant to the exercise of a Put Option against amounts then payable by Merpas pursuant to its indemnification obligations for breaches of certain representations and warranties (such as regarding pre-Completion taxes and environmental matters) under the Acquisition Agreement; and (ii) retain in an escrow account at the consummation of any Put Option (as defined below) an amount equal to 20 per cent. of the consideration then payable for the satisfaction of indemnity obligations arising in connection with breaches of certain representations and warranties (such as regarding pre-Completion taxes and environmental matters) under the Acquisition Agreement, which escrow(s) shall survive for the statute of limitations for any pre-Completion tax claims.

3. Principal terms of the Shareholders' Agreement

The principal terms of the Shareholders' Agreement are summarised below.

3.1 **Governance**

Pursuant to the Shareholders' Agreement, the IMRI Board will consist of five directors, four of which will be appointed by the Buyer and one of which will be appointed by Merpas Newco. The presence of a majority of directors, which majority must include the director appointed by Merpas Newco unless such director fails to appear at two duly convened consecutive meetings, will constitute a quorum of the IMRI Board for the transaction of any business. The Buyer has the right to appoint the Chairperson of the IMRI Board and additionally remove any director appointed by Merpas Newco at such time as Merpas Newco no longer holds shares.

Pursuant to the Shareholders' Agreement, certain matters are reserved for approval by the IMRI Board, including, among others, the taking of any action materially inconsistent with the DS Smith Group's schedule of delegated authorities applicable to DS Smith's consolidated subsidiaries (a copy of which is appended to the Shareholders' Agreement), making a capital call, paying dividends, approving business plans, incurring debts and expenditures over certain thresholds, entering into new lines of business, appointing officers, and settling or instituting material litigation. The IMRI Board has the right to update the list of matters reserved for its approval at its discretion.

Pursuant to the Shareholders' Agreement, certain other matters are reserved for approval by the IMRI Board and the unanimous approval of the shareholders. These reserved matters include:

(a) any material change to the nature of IMRI's business;

(b) amending, supplementing or modifying the organisational documents of IMRI (other than immaterial or ministerial changes or changing the name of a member of the IRI Group), including making any modification to the number of directors, the rights attached to the shares and the number of authorised shares (other than an increase in the number of authorised shares to the extent necessary to permit an issuance of shares pursuant to a capital call);

(c) issuing or redeeming shares, except for any issuance of shares pursuant to the capital call mechanics;

(d) authorising or approving the transfer of any shares, except as otherwise specified in the Shareholders' Agreement;

(e) for a period of one year following Completion, terminating (other than for cause) the employment of, or making (other than with the agreement of the employee) any adverse material change to the employment terms of, certain key employees;

(f) paying, making or declaring any dividend in respect of the shares, unless such dividends are made pro rata to all shareholders;

(g) on behalf of IMRI, entering into or amending any transaction or arrangement with the Buyer or Merpas Newco that is not on arm's length terms; and

(h) approving or consenting to any bankruptcy, winding up, dissolution or liquidation of any member of the IRI Group.

Except for the matters reserved to the IMRI Board and shareholders, the ordinary course management of IMRI will be conducted by a chief executive officer and other officers of IMRI as appointed by the IMRI Board.

3.2 Capitalisation, shareholders and funding

The capital stock of IMRI currently consists of 1,000 authorised shares, having one vote each and identical economic rights. The Shareholders' Agreement contemplates that, at Completion, the capital stock of IMRI will consist of 1,000,000 authorised shares, having one vote each and identical economic rights.

Pursuant to the Shareholders' Agreement, except for certain wholly owned subsidiaries of the Buyer and Merpas Newco or pursuant to a sale of IMRI by the Buyer, no third party may be issued shares or other interests in the capital of IMRI.

Pursuant to the Shareholders' Agreement, neither Merpas Newco nor the Buyer is required to make additional capital contributions to IMRI. The operations of IMRI will first be funded by cash generated by the IRI Group business and debt in the ordinary course (including loans as may be made by the Buyer). However, if IMRI's net debt to EBITDA ratio exceeds a specified threshold and in certain other circumstances, such as expenditures for necessary expenses, as contemplated by a business plan, or as necessary to complete an acquisition, the IMRI Board may issue a capital call. Any such capital call will be apportioned pro rata between the Buyer and Merpas Newco based on share ownership and funded in a shareholder's sole discretion. If a shareholder elects not to fund any capital call, the other shareholder has the option to fund such unfunded amount and receive additional shares in proportion to the amount funded.

3.3 **Transfer restrictions**

Pursuant to the Shareholders' Agreement, without the prior written consent of all shareholders and the IMRI Board, no shareholder is permitted to transfer all or any part of its shares, or any right pertaining thereto, including the right to receive capital or profits of IMRI, except if:

(a) such transfer is the result of a change of control of DS Smith;

(b) such transfer is made pursuant to a Put Option (as defined below);

(c) such transfer is of all shares then held by the Buyer and is made pursuant to a sale of IMRI by the Buyer (including pursuant to the "tag-along" or "drag-along" right described below);

(d) as to the Buyer, such transfer is of all shares held by the Buyer and is made to a wholly owned subsidiary of the Buyer that executes an agreement of accession to the Shareholders' Agreement (or between DS Smith and DS Smith Holdings); or

(e) as to Merpas Newco, such transfer is of all shares held by Merpas Newco and is made to a specified wholly owned subsidiary of Merpas Newco (**Merpas Sub**), as promptly as reasonably practicable following Completion, that executes an agreement of accession to the Shareholders' Agreement.

Pursuant to the Shareholders' Agreement, until such time as Merpas Newco no longer holds shares, if the Buyer wishes to effect a sale of IMRI, the Buyer is required to first offer to Merpas Newco for purchase all shares then owned by the Buyer. Merpas Newco will then have a set period to specify the terms on which it is willing to purchase the Buyer's shares, with the Buyer having a comparable period to consider Merpas Newco's offer, prior to pursuing any third party sale of its shares. In addition, Merpas Newco has the option to require the Buyer to include Merpas Newco's shares in any sale of the Buyer's shares, and the Buyer has the option to require Merpas Newco to include its shares in any sale of the Buyer's shares, in each case in connection with any sale of IMRI or the Buyer.

3.4 **Put Option**

Pursuant to the Shareholders' Agreement: (i) on 1 September 2018, 1 September 2019, 1 September 2020 and 1 September 2021, Merpas Newco has the option to sell to the Buyer either (a) all of the shares in IMRI then held by Merpas Newco or (b) a number of shares in IMRI held by Merpas Newco representing not less than 10 per cent. of the shares in IMRI then issued and outstanding; (ii) if (x) on 1 September 2022, Merpas Newco holds shares in IMRI or (y) on any date before 1 September 2022, the total number of shares in IMRI then held by Merpas Newco represents less than 10 per cent. of the shares in IMRI then issued and outstanding, Merpas Newco is required to sell all of the shares in IMRI then held by it to the Buyer; and (iii) within one month of a change of control of the Buyer, Merpas Newco has the option to sell to the Buyer all of the shares in IMRI then held by it (each, a **Put Option**). The Buyer will pay cash for any shares in IMRI sold pursuant to a Put Option with such shares valued on the basis of the higher of: (i) the initial enterprise value of the IRI Group; and (ii) the IRI Group's consolidated EBITDA for the last 12 months multiplied by eight (or ten in the event of a change of control of DS Smith), adjusted for cash, debt and working capital pursuant to the adjustment mechanics provided in the Acquisition Agreement. The Buyer and Merpas Newco will use their commercially reasonable efforts to consummate the purchase and sale of the shares pursuant to a Put Option as soon as practicable, including to make all material government filings and obtain any necessary shareholder approvals in connection therewith. In addition, if Merpas Sub is the Merpas Newco entity holding Merpas Newco's shares in IMRI, instead of directly selling such shares, Merpas Newco will be permitted to sell in any Put Option a number of shares in Merpas Sub representing an equivalent number of shares in IMRI.

3.5 **Warranties of Merpas Newco and the Buyer**

The Shareholders' Agreement contains certain warranties given by Merpas Newco and the Buyer as of the date of Completion and to be given by Merpas Newco and the Buyer as of the date of the consummation of a Put Option, and which are limited under the Shareholders' Agreement, as to, among others:

(a) due organisation and valid existence;

(b) due authority to execute agreements;

(c) the absence of certain conflicts;

(d) there being no failure to make any material government filings;

(e) there being no litigation or arbitration proceedings pending or, to the knowledge of such party, threatened against a party that would have a material adverse effect on (i) IMRI, (ii) the legality, validity or enforceability of the Shareholders' Agreement or, when executed and delivered, any agreement in connection with a Put Option or (iii) a party's ability to perform its obligations under the Shareholders' Agreement or, when executed and delivered, any agreement in connection with a Put Option;

(f) compliance with laws; and

(g) as to Merpas Sub, if Merpas Sub is the Merpas Newco entity holding Merpas Newco's shares in IMRI, except for its holding of such shares, that it has not: (i) owned any assets; (ii) held any equity, partnership, membership or similar interest in any other person; (iii) conducted any business (except for administrative matters in connection with its holding of shares); or (iv) incurred any debts, obligations or liabilities (except to the extent any such debt is offset against a Put Option payment).

3.6 **Other agreements**

Among other undertakings, pursuant to the Shareholders' Agreement, Merpas Newco has agreed not to:

(a) subject to certain exceptions, until two years from such time as Merpas Newco no longer holds shares, engage, directly or indirectly, in business activities outside of IMRI that directly compete with IMRI's businesses in the United States;

(b) until such time as Merpas Newco no longer holds shares in IMRI, if Merpas Newco acquires knowledge of a potential acquisition, merger, business combination, partnership, joint venture, investment or other transaction involving a business that directly competes with IMRI's businesses in the United States, independently pursue such corporate opportunity (and Merpas Newco is required to communicate the existence of such opportunity to IMRI);

(c) for a period of two years from the date of the Acquisition Agreement, directly or indirectly, among other actions, purchase additional ordinary shares of the Buyer, propose corporate actions involving the Buyer, seek to influence the management of the Buyer, or join in any group with respect to any voting securities of the Buyer; and

(d) until two years from such time as Merpas Newco no longer holds shares (or the earlier termination of the Shareholders' Agreement), subject to certain exceptions, solicit the Buyer's or IMRI's employees (with the Buyer providing a reciprocal commitment), or solicit the customers of the Buyer or IMRI in the United States (as to the products manufactured by IMRI).

3.7 **Termination**

The Buyer and Merpas Newco may terminate the Shareholders' Agreement by mutual written consent, and the Shareholders' Agreement terminates as to a shareholder (except for provisions that by their terms survive the termination of the Shareholders' Agreement) at such time as the shareholder ceases to hold shares.

4. Greencoat Licence Agreement

On Completion, IMRI and Indevco Plastics, Inc. (**Indevco Plastics**), an affiliate of IMRI that is not being acquired by the Buyer pursuant to the Acquisition, will enter into an exclusive licence agreement (the **Licence Agreement**), under which Indevco Plastics will grant IMRI an exclusive licence under certain Greencoat-related patents, trademarks and trade secrets for use by IMRI in the field of packaging in the United States for a one time licensing fee of US$1,000. Under the terms of the Licence Agreement, responsibility for prosecution, maintenance and enforcement of the licensed intellectual property will be allocated between the parties. The Licence Agreement will include customary representations, warranties, covenants and indemnities. Each party will indemnify the other party and its affiliates and representative against claims made against them or losses incurred by them as a result of the other party's breach of the representations, warranties and covenants. The term of the Licence Agreement will be until the end of the term of the last expired patent right or trademark right thereunder (whichever is latest). The Licence Agreement will be terminable by IMRI for convenience and by either party for a material uncured breach by the other party.

PART 4

HISTORICAL FINANCIAL INFORMATION RELATING TO THE IRI GROUP

Shareholders should read the whole of this Circular and not rely solely on the financial information contained in this Part 4 (*Historical Financial Information relating to the IRI Group*).

SECTION A: HISTORICAL FINANCIAL INFORMATION RELATING TO THE IRI GROUP

The combined historical financial information relating to the IRI Group for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 set out below has been prepared in accordance with the basis of preparation set out in note 1 to the financial information and in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

The combined historical financial information relating to the IRI Group for the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014 set out below is covered by the accountant's report included in Section B of this Part 4 (*Historical Financial Information relating to the IRI Group*), which was prepared in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom.

Combined Income Statement

	Note	Before exceptional items 2016	Exceptional items (note 4) 2016	After exceptional items 2016	Before exceptional items 2015	Exceptional items (note 4) 2015	After exceptional items 2015	Before exceptional items 2014	Exceptional items (note 4) 2014	After exceptional items 2014
		$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Continuing operations										
Revenue		**618**	**—**	**618**	618	—	618	582	—	582
Operating costs	3	**(554)**	**(1)**	**(555)**	(536)	4	(532)	(515)	(3)	(518)
Operating profit before amortisation, acquisitions and disposals		**64**	**(1)**	**63**	82	4	86	67	(3)	64
Amortisation of intangible assets, acquisitions and disposals		—	—	—	—	—	—	—	—	—
Operating profit		**64**	**(1)**	**63**	82	4	86	67	(3)	64
Finance income	5	**1**	**—**	**1**	—	—	—	—	—	—
Finance costs	5	**(13)**	**—**	**(13)**	(11)	(2)	(13)	(10)	(3)	(13)
Net financing costs		**(12)**	—	**(12)**	(11)	(2)	(13)	(10)	(3)	(13)
Profit after financing costs		**52**	**(1)**	**51**	71	2	73	57	(6)	51
Share of profit of equity accounted investments, net of tax and distributions	11	—	—	—	—	—	—	1	—	1
Profit before income tax		**52**	**(1)**	**51**	71	2	73	58	(6)	52
Income tax expense	7	**(15)**	—	**(15)**	(24)	—	(24)	(16)	—	(16)
Profit for the year		**37**	**(1)**	**36**	47	2	49	42	(6)	36
Profit for the year attributable to:										
Owners of the parent		**37**	**(1)**	**36**	47	2	49	42	(6)	36
Non-controlling interests		—	—	—	—	—	—	—	—	—
		37	**(1)**	**36**	47	2	49	42	(6)	36

Combined Statement of Comprehensive Income

	Note	2016	2015	2014
		$m	$m	$m
Profit for the year		**36**	49	36
Items which will not be reclassified subsequently to profit or loss				
Actuarial (loss)/gain on employee benefits	21	**1**	—	(6)
Income tax on items which will not be reclassified subsequently to profit or loss		**—**	—	2
Other comprehensive income/(expense) for the year, net of tax		**1**	—	(4)
Total comprehensive income/(expense) for the year		**37**	49	32
Total comprehensive income/(expense) attributable to:				
Owners of the parent		**37**	49	32
Non-controlling interests		**—**	—	—

Combined Statement of Financial Position

	Note	2016	2015	2014
		$m	$m	$m
Assets				
Non-current assets				
Intangible assets	8	**13**	13	13
Biological assets	9	**10**	11	8
Property, plant and equipment	10	**340**	347	349
Equity accounted investments	11	**7**	7	7
Other receivables	13	**42**	50	10
Total non-current assets		**412**	428	387
Current assets				
Inventories	12	**43**	43	40
Income tax receivable		**7**	9	19
Trade and other receivables	13	**68**	69	58
Cash and cash equivalents	16	**25**	16	12
Total current assets		**143**	137	129
Total assets		**555**	565	516
Liabilities				
Non-current liabilities				
Interest-bearing loans and borrowings	17	**(217)**	(247)	(227)
Employee benefits	21	**(7)**	(13)	(21)
Other payables	14	**(4)**	(3)	(3)
Deferred tax liabilities	19	**(58)**	(56)	(54)
Derivative financial instruments	18	**(1)**	(2)	(2)
Other long term liabilities		**(20)**	(31)	(33)
Total non-current liabilities		**(307)**	(352)	(340)
Current liabilities				
Bank overdrafts	16	**(11)**	(9)	(8)
Interest-bearing loans and borrowings	17	**—**	—	(3)
Employee benefits	21	**(1)**	(1)	(1)
Trade and other payables	14	**(45)**	(49)	(59)
Total current liabilities		**(57)**	(59)	(71)
Total liabilities		**(364)**	(411)	(411)
Net assets		**191**	154	105
Equity				
Share capital	20	**—**	—	—
Reserves		**191**	154	102
Total equity attributable to owners of the parent		**191**	154	102
Non-controlling interest		**—**	—	3
Total equity		**191**	154	105

Combined Statement of Changes in Equity

	Note	Share capital	Reserves	Total equity attributable to owner of the parent	Non-controlling interest	Total equity
		$m	$m	$m	$m	$m
At 1 January 2014		**—**	**60**	**60**	**13**	**73**
Profit for the year		—	36	36	—	36
Actuarial gain on employee benefits	21	—	(6)	(6)	—	(6)
Income tax on other comprehensive income		—	2	2	—	2
Total comprehensive income		**—**	**32**	**32**	**—**	**32**
Put option redemption		—	10	10	(10)	—
At 31 December 2014		**—**	**102**	**102**	**3**	**105**
Profit for the year and total comprehensive income		—	49	49	—	49
Put option redemption		—	3	3	(3)	—
At 31 December 2015		**—**	**154**	**154**	**—**	**154**
Profit for the year		—	36	36	—	36
Actuarial gain on employee benefits	21	—	1	1	—	1
Total comprehensive income		**—**	**37**	**37**	**—**	**37**
At 31 December 2016		**—**	**191**	**191**	**—**	**191**

Combined Statement of Cash Flows

	Note	2016	2015	2014
		$m	$m	$m
Continuing operations				
Operating activities				
Cash generated from operations	22	**89**	108	96
Interest received		**1**	—	—
Interest paid		**(13)**	(15)	(14)
Tax paid		**(12)**	(10)	(21)
Cash flows from operating activities		**65**	83	61
Investing activities				
Acquisition of subsidiary businesses, net of cash and cash equivalents		**—**	—	(12)
Capital expenditure		**(34)**	(34)	(60)
Proceeds from sale of property, plant and equipment and intangible assets		**3**	—	—
Movements in loans to associates		**4**	(13)	(4)
Cash flows used in investing activities		**(27)**	(47)	(76)
Financing activities				
Distributions received from equity-accounted entities	11	**1**	1	1
Movement in revolving credit facility	17	**(30)**	7	6
Other financing activities		**(2)**	(41)	—
Cash flows from/(used in) financing activities		**(31)**	(33)	7
Increase in cash and cash equivalents		**7**	3	(8)
Net cash and cash equivalents at 1 January		**7**	4	12
Net cash and cash equivalents at 31 December	16	**14**	7	4

Notes:

1. Significant accounting policies

1.1 **Basis of preparation**

This historical combined financial information has been prepared to present the financial condition, results of operations and cash flows of the Indevco Management Resources, Inc. group (the **IRI Group**), which consists of:

- Indevco Management Resources, Inc. (**IMRI**), the ultimate holding company, registered in the USA with sole ownership of Merhill, SGT and PTH;
- Merhill Holdings S.a.r.l (**Merhill**), registered in Luxembourg, which is the sole owner of IRI;
- St. George Timber Inc, (**SGT**), with the exclusion of a property owned in Arlington, registered in the USA, which holds land and timber assets to primarily provide materials to IRI;
- Phoenix Technology Holdings Inc (**PTH**), registered in the USA, which provides engineering services to IRI; and
- Interstate Resources, Inc and all its subsidiaries, with the exclusion of Interstate Specialty Coating, LLC and Interstate Longview Reality, LLC, (collectively **IRI**), registered in the USA, which is an integrated producer of unbleached kraft linerboard, recycled medium, high-value corrugated packaging, lumber and other building products in the Eastern United States.

All transactions between companies in the IRI Group have been eliminated in the accompanying financial information (the **financial information**).

The preparation of the financial information of the IRI Group has been performed solely for inclusion in this Circular and has been prepared in accordance with the requirements of the Prospective Directive regulation and the UK Listing Rules. The accounting policies adopted and the presentation of the financial information are consistent with those used by DS Smith in its latest set of annual consolidated accounts, being the International Financial Reporting Standards as adopted by the European Union (**IFRS**).

IFRS does not provide for the preparation of combined historical information and, accordingly, in preparing the combined historical information certain accounting conventions commonly used for the preparation of historical information for inclusion in investment circulars as described in the Annexure to SIR 2000, Investment Reporting Standard applicable to public reporting engagement on historical financial information used by the UK Auditing Practiced Board, have been applied.

The application of these conventions results in a departure from IFRS regarding certain subsidiaries, assets and liabilities being excluded from the business being acquired. Subsidiaries, assets and liabilities that will not form part of the transaction described in the Circular have been excluded from the historical combined financial statements and all transactions relating to those subsidiaries, assets and liabilities have also been excluded. This provides the users of the financial information with a clear view of the continuing business acquired by DS Smith. All notes to the financial information include amounts for continuing operations, unless otherwise mentioned.

The assets, liabilities and their related operations that have been excluded from the combined financial information are as follows:

- Interstate Specialty Coating, LLC (**ISC**), a wholly owned subsidiary of IRI, manufacturer of poly-extrusion and aqueous-coated paper and paperboard products;
- Indevco Realty Longview LLC (**IRL**), a wholly owned subsidiary of IRI, holds property assets used by other companies affiliated to, but not part of, the IRI Group; and
- a property located in Arlington, owned by SGT.

In all other respects the historical financial information has been prepared in accordance with IFRS. The financial information has been prepared under the historical cost convention. Where there is more than one recognition measure, presentation or disclosure option available under IFRS, the information has been presented in accordance with the application adopted by DS Smith's latest annual financial statements for the 2017 Financial Year.

1.2 **Basis of combination**

(a) Subsidiaries

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

(b) Interests in equity accounted investments

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

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

(c) Non-controlling interests

Non-controlling interests are shown as a component of equity in the Combined Statement of Financial Position. Put options over interests held by non-controlling interests in the IRI Group's subsidiaries are held at fair value; changes in fair value are reflected in the Combined Income Statement.

(d) Business Combinations

The acquisition method is used to account for the acquisition of subsidiaries. Identifiable net assets acquired (including intangibles) in a business combination are measured initially at their fair values at the acquisition date.

Where the measurement of the fair value of identifiable net assets acquired is incomplete at the end of the reporting period in which the combination occurs, the IRI Group will report provisional fair values. Final fair values are determined within a year of the acquisition date and retrospectively applied.

The excess of the consideration transferred and the amount of any non-controlling interest over the fair value of the identifiable assets (including intangibles), liabilities and contingent liabilities acquired is recorded as goodwill.

The consideration transferred is measured as the fair value of the assets given, equity instruments issued (if any), and liabilities assumed or incurred at the date of acquisition.

Acquisition related costs are expensed as incurred.

The results of the subsidiaries acquired are included in the combined financial statements from the acquisition date.

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

(e) Going concern

The Directors have, at the time of approving the historical financial information, a reasonable expectation that the IRI Group has adequate resources to continue in operational existence for the foreseeable future. As at 31 December 2016, the IRI Group had net current assets of £86 million and traded profitability in that financial year. The Directors expect the IRI Group to continue to trade profitably in the forthcoming year. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

1.3 **Basis of accounting**

The combined financial information is presented in US dollars and all values are rounded to the nearest million (US$m), except when otherwise indicated.

(a) Transition to IFRS—Application of IFRS 1

The IRI Group applied IFRS 1, ‘‘First time adoption of IFRS’’, in preparing this historical financial information. For periods up to and including the year ended 31 December 2013, the IRI Group prepared its financial statements in accordance with US GAAP.

The accounting policies set out herein have been applied in preparing the historical financial information as of and for the three years ended 31 December 2016, and the opening IFRS balance sheet at 1 January 2014. In preparing this historical financial information in accordance with IFRS, the IRI Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS, as set out in IFRS 1.

IFRS 1 allows first-time adopters certain exemptions from the general requirements contained in IFRS. The IRI Group has applied the following exemptions. All other available exemptions were not applicable to the IRI Group.

(b) Business combinations

IFRS 3, "Business Combinations" has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures, that occurred before 1 January 2014. Use of this exemption means that the US GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, are their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS balance sheet. IMRI did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements. IFRS 1 also requires that the US GAAP carrying amount of goodwill must be used in the opening IFRS balance sheet (apart from adjustments for goodwill impairment and recognition or de-recognition of intangible assets). In accordance with IFRS 1, the IRI Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2014.

(c) Exemption from deemed cost

The IRI Group has applied the deemed cost exemption.

(d) Exemption for Leases

The IRI Group has applied the transitional provision in IFRIC 4, "Determining whether an Arrangement Contains a Lease" and has assessed all arrangements based upon the conditions in place as at the date of transition.

1.4 **Mandatory exceptions to full retrospective application applied by IMRI**

(a) Estimates

Estimates under IFRS at 1 January 2014 and 31 December 2014, 2015 and 2016 were consistent with estimates made as at the same dates under US GAAP. There is no evidence that those estimates were made in error.

(b) Derecognition of financial assets and financial liabilities

Financial assets and financial liabilities derecognised before 1 January 2014 were not re-recognised under IFRS. The application of this exception had no significant impact on these financial statements.

(c) Hedge Accounting

At the transition date, the IRI Group has no hedge relationship designated as hedge accounting under US GAAP. The application of this exception had no impact on these financial statements.

(d) Non-controlling interests

At the transition date, all combined subsidiaries were wholly owned by the IRI Group, therefore the application of this exception had no impact on this historical financial information.

(e) Classification and measurement of financial assets

The IRI Group has elected not to early apply the requirements of IFRS 9, Financial Instruments, therefore the application of this exception had no impact on this historical financial information.

(f) Embedded derivatives

IMRI assessed whether embedded derivatives were required to be separated from the host contracts and accounted for as derivatives on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. Based on the assessment performed no embedded derivatives have been identified

(g) Government Loans

At the transition date, the IRI Group has no government loans outstanding, therefore the application of this exception had no impact on this historical financial information.

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

1.5 **Revenue**

Revenue from the sale of goods is recognised when:

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

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

1.6 **Supplier rebates**

The IRI Group receives income from its suppliers, mainly in the form of volume based rebates and early settlement discounts. They are recognised as a reduction in operating costs in the year to which they relate. At the period end the IRI Group is sometimes required to estimate supplier income due from annual agreements for volume rebates.

1.7 **Government grants**

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

1.8 **Dividends**

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

1.9 **Foreign currency translation**

The combined financial statements are presented in US dollars, which is the IRI Group's presentational currency. Transactions in foreign currencies are translated into the respective functional currencies of IRI Group companies at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in the Combined Income Statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

1.10 **Intangible assets**

(a) Goodwill

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

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

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal recognised in the Combined Income Statement.

(b) Intellectual property

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

(c) Computer software

Computer software that is integral to a related item of hardware is included within property, plant and equipment. All other computer software is treated as an intangible asset.

(d) Customer related

Customer relationships, acquired as part of a business combination, are capitalised separately from goodwill and are carried at cost less accumulated amortisation and impairment.

(e) Other intangible assets

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

(f) Amortisation

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

The estimated useful lives are as follows:

Intellectual property	Up to 15 years
Customer relationships	2 – 7 years

1.11 **Property, plant and equipment and other investments**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

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

The estimated useful lives are as follows:

Freehold and long leasehold properties	31 – 40 years
Plant and equipment, fixtures and fittings (including IT hardware)	3 – 15 years

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

Gains or losses arising on the sale of surplus property assets are recorded through operating profit before exceptional items.

1.12 **Biological assets**

Biological assets consist of standing timber in the IRI Group's forests in the USA. These assets are measured at fair value less cost to sell. Any change in fair value resulting from both net growth and change in the market value of standing timber is presented as part of other income in the income statement. The revenue from the sale of standing timber is presented in the income statement within the revenue.

In valuing biological assets the IRI Group applies the most recent realised prices achieved and multiplied by the estimated volume of standing timber, taking into account the costs and risks relating to sales.

1.13 **Impairment**

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

(a) Calculation of recoverable amount

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

(b) Reversals of impairment

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

1.14 **Derivative financial instruments**

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

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

Gains or losses arising from changes in the fair value of derivatives are taken to the income statement. These arise from derivatives for which hedge accounting is not applied.

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

1.15 **Trade and other receivables**

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

1.16 **Inventories**

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

1.17 **Cash and cash equivalents and restricted cash**

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

1.18 **Borrowings**

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

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

1.19 **Employee benefits**

(a) Defined contribution schemes

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

(b) Defined benefit schemes

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

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

(c) Multi employer schemes

When the IRI Group sponsors employees under multi-employer defined benefit pension plans, contributions to such plans are charged to the income statement. On cessation of such sponsorship, or other exit arrangements, the IRI Group records a charge in respect of the estimated or agreed settlement.

1.20 **Provisions**

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

1.21 **Trade and other payables**

Trade and other payables are stated at their cost.

1.22 **Leases**

(a) Finance leases

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

(b) Operating leases

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

1.23 **Taxation**

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

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

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

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

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

1.24 **Exceptional items**

Items of income or expenditure that are significant by their nature, size or incidence, and for which separate presentation would assist in the understanding of the trading and financial results of the IRI Group, are classified and disclosed as exceptional items.

Such items include business disposals, restructuring and optimisation, acquisition related and integration costs, and impairments.

1.25 **Critical accounting policies and key sources of estimates**

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

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

(a) Pensions and other employee benefits

IAS 19 *Employee Benefits (Revised 2011)* requires the IRI Group to make assumptions including, but not limited to, rates of inflation, discount rates and life expectancies. The use of different assumptions, in any of the above calculations, could have a material effect on the accounting values of the relevant statement of financial position assets and liabilities which could also result in a change to the cost of such liabilities as recognised in profit or loss over time. These assumptions are subject to periodic review. See note 21 for additional information.

(b) Taxation

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

(c) Exceptional items

In applying the exceptional items accounting policy to items of income and expenditure, the IRI Group takes account of the origination and of similar items in prior years to ensure consistency and appropriate presentation

1.26 **IFRS standards and interpretations in issue but not yet effective**

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

International Financial Reporting Standards (IFRS/IAS)		**Effective date—financial year ending**
IAS 7	Disclosure Initiative—Amendments to IAS 7	31 December 2018
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses—Amendments to IAS 12	31 December 2018
IFRS 15	Revenue from Contracts with Customers	31 December 2019
IFRS 9	Financial Instruments	31 December 2019
IFRS 2	Classification and Measurement of Share-based Payment Transactions—Amendments to IFRS 2	31 December 2019
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration	31 December 2019
IFRS 16	Leases	31 December 2020

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and concerns the classification and measurement of financial assets and financial liabilities, the de-recognition of financial instruments and hedge accounting. Full impact assessment will be carried out before implementation, but the anticipated impact on the IRI Group is not expected to be material.

IFRS 15 *Revenue from Contracts with Customers* 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 IRI Group is currently in the process of completing its review of the potential impact of adopting IFRS 15. For many of the IRI 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. Whilst the IRI Group is yet to complete its assessment of the impact of IFRS 15 on other revenue streams of the business and other implications, management's expectations are that the impact will not be material. The necessary processes to capture all of the adjustments and any additional disclosures required under IFRS 15 will be put into place during 2017/18.

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 at the present value of future lease payments for the lease term. Depreciation of right of use assets, and interest on lease liabilities is recognised in profit and loss 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 interest portion (within operating activities) in the cash flow statement. The transition work will be undertaken in 2017/18, although the implementation of IFRS 16 is not expected to have a material impact on the IRI Group.

The IRI Group does not anticipate that the adoption of the remaining standards and interpretations that are effective for the year ending 31 December 2016 will have a material effect on its financial statements.

Of these standards, only IFRS 15 and IFRS 9 have currently been endorsed by the EU.

2. Segment reporting

Operating segments

IFRS 8 *Operating Segments* requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the IRI Group Chief Executive (who is the Chief Operating Decision Maker as defined by IFRS 8). All of the IRI Group's operations are in North America so the entire IRI Group is considered to be part of one segment, North America.

3. Operating profit

Continuing operations	2016 $m	2015 $m	2014 $m
Operating costs			
Cost of sales	**366**	345	334
Other production costs	**96**	93	89
Distribution	**45**	46	44
Administrative expenses	**48**	48	51
	555	532	518

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

Operating profit is stated after charging/(crediting) the following:

Continuing operations	2016 $m	2015 $m	2014 $m
Depreciation—owned assets	**41**	40	36
Release of government grants deferred income	**(2)**	(2)	(2)
Profit on sale of non-current assets	**(2)**	—	—
Hire of plant and machinery	**5**	7	6
Other operating lease rentals	**5**	5	5
Research and development	**1**	1	3

4. Exceptional items

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

Continuing operations	2016 $m	2015 $m	2014 $m
Plant closure	**(1)**	—	—
Settlement costs of multi-employer pension plan liabilities	**—**	4	(3)
Total pre-tax exceptional items (recognised in operating profit)	**(1)**	4	(3)
Changes in redemption value of non-controlling interests	**—**	(1)	(3)
Debt extinguishment costs	**—**	(1)	—
Total exceptional items (recognised in profit before income tax)	**(1)**	2	(6)

Plant Closure

In the year ended 31 December 2016, the Group close its Brunswick facility and transferred the operations to its Reading facility.

Movement in defined pension plan liability

In June 2013, certain IRI Group companies bargained to exit from the Pace Industry Union-Management Pension fund with an effective date of 1 September 2013 and recorded a liability in this regard of $4m. In December 2014, certain IRI Group companies bargained to withdraw from the Pace Industry Union-Management Pension fund immediately. As a result, the Company recorded an additional liability of $2m for its new estimated portion of this multi-employer union pension plan obligation at that date and recorded a charge to that amount. In July 2015, the IRI Group received notice from Pace Industry Union-Management Pension that the actual withdrawal liability for the four subsidiaries was $2m. Consequently the IRI Group reversed the unutilised liability and recognised a gain in income of $4m during 2015.

In April 2014, an IRI Group subsidiary ratified the labour contract to withdraw from Graphic Arts Industry Joint Pension Trust. The IRI Group subsidiary has recorded a liability and corresponding charge of $1m, which is being paid over the twenty year period stipulated per agreement.

Changes in redemption value held by non-controlling interests

The Group acquired an 80% interest in a subsidiary during the year ended 31 December 2008. The acquisition agreement included a put option for the non-controlling interest to sell their remaining 20% interest to the Group at fair value. The non-controlling interest exercised their option to put 15% of their ownership interest on 31 December 2014. The remaining 5% non-controlling interest was put on 31 December 2015. The exceptional charges represent the movement on the fair value of the puts.

Debt extinguishment costs

On 1 December 2015, the Group amended its credit facilities and refinanced its bond obligation. As a result, the Group incurred debt extinguishment losses of $1m.

5. Finance income and costs

Continuing operations	2016	2015	2014
	$m	$m	$m
Interest income from financial assets	**(1)**	—	—
Finance income	**(1)**	—	—

Continuing operations	2016	2015	2014
	$m	$m	$m
Interest on loans and overdrafts	**13**	13	13
Finance costs	**13**	13	13

6. Personnel expenses

Continuing operations	2016	2015	2014
	$m	$m	$m
Wages and salaries	**76**	77	74
Social security costs	**2**	2	4
Contributions to defined contribution pension plans	**7**	2	6
Service costs for defined benefit schemes (note 21)	**(1)**	(1)	(1)
Personnel expenses	**84**	80	83
Average number of employees (thousands)	**2**	2	2

7. Income tax expense

Continuing operations	2016	2015	2014
	$m	$m	$m
Current tax expense			
Federal	**(13)**	(21)	(9)
State	**(1)**	(2)	(2)
	(14)	(23)	(11)
Deferred tax credit			
Federal	**1**	(2)	(5)
State	**(2)**	1	—
	(1)	(1)	(5)
Total income tax expense in the income statement from continuing operations	**(15)**	(24)	(16)

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

	2016	2015	2014
	$m	$m	$m
Profit before income tax	**51**	72	50
Share of loss of equity accounted investments, net of tax	**—**	—	1
Profit before tax and share of loss of equity accounted investments, net of tax	**51**	72	51
Income tax at the domestic corporation tax rate of 35.00% (2015: 35.00%, 2014: 35.00%)	**(18)**	(25)	(18)
Effect of additional state income taxes and credits, net of federal benefit	**(1)**	(1)	(1)
Federal tax credits	**2**	2	4
Uncertain tax provisions	**1**	—	(1)
Domestic manufacturing deductions	**2**	2	—
Other	**(1)**	(1)	—
Income tax expense—total IRI Group	**(15)**	(24)	(16)

8. Intangible assets

	Goodwill	Intellectual property	Customer related	Other	Total
	$m	$m	$m	$m	$m
Cost					
At 1 January 2016 and 31 December 2016	**11**	**1**	**—**	**2**	**14**
Amortisation and impairment					
At 1 January 2016 and 31 December 2016	**—**	**—**	**—**	**1**	**1**
Carrying amount					
At 1 January 2016	11	1	—	1	13
At 31 December 2016	**11**	**1**	**—**	**1**	**13**

	Goodwill	Intellectual property	Customer related	Other	Total
	$m	$m	$m	$m	$m
Cost					
At 1 January 2015	11	1	2	3	17
Disposals	—	—	(2)	(1)	(3)
At 31 December 2015	**11**	**1**	**—**	**2**	**14**
Amortisation and impairment					
At 1 January 2015	—	—	2	2	4
Disposals	—	—	(2)	(1)	(3)
At 31 December 2015	**—**	**—**	**—**	**1**	**1**
Carrying amount					
At 1 January 2015	11	1	—	1	13
At 31 December 2015	**11**	**1**	**—**	**1**	**13**

	Goodwill	Intellectual property	Customer related	Other	Total
	$m	$m	$m	$m	$m
Cost					
At 1 January 2014	10	—	2	3	15
Acquisitions	1	—	—	—	1
Additions	—	1	—	—	1
At 31 December 2014	**11**	**1**	**2**	**3**	**17**
Amortisation and impairment					
At 1 January 2014 and 31 December 2014	**—**	**—**	**2**	**2**	**4**
Carrying amount					
At 1 January 2014	10	—	—	1	11
At 31 December 2014	**11**	**1**	**—**	**1**	**13**

Goodwill

IRI Group has been assessed as one CGU, as it represents the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8 Operating Segments.

Goodwill impairment tests—Key assumptions and methodology

IRI Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill may be impaired. The recoverable amounts of the CGU are determined from value-in-use calculations. No impairment arose in the three years ended 30 April 2016 as the recoverable amount of the CGU, based on value-in-use calculations, exceeded the carrying amount.

The key assumptions in the value-in-use calculations are:

- the cash flow forecasts have been derived from the most recent approved budget for the year ending 31 December 2017 and are based upon past performance, known changes and expectations of current market conditions, taking into account the cyclical nature of the business;
- the sales volume and price assumptions underlying the cash flow forecasts are the Directors' estimates of likely future changes based upon historic performance and the current economic outlooks for the economies in which IRI Group operates. These are viewed as the key operating assumptions as they determine the Directors' approach to margin and cost maintenance;
- the cash flow forecasts for capital expenditure are based upon past experience and include the replacement capital expenditure required to generate the terminal cash flows;
- cash flows beyond the budgeted period (2018 and beyond) have been determined using a long-term growth rate specific to the CGU; and
- the pre-tax adjusted discount rate is derived from the weighted average cost of capital ('WACC') for the Group of 12.0% (2015: 12.0%; 2014 12.0%).

Goodwill impairment tests—Sensitivities

The value-in-use is based upon anticipated discounted future cash flows and results in significant headroom across the CGU.

To support their assertions, the Directors have conducted sensitivity analyses to determine the impact that would result from the above situations. Key sensitivities tested included future growth and discount rates. In these cases, if estimates of future growth were reduced to 0% per annum, or if the estimated discount rates applied to the cash flows were increased by 1%, there would still be significant headroom to support the carrying value of the assets.

Based on this analysis the Directors believe that a reasonably possible change in any of the key assumptions detailed above would not cause the carrying value of CGU groups to exceed their recoverable amounts. Therefore no impairment charge is required against the carrying value of goodwill.

9. Biological assets

Continuing operations	2016	2015	2014
	$m	$m	$m
At 1 January	**11**	8	4
Increase due to purchases	**1**	4	4
Change in fair value less cost to sell	**—**	1	—
Harvested timber transferred to inventories	**(2)**	(2)	—
At 31 December	**10**	11	8
Current	**—**	—	—
Non-current	**10**	11	8
Acres of timberland (thousands)	**18**	16	13

The Group's biological assets comprise holdings of standing timber forests in eastern USA. The holdings are grown to maturity then harvested, mainly for use in the production of kraft linerboard in mills owned by the Group. The forest assets are recognised as separately as biological assets under IAS 41 Agriculture from their associated land assets, which are accounted for under IAS 16 Property, plant and equipment.

Biological assets are held at fair value, less cost to sell. Any change in fair value resulting from both net growth and change in the market value of standing timber is presented as part of other income in the income statement. The revenue from the sale of standing timber is presented in the income statement within the operating profit.

All of the biological assets have been pledged as security against the loan Agriculture South term note during the 3 years ended 31 December 2016 (see note 17).

10. Property, plant and equipment

	Land	Buildings	Machines, equipment and fixtures	Under construction	Capitalised Parts	Total
	$m	$m	$m	$m	$m	$m
Cost						
At 1 January 2016	24	73	671	10	25	803
Additions	2	3	1	27	2	35
Disposals	—	—	(10)	—	—	(10)
Transfers	—	—	20	(20)	—	—
At 31 December 2016	**26**	**76**	**682**	**17**	**27**	**828**
Depreciation and impairment						
At 1 January 2016	—	43	413	—	—	456
Depreciation charge	—	3	39	—	—	42
Disposals	—	—	(10)	—	—	(10)
At 31 December 2016	**—**	**46**	**442**	**—**	**—**	**488**
Carrying amount						
At 1 January 2016	24	30	258	10	25	347
At 31 December 2016	**26**	**30**	**240**	**17**	**27**	**340**

	Land	Buildings	Machines, equipment and fixtures	Under construction	Capitalised Parts	Total
	$m	$m	$m	$m	$m	$m
Cost						
At 1 January 2015	21	72	642	10	23	768
Additions	3	1	24	8	2	38
Disposals	—	—	(3)	—	—	(3)
Transfers	—	—	8	(8)	—	—
At 31 December 2015	**24**	**73**	**671**	**10**	**25**	**803**
Depreciation and impairment						
At 1 January 2015	—	41	378	—	—	419
Depreciation charge	—	2	38	—	—	40
Disposals	—	—	(3)	—	—	(3)
At 31 December 2015	**—**	**43**	**413**	**—**	**—**	**456**
Carrying amount						
At 1 January 2015	21	31	264	10	23	349
At 31 December 2015	**24**	**30**	**258**	**10**	**25**	**347**

	Land	Buildings	Machines, equipment and fixtures	Under construction	Capitalised Parts	Total
	$m	$m	$m	$m	$m	$m
Cost						
At 1 January 2014	16	71	587	5	22	701
Additions	5	1	57	6	1	70
Disposals	—	—	(3)	—	—	(3)
Transfers	—	—	1	(1)	—	—
At 31 December 2014	**21**	**72**	**642**	**10**	**23**	**768**
Depreciation and impairment						
At 1 January 2014	—	39	347	—	—	386
Depreciation charge	—	2	34	—	—	36
Disposals	—	—	(3)	—	—	(3)
At 31 December 2014	**—**	**41**	**378**	**—**	**—**	**419**
Carrying amount						
At 1 January 2014	16	32	240	5	22	315
At 31 December 2014	**21**	**31**	**264**	**10**	**23**	**349**

The amounts above include land and buildings held under finance lease agreements. At 31 December 2016, the carrying amount of property, plant and equipment held under finance leases was $nil (31 December 2015: $1m, 31 December 2014 $1m). Assets under construction mainly relate to production machines being built for various sites across the IRI Group.

11. Equity accounted investments

	2016	2015	2014
	$m	$m	$m
At 1 January	**7**	7	6
New investment in associate	**1**	—	—
Share of profit of associate	**—**	1	2
Cash distributions received	**(1)**	(1)	(1)
At 31 December	**7**	7	7

Principal equity accounted investments

	Nature of business	Principal country of operation	Ownership interest 2016	2015	2014
Philcorr, LLC	Packaging	USA	20%	20%	20%
Philcorr Vineland, LLC	Packaging	USA	20%	20%	20%
The Display Connection, Inc	Point of sale display	USA	48%	—	—

Philcorr, LLC and Philcorr Vineland, LLC

The Group has a 20% interest in Philcorr, LLC and Philcorr Vineland, LLC. No cash contributions were made during 2016, 2015 or 2014. The Group is accounting for its investments in Philcorr, LLC and Philcorr Vinelands, LLC under the equity method of accounting because the Group has the ability to exercise significant influence over the investment due to the Group's holdings. The Group recognised $5m of goodwill upon acquisition of its share in the associate and continues to carry the goodwill at the same value per the date of initial recognition.

The Group increased its holding to 40% on 3 January 2017. See note 27 for further information.

The Display Connection, Inc (DCI)

On October 28, 2016, the Group purchased common stock of DCI for a 48% interest. The Company paid $1m, which equals the carrying value of the investment in DCI. The Group is accounting for its investment in DCI under the equity method of accounting because the Group has the ability to exercise significant influence over the investment due to the Group's holdings.

Summary of financial information of associates

The following items are an aggregate of the financial statements of the IRI Group's main associates on a 100% basis.

	2016 $m	2015 $m	2014 $m
Assets	**21**	17	19
Liabilities	**(13)**	(8)	(9)
Revenue	**78**	70	70
Profit after tax	**8**	8	8

12. Inventories

	2016 $m	2015 $m	2014 $m
Raw materials and consumables	**20**	20	17
Work in progress	**2**	1	2
Finished goods	**21**	22	21
	43	43	40

Inventory provisions at 31 December 2016 were $1m (2015: $nil, 2014: $nil). There were no inventory write-offs in the year (2015: $1m, 2014: $1m).

13. Trade and other receivables

	2016		2015		2014	
	Non-current $m	Current $m	Non-current $m	Current $m	Non-current $m	Current $m
Trade receivables	**—**	**64**	—	60	—	52
Prepayments and other receivables	**42**	**4**	50	9	10	6
	42	**68**	50	69	10	58

Trade receivables	Net carrying amount	Of which neither impaired nor past due	Of which past due but not impaired: 1 month or less	1 – 2 months	2 – 3 months	More than 3 months
	$m	$m	$m	$m	$m	$m
At 31 December 2016	**64**	**55**	**6**	**2**	**—**	**1**
At 31 December 2015	60	51	6	1	2	—
At 31 December 2014	52	45	5	1	1	—

The non-current prepayments and other receivables balances in 2016 and 2015 are mostly made up of a receivable from a related entity. Refer to note 26 for further information.

Concentrations of credit risk with respect to trade receivables are limited due to the IRI Group's customer base being large and diverse. Management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

14. Trade and other payables

	2016		2015		2014	
	Non-current	Current	Non-current	Current	Non-current	Current
	$m	$m	$m	$m	$m	$m
Trade payables	**—**	**(20)**	—	(20)	—	(18)
Non-trade payables and accrued expenses	**(4)**	**(25)**	(3)	(29)	(3)	(41)
	(4)	**(45)**	(3)	(49)	(3)	(59)

15. Net debt

	2016	2015	2014
	$m	$m	$m
Non-current liabilities	**(217)**	(247)	(227)
Current liabilities	**—**	—	(3)
Derivative financial instruments	**(1)**	(2)	(2)
Net cash and cash equivalents	**14**	7	4
Net debt	**(204)**	(242)	(228)

The movement in net debt is as follows:

	At 1 January 2016	Continuing operations cash flow	At 31 December 2016
	$m	$m	$m
Cash and cash equivalents	16	9	**25**
Overdrafts	(9)	(2)	**(11)**
Net cash and cash equivalents	7	7	**14**
Interest-bearing loans and borrowings due—after one year	(247)	30	**(217)**
Derivative financial instruments	(2)	1	**(1)**
	(249)	31	**(218)**
Net debt	(242)	38	**(204)**

	At 1 January 2015	Continuing operations cash flow	At 31 December 2015
	$m	$m	$m
Cash and cash equivalents	12	4	**16**
Overdrafts	(8)	(1)	**(9)**
Net cash and cash equivalents	4	3	**7**
Interest-bearing loans and borrowings due—within one year	(3)	3	**—**
Interest-bearing loans and borrowings due—after one year	(227)	(20)	**(247)**
Derivative financial instruments	(2)	—	**(2)**
	(232)	(17)	**(249)**
Net debt	(228)	(14)	**(242)**

16. Cash and Cash Equivalents

	2016	2015	2014
	$m	$m	$m
Bank balances	**25**	16	12
Bank overdrafts	**(11)**	(9)	(8)
Net cash and cash equivalents	**14**	7	4

17. Interest-bearing loans and borrowings

	2016			2015			2014		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Bank and other loans[1]	**—**			—	(30)	(30)	(3)	(20)	(23)
Medium-term notes and other fixed-term debt:									
Pennsylvania Economic Development Fund Authority bond[2]	**—**	**—**	**—**	—	—	—	—	(60)	(60)
Berks County Industrial Development Authority term loan[3]	**—**	**(60)**	**(60)**	—	(60)	(60)	—	—	—
Agriculture South term note[4]	**—**	**(10)**	**(10)**	—	(10)	(10)	—	—	—
Merhill term note[5]	**—**	**(147)**	**(147)**	—	(147)	(147)	—	(147)	(147)
	—	**(217)**	**(217)**	—	(247)	(247)	(3)	(227)	(230)

Notes:

(1) Drawings under a short-term bank revolving credit facility and other bank loans.

(2) $75m bond with the Pennsylvania Economic Development Fund Authority ("PEDFA bond"), issued in December 2007 with a maturity of December 2037, to finance the construction of a bio-mass boiler as an energy producing complex in Reading, Pennsylvania. Floating-rate which is re-determined weekly. IRI Group voluntarily redeemed $15m of the bonds in March 2014. Refinanced in December 2015.

(3) Term loan used to refinance the PEDFA bond, issued December 2015 with a maturity of December 2037. Floating-rate interest paid quarterly, determined by bank rates and the Group's debt to capitalisation ratio.

(4) Term note issued October 2016 with a maturity of November 2020. Floating-rate interest of 1.5% plus 30-day LIBOR.

(5) Note payable to an associated entity. Maturity December 2021 with fixed interest at 8% p.a.

Borrowings are unsecured, except for the Agriculture South term note which is secured against timber biological assets held by the Group. All borrowings are measured at amortised cost.

There have been no breaches of covenants during the years ended 31 December 2016, 2015 or 2014 in relation to the above loans and borrowings.

Of the total borrowing facilities available to the IRI Group, the undrawn committed facilities available at 31 December were as follows:

	2016	2015	2014
	$m	$m	$m
Expiring between two and five years	**147**	117	137

The repayment profile of the IRI Group's borrowings, after taking into account the effect of cross-currency and interest rate swaps, is as follows:

	2016				
	1 year or less	1 – 2 years	2 – 5 years	More than 5 years	Total
	$m	$m	$m	$m	$m
Interest-bearing loans and borrowings					
Fixed-rate	—	—	(147)	(30)	(177)
Floating-rate	—	—	(10)	(30)	(40)
Total interest-bearing loans and borrowings	—	—	(157)	(60)	(217)
Net cash and cash equivalents (including bank overdrafts)					14
Net borrowings at 31 December 2016					(203)

	2015				
	1 year or less	1 – 2 years	2 – 5 years	More than 5 years	Total
	$m	$m	$m	$m	$m
Interest-bearing loans and borrowings					
Fixed-rate	—	—	—	(177)	(177)
Floating-rate	—	—	(40)	(30)	(70)
Total interest-bearing loans and borrowings	—	—	(40)	(207)	(247)
Net cash and cash equivalents (including bank overdrafts)					7
Net borrowings at 31 December 2015					(240)

	2014				
	1 year or less	1 – 2 years	2 – 5 years	More than 5 years	Total
	$m	$m	$m	$m	$m
Interest-bearing loans and borrowings					
Fixed-rate	—	—	—	(177)	(177)
Floating-rate	(3)	—	(20)	(30)	(53)
Total interest-bearing loans and borrowings	(3)	—	(20)	(207)	(230)
Net cash and cash equivalents (including bank overdrafts)					4
Net borrowings at 31 December 2014					(226)

18. Financial instruments

The IRI Group's activities expose the IRI Group to a number of key risks which have the potential to affect its ability to achieve its business objectives.

The derivative financial instruments set out in this note have been entered into in line with the IRI Group's risk management objectives. The IRI Group's treasury policy prohibits entering into speculative transactions.

(a) Carrying amounts and fair values of financial assets and liabilities

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

	2016		2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	$m	$m	$m	$m	$m	$m
Financial assets						
Cash and cash equivalents	**25**	**25**	16	16	12	12
Available for sale—other investments	**1**	**1**	1	1	1	1
Total financial assets	**26**	**26**	17	17	13	13
Financial liabilities						
Trade and other payables	**(45)**	**(45)**	(49)	(49)	(59)	(59)
Bank and other loans	**(60)**	**(60)**	(90)	(90)	(83)	(83)
Medium-term notes and other fixed-term debt	**(157)**	**(216)**	(157)	(208)	(147)	(189)
Bank overdrafts	**(11)**	**(11)**	(9)	(9)	(8)	(8)
Derivative financial instruments	**(1)**	**(1)**	(2)	(2)	(2)	(2)
Total financial liabilities	**(274)**	**(333)**	(307)	(358)	(299)	(341)

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 IRI 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 Combined Statement of Financial Position.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, only the portions of the note purchase agreements which form part of an effective fair value hedge are carried at fair value in the Combined Statement of Financial Position. The IRI Group does not have any effective cash flow or net investment hedges.

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 IRI Group's financial instruments are Level 2 financial instruments in accordance with the fair value hierarchy, where inputs are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(b) Derivative financial instruments

The IRI Group enters into derivative financial instruments, primarily interest rate, foreign exchange and commodity contracts, to manage the risks associated with the IRI Group's underlying business activities and the financing of these activities. Derivatives designated as effective hedging instruments are carried at their fair value.

The assets and liabilities of the IRI Group at 31 December in respect of derivative financial instruments are as follows:

	Assets			Liabilities			Net		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Derivatives held to:									
Manage the interest rate and currency exposures on business activities, borrowings and net investments	**—**	—	—	**(1)**	(2)	(2)	**(1)**	(2)	(2)
Total derivative financial instruments	**—**	—	—	**(1)**	(2)	(2)	**(1)**	(2)	(2)
Current	**—**	—	—	**—**	—	—	**—**	—	—
Non-current	**—**	—	—	**(1)**	(2)	(2)	**(1)**	(2)	(2)
	—	—	—	**(1)**	(2)	(2)	**(1)**	(2)	(2)

(c) Risk identification and risk management

(i) Capital management

The IRI Group defines its managed capital as equity, as presented in the Combined Statement of Financial Position, and net debt (see note 15).

	2016	2015	2014
	$m	$m	$m
Net debt	**204**	242	228
Total equity	**191**	154	105
Managed capital	**395**	396	333

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of a change in market prices. The IRI Group is exposed to changes in interest rates, foreign currency exchange rates and commodity prices.

Interest rate risk

The Group is exposed to interest rate risk as borrowings are arranged both at fixed interest rates (exposing it to fair value risk) and floating interest rates (exposing it to future cash flow risk). The risk of future cash flows is managed by use of interest rate swap contracts which modify the interest payable on the Group's underlying debt instruments. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

At 31 December 2016, 68% of the Group's interest-bearing loans and borrowings were at fixed rates of interest (31 December 2015: 59%, 31 December 2014: 64%). The sensitivity analysis below shows the impact on profit and total equity of a 100 basis points rise in market interest rates (representing management's assessment of the reasonably possible change in interest rates) in all currencies in which the Group had variable-rate borrowings at 31 December 2016.

To calculate the impact on the income statement for the year, the interest rates on all variable-rate external interest-bearing loans and cash deposits have been increased by 100 basis points, and the resulting increase in the net interest charge has been adjusted for the effect of the IRI Group's interest rate derivatives. Changes in the carrying value of derivative financial instruments only affect the IRI Group's income statement.

The results are presented before non-controlling interests and tax.

	2016		2015		2014	
	Impact on profit	Impact on total equity	Impact on profit	Impact on total equity	Impact on profit	Impact on total equity
	$m	$m	$m	$m	$m	$m
Increase in market interest rates by 100 basis points	**(1)**	**—**	(1)	—	(1)	—

Under interest rate swap contracts, the IRI Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts.

(iii) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due, causing financial loss to the IRI Group. In the current economic environment, the IRI Group has placed increased emphasis on the management of credit risk. The carrying amount of financial assets at 31 December 2016 was $26m and is analysed in note 18(A). This represents the maximum credit risk exposure.

Credit risk on financial instruments held with financial institutions is assessed and managed by reference to the long-term credit ratings assigned to that counterparty by Standard & Poor's and Moody's credit rating agencies. There are no significant concentrations of credit risk.

See note 13 for information on credit risk with respect to trade receivables.

(iv) Liquidity risk

Liquidity risk is the risk that the IRI Group, although solvent, will have difficulty in meeting its obligations associated with its financial liabilities as they fall due.

The IRI Group manages its liquidity risk by maintaining a sufficient level of undrawn committed borrowing facilities. At 31 December 2016, the IRI Group had $147m of undrawn committed borrowing facilities (31 December 2015: $117m, 31 December 2014: $137m). The IRI Group mitigates its refinancing risk by raising its debt requirements from a number of different sources with a range of maturities.

The following table is an analysis of the undiscounted contractual maturities of financial liabilities (including the effect of interest rate swaps).

At 31 December 2016		**Contractual repayments**		
	Total	**1 year or less**	**1 – 5 years**	**More than 5 years**
	$m	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Trade and other payables	**(45)**	**(45)**	**—**	**—**
Bank and other loans	**(60)**	**—**	**—**	**(60)**
Medium-term notes and other fixed-term debt	**(157)**	**—**	**(157)**	**—**
Bank overdrafts	**(11)**	**(11)**	**—**	**—**
Total non-derivative financial liabilities	**(273)**	**(56)**	**(157)**	**(60)**

At 31 December 2015		**Contractual repayments**		
	Total	**1 year or less**	**1 – 5 years**	**More than 5 years**
	$m	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Trade and other payables	(49)	(49)	—	—
Bank and other loans	(90)	—	(30)	(60)
Medium-term notes and other fixed-term debt	(157)	—	(10)	(147)
Bank overdrafts	(9)	(9)	—	—
Total non-derivative financial liabilities	(305)	(58)	(40)	(207)

At 31 December 2014		**Contractual repayments**		
	Total	**1 year or less**	**1 – 5 years**	**More than 5 years**
	$m	**$m**	**$m**	**$m**
Non-derivative financial liabilities				
Trade and other payables	(59)	(59)	—	—
Bank and other loans	(83)	(3)	(20)	(60)
Medium-term notes and other fixed-term debt	(147)	—	—	(147)
Bank overdrafts	(8)	(8)	—	—
Total non-derivative financial liabilities	(297)	(70)	(20)	(207)

Refer to note 24 for an analysis of the IRI Group's future operating lease payments and to note 25 for a summary of the IRI Group's capital commitments.

19. Deferred tax assets and liabilities

Analysis of movements in recognised deferred tax assets and liabilities during the year

	Property, plant and equipment			**Accruals**			**Other**			**Total**		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
At 1 January	**(71)**	(69)	(65)	**7**	8	7	**8**	7	5	**(56)**	(54)	(53)
Credit/(charge) for the year	**2**	(2)	(4)	**—**	(1)	1	**(4)**	1	2	**(2)**	(2)	(1)
At 31 December	**(69)**	(71)	(69)	**7**	7	8	**4**	8	7	**(58)**	(56)	(54)

At 31 December 2016, deferred tax assets and liabilities were recognised for all taxable temporary differences:

- except where the deferred tax liability arises on goodwill;
- except on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of temporary differences can be controlled by the IRI Group and it is probable that temporary differences will not reverse in the foreseeable future.Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are offset where the IRI Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016	2015	2014
	$m	$m	$m
Deferred tax liabilities	**(72)**	(73)	(75)
Deferred tax assets	**14**	17	21
Net deferred tax	**(58)**	(56)	(54)

20. Capital and reserves

Share capital

	Number of shares					
	2016	2015	2014	2016	2015	2014
				$m	$m	$m
Issued, allotted, called up and fully paid	**1,000**	1,000	1,000	**—**	—	—

All shares in the Group have a par value of nil.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of IRI Group. In respect of IRI Group's shares that are held by the IRI Group, all rights are suspended until those shares are reissued.

21. Employee benefits

	Total		
	2016	2015	2014
	$m	$m	$m
Balance sheet			
Present value of post-retirement obligations	**(38)**	(41)	(43)
Fair value of plan assets			
Fixed income	**5**	6	6
International equity	**4**	4	5
Domestic equity	**17**	17	19
Cash and cash equivalents	**6**	2	1
	32	29	31
Net post-retirement plan deficit	**(6)**	(12)	(12)
Other employee benefit liabilities	**(2)**	(2)	(10)
Total employee benefit liabilities	**(8)**	(14)	(22)
Related deferred tax asset	**3**	6	8
Net employee benefit liabilities	**(5)**	(8)	(14)

Employee benefit schemes

At 31 December 2016, the Group operated a number of employee benefit arrangements for the benefit of its employees. The plans are provided through both defined benefit and defined contribution arrangements and their legal status and control vary depending on the conditions and practices in the countries concerned.

Pension scheme trustees and representatives of the Group work with those managing the employee benefit arrangements to monitor the effects on the arrangements of changes in financial markets and the impact of uncertainty in assumption, and to develop strategies that could mitigate the risks to which these employee benefit schemes expose the Group.

Multi employee schemes

In February 2012, the Group did not renew the union agreement with Teamsters relating to their trucking operations. As a result, the Company became liable for its portion of the multi-employer Teamsters Union pension plan obligation. At this time, the Company recorded a liability of $2m which is being paid over the twenty year period stipulated per the contract. The outstanding liability at 31 December 2016 is $1m (2015: $2m; 2014: $2m).

In June 2013, the group bargained to exit from the Pace Industry Union-Management Pension fund with an effective date of September 1, 2013. At this time, the Company recorded a liability of $4m for its portion of this multi-employer union pension plan obligation. In December 2014, the Group bargained to withdraw from the Pace Industry Union-Management Pension fund immediately. As a result, the Company recorded an additional liability of $2m for its portion of this multi-employer union pension plan obligation. In July 2015, the Company received notice from Pace Industry Union-Management Pension that actual withdrawal liability for the four subsidiaries was $2m; consequently the Company reversed $4m of the liability and recognized the gain in income during 2015. In July 2015, the Company paid the outstanding liability of $2m.

In April 2014, the Group ratified the labour contract to withdraw from Graphic Arts Industry Joint Pension Trust. At this time, the Company recorded a liability of $1m which is being paid over the twenty year period stipulated per agreement. The outstanding liability at 31 December 2016 is $1m (2015: $1m; 2014: $1m).

Movements in the liability for employee benefit plans' obligations recognised in the Combined Statement of Financial Position

	2016	2015	2014
	$m	$m	$m
Schemes' liabilities at 1 January	**(43)**	(53)	(42)
Interest cost	**(2)**	(2)	(2)
Service cost recognised in the Combined Income Statement	**(1)**	(1)	(1)
Settlement/curtailment	**7**	4	3
Actuarial gains/(losses)	**(1)**	1	(8)
Reversal of liability upon settlement	**—**	4	—
Other	**—**	4	(3)
Schemes' liabilities at 31 December	**(40)**	(43)	(53)

Movements in the fair value of employee benefit plans' assets recognised in the Combined Statement of Financial Position

	2016	2015	2014
	$m	$m	$m
Schemes' assets at 1 January	**29**	31	27
Employer contributions	**6**	2	6
Investment income	**2**	(1)	2
Benefits paid to participants	**(5)**	(3)	(4)
Schemes' assets at 31 December	**32**	29	31

Durations and expected payment profile

The following table provides information on the distribution of the timing of expected benefit payments for the IRI Group scheme:

At 31 December 2016	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 5 years
	$m	$m	$m	$m	$m
Projected benefit payments	**1**	**3**	**3**	**3**	**18**

The weighted average duration for the IRI Group scheme is 6 years.

The IRI Group made agreed contributions of $7m to the IRI Group schemes in 2016 (2015: $2m, 2014: $6m). A charge over certain assets of the IRI Group has been made as security for certain unfunded arrangements.

The IRI Group's current best estimate is that no contributions are expected to be made to the IRI Group scheme in the year ending 31 December 2017.

Significant actuarial assumptions

Principal actuarial assumptions for the IRI Group scheme are as follows:

	2016	2015	2014
Discount rate for scheme liabilities	4.1%	4.4%	4.2%
Inflation	2.8%	2.8%	3.3%
Pre-retirement pension increases	2.8%	3.3%	3.8%

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with the relevant standard mortality tables. For the Group Scheme at 31 December 2016, the mortality base table used was RP-2014 using Scale MP-2016. At 31 December 2015 the mortality base table used was RP-2014 using Scale MP-2015. As part of the Group Scheme actuarial valuation exercise the projected life expectancies were as follows:

	2016		2015		2014	
	Male	Female	Male	Female	Male	Female
Life expectancy at age 65						
Member currently aged 65	**21.7**	**24.0**	21.7	24.0	21.6	23.8
Member currently aged 45	**25.1**	**27.7**	25.2	27.7	24.8	27.4

Sensitivity analysis

The sensitivity of the liabilities in the IRI Group scheme to each significant actuarial assumption is summarised in the following table, showing the impact on the defined benefit obligation if each assumption is altered by the amount specified in isolation, whilst assuming that all other variables remain the same. In practice, this approach is not necessarily realistic since some assumptions are related. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability, the measurement of which depends on a number of factors including the fair value of plan assets.

	Increase in pension liability
	$m
0.5% decrease in discount rate	**(1)**
0.5% increase in inflation	**(1)**

Expense recognised in the Combined Income Statement

	Total		
	2016	2015	2014
	$m	$m	$m
Service cost	**(1)**	(1)	(1)
Net interest cost on net pension liability	**(2)**	(2)	(2)
Other	**(2)**	(1)	—
Total expense recognised in the Combined Income Statement	**(5)**	(4)	(3)

Items recognised in other comprehensive income/(expense)

	Total		
	2016	2015	2014
	$m	$m	$m
Remeasurement of defined benefit obligation	**(1)**	1	(8)
Return on plan assets excluding amounts included in employment benefit net finance expense	**2**	(1)	2
Total gains/(losses) recognised in other comprehensive income/(expense)	**1**	—	(6)

22. Cash generated from operations

Continuing operations	2016	2015	2014
	$m	$m	$m
Profit for the year	**36**	49	36
Adjustments for:			
Pre-tax exceptional items	**1**	(2)	6
Release of government grants	**(2)**	(2)	(2)
Cash flow for exceptional items	**(1)**	2	(6)
Depreciation	**41**	40	36
Profit on sale of non-current assets	**(2)**	—	—
Share of gain of equity accounted investments, net of tax	**—**	—	1
Finance income	**(1)**	—	—
Finance costs	**13**	11	10
Other non-cash items (including other deposits)	**(2)**	18	5
Income tax expense	**15**	24	16
Change in employee benefits	**(6)**	(8)	(8)
Cash generation before working capital movement	**92**	132	94
Changes in:			
Inventories	**—**	(3)	8
Trade and other receivables	**1**	(11)	(1)
Trade and other payables	**(4)**	(10)	(5)
Working capital movement	**(3)**	(24)	2
Cash generated from continuing operations	**89**	108	96

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

	2016	2015	2014
	$m	$m	$m
Continuing operations			
Operating profit before amortisation and exceptional items	**64**	82	67
Depreciation	**41**	40	36
Adjusted EBITDA	**105**	122	103
Working capital movement	**(3)**	(24)	2
Change in employee benefits	**(6)**	(8)	(8)
Change in other receivables	**8**	(2)	(4)
Other	**(9)**	(8)	13
Cash generated from operations before exceptional cash items	**95**	80	106
Capital expenditure	**(34)**	(34)	(60)
Proceeds from sale of property, plant and equipment and other investments	**3**	—	—
Tax paid	**(12)**	(10)	(21)
Net interest paid	**(13)**	(15)	(14)
Free cash flow	**39**	21	11
Cash flow for exceptional items	**(1)**	2	(6)
Related party funding	**(1)**	(38)	—
Acquisition of subsidiary businesses, net of cash and cash equivalents	**—**	—	(12)
Distributions received from equity accounted entities	**1**	1	1
Net debt movement—continuing operations	**38**	(14)	(6)
Opening net debt	**(242)**	228	(222)
Closing net debt	**(204)**	(242)	(228)

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016	2015	2014
	$m	$m	$m
Less than one year	**5**	6	4
Between one and five years	**9**	11	9
More than five years	**2**	4	4
	16	21	17

Operating lease payments represent rentals payable by the IRI Group for certain of its properties, machines, vehicles and office equipment.

25. Capital commitments and contingencies

At 31 December 2016, the IRI Group had committed to incur capital expenditure of $14m (31 December 2015: $4m, 31 December 2014: $2m).

The IRI Group is not subject to a material litigation, but has a number of contingent liabilities that arise in the ordinary course of business on behalf of trading subsidiaries including, inter alia, intellectual property disputes and regulatory enquiries in areas such as health and safety, environmental, and anti-trust. No losses are anticipated to arise on these contingent liabilities.

As a result of previous acquisitions, various contingent liabilities were identified and included within provisions, as required by IFRS 3 *Business Combinations*. Whilst it is difficult to reasonably estimate the ultimate outcome of these claims, the Directors' best estimate is that no losses are anticipated to arise on these contingent liabilities.

26. Related parties

Identity of related parties

In the normal course of business the IRI Group undertakes a wide variety of transactions with certain of its subsidiaries and equity accounted investments.

The key management personnel of IRI Group comprise the President, Chief Financial Officer, Corporate Vice President of Human Resources and the Group Financial Controller. The compensation of key management personnel for the year ended 31 December 2016 was $3m (year ended 31 December 2015: $3m; year ended 31 December 2014: $3m).

Other related party transactions

The IRI Group purchases corrugated sheets from Philcorr in which the Group holds a 20% interest. These purchases amounted to $6m in the year ended 31 December 2016 (year ended 31 December 2015: $4m; year ended 31 December 2014: $6m). Outstanding payables at 31 December 2016 were nil (2015: nil; 2014: nil). The Group sells linerboard and recycled corrugating medium inventory to Philcorr. These sales amounted to $16m in the year ended 31 December 2016 (year ended 31 December 2015: $16m; year ended 31 December 2014: $17m). Outstanding receivables at 31 December 2016 were nil (2015: nil; 2014: nil).

The IRI Group sells paper from its mills to ISC, a wholly owned subsidiary of the IRI Group which has been excluded from these combined financial statements. During the year ended 31 December 2016 sales to ISC were $2m (year ended 31 December 2015: $nil; year ended 31 December 2014: $nil). The IRI Group financed the acquisition of ISC in September 2015 on behalf of a related entity. The outstanding receivable in relation to this is held in non-current prepayments and other receivables. At 31 December 2016 the outstanding receivable was $38m (2015: $38m; $2014: $nil). The IRI Group provides working capital funding to ISC. At 31 December 2016 the amount receivable from ISC was $10m (2015: $10m; 2014: $nil).

On January 1, 2015, IRI Group approved a $15m line of credit for use by Indevco Plastics, Inc., an affiliate of IMRI that is not being acquired by the Buyer (as defined below) pursuant to the transaction described in the Circular. The credit facility matures December 31, 2019 and interest is payable monthly at a fixed rate of 5%.The outstanding balance at 31 December 2016 was $1m (31 December 2015: $10m) and is recorded within other receivables on the combined balance sheet. Interest income related to this line of credit was $1m for the year ended 31 December 2016 (year ended 31 December 2015: nil). In October 2016, the Company provided a corporate guarantee to support a related party, Indevco Plastics, Inc., obtain bank financing to support its operations. The guarantee will remain in effect for the five-year term of the credit facilities ending October 25, 2021, and provides the bank with security up to the $20 million of credit availability in the event of default.

On October 28, 2016, IRI Group approved a $4m line of credit for use by DCI, in which IRI Group holds a 48% interest. The credit facility matures April 30, 2017 and interest is payable monthly at an interest rate of prime (as reported by The Wall Street Journal's bank survey) plus 50 basis points. The outstanding balance was $3m at December 31, 2016, and is recorded within others receivables on the combined balance sheet.

In December 2013 IRI Group received $147m of funding through a term note payable from Merloan Ltd, a related entity through shared ownership. The principle outstanding at 31 December 2016 is $147m (2015: $147m; 2014: $147m). Interest costs are recorded with finance costs on the combined income statement at totalled $12m for the year ended 31 December 2016 (year ended 31 December 2015: $12m; year ended 31 December 2014: $12m).

27. Subsequent Events

On January 3, 2017, IRI Group entered into an Interest Purchase Agreement with owners of RFC Container, LLC and CEMT Holdings Group, LLC to acquire a 100% interest in both entities for a purchase price of $35m less working capital changes from November 15, 2016 versus the closing date. CEMT Holdings Group, LLC owns a 20% interest in Philcorr, LLC and Philcorr Vineland, LLC increasing the Company's ownership interest of these two partnerships to 40%. IRI Group is in process of allocating the purchase price to net assets acquired at the time the combined financial statements were issued. Management estimates the acquisition will contribute $5m to profit before income tax.

On 29 June 2017, DS Smith announced that it, along with its wholly-owned U.S. subsidiary, DS Smith Holdings, Inc. (together with DS Smith, the **Buyer**) had entered into a conditional agreement to acquire 80 per cent of the total issued share capital of IMRI. The Acquisition Agreement provides for initial consideration of $920m. Pursuant to the Shareholders' Agreement, on 1 September 2018, 1 September 2019, 1 September 2020 and 1 September 2021, the INDEVCO entity that holds shares in IMRI at the time the Shareholders' Agreement is entered into (**Merpas Newco**) has the option to sell to the Buyer either (a) all of the shares in IMRI then held by Merpas Newco or (b) a number of shares in IMRI held by Merpas Newco representing not less than 10 per cent of the shares in IMRI then issued and outstanding, subject to certain conditions.

28. IRI Group companies

The IRI Group's ultimate parent company is Indevco Management Resources, Inc.

Group companies are grouped by the countries in which they are incorporated or registered. Unless otherwise noted, the undertakings below are wholly owned and combined by the IRI Group and the share capital held comprises ordinary or common shares which are held by IRI Group subsidiaries. Principal companies are identified in bold.

Fully owned subsidiaries
USA
Phoenix Technology Holdings
St. George Timberlands Holdings, Inc.
Interstate Holding, Inc.
Interstate Container Reading, LLC
Interstate Container Lowell, LLC
Interstate Paper, LLC
Newport Timber, LLC
United Corrstack, LLC
Interstate Corrpack, LLC
Interstate Container Columbia, LLC
Interstate Container Brunswick, LLC
Interstate Realty Hialeah, LLC
Interstate Container Fitchburg, LLC
Interstate Container Westminster
RB Lumber Company, LLC
Evergreen Community Power, LLC

Associated Entities
USA
Philcorr, LLC(2)
Philcorr Vineland, LLC(2)
The Display Connections, Inc(3)

Interstate Container Newcastle, LLC
Interstate Specialty Coating LLC(1)
SouthCorr, LLC
PSI Packaging Services
Carolina Graphic Services
Interstate Mechanical Packaging, LLC
Luxembourg
Merhill Holdings S.à r.l.

(1) 94.89% ownership interest
(2) 20.00% ownership interest. Increased to 40.00% on 3 January 2017
(3) 48.00% ownership interest

SECTION B: ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION RELATING TO THE IRI GROUP

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Citigroup Centre
33 Canada Square
London
E14 5LB

J.P. Morgan Securities plc
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7 July 2017

Dear Sirs

Indevco Management Resources, Inc. ("Target" and, with its subsidiaries, the "Target Group")

We report on the financial information for the three years ended 31 December 2014, 31 December 2015 and 31 December 2016 set out in Part 4 of the Class 1 Circular (the "Circular") dated 7 July 2017 relating to the proposed acquisition of 80 per cent. of the total issued share capital of the Target (together with the granting of a put option in respect of the remaining 20% exercisable by INDEVCO GROUP). This financial information has been prepared for inclusion in the Circular on the basis of the accounting policies set out in note 1 to the financial information. This report is required by Listing Rule 13.5.21R and is given for the purpose of complying with those requirements and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have under relevant Listing Rules and other laws and regulations as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with relevant Listing Rules and applicable rules and regulations, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the Circular, a true and fair view of the state of affairs of the Target Group as at 31 December 2014, 2015 and 2016, and of its profits, cash flows and changes in equity for the three years ended 31 December 2016 in accordance with the basis of preparation set out in Note 1 to the financial information and has been prepared in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

Yours faithfully

Deloitte LLP

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PART 5

UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ENLARGED GROUP

SECTION A: UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ENLARGED GROUP

The unaudited pro forma financial information for the Enlarged Group and related notes in this Section A of this Part 5 (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*) have been prepared to illustrate the effect of the Initial Acquisition on the income statement of the DS Smith Group for the 2017 Financial Year as if the Initial Acquisition had taken place on 1 May 2016 and the effect on the net assets of the DS Smith Group as if the Initial Acquisition had occurred on 30 April 2017.

The following unaudited pro forma financial information is based on the consolidated financial information of the DS Smith Group for the 2017 Financial Year and the combined financial information of the IRI Group for the year ended 31 December 2016 and compiled on the basis set out in the notes to the unaudited pro forma financial information. The unaudited pro forma financial information has been prepared in a manner consistent with the accounting policies adopted for the DS Smith Group for the 2017 Financial Year.

The unaudited pro forma financial information, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Enlarged Group's actual financial position or results. The unaudited pro forma financial information of the Group has been prepared in accordance with Annex II to the Prospectus Directive Regulation, as applied by item 13.3.3R of the Listing Rules.

The unaudited pro forma financial information does not constitute financial statements within the meaning of section 434 of the Companies Act 2006.

The unaudited pro forma financial information does not take into account trading of the DS Smith Group and/ or the IRI Group subsequent to 30 April 2017 (in the case of the DS Smith Group) or 31 December 2016 (in the case of the IRI Group).

Investors should read the whole of this Circular and not rely solely on the unaudited financial information in this Part 5 (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*). Deloitte's report on the unaudited pro forma financial information is set out in Section B of this Part 5 (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*).

Unaudited pro forma income statement

Continuing operations	DS Smith Group for the year ended 30 April 2017 (Note 1)	Adjustments: IRI Group for the year ended 31 December 2016 (Note 2)	Adjustments: Acquisition Adjustments (Note 3)	Unaudited pro forma of the Enlarged Group
	£m	£m	£m	£m
Revenue	4,781	456	—	5,237
Operating costs	(4,395)	(410)	(14)	(4,819)
Operating profit before amortisation, acquisitions and disposals	**386**	**46**	**(14)**	**418**
Amortisation of intangible assets, acquisitions and disposals	(70)	—	—	(70)
Operating profit	**316**	**46**	**(14)**	**348**
Finance income	1	1	—	2
Finance costs	(51)	(10)	(5)	(66)
Employment benefit net finance expense	(5)	—	—	(5)
Net financing costs	(55)	(9)	(5)	(69)
Profit after financing costs	**261**	**37**	**(19)**	**279**
Share of profit of equity-accounted investments, net of tax	3	—	—	3
Profit before income tax	**264**	**37**	**(19)**	**282**
Income tax (expense)/credit	(56)	(10)	4	(62)
Profit for the year	**208**	**27**	**(15)**	**220**

Notes:

(1) The financial information of the DS Smith Group has been extracted, without material adjustment, from DS Smith's preliminary results for the 2017 Financial Year, which will be included in the 2017 Annual Report and Accounts when published. The financial information is inclusive of amounts which will be disclosed in the 2017 Annual Report and Accounts as exceptional items.

(2) The financial information of the IRI Group has been extracted, without material adjustment, from the audited historical financial information of the IRI Group for the year ended 31 December 2016 included in Part 4 (*Historical Financial Information relating to the IRI Group*) of this Circular and converted into pounds sterling using the average exchange rate for the year ended 31 December 2016 of $1:£0.7381.

(3) This adjustment includes:

(a) The estimated one-off transaction expenses of £14m which are required by IFRS 3 to be charged to the income statement. One-off transaction costs of £5m relating to the share placing with existing DS Smith equity holders have been netted against equity as required by IAS 32.

(b) A charge of £3m has been recognised in "Finance costs" to reflect the estimated annual interest charges calculated under the effective interest method and payable under the bridging financing entered into to finance part of the Initial Acquisition. This is expected to be an ongoing annual cost.

(c) One-off debt issuance costs of £2m have been amortised to "Finance costs".

(d) Tax impacts of the above, based on an effective tax rate of 22%. Only the £1m tax credit related to the annual interest charge is expected to be an ongoing annual cost.

(4) In preparing the unaudited pro forma income statement of the Enlarged Group, no account has been taken of the trading activity or other transactions of the DS Smith Group since 30 April 2017 and no account has been taken of the trading activity or other transactions of the IRI Group since 31 December 2016.

(5) In preparing the unaudited pro forma income statement of the Enlarged Group, no account has been taken of the amortisation of other intangibles or items subject to fair value acquisition accounting, on the basis that the actual amortisation charges will not be known until completion of the fair value exercise. No adjustment has been made to reflect any synergies that may arise after the acquisition as these are dependent upon future actions of management.

(6) The unaudited pro-forma income statement does not reflect the effect of any fair value adjustments which may be recorded to acquired assets and liabilities. Upon completion of the purchase price allocation, which will be finalised after completion of the acquisition, additional depreciation of property, plant and equipment and amortisation of intangible assets, amongst other things, may be required in the enlarged Group's financial statements.

Unaudited pro forma statement of net assets

	DS Smith Group as at 30 April 2017 (Note 1)	Adjustments: IRI Group as at 31 December 2016 (Note 2)	Adjustments: Transaction Funding (Note 3)	Adjustments: Acquisition Adjustments (Note 4)	Unaudited pro forma of the Enlarged Group
	£m	**£m**	**£m**	**£m**	**£m**
Assets					
Non-current assets					
Goodwill and intangible assets	1,178	10	—	752	1,940
Biological assets	—	8	—	—	8
Property, plant and equipment	1,866	267	—	—	2,133
Equity accounted investments	9	6	—	—	15
Other investments	3	—	—	—	3
Deferred tax assets	79	—	—	—	79
Other receivables	3	33	—	—	36
Derivative financial instruments	19	—	—	—	19
Total non-current assets	**3,157**	**324**	**—**	**752**	**4,233**
Current assets					
Inventories	406	34	—	—	440
Income tax receivable	10	5	—	—	15
Trade and other receivables	766	53	—	—	819
Cash and cash equivalents	139	19	678	(487)	349
Derivative financial instruments	13	—	—	—	13
Assets held for sale	2	—	—	—	2
Total current assets	**1,336**	**111**	**678**	**(487)**	**1,638**
Total assets	**4,493**	**435**	**678**	**265**	**5,871**
Liabilities					
Non-current liabilities					
Interest-bearing loans and borrowings	(1,144)	(170)	—	—	(1,314)
Employee benefits	(181)	(6)	—	—	(187)
Other payables	(14)	(3)	—	—	(17)
Provisions	(5)	—	—	—	(5)
Deferred tax liabilities	(133)	(45)	—	—	(178)
Derivative financial instruments	(11)	(1)	—	—	(12)
Other long term liabilities	—	(16)	—	—	(16)
Put option liability	—	—	—	(180)	(180)
Total non-current liabilities	**(1,488)**	**(241)**	**—**	**(180)**	**(1,909)**
Current liabilities					
Bank overdrafts	(16)	(8)	—	—	(24)
Interest-bearing loans and borrowings	(119)	—	(398)	—	(517)
Employee benefits	—	(1)	—	—	(1)
Trade and other payables	(1,358)	(35)	—	(19)	(1,412)
Income tax liabilities	(120)	—	—	—	(120)
Provisions	(24)	—	—	—	(24)
Derivative financial instruments	(13)	—	—	—	(13)
Total current liabilities	**(1,650)**	**(44)**	**(398)**	**(19)**	**(2,111)**
Total liabilities	**(3,138)**	**(285)**	**(398)**	**(199)**	**(4,020)**
Net assets	**1,355**	**150**	**280**	**66**	**1,851**

Notes:

(1) The financial information of the DS Smith Group has been extracted, without material adjustment, from DS Smith's preliminary results for the 2017 Financial Year, which will be included in the 2017 Annual Report and Accounts when published.

(2) The financial information of the IRI Group has been extracted, without material adjustment, from the audited historical financial information of the IRI Group for the year ended 31 December 2016 included in Part 4 (*Historical Financial Information relating to the IRI Group*) of this Circular and converted into pounds sterling using an exchange rate of $1:£0.7843.

(3) The Initial Acquisition will be financed using a mixture of sources:

	£m
Placing of shares with existing DS Smith equity holders	280
New bridging finance facility	400
Estimated cash raised	680
Debt issuance costs	(2)
Net increase in cash held	678

The £398m increase in interest-bearing liabilities includes the £400m raised from the bridging loan facility less £2m of debt issuance costs which have been netted against the liability. Of this amount, an estimated £387m will be used in the funding of the Initital Acquisition and the remaining amount used to repay existing DS Smith debt facilities.

(4) The consideration on the Initial Acquisition will be payable as a combination of the issuance of ordinary shares in DS Smith and cash. The Initial Acquisition consideration is set out below:

	£m
Consideration shares	235
Cash	487
Initial Acquisition consideration shares and cash	722

The Shareholder's Agreement grants Merpas Newco the option to sell either all of or a parcel of the remaining shares in IMRI held by Merpas Newco at certain dates. This option has been recognised as a liability.

The Initial Acquisition has been accounted for using the acquisition method of accounting. Any excess consideration above the book value of the net assets acquired has been reflected as goodwill. A fair value exercise will be completed post Initial Acquisition, therefore no account has been taken of any fair value adjustments that may arise on the Initial Acquisition and no intangible assets and tax consequences have been valued at this stage. The adjustment to goodwill has been calculated as follows:

	£m
Initial Acquisition consideration shares and cash	722
Put option liability	180
Value assigned to the IRI Group	902
Net assets acquired	(150)
Pro forma goodwill adjustment	752

An adjustment of £19m has been made to "trade and other payables" to reflect a payable for one-off transaction costs. This is made up of £14m of transaction costs and £5m of share placing costs.

(5) In preparing the unaudited pro forma statement of net assets of the Enlarged Group, no account has been taken of the trading activity or other transactions of the DS Smith Group since 30 April 2017 and no account has been taken of the trading activity or other transactions of the IRI Group since 31 December 2016

(6) The table below sets out the net debt of the Enlarged Group as if the acquisition had occurred on 30 April 2017:

	£m
DS Smith Group	(1,092)
IRI Group	(160)
Estimated cash raised	678
Cash consideration on Initial Acquisition	(487)
New bridging finance facility	(398)
	(1,459)

The net debt of the DS Smith Group has been extracted, without material adjustment, from DS Smith's preliminary results for the 2017 Financial Year, which will be included in the 2017 Annual Report and Accounts when published.

The net debt of the IRI Group has been extracted, without material adjustment, from the audited historical financial information of the IRI Group for the year ended 31 December 2016 included in Part 4 (*Historical Financial Information relating to the IRI Group*) of this Circular and converted into pounds sterling using an exchange rate of $1:£0.7843.

Refer to notes 3 and 4 above for details on the net debt created by the transaction funding.

SECTION B: ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE ENLARGED GROUP

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London
NW1 3AX

Citigroup Global Markets Limited
Citigroup Centre
33 Canada Square
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E14 5LB

J.P. Morgan Securities plc
25 Bank Street
London
E14 5JP

7 July 2017

Dear Sirs,

DS Smith Plc (the "Company")

We report on the pro forma financial information (the "**Pro forma financial information**") set out in Part 5 of the Class 1 Circular (the "**Circular**") dated 7 July 2017, which has been prepared on the basis described in the notes thereto, for illustrative purposes only, to provide information about how the proposed acquisition of 80 per cent. of the total issued share capital of Indevco Management Resources, Inc. (together with the granting of a put option in respect of the remaining 20% exercisable by INDEVCO Group) by the Company might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 30 April 2017. This report is required by the Commission Regulation (EC) No 809/2004 (the "**Prospectus Directive Regulation**") as applied by Listing Rule 13.3.3R and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "**Directors**") to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation as applied by Listing Rule 13.3.3R.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Circular.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

Deloitte LLP

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PART 6

ADDITIONAL INFORMATION

1. Responsibility

DS Smith and the DS Smith Directors, whose names appear in paragraph 4 (*Directors*) of this Part 6 (*Additional Information*), accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of DS Smith and the DS Smith Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and registered office

DS Smith was incorporated and registered in England and Wales on 7 July 1978 under the Companies Acts 1948 to 1976 as a private company limited by shares with the name David S. Smith (Packaging) Limited and registered number 01377658. Its name was changed to David S. Smith (Holdings) Limited on 11 August 1978. On 28 June 1982, the Company re-registered as a public company limited by shares with the name David S. Smith (Holdings) Public Limited Company. The Company listed on the London Stock Exchange on 3 March 1986. Its name was subsequently changed to DS Smith Plc on 17 September 2001.

The registered and head office of DS Smith is at 350 Euston Road, London NW1 3AX. Its telephone number is +44 (0)20 7756 1800.

The principal legislation under which DS Smith operates is the Companies Act 2006 and the regulations made under the Companies Act 2006.

3. DS Smith's share capital

3.1 The issued and fully paid share capital of DS Smith as at the Latest Practicable Date was as follows:

Nominal value of Ordinary Shares	Number of Ordinary Shares issued, allotted, called up and fully paid[(1)]	Amount of share capital(£)
Ordinary Shares	1,014,513,015	101,451,301.50

Notes:

(1) The Company does not hold any shares as treasury shares.

3.2 The issued and fully paid share capital of DS Smith immediately following Admission is expected to be as follows:

Nominal value of Ordinary Shares	Number of Ordinary Shares issued, allotted, called up and fully paid[(1)]	Amount of share capital(£)[(1)]
Ordinary Shares of £0.10	1,066,987,171	106,698,717.10

Notes:

(1) Assuming that: (i) all of the Consideration Shares are issued; and (ii) no further Ordinary Shares are issued as a result of the exercise of any options or awards under the Employee Share Plans between the Latest Practicable Date and Admission.

3.3 The Ordinary Shares are admitted to the premium segment of the Official List and traded on the Main Market. The ISIN of the Ordinary Shares is GB0008220112 and the SEDOL number is 0822011. The Ordinary Shares are in registered form and are capable of being held in either certificated or uncertificated form, and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations).

3.4 The Ordinary Shares to be issued as Consideration Shares will be ordinary shares in registered form and may be held in certificated form or in uncertificated form, and title to such Ordinary Shares may be transferred by means of a relevant system (as defined in the CREST Regulations). Where Ordinary Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where Ordinary Shares are held in paperless form, the Company's registrar, Equiniti, will transfer the Ordinary Shares through the CREST system. Where the registered member is resident overseas the Ordinary Shares are transferred through the CREST system to the beneficial owner's CREST appointed partner and from there they can be transferred to the beneficial owner's preferred holding vehicle.

4. Directors

The Directors and their positions as at the date of this Circular are as follows:

Name of Director	Position
Gareth Davis	*(Non-executive Chairman)*
Miles Roberts	*(Group Chief Executive)*
Adrian Marsh	*(Group Finance Director)*
Jonathan Nicholls	*(Senior Independent Director)*
Christopher Britton	*(Independent Non-executive Director)*
Ian Griffiths	*(Independent Non-executive Director)*
Kathleen O'Donovan	*(Independent Non-executive Director)*
Louise Smalley	*(Independent Non-executive Director)*

5. Interests of the Directors

5.1 ***Interests of the Directors in Ordinary Shares***

As at the Latest Practicable Date, except as disclosed in the table below, neither the Directors nor any of their respective immediate families, will have any interests in the share capital of DS Smith which:

(a) are required to be notified to DS Smith pursuant to the Market Abuse Regulation and Chapter 3 of the Disclosure Guidance and Transparency Rules; or

(b) are interests of a connected person (within the meaning of Schedule 11B of FSMA) which would be required to be disclosed under paragraph (a) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director, as at the Latest Practicable Date.

The following table sets out the interests of the Directors as at the Latest Practicable Date and immediately following Admission:

	As at the Latest Practicable Date		Immediately following Admission	
Director	Number of Ordinary Shares	Approximate percentage of issued share capital(1)	Number of Ordinary Shares(2)	Approximate percentage of issued share capital(2)
Gareth Davis	106,900	0.01054	106,900	0.01002
Miles Roberts	1,629,026	0.16057	1,629,026	0.15268
Adrian Marsh	43,504	0.00429	43,504	0.00408
Jonathan Nicholls	109,307	0.01077	109,307	0.01024
Christopher Britton	10,550	0.00104	10,550	0.00099
Ian Griffiths	15,000	0.00148	15,000	0.00141
Kathleen O'Donovan	10,471	0.00103	10,471	0.00098
Louise Smalley	14,615	0.00144	14,615	0.00137

Notes:

(1) On the basis that the total issued share capital of the Company as at the Latest Practicable Date was 1,014,513,015.

(2) On the basis that the total issued share capital of the Company as at the Latest Practicable Date was 1,014,513,015 and assuming that: (i) all of the Consideration Shares are issued; and (ii) no further Ordinary Shares are issued as a result of the exercise of any options or awards under the Employee Share Plans between the Latest Practicable Date and Admission.

Taken together, the combined percentage interest of the Directors in the issued share capital expected to subsist immediately following Admission is approximately 0.18 per cent.

Details of other rights over Ordinary Shares held by the DS Smith Directors as at the Latest Practicable Date are set out below. Those rights are not included in the interests of the DS Smith Directors show in the table above.

5.2 ***Interests of the Directors in Ordinary Shares pursuant to the Employee Share Plans***

The following tables set out details of the options and awards held by the Directors under the Employee Share Plans as at the Latest Practicable Date.

(a) PSP

As at the Latest Practicable Date, participation by Directors in the PSP was as follows:

Director	Award date	Vesting Date[(1)]	Maximum Number of Ordinary Shares under award
Miles Roberts	30 July 2014	30 July 2017	375,700
	24 July 2015	24 July 2018	356,214
	01 July 2016	01 July 2019	415,876
Adrian Marsh	30 July 2014	30 July 2017	186,915
	24 July 2015	24 July 2018	191,107
	01 July 2016	01 July 2019	203,199

Notes:

(1) If performance conditions are met

(2) Dividend equivalents arising over the period between the grant date and the vesting date will be paid in cash or shares.

(b) DSBP

As at the Latest Practicable Date, participation by Directors in the DSBP was as follows:

Director	Award date	Vesting Date	Maximum Number of Ordinary Shares under award
Miles Roberts	30 July 2014	30 July 2017	158,733
	24 July 2015	24 July 2018	156,734
	1 July 2016	1 July 2019	146,018
Adrian Marsh	30 July 2014	30 July 2017	47,383
	24 July 2015	24 July 2018	72,074
	1 July 2016	1 July 2019	68,797

Notes:

(1) Dividend equivalents arising over the period between the grant date and the vesting date will be paid in cash.

(c) SMP

As at the Latest Practicable Date, participation by Directors in the SMP was as follows:

Director	Award date	Vesting Date[(1)]	Maximum Number of Ordinary Shares under award
Miles Roberts	30 July 2014	30 July 2017	238,099
Adrian Marsh	30 July 2014	30 July 2017	71,074

Notes:

(1) If performance conditions are met

(2) Dividend equivalents arising over the period between the grant date and the vesting date will be paid in cash or shares.

(d) Sharesave

As at the Latest Practicable Date, participation by Directors in the Sharesave was as follows:

Director	Award date	Vesting Date	Maximum Number of Ordinary Shares under award
Miles Roberts	1 April 2014	1 April 2017	3,345
	1 April 2017	1 April 2020	2,702
Adrian Marsh	1 April 2014	1 April 2017	3,345
	1 April 2017	1 April 2020	2,702

6. Directors' service contracts and letters of appointment

6.1 Executive Directors

(a) General terms

The following Executive Directors have service agreements with DS Smith as follows:

Director	Position	Date of joining the Group
Miles Roberts	*Group Chief Executive*	4 May 2010
Adrian Marsh	*Group Finance Director*	24 September 2013

Details of the share options and awards held by the Executive Directors are set out in paragraph 5.2 (*Interests of the Directors in Ordinary Shares pursuant to the Employee Share Plans*) of this Part 6 (*Additional Information*).

Each Executive Director is eligible to participate in DS Smith's bonus scheme. The maximum bonus that Miles Roberts is eligible to receive is 200 per cent. of his base salary and the maximum bonus that Adrian Marsh is eligible to receive is 150 per cent. of his base salary. Miles Roberts and Adrian Marsh are each eligible to participate in DS Smith's PSP and will be granted Ordinary Shares with a value equal to up to 225 per cent. and 175 per cent., respectively, of their base salary. Miles Roberts receives an annual pension allowance of 30 per cent. of his base salary and Adrian Marsh receives an annual pension allowance of 20 per cent. of his base salary. Both Executive Directors' service contracts contain provisions to provide them with a car or a car allowance and other benefits such as health insurance (for themselves, their partners and dependent children) and life assurance. In addition to public holidays in England, both Executive Directors are entitled to 25 working days' paid holiday in each holiday year.

(b) Termination provisions

Each Executive Director's service contract can be terminated immediately by the Company for cause, which is defined in the relevant contract, or by either party giving 12 months' notice. Each service contract may also be terminated at any time by the Company by paying a sum in lieu of notice equal to 12 months' basic salary. Miles Roberts may not compete with DS Smith for a six-month period after termination of employment and Adrian Marsh may not compete with DS Smith for a twelve-month period after termination.

6.2 ***Non-Executive Directors***

(a) General terms

The following Non-Executive Directors have agreed terms of appointment with DS Smith as follows:

Director	Position	Date of (re)appointment	Date of expiration of current term in office
Gareth Davis	*Non-executive Chairman*	1 June 2016	31 May 2019
Jonathan Nicholls	*Senior Independent Director*	1 December 2015	30 November 2018
Christopher Britton	*Independent Non-Executive Director*	6 March 2016	5 March 2019
Ian Griffiths	*Independent Non-Executive Director*	23 June 2017	22 June 2020
Kathleen O'Donovan	*Independent Non-Executive Director*	5 December 2015	4 December 2018
Louise Smalley	*Independent Non-Executive Director*	23 June 2017	22 June 2020

Each Non-Executive Director and the Chairman has a letter of appointment. The appointment of a Non-Executive Director or Chairman is for a period of three years. The Non-Executive Directors and the Chairman are required to seek re-election at the Annual General Meeting of DS Smith and any subsequent Annual General Meeting as required by DS Smith's Articles or as the Board resolves. In addition, the Non-Executive Directors and Chairman are entitled to be reimbursed for expenses properly and reasonably incurred arising from the performance of their duties.

Save as disclosed in this Part 6 (*Additional Information*), there are no existing service contracts between any Non-Executive Director and any of DS Smith, its subsidiaries and subsidiary undertakings which provide for benefits upon termination of employment.

(b) Termination provisions

The appointment of each Non-Executive Director or the Chairman may be terminated: (a) immediately if not re-elected at any general meeting; (b) by giving DS Smith not less than one month's written notice; or (c) by resolution of a meeting of the Board giving not less than one month's written notice (such resolution not including the vote of the Non-Executive Director or Chairman to which the notice relates), and in any event a payment may be given in lieu of such notice.

7. Major Shareholders and Other Interests

7.1 Immediately following Admission, Merpas's share of the issued share capital of the Company will be as follows:

	Immediately following Admission	
Shareholder	**Number of Ordinary Shares**	**Approximate percentage of issued share capital[(1)]**
Merpas	52,474,156	4.92

Notes:

(1) On the basis that the total issued share capital of the Company as at the Latest Practicable Date was 1,014,513,015 and assuming that: (i) all of the Consideration Shares are issued; and (ii) no further Ordinary Shares are issued as a result of the exercise of any options or awards under the Employee Share Plans between the Latest Practicable Date and Admission.

7.2 As at the Latest Practicable Date, in so far as it is known to the Company by virtue of the notifications made pursuant to the Companies Act 2006 and/or Chapter 5 of the Disclosure Guidance and Transparency Rules, the name of each person, other than a Director, who, directly or indirectly, is interested in voting rights representing three per cent. or more of the total voting rights in respect of the Company's issued share capital, and the amount of such person's holding, was as follows:

	As at the Latest Practicable Date		Immediately following Admission	
Shareholders	**Number of Ordinary Shares**	**Approximate percentage of issued share capital[(1)]**	**Number of Ordinary Shares**	**Approximate percentage of issued share capital[(2)]**
Standard Life Investment Limited	94,123,364	9.28	94,123,364	8.82
Aviva plc	68,755,811	6.78	68,755,811	6.44
Ameriprise Financial, Inc. and its group	47,955,690	4.73	47,955,690	4.49
Norges Bank	54,386,549	5.36	54,386,549	5.10

Notes:

(1) On the basis that the total issued share capital of the Company as at the Latest Practicable Date was 1,014,513,015.

(2) On the basis that the total issued share capital of the Company as at the Latest Practicable Date was 1,014,513,015 and assuming that: (i) all of the Consideration Shares are issued; and (ii) no further Ordinary Shares are issued as a result of the exercise of any options or awards under the Employee Share Plans between the Latest Practicable Date and Admission.

7.3 Save as disclosed in this paragraph 7 (*Major Shareholders and Other Interests*) this Part 6 (*Additional Information*), the Company is not aware of any holdings of voting rights (within the meaning of Chapter 5 of the Disclosure Guidance and Transparency Rules) by persons which will represent three per cent. or more of the total voting rights in respect of the issued ordinary share capital of the Company as at the Latest Practicable Date.

7.4 All Ordinary Shares (other than treasury shares) have the same voting rights.

8. Related party transactions

Save as disclosed in the financial information relating to related party transactions as set out:

(a) in note 32 in the notes to the 2016 Financial Statements on page 146 of the 2016 Annual Report and Accounts; and

(b) in note 32 in DS Smith's notes to the 2015 Financial Statements on page 127 of the 2015 Annual Report and Accounts, each of which are incorporated by reference into this Circular, for each of the years ended 30 April 2017, 30 April 2016 and 30 April 2015, and during the period between 30 April 2017 and the Latest Practicable Date, the DS Smith Group entered into no transactions with related parties.

9. Material contracts

9.1 *DS Smith*

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) to which DS Smith or any other member of the DS Smith Group is or has been a party: (i) within the two years immediately preceding the date of this Circular which is, or may be, material to DS Smith or the DS Smith Group; or (ii) at any time, which contains any provision under which any member of the DS Smith Group has any obligation or entitlement which is material to the DS Smith Group as at the date of this Circular:

(a) *Acquisition Agreement*

A description of the principal terms and conditions of the Acquisition Agreement is set out in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular.

(b) *Shareholders' Agreement*

A description of the principal terms and conditions of the Shareholders' Agreement is set out in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular.

(c) *Placing Agreement*

On 29 June 2017, the Company, Citi and JPMS entered into the Placing Agreement, pursuant to which the Company appointed Citi and JPMS as joint bookrunners in connection with the Placing. Closing of the Placing and admission of the Placing shares to the Official List and to trading on the Main Market took place on 3 July 2017.

Subject to the terms and conditions of the Placing Agreement, each of Citi and JPMS severally agreed, as agent for the Company, to use its reasonable endeavours to procure placees for such number of new Ordinary Shares as would result in gross proceeds from the Placing of £285 million (before commissions and expenses). In consideration for the services provided by Citi and JPMS under the Placing Agreement, the Company paid Citi and JPMS an aggregate commission of 1.7 per cent. of the gross proceeds from the Placing.

Under the Placing Agreement, the Company gave certain customary (for a transaction of this nature) representations, warranties and undertakings to Citi and JPMS concerning, among other things, the accuracy of the statements of fact in certain public documents, including, but not limited to, the Placing announcement and the Acquisition announcement, and in relation to other matters relating to the DS Smith Group and its business. The Company also gave a customary indemnity to Citi and JPMS, liability in respect of which is unlimited as to time and amount.

The Company undertook that (subject to certain limited exceptions) it would not, for a period of 90 calendar days following the Closing Date, without the prior written consent of Citi and JPMS, directly or indirectly: (i) offer, issue, lend, charge, assign, sell or contract to sell or grant options in respect of or otherwise transfer or dispose of any Ordinary Shares (or any interest in Ordinary Shares) or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares (or any interest in Ordinary Shares); (ii) enter into any swap or other agreement that transfers, in whole or in part, any economic consequences of ownership of the Ordinary Shares; or (iii) make any announcement or other publication of the intention to do any of the foregoing or make any filing with respect thereto.

(d) *Revolving Credit Facilities Agreement*

On 20 May 2014, DS Smith entered into a £800 million revolving credit facility agreement (the **Revolving Credit Facilities Agreement**) with Barclays Bank Plc, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, HSBC Bank Plc, J.P. Morgan Limited, Lloyds Bank Plc, the Royal Bank of Scotland Plc, the Bank of Toyko-Mitsubishi UFJ, Ltd., Credit Lyonnais, ING Bank N.V., London Branch and Natixis as arrangers, Barclays Bank Plc, BNP Paribas, London Branch, Citigroup N.A., London Branch, Commerzbank Aktiengesellschaft, London Branch, HSBC Bank Plc, JPMorgan Chase Bank, N.A., London Branch, Lloyds Bank Plc, the Royal Bank of Scotland Plc, the Bank of Toyko-Mitsubishi UFJ, Ltd., London

Branch, Credit Lyonnais, ING Bank N.V., London Branch and Natixis as original lenders (the **Original Lenders**) and the Royal Bank of Scotland Plc as agent.

The Revolving Credit Facilities Agreement provides for DS Smith to receive multiple loans on a revolving credit basis (the **Loans**) from the Original Lenders, which may be used to refinance existing indebtedness and for general corporate purposes including financing for working capital. Each Loan is available to be drawn until the date falling one week prior to the final maturity date under the Revolving Credit Facilities Agreement (the **Availability Period**). The Loan may be drawn in different currencies (sterling, US dollars, Euros or other optional currencies). DS Smith was initially required to repay the Loans within five years. It had two extension options allowing it to extend this repayment date by one year at a time; the first extension option was utilised but not the second one and, therefore, the final repayment date of the Loans will fall six years after the original date of the Revolving Credit Facilities Agreement.

The Revolving Credit Facilities Agreement includes certain mandatory prepayment events, being (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). DS Smith may also voluntarily prepay the Loans provided it gives five business days' notice and the prepayment is of a minimum of £1,000,000. The Revolving Credit Facilities Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period and that DS Smith can cancel the commitment of a lender which has defaulted.

The Loans are unsecured and are guaranteed by DS Smith. The Revolving Credit Facilities Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Revolving Credit Facilities Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Revolving Credit Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(e) *Unicredit Facility Agreement*

On 20 July 2017, DS Smith Finance B.V. (**Dutchco**) entered into a €150 million facility agreement (the **Unicredit Facility Agreement**) with Unicredit Bank AG as mandated lead arranger, Unicredit Luxembourg S.A. as original lender (the **Original Lender**) and Unicredit Luxembourg S.A. as agent.

The Unicredit Facility Agreement provides for Dutchco to receive one initial loan, and two potential subsequent loans under an accordion facility (together, the **Loans**) from the Original Lender, which may be used for general corporate purposes of the group. The initial Loan was available to be drawn until the date falling one month after the date of the Unicredit Facility Agreement, whilst the subsequent increase Loans are available to be drawn during the period specified in the relevant increase confirmation (together, the **Availability Periods**). The Loans may only be drawn in Euros. Dutchco is required to repay the Loans within five years.

The Unicredit Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). Dutchco may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of €5,000,000. The Unicredit Facility Agreement provides that any undrawn part of the lender's commitments will be automatically cancelled at the end of the relevant Availability Period, and that Dutchco can cancel the commitment of a lender which has defaulted.

The Loan is unsecured and is guaranteed by DS Smith and Dutchco. The Unicredit Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Unicredit Facility Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Unicredit Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(f) *Lloyds Facility Agreement*

On 26 June 2015, DS Smith entered into a £100 million facility agreement (the **Lloyds Facility Agreement**) with Lloyds Bank Plc as original lender (the **Original Lender**), which was subsequently amended in June 2016 and June 2017.

The Lloyds Facility Agreement provides for DS Smith to receive multiple loans (the **Loans**) from the Original Lender, which may be used for general corporate purposes including financing for future acquisitions and working capital. The Loans are available to be drawn until the date falling one week before the final maturity date under the Lloyds Facility Agreement (the **Availability Period**). The Loan may be drawn in different currencies (sterling, US dollars, Euros or other optional currencies). DS Smith is required to repay the Loans by 23 July 2017.

The Lloyds Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). DS Smith may also voluntarily prepay the Loans provided it gives five business days' notice and the prepayment is of a minimum of £1,000,000. The Lloyds Facility Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period.

The Loans are unsecured and are guaranteed by DS Smith. The Lloyds Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Lloyds Facility Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Lloyds Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(g) *Private Shelf Agreement*

On 5 December 2008, DS Smith and DS Smith Finco Limited (**Finco**) entered into a private shelf agreement (the **Private Shelf Agreement**) with Prudential Investment Management, Inc. (**Prudential**), which was subsequently amended on 2 July 2010.

The Private Shelf Agreement provides for DS Smith to and/or Finco to issue senior promissory notes in an aggregate principal amount of $150,000,000 (the **Notes**). The Notes may be issued and sold until the earliest of the date falling four years after the date of the Private Shelf Agreement and the 30th day after the Private Shelf Agreement has been terminated by either Prudential or the Company, each on 30 days' notice.

The Private Shelf Agreement includes a mandatory prepayment event, being a change of control of DS Smith (if a noteholder so requests after a certain period of negotiations). DS Smith or Finco may prepay any Note issued by them at any time in an amount not less than 5% of the aggregate principal amount of all outstanding Notes at that time. The Private Shelf Agreement also allows DS Smith and Finco to prepay the Notes in full on not less than five Business Days' notice as a result of certain tax events. Any issued Notes are required to mature no later than 12 years after their original issue date.

DS Smith and Finco each guarantee the other's Notes and the Private Shelf Agreement contains a mechanic for other members of the group to accede as guarantors. The Private Shelf Agreement contains various conditions to closing including representations and warranties by DS Smith and Finco, and customary affirmative and negative covenants.

The Private Shelf Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(h) *Danske Facilities Agreement*

On 8 December 2016, DS Smith entered into a €60 million bridge facility agreement (the **Danske Facility Agreement**) with Danske Bank A/S, London Branch as original lender (the **Original Lender**).

The Danske Facility Agreement provides for DS Smith to receive one loan (the **Loan**) from the Original Lender, which may be used for general corporate purposes including financing for future acquisitions and working capital. The Loan was available to be drawn until the date falling 90 days after the date of the Danske Facility Agreement (the **Availability Period**). The Loan must be drawn in Euros. DS Smith is initially required to repay the Loan within two years, although it has two extension options allowing it to extend this repayment date, first by one year and then to 20 May 2020.

The Danske Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). DS Smith may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of €1,000,000. The Danske Facility Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period, and that DS Smith can cancel the commitment of a lender which has defaulted.

The Loan is unsecured and is guaranteed by DS Smith. The Danske Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Danske Facility Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Danske Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(i) *Santander Facilities Agreement*

On 27 January 2017, DS Smith entered into a €60 million bridge facility agreement (the **Santander Facility Agreement**) with Abbey National Treasury Services Plc as original lender (the **Original Lender**).

The Santander Facility Agreement provides for DS Smith to receive one loan (the **Loan**) from the Original Lender, which may be used for general corporate purposes including financing for future acquisitions and working capital. The Loan was available to be drawn until the date falling 90 days after the date of the Santander Facility Agreement (the **Availability Period**). The Loan must be drawn in Euros. DS Smith is initially required to repay the Loan within two years, although it has two extension options allowing it to extend this repayment date, first by one year and then to 20 May 2020.

The Santander Facility Agreement includes certain mandatory prepayment events, being: (A) illegality; and (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations). DS Smith may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of €1,000,000. The Santander Facility Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period.

The Loan is unsecured and is guaranteed by DS Smith. The Santander Facility Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The Santander Facility Agreement contains various customary representations, warranties and covenants (including financial covenants).

The Santander Facility Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

(j) *Note Agreement*

On 6 August 2012, DS Smith issued five series of unsecured notes pursuant to a note agreement (the **Note Agreement**), which included US$20,000,000 3.71% Series A Senior Notes due 6 August 2017, US$72,000,000 4.09% Series B Senior Notes due 6 August 2019, US$10,000,000 4.28 Series C Senior Notes due 6 August 2020, US$30,000,000 4.47% Series D Senior Notes due 6 August 2021 and US$268,000,000 4.65% Series E Senior Notes due 6 August 2022 (collectively, the **U.S. Private Placement Notes**). The U.S. Private Placement Notes were issued for general corporate purposes.

The Note Agreement generally contains representations, covenants and events of default which are customary for this type of agreement and includes certain covenants (including financial covenants) and events of default that are generally consistent with its other existing corporate borrowings. In addition, DS Smith may voluntarily prepay the U.S. Private Placement Notes, plus a make-whole payment, at any time, in whole or in part. In the event of a change of control in respect of DS Smith, the U.S. Private Placement Notes may be redeemed at the option of the holders of the U.S. Private Placement Notes. In the event of certain changes affecting taxation, DS Smith may elect to prepay the U.S. Private Placement Notes, subject to certain rights of the affected holders of the U.S. Private Placement Notes.

(k) *Notes issued under Euro Medium Term Note Programme*

On 14 September 2015, DS Smith issued €500,000,000 2.250% Notes (the **MTN Notes**) due 16 September 2022 (the **MTN Notes Maturity Date**) under its €2,500,000,000 euro medium term note programme in respect of which the interest rate payable is subject to adjustment from time to time in the event of a rating change concerning DS Smith's senior unsecured long-term debt. The MTN Notes were issued for general corporate purposes.

The terms and conditions of the MTN Notes contain a negative pledge and events of default which are customary for euro medium term notes. In addition, the MTN Notes may be redeemed prior to the MTN Notes Maturity Date at the option of (i) DS Smith on any day up to but excluding the day that is three months prior to the MTN Notes Maturity Date at a make whole redemption price, (ii) DS Smith on any day during the period from (and including) the day that is three months prior to the MTN Notes Maturity Date at par, or

(iii) any holders of the MTN Notes upon a change of control in respect of DS Smith at par. In the event of certain changes affecting taxation, DS Smith may elect to redeem the MTN Notes at par.

(l) *Notes issued pursuant to Private Shelf Agreement*

On 11 August 2010, DS Smith issued two series of unsecured notes pursuant to a private shelf agreement (the **Shelf Agreement**), which included €59,000,000 4.395% Series A Senior Notes due 13 August 2018 and €59,000,000 4.825% Series B Senior Notes 11 August 2020 (collectively, the **Shelf Facility Notes**). The Shelf Facility Notes were issued for general corporate purposes.

The Shelf Agreement generally contains representations, covenants and events of default which are customary for this type of agreement and includes certain covenants (including financial covenants) and events of default that are generally consistent with its other existing corporate borrowings. In addition, DS Smith may voluntarily prepay the Shelf Facility Notes, plus a make-whole payment, at any time, in whole or in part. In the event of a change of control in respect of DS Smith, the Shelf Facility Notes may be redeemed at the option of the holders of the Shelf Facility Notes. In the event of certain changes affecting taxation, DS Smith may elect to prepay the Shelf Facility Notes, subject to certain rights of the affected holders of the Shelf Facility Notes.

(m) *New Debt Facilities Agreement*

On 28 June 2017, DS Smith entered into a £400 million bridge facility agreement (the **New Debt Facilities Agreement**) with Citi and JPMS as bookrunners and mandated lead arrangers (the **Arrangers**), Citibank N.A., London Branch and JPMorgan Chase Bank, N.A., London Branch as original lenders (the **Original Lenders**) and Citibank Europe Plc, UK Branch as agent (the **Facility Agent**).

The New Debt Facilities Agreement provides for DS Smith to receive one loan (the **Loan**) from the Original Lenders, which may be used to finance the Initial Acquisition and pay related costs and expenses, and for general corporate purposes including financing for working capital. The Loan is available to be drawn until the date falling six months after the date of the New Debt Facilities Agreement (the **Availability Period**). The Loan may be drawn in different currencies (sterling, US dollars or Euros).

DS Smith is initially required to repay the Loan within one year, although it has four extension options allowing it to extend this repayment date by six months at a time (meaning that the final repayment date could be extended to fall three years after the original date of the date of the New Debt Facilities Agreement).

The New Debt Facilities Agreement includes certain mandatory prepayment events, being (A) illegality; (B) a change of control of DS Smith (if a lender so requests after a certain period of negotiations); and (C) a capital markets issue with a maturity greater than one year by a member of the DS Smith Group to an entity outside that group. DS Smith may also voluntarily prepay the Loan provided it gives five business days' notice and the prepayment is of a minimum of £1,000,000. The New Debt Facilities Agreement provides that any undrawn part of the lenders' commitments will be automatically cancelled at the end of the Availability Period, and that DS Smith can cancel the commitment of a lender which has defaulted.

The Loan is unsecured and is guaranteed by DS Smith. The New Debt Facilities Agreement contains a mechanic for other members of the DS Smith Group to accede as guarantors. The New Debt Facilities Agreement contains various customary representations, warranties and covenants (including financial covenants).

The New Debt Facilities Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

9.2 *IRI Group*

The following is a summary of each contract (not being a contract entered into in the ordinary course of business) to which IMRI or any other member of the IRI Group is or has been a party: (i) within the two years immediately preceding the date of this Circular which is, or may be, material to IMRI or the IRI Group; or (ii) at any time, which contains any provision under which any member of the IRI Group has any obligation or entitlement which is material to the IRI Group as at the date of this Circular:

(a) *Acquisition Agreement*

A description of the principal terms and conditions of the Acquisition Agreement is set out in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular.

(b) *Shareholders' Agreement*

A description of the principal terms and conditions of the Shareholders' Agreement is set out in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular.

(c) *RFC Container acquisition agreement*

On 3 January 2017, Interstate Holding, Inc. (**Interstate Holding**) entered into an interest purchase agreement with various sellers to acquire 100 per cent. of the membership interests in CEMT Holdings Group, LLC (**CEMT**) and, directly and through CEMT, 100 per cent. of the membership interests in RFC Container, LLC (**RFC**) for $35 million in cash, subject to certain post-completion adjustments. RFC is a manufacturer of corrugated containers. RFC also indirectly holds a 20 per cent. membership interest in PhilCorr L.L.C. (an entity in which Interstate Holding holds, directly and indirectly, a 40 per cent. membership interest), through its subsidiary Corrugated Supply, L.P.

10. Dividends

On 29 June 2017, the DS Smith Board recommended the payment of a final dividend of 10.6 pence per Ordinary Share to Shareholders. In respect of the 2017 Financial Year, the Company has already paid an interim dividend of 4.6 pence per Ordinary Share on 2 May 2017. Therefore, the total dividend to be paid to Shareholders in respect of the 2017 Financial Year will be made at the rate of 15.2 pence per Ordinary Share (assuming the Shareholders approve the final dividend of 10.6 pence per Ordinary Share, as recommended by the DS Smith Board).

In respect of the 2016 Financial Year, the Company paid a final dividend of 8.8 pence per Ordinary Share to Shareholders on 1 November 2016 and an interim dividend of 4.0 pence per Ordinary Share on 3 May 2016. Therefore, the total dividend paid to Shareholders in respect of the 2016 Financial Year was made at the rate of 12.8 pence per Ordinary Share.

In respect of the 2015 Financial Year, the Company paid a final dividend of 7.7 pence per Ordinary Share to Shareholders on 2 November 2015 and an interim dividend of 3.7 pence per Ordinary Share on 1 May 2015. Therefore, the total dividend paid to Shareholders in respect of the 2015 Financial Year was made at the rate of 11.4 pence per Ordinary Share.

Following Completion, DS Smith intends to maintain the same dividend policy.

11. Working Capital

DS Smith is of the opinion that, taking into account the net proceeds of the Placing and the New Debt Facilities, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the 12 months following the date of this Circular.

12. Litigation

12.1 *DS Smith Group*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the previous 12 months preceding the date of this Circular which may have, or have had, a significant effect on the Company's and/or the DS Smith Group's financial position or profitability.

12.2 *IRI Group*

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering at least the previous 12 months preceding the date of this Circular which may have, or have had, a significant effect on IMRI and/or the IRI Group's financial position or profitability.

13. No Significant Change

13.1 DS Smith Group

Save for the Placing which closed on 3 July 2017 and raised net proceeds of approximately £280 million, there has been no significant change in the trading or financial position of the DS Smith Group since 30 April 2017, being the date to which the latest audited consolidated financial statements of the DS Smith Group were prepared.

13.2 IRI Group

There has been no significant change in the trading or financial position of the IRI Group since 31 December 2016, the date to which the historical financial information of the IRI Group, as set out in Part 4 (*Historical Financial Information relating to the IRI Group*) of this Circular, was prepared.

14. Consents

Each of Citi and JPM has given and not withdrawn its written consent to the inclusion in this Circular of references to its name in the form and context in which they appear.

Deloitte has given, and not withdrawn, its written consent to the inclusion in this Circular of its reports in Section B of Part 4 (*Historical Financial Information relating to the IRI Group*) and in Section B of Part 5 (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*), in the form and context in which they appear.

15. Incorporation by reference

The following documents, which have been approved, filed with or notified to the FCA, and which are available for inspection in accordance with paragraph 16 (*Documents on display*) of this Part 6 (*Additional Information*), contain information about the DS Smith Group which is relevant to this Circular:

- 2016 Annual Report and Accounts; and
- 2015 Annual Report and Accounts.

The table below sets out the sections of these documents which are incorporated by reference in, and form part of, this Circular, and only the parts of the documents identified in the table below are incorporated by reference in, and form part of, this Circular. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Circular. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Circular.

Except as indicated below, information contained on the Company's website or the contents of any website accessible from hyperlinks on the Company's website are not incorporated into and do not form part of this Circular.

Reference document	Information incorporated by reference into this Circular	Page number(s) in reference document
2016 Annual Report and Accounts . . .	Note 32 to DS Smith's financial statements for the 2016 Financial Year	146
2015 Annual Report and Accounts . . .	Note 32 to DS Smith's financial statements for the 2015 Financial Year	127

16. Documents on display

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD up to and including the date of the General Meeting and for the duration of the General Meeting:

(a) the articles of association of DS Smith;

(b) the accountant's report from Deloitte set out in Section B of Part 4 (*Historical Financial Information relating to the IRI Group*) of this Circular;

(c) the accountant's report from Deloitte set out in Section B of Part 5 (*Unaudited Pro Forma Financial Information relating to the Enlarged Group*) of this Circular;

(d) the audited financial statements of the DS Smith Group for the periods ended 30 April 2016 and 30 April 2015;

(e) the written consents referred to in paragraph 14 (*Consents*) of this Part 6 (*Additional Information*);

(f) the Acquisition Agreement;

(g) the Shareholders' Agreement; and

(h) this Circular and the Form of Proxy.

PART 7

DEFINITIONS AND GLOSSARY

The following expressions have the following meanings throughout this Circular, unless the context otherwise requires:

2015 Annual Report and Accounts	DS Smith's annual report and accounts in respect of the 2015 Financial Year;
2015 Financial Year	DS Smith's financial year ended 30 April 2015;
2016 Annual Report and Accounts	DS Smith's annual report and accounts in respect of the 2016 Financial Year;
2016 Financial Year	DS Smith's financial year ended 30 April 2016;
2017 Annual Report and Accounts	DS Smith's annual report and accounts in respect of the 2017 Financial Year;
2017 Financial Year	DS Smith's financial year ended 30 April 2017;
Acquisition	the Initial Acquisition or the Initial Acquisition together with any Further Acquisition, as the context requires;
Acquisition Agreement	the agreement entered into among DS Smith, DS Smith Holdings, Merpas and IMRI on 28 June 2017, setting out the terms and conditions of the Initial Acquisition, as described in more detail in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular;
Admission	the proposed admission of the Consideration Shares by the UKLA to listing on the premium segment of the Official List and by the London Stock Exchange to trading on the Main Market;
business day	a day (excluding Saturdays, Sundays and public holidays in England and Wales) on which banks are generally open for business in London;
Buyer	DS Smith and/or DS Smith Holdings, as the context requires;
CAGR	compound annual growth rate;
CCM	corrugated case material;
certificated	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in certificated form (that is, not in CREST);
Citi	Citigroup Global Markets Limited;
Closing Price	the closing middle market price of a relevant share as derived from SEDOL on any particular day;
Companies Act 2006	the Companies Act 2006, as amended;
Completion	completion of the Initial Acquisition;
Consideration Shares	the 52,474,156 new Ordinary Shares proposed to be issued by the Company to Merpas with an aggregate value of US$300 million (approximately £235 million based on a rate of £1 to US$1.2750), pursuant to the Acquisition Agreement;

CREST or **CREST system**	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear is the operator as defined in the CREST Regulations);
CREST Manual	the rules governing the operation of CREST as published by Euroclear;
CREST Proxy Instruction	has the meaning ascribed to it in paragraph 15 (*Action to be taken*) of Part 1 (*Letter from the Chairman*) of this Circular;
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001 No. 01/378), as amended;
Deloitte	Deloitte LLP;
Disclosure Guidance and Transparency Rules	the rules made by the FCA under Part VI of FSMA relating to the disclosure of information (as amended from time to time);
DS Smith or the **Company**	DS Smith Plc, a company incorporated in England and Wales with registered number 1377658 and having its registered office at 350 Euston Road, London, NW1 3AX;
DS Smith Board or **Board**	the board of Directors of DS Smith;
DS Smith Directors or **Directors**	the directors of the Company, whose names appear on page 5 of this Circular, or, as the context requires, the directors from time to time of the Company, and **Director** shall be construed accordingly;
DS Smith Group or the **Group**	DS Smith and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them;
DS Smith Holdings	DS Smith Holdings, Inc., a Delaware corporation with File No. 6454346 and having its registered office at Corporation Trust Center, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801;
DSBP	the Company's Deferred Share Bonus Plan;
EBITDA	earnings before interest, tax, depreciation and amortisation;
Employee Share Plans	the PSP, DSBP, SMP, LTIP, Sharesave, International Sharesave and US ESPP;
Enlarged Group	the DS Smith Group and the IRI Group together following Completion or the DS Smith Group if the Initial Acquisition is not completed, as the context requires;
Equiniti	Equiniti Limited;
Euroclear	Euroclear UK and Ireland Limited;
Executive Directors	the Directors who hold the position of executive director, and each an **Executive Director**;
FCA	the Financial Conduct Authority of the United Kingdom;
FMCG	fast moving consumer goods;
Form of Proxy	the form of proxy for use at the General Meeting;
FSMA	the Financial Services and Markets Act 2000, as amended from time to time;
Further Acquisition	any further acquisition, or series of acquisitions, by DS Smith, DS Smith Holdings or any other subsidiary of DS Smith of some or all

	of the remaining shares of common stock in the capital of IMRI, directly or indirectly, pursuant to the terms of and subject to the conditions of Shareholders' Agreement;
GAAP	Generally Accepted Accounting Principles in the United States;
General Meeting	the general meeting of the Company to be held at 2.00 p.m. on 25 July 2017 at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD to approve the Resolution, the notice of which is contained in Part 8 (*Notice of General Meeting*) of this Circular;
HSR Act	the U.S. Hart-Scott-Rodino Improvements Act of 1976, as amended;
IFRS	the International Financial Reporting Standards, as adopted by the European Union;
IMRI	Indevco Management Resources, Inc., a Delaware corporation with File No. 5073953 and having its registered office at 1679 South DuPont HWY, Suite 100, Dover, Delaware 19901;
IMRI Board	the board of directors from time to time of IMRI;
IMRI Group	IMRI and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them;
Initial Acquisition	the proposed acquisition by DS Smith and DS Smith Holdings of the Initial Interest from Merpas;
Initial Interest	80 per cent. of the total issued share capital of IMRI;
International Sharesave	the Company's International Sharesave Plan;
IRI Group	IMRI and its subsidiaries and subsidiary undertakings from time to time and, where the context requires, each one of them;
Joint Sponsors	Citi and JPMS;
JPM	JPMS and JPML, as the context requires (each of which conducts its UK investment banking activities under the marketing name J.P. Morgan Cazenove);
JPML	J.P. Morgan Limited;
JPMS	J.P. Morgan Securities plc;
Latest Practicable Date	5 July 2017 (being the latest practicable date before publication of this Circular);
Listing Rules	the Listing Rules made by the FCA under Part VI of FSMA (as amended from time to time);
London Stock Exchange	London Stock Exchange plc;
LTIP	the Company's Long Term Incentive Plan;
Main Market	the London Stock Exchange's main market for listed securities;
MAR or **Market Abuse Regulation**	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse;

Merpas	Merpas Co. S.à r.l., a Luxembourg private limited liability company (*société à responsabilité limitée*), having its registered office at 33, boulevard du Prince Henri, L-1724 Luxembourg, Grand-Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register under number B 167.050;
Merpas NewCo	an entity within the INDEVCO group that will hold shares in IMRI at the time of Completion;
New Debt Facilities	the £400 million bridge facility provided to DS Smith pursuant to the New Debt Facilities Agreement, which may be used to finance the Initial Acquisition and pay related costs and expenses, and for general corporate purposes;
New Debt Facilities Agreement	the agreement entered into by DS Smith, Citi and JPMS as bookrunners and mandated lead arrangers, Citibank N.A., London Branch and JPMorgan Chase Bank, N.A., London Branch as original lenders and Citibank Europe Plc, UK Branch as agent on 28 June 2017 in relation to the New Debt Facilities;
Non-Executive Directors	the Directors who hold the position of Chairman of the DS Smith Board or non-executive director, and each a **non-Executive Director**;
Notice of General Meeting	the notice of the General Meeting contained in Part 8 (*Notice of General Meeting*) of this Circular;
OCC	old corrugated cases;
Official List	the official list of the FCA;
Ordinary Shares	the ordinary shares of 10 pence each in the capital of DS Smith;
Placing	the placing of 62,637,363 new Ordinary Shares by the Company that raised approximately £280 million (net of commissions and expenses) to fund part of the cash portion of the consideration for the Initial Acquisition, the results of which were announced by the Company on 29 June 2017;
Placing Agreement	the conditional agreement among the Company, Citi and JPMS dated 29 June 2017, a summary of which is contained in paragraph 9.1(c) of Part 6 (*Additional Information*) of this Circular;
PRA	the Prudential Regulation Authority of the United Kingdom;
Prospectus Directive Regulation	the Commission Regulation (EC) No. 809/2004;
PSP	the Company's Performance Share Plan;
Registrar	Equiniti, or any other registrar appointed by the Company from time to time;
Regulatory Information Service	one of the regulatory information services authorised by the UKLA to receive, process and disseminate regulatory information from listed companies;
Resolution	the resolution to be proposed at the General Meeting and set out in the Notice of General Meeting;
Restricted Territories	any jurisdiction where the extension and availability of this Circular would breach any applicable law, and each a **Restricted Territory**;
SEDOL	the London Stock Exchange Daily Official List of share identifiers;

Shareholder	a holder of Ordinary Shares from time to time;
Shareholders' Agreement	the agreement to be entered into between DS Smith, DS Smith Holdings, IMRI and Merpas NewCo on Completion relating to IMRI, as described in more detail in Part 3 (*Principal Terms and Conditions of the Acquisition Agreement and the Shareholders' Agreement*) of this Circular;
Sharesave	the Company's Sharesave Plan;
SMP	the Company's Share Matching Plan;
UKLA	the UK Listing Authority;
uncertificated or in **uncertificated form**	in relation to a share or other security, a share or other security, title to which is recorded in the relevant register of the share or other security concerned as being held in uncertificated form (that is, in CREST) and title to which may be transferred by using CREST;
United Kingdom or **UK**	the United Kingdom of Great Britain and Northern Ireland;
United States or **US** or **USA**	the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia; and
US ESPP	the Company's US Stock Purchase Plan.

PART 8

NOTICE OF GENERAL MEETING

DS Smith Plc (the Company)

(Incorporated and registered in England and Wales with registered number 1377658)

NOTICE OF GENERAL MEETING

NOTICE IS GIVEN that a general meeting of DS Smith Plc (the **Company**) will be held at 2.00 p.m. on 25 July 2017 (UK time) at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD for the purpose of considering and, if thought fit, passing the following resolution. The Resolution will be proposed as an ordinary resolution.

Ordinary Resolution

THAT the proposed acquisition by the Company and its wholly-owned U.S. subsidiary, DS Smith Holdings, Inc. (**DS Smith Holdings**) of 80 per cent. of the shares of common stock in the capital of Indevco Management Resources, Inc. (**IMRI**) pursuant to the terms and subject to the conditions contained in the stock purchase agreement between the Company, DS Smith Holdings, Merpas Co. S.à r.l. and IMRI dated 28 June 2017 and any subsequent acquisition by the Company, DS Smith Holdings or any other subsidiary of the Company of shares of common stock in the capital of IMRI, directly or indirectly, pursuant to the terms and subject to the conditions contained in the shareholders' agreement to be entered into between the Company, DS Smith Holdings, IMRI and the entity within the INDEVCO group that will hold shares in IMRI at the time such agreement is entered into (such acquisitions together, the **Acquisition**) be and is approved, and the board of directors of the Company (or any duly constituted committee of the board of directors) (the **Board**) be and is authorised to take all such steps as may be necessary, expedient or desirable in relation to the Acquisition and to carry the same into effect with such modifications, variations, revisions or amendments (provided such modifications, variations or amendments are not of a material nature) as the Board may in its absolute discretion deem necessary, expedient or desirable.

By order of the Board

Iain Simm
Company Secretary

7 July 2017

Registered No: 1377658
Registered office: 350 Euston Road, London, NW1 3AX

NOTES TO THE NOTICE OF GENERAL MEETING

NOTES

1. Only those persons registered in the register of members of the Company as at 6.30 p.m. on 21 July 2017 (or, in the case of an adjournment, on the date which is 48 hours before the time of the adjourned meeting, excluding for this purpose any part of a day which is not a working day) shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their names at that time.

2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at the Meeting. A member may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company.

3. A proxy may be appointed by any of the following methods:

   (a) completing and returning the enclosed Form of Proxy; or

   (b) logging onto the website of the Company's registrars, Equiniti Limited (the **Registrars**), at www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number printed on the Form of Proxy enclosed. Members who have already registered with the Registrars' online portfolio service Shareview can submit a proxy by logging into their profile at www.shareview.co.uk and clicking on the link to vote; or

   (c) members of CREST should use the CREST electronic appointment service (see Note 7 below).

   If two or more valid but differing appointments of a proxy are received in respect of the same share for use at the same meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the Company is unable to determine which was received last, none of them shall be treated as valid in respect of that share. To be effective, Forms of Proxy and powers of attorney or other authority, if any, under which they are signed or a notarially certified or office copy of such power or authority must reach the Registrars at the address shown on the Form of Proxy, and the Registrars must receive any electronic appointment of proxy, not later than 48 hours before the time of the Meeting. Completion and return of the Form or appointing a proxy electronically will not, however, prevent a Member from attending and voting at the Meeting instead of the proxy. A Member must inform the Registrars in writing of any termination of the authority of a proxy.

4. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a **Nominated Person**) may, under an agreement between them and the member by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights.

5. The statement of the rights of members in relation to the appointment of proxies in Notes 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.

6. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (including any adjournment(s) of the Meeting) by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 2.00 p.m. on 21 July 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. The CREST Manual can be reviewed at www.euroclear.com.

8. As at 5 July 2017 (being the latest practicable date prior to publication of this Circular), the Company's issued share capital consisted of 1,014,513,015 ordinary shares, carrying one vote each. No shares were held in treasury. Therefore, the total voting rights in the Company as at 5 July 2017 are 1,014,513,015.

9. A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the Meeting. In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares.

10. Any member attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

11. A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found on the Investors page on our website www.dssmith.com.

12. You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Merrill Corporation Ltd, London
17-16028-1