2 July 2020

# DS SMITH PLC – 2019/20 FULL YEAR RESULTS

## RESILIENT PERFORMANCE, ROBUST BUSINESS MODEL

| 12 months to 30 April 2020<br>Continuing operations | | Change<br>(reported) | Change<br>(constant currency) |
|---|---|---|---|
| Revenue | £6,043m | (2%) | (2%) |
| Adjusted operating profit(1) | £660m | +5% | +4% |
| Profit before tax | £368m | +5% | +5% |
| Adjusted basic EPS(1) | 33.2p | (0%) | (1%) |
| Basic EPS | 21.2p | +8% | +7% |
| Basic EPS (including discontinued operations) | 38.5p | 87% | 85% |
| Return on sales(4) | 10.9% | +70bps | +60bps |
| ROACE(5) | 10.6% | (300bps) | (260bps) |

See notes to financial table below

- Strong financial performance and position, growing market share
- Strong European performance
- US domestic performance offset by continued weak export paper pricing
- Successful integration of Europac and disposal of Plastics division
- Covid-19:
    - Relatively limited Covid-19 impact in March and April, FY 2019/20
    - Short-term impact due to lower volumes and cost increases in FY 2020/21
- Strong ESG performance
- Well positioned for the future, despite economic uncertainty

**Miles Roberts, Group Chief Executive, commented:**
"We have made good strategic and financial progress in the year, with the disposal of our Plastics division reinforcing our focus on sustainable fibre-based packaging and our strong commercial focus driving record margin. Of course, the year ended with the onset of the Covid-19 pandemic and I am extremely proud of our employees and their tremendous support, working with our suppliers and communities to ensure every factory has remained open throughout the pandemic, delivering essential supplies with outstanding levels of service in this extraordinary time.

Our business model is resilient, built on our consistent FMCG and e-commerce customer base. In the short term, however, the impact of Covid-19 on the economies in which we operate is likely to impact volumes to industrial customers and add to operating costs. In particular, infrastructure constraints have driven elevated OCC prices, although we currently expect the impact to be limited to H1. With the current economic uncertainty, we continue to focus on our employees, our customers, our communities and on the efficiency and cash generation of our business and accordingly the Board considers it premature to resume dividend payments at this stage.

In the medium-term, the growth drivers of e-commerce and sustainability are as strong as ever. The Covid-19 crisis is also expected to accelerate a number of the structural drivers for corrugated packaging and our scale and innovation led customer offering positions us well and gives us confidence for the future."

**Delivery against our medium-term targets**

| Medium-term targets | Delivery in 2019/20 |
|---|---|
| Organic volume growth(2) at least GDP(3)+1% (+0.4%) | +0.6% |
| Return on sales(4) 10% – 12% | 10.9% |
| ROACE(5) 12% – 15% | 10.6% |
| Net Debt / EBITDA(6) ≤2.0x | 2.1x |
| Operating cash flow/operating profit(7) ≥ 100% | 103% |

See notes to the financial tables, below

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A presentation for investors and analysts will be held today at 9:00am by webcast.

To access the webcast, please register here. A copy of the slides presented will also be available on the Group's website, https://www.dssmith.com/investors/results-and-presentations shortly before the start of the presentation.

If you would like to ask a question at the end of the webcast, then you will need to dial into the associated conference call using the following details. Please dial in 15 minutes before the start of the webcast to allow for registration.

Dial-in number (UK): +44 (0)330 336 9411
Dial-in number (US): +1 929-477-0324
Confirmation code: 9631983

An audio file and transcript will also be available on https://www.dssmith.com/investors/results-and-presentations.

**Notes to the financial tables**

Note 15 explains the use of non-GAAP performance measures. These measures are used both internally and externally to evaluate business performance, as a key constituent of the Group's planning process, they are applied in the Group's financial and debt covenants, as well as establishing the targets against which compensation is determined. Reported results are presented in the Consolidated Income Statement and reconciliations to adjusted results are presented on the face of the Consolidated Income Statement, in note 2, note 7, and note 15.

(1) Before adjusting items (as set out in note 3) and amortisation.
(2) Corrugated box volumes adjusted to reflect a comparable number of working days.
(3) GDP growth (year-on-year) for the countries in which DS Smith operates, weighted by our sales by country, for the period May 2019 – April 2020 = -0.6%. Source: Eurostat (15/5/2020) and Citi Q2 estimate.
(4) Operating profit before amortisation and adjusting items as percentage of revenue.
(5) Operating profit before amortisation and adjusting items as a percentage of the average monthly capital employed over the previous 12 month period. Average capital employed includes property, plant and equipment, right-of-use assets, intangible assets (including goodwill), working capital, provisions, capital debtors/creditors, biological assets and assets/liabilities held for sale.
(6) EBITDA being operating profit before adjusting items, depreciation and amortisation and adjusted for the full year effect of acquisitions and disposals in the period. Net debt is calculated at average exchange rates as opposed to closing rates. Ratio as calculated in accordance with bank covenants. See note 15 on non-GAAP measures for reconciliation.
(7) Free cash flow before tax, net interest, growth capital expenditure, pension payments and adjusting cash flows as a percentage of operating profit before amortisation and adjusting items.

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

A copy of this announcement will be made available at www.dssmith.com. This announcement contains inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. The person responsible for this announcement on behalf of DS Smith Plc is Iain Simm, Group General Counsel and Company Secretary.

**Overview**
In 2019/20 we have continued to progress our core business with good volume growth in our key FMCG and e-commerce businesses, which together comprise c. 83 per cent of our corrugated box volumes. Whilst the onset of the Covid-19 global pandemic has caused widespread disruption and economic uncertainty, our business has demonstrated its resilience and the strategic building blocks of the last 10 years ensured we played a key role in all the countries we serve. Our FMCG and e-commerce focus and the flexibility and commitment of all our employees ensured all our factories remained open during the crisis and we were able to support our customers keeping essential supplies, particularly food, drink and pharmaceutical products, available. Whilst this pandemic has clearly had an impact on the momentum within the business it has provided an opportunity to demonstrate both the strength of our business and the resilience of our business model and drive longer-term opportunities. The performance of the European operations, including the integration of Europac, was once again strong whilst our North American business continued to feel the impact of ongoing weakness in the export paper market despite some significant steps taken in the packaging operations, not least the opening, on time and in budget, of our new box plant in Indiana, US.

Performance for the first 10 months of the financial year was robust, with an impact, albeit relatively limited (c. £15 million), in the final two months of the year from the Covid-19 pandemic. 2019/20 has also seen us complete the disposal of our plastic packaging business (for £436 million), reinforcing our focus on sustainable fibre-based packaging, and begin operations in our new build corrugated packaging plant in Indiana, US – both important strategic steps.

Our corrugated box volumes in the first five months of H2 grew as anticipated, significantly ahead of the first half of the year, ahead of the market, and we have delivered record return on sales margins of 10.9 per cent, in the middle of our recently upgraded target range. On an organic basis, profit growth in Europe of £7 million was more than offset by reduced profit in North America (down £67 million). The business benefited from the acquisition of Europac, for which this has been the first full year of ownership. Europac has performed very well, with synergies (upgraded last year) realised as expected and the packaging operations are now profitable as planned. Europac has been an exceptional scale opportunity to enhance our customer offer in Iberia, a key packaging growth region, and strengthen our global supply platform, in particular with the addition of a strategically important kraftliner mill.

**Covid-19**
Since the start of the Covid-19 pandemic our primary focus has been on the health and wellbeing of our c. 30,000 employees, who have responded magnificently to the challenge. Secondly, we have focused on maintaining an uninterrupted supply to our customers, the majority of whom are FMCG companies which are essential in the food supply chain. As such, our factories have generally been classified as essential operations and I am extremely proud that all our paper and packaging sites have remained operational throughout the pandemic to date. New ways of working have

been implemented to reflect the latest guidance on safe operations and changes in demand, which has obviously led to some additional costs. We also saw a reduction in our overall box volumes during April and May due to weakness in the industrial customer categories when the crisis was at its peak. We estimate the direct impact to operating profit in 2019/20 to be in the region of £15 million. In the new financial year, the recent spike in OCC is expected to have the largest ongoing impact.

In response to the pandemic, and conscious of the likely global recession in the coming months, we have undertaken measures to reinforce our financial position and ongoing performance through conserving cash and managing costs. Capital expenditure will be reduced by c. 20 per cent from last year, all non-essential expenditure deferred and headcount flexed. Additionally we have taken the extremely difficult decision to postpone payment of dividends until we are clearer on the economic outlook. Our balance sheet remains robust, with substantial headroom on our banking facilities (c. £1.4 billion) and no substantial debt refinancing until 2023.

**Strong organic growth momentum**
Organic corrugated box volumes have grown 0.6 per cent across the year, reflecting progressive growth from H1 (+0.7 per cent) into H2 (+1.5 per cent period on period for the four months to 29 February 2020), reducing to 1.0 per cent in March 2020 and a fall in April of 4.5 per cent due to the Covid-19 pandemic. The progression in the first four months of H2 was driven by strong growth from the Europac business in Southern Europe, progress versus H1 in the North America packaging business, and continued good performance in Eastern Europe. Growth once again has been particularly strong from our multinational customers, particularly e-commerce, where we continue to take an increased share of their business.

In the final month of the year, April, corrugated box volumes fell by 4.5 per cent overall relative to the comparable period in the prior year. Whilst FMCG and e-commerce categories continued to grow, the industrial sector fell heavily. On a regional basis our Northern Europe region, the largest of our regions by volume, saw volumes increase by 7 per cent in the month, as the pandemic hit later and we benefited, in particular, from our very strong e-commerce customer base. However, we saw a significant negative impact in Southern Europe where the lockdown was particularly extreme and many of our customers remained closed for a significant time period. Eastern Europe saw an 8 per cent fall in volumes in the month as supply chains were emptied and industry disrupted although it has also been quick to rebound with supply chains filling again towards the end of May and through June. In North America, whilst again all our factories remained open, we have seen much more disruption due to significant variations in activity levels between different customers and different states and the April impact was a fall in packaging volumes of c. 16 per cent. Volume progression in May 2020 (compared to May 2019) showed a similar pattern to that in April. Importantly June has seen an improving trend with many customers re-opening production.

The core market growth drivers of e-commerce, consumer and retail channel evolution and plastic substitution are more relevant than ever in the post-Covid-19 environment. In particular, public awareness of the importance of alternatives to plastic packaging has continued to grow over the past 12 months and we have continued to develop corrugated packaging alternatives to take advantage of this opportunity. Our differentiators of scale, innovation, end-to-end solutions and partnership approach continue to resonate with customers as we help them to increase their sales, reduce their costs and manage their risks.

For the full year, revenue (continuing operations) declined 2 per cent on a constant currency basis. There was a positive contribution from European corrugated box volumes (£22 million) and an incremental c. nine month contribution from Europac (which was acquired in mid January 2019) of £376 million, offset in Europe by reduced pricing of external paper, recyclate and box prices (together down £285 million year on year), and a decline in other volumes particularly due to increased paper and recyclate integration and reduced volumes of corrugated sheet (down £175 million). The reduced sales price across the European operations was driven principally by a fall in testliner and kraftliner pricing, which partly fed through into corrugated packaging pricing progressively through the year as indexed contracts adjusted for the market price of paper, the main input cost. The North America business also recorded a fall in revenue (down £63 million), principally reflecting lower paper prices into the export market.

Operating profit improved 6 per cent (constant currency) to £455 million (2018/19: £427 million). Adjusted operating profit (continuing operations) increased by 5 per cent on a constant currency basis to £660 million (2018/19: £631 million), as we continued to focus on the margin within the business, reflected in a record return on sales for the Group of 10.9 per cent (2018/19: 10.2 per cent).

Despite the challenging economic and pricing environment and the impact of Covid-19 the European business delivered organic growth in profitability of 1.5 per cent. The benefit from our tight control on cost, together with the decline in OCC and paper pricing, reduced our input costs by £321 million, which more than offset the revenue price and mix impact of £280 million described above. Corrugated box volumes contributed £7 million to operating profit, and the decline in other volumes (as described above) contributed a £41 million decline. There was also a positive contribution from the c. nine months additional contribution from Europac which, including synergies of £35 million, returned an incremental £85 million, partially offset by challenging conditions in the North America segment, down £67 million where profitability was impacted by prevailing low export paper prices and the start-up costs of the new Indiana site (c. £15 million).

As previously noted we estimate the impact on the financial year 2019/20 from Covid-19 to be approximately £15 million, including direct additional costs such as overtime to cover increased absenteeism, shielding and sanitation costs, increased haulage costs due to restricted labour supply, and a spike in input prices and other costs associated with a sudden shift in demand patterns.

Basic earnings per share for continuing and discontinued operations increased 87 per cent to 38.5 pence (2018/19: 20.6 pence). Adjusted basic earnings per share for continuing operations of 33.2 pence remained in line with the prior year on a constant currency basis (2018/19: 33.3 pence), reflecting the benefit of profit growth, offset by the increase in average number of shares in issue as 2019/20 was the first full year following the rights issue in June 2018.

**The resilience of our business**

Our corrugated box business is c. 72 per cent weighted by volume to the resilient FMCG sector, with c. 11 per cent comprising other consumer volumes, and the remaining 17 per cent serving industrial customers, such as automotive and chemicals. E-commerce volumes are split across FMCG and the other consumer categories, depending on the product sold. The benefit of this end-customer profile is the resilience of volumes in difficult economic times. This has been borne out by the volume progression seen in the year. FMCG and other consumer, combined, have remained positive throughout the year, with a particular spike in March and April as both FMCG and e-commerce peaked. Industrial had been in decline by mid-single digits throughout the year due to general macroeconomic factors, and was impacted significantly by Covid-19 in April, down c. 25 per cent, with automotive, for example, down c. 50 per cent in April and electronics down c. 25 per cent. Overall, our business model has delivered as expected, in the context of an unprecedented economic contraction. May has seen a similar rate of volume decline, as the impact of Covid-19 peaks, and we have seen a reduction in the decline in June.

**Optimisation programme in paper**

Over the last three years, our paper capacity has grown as a proportion of our business, as we have improved our network of high-quality paper mills, both geographically and from a product perspective. Our strategy has consistently been to be 'short' paper, i.e. a net buyer of paper in the market, in order to maintain the consistency of our profitability and, accordingly, in 2019, we announced that we would conduct a review in order to optimise our paper operations. While the Covid-19 pandemic has clearly slowed this activity due to practical restrictions, we continue to seek to optimise our footprint and have made substantial progress this year in evaluating assets in our portfolio which are not core to our packaging operations.

At present, DS Smith in Europe is around 80 per cent integrated, and our target remains to reduce integration to towards 60 per cent, in the medium-term.

**Dividend**

The Board considers the dividend to be a very important component of shareholder returns. On 8 April 2020, in light of the unprecedented uncertainty due to the Covid-19 pandemic, we announced that the Board had decided that it was prudent to not pay the interim dividend due for payment on 1 May 2020, despite our strong liquidity profile and resilient trading to that date. The Board has since considered the overall dividend payment for this financial year and, taking into consideration the interests of all stakeholders, concluded that the outlook remains too uncertain to commit to a resumption of dividend payments in the short term. Recognising the importance of dividends to all shareholders, the Board will actively consider the resumption of dividend payment, when we have greater clarity over outlook.

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

As set out above, like-for-like corrugated box volumes grew by 0.6 per cent, ahead of our target of GDP+1 per cent of 0.4 per cent. As described earlier, volume growth has been led by growth in e-commerce and the resilient FMCG customer base, while industrial has been weak. Underlying the segmental performances has been the strong growth of our pan-European customer base, where we continue to grow substantially ahead of the group average, demonstrating the ongoing demand for a high quality pan-European supplier of corrugated packaging, operating on a co-ordinated multinational basis.

Adjusted return on sales increased 70 basis points to 10.9 per cent (2018/19: 10.2 per cent), a record for the Group and in the middle of our target range of 10 to 12 per cent, which had been upgraded from 8 to 10 per cent last year, principally due to the strong performance in Europe which benefited from the positive impact of integrating the Europac business and delivery of the planned synergies.

Adjusted return on average capital employed (ROACE) is 10.6 per cent (2018/19: 13.6 per cent), below our medium-term target range of 12 to 15 per cent while remaining comfortably above our cost of capital. ROACE is also adversely impacted by 30 basis points from the introduction of IFRS16 *Leases*, and the c. £15 million of direct Covid-19 costs in the period of c.20 basis points. The reduction was as expected and reflects the recent large acquisitions of Interstate Resources in North America and of Europac in Europe, which are initially dilutive to return on capital, and the very recent disposal of our Plastics business. This pattern was also seen at the time of the SCA acquisition in 2012, where ROACE initially dipped and then built up as the acquisition synergies were fully realised and our expectations are for ROACE to improve into the target range in the medium-term. We maintain a continuous focus on an efficient capital base, in addition to profitability.

Net debt as at 30 April 2020 was £2,101 million (30 April 2019: £2,277 million), with the reduction principally due to the receipt of proceeds for the Plastics business disposal and remedy disposals, net of cash and cash equivalents, of £484 million. Cash generated from operations before adjusting cash items of £889 million was used to invest in net capex of £364 million which included £53 million in relation to Europac. Adjusting items of £53 million primarily related to the acquisition and integration of the new businesses. Net debt/EBITDA (calculated in accordance with our banking covenant requirements) is 2.1 times (2018/19: 2.3 times). This reflects the proceeds from the disposal of the Plastics business, ongoing tight cash management and control throughout the business. With regard to the Interstate put option, we were notified during the year that half of the put option was exercised, and initial settlement took place on 26 June 2020. The Group remains fully committed to its investment grade credit rating.

During the year, the Group generated free cash flow of £354 million (2018/19: £339 million). Cash conversion, as defined in our financial KPIs (note 15), was 103 per cent, in line with our target of being at or above 100 per cent.

DS Smith is committed to providing all employees with a safe and productive working environment. We are pleased once again, for the 11th consecutive year, to report improvements in our safety record, with our accident frequency rate (defined as the number of lost time accidents per million hours worked) reducing by a further 8 per cent from 2.3 to 2.1, reflecting our ongoing commitment to best practice in health and safety. We are proud to report that 265 sites achieved our target of zero accidents this year and we continue to strive for zero accidents for the Group as a whole.

The Group has a challenging target for customer service of 97 per cent on-time, in-full deliveries. In the year we achieved over 95 per cent, which is driven by an underlying improvement in the packaging operations while some more recently acquired parts of the business, while improving, are dilutive to our group average. While there has been improvement, we are still below our target and management remains fully committed to delivering the highest standards of service, quality and innovation to all our customers and will continue to challenge ourselves to meet the demanding standards our customers expect. Other markers of quality such as our defects rate (measured in parts-per-million) have improved significantly, falling 39 per cent in the year.

One key part of the DS Smith strategy is to lead the way in sustainability. Corrugated packaging is a key part of the sustainable economy, providing essential protection to products as they are transported and, at the end of use, it is fully recyclable. Corrugated packaging is also substantially constructed from recycled material. Our Recycling business works with customers across Europe to improve their recycling operations and overall environmental performance. In calendar year 2019, compared to calendar year 2018, on a restated basis to reflect acquisitions, our $CO_2$ equivalent emissions have reduced by 5 per cent. We have also developed our collaboration with the Ellen MacArthur Foundation in our position as their only packaging Strategic Partner, in line with our corporate purpose of Redefining Packaging for a Changing World.

## Operating review

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

### Group

| | Year ended 30 April 2020 | Year ended 30 April 2019 | Change-reported | Change-constant currency |
|---|---|---|---|---|
| Revenue | £6,043m | £6,171m | (2%) | (2%) |
| Adjusted operating profit(1) | £660m | £631m | 5% | 4% |
| Operating profit | £455m | £427m | 7% | 6% |

(1)Adjusted to exclude amortisation and adjusting items

A revenue increase principally from the additional nine month contribution of Europac, offset by a reduction in sales price and mix, resulted in revenue falling 2 per cent to £6,043 million. Operating profit increased by 6 per cent to £455 million due to the inclusion of Europac and the fall in input costs, partially offset by the fall in sales price and mix.

### Northern Europe

| | Year ended 30 April 2020 | Year ended 30 April 2019 | Change-reported | Change-constant currency |
|---|---|---|---|---|
| Revenue | £2,333m | £2,575m | (9%) | (9%) |
| Adjusted operating profit(1) | £219m | £263m | (17%) | (16%) |
| Return on sales(1) | 9.4% | 10.2% | (80bps) | (80bps) |

(1)Adjusted to exclude amortisation and adjusting items

The Northern Europe division has seen corrugated box volume growth slightly under the Group average for the year, reflecting a consistently good level of growth in the UK and more difficult conditions in industrial customers in Benelux and Germany. The region benefited from additional demand as Covid-19 ‘lockdown’ began in March for FMCG and into April for e-commerce, with overall volumes in e-commerce experiencing double digit growth for the year. This was partially offset by weakness in the industrial market, which fell materially in the final month of the year.

The decline in revenue was largely driven by paper prices and the deflationary impact on box prices as well as a higher level of paper integration in the business and the consequential reduction in external paper sales. The reduction in adjusted operating profit reflects good price retention within the packaging operations, offset by a decline in the profitability of upstream assets due to the decline in the paper price. Return on sales reduced by 80 basis points to 9.4 per cent. The adjusting restructuring costs of £24 million (see note 3) were primarily incurred in Northern Europe.

**Southern Europe**

| | Year ended 30 April 2020 | Year ended 30 April 2019 | Change- reported | Change – constant currency |
|---|---|---|---|---|
| Revenue | £2,214m | £2,024m | +9% | +10% |
| Adjusted operating profit(1) | £314m | £186m | +69% | +70% |
| Return on sales(1) | 14.2% | 9.2% | +500bps | +500bps |

(1)Adjusted to exclude amortisation and adjusting items

Volumes in the year have grown across the region, driven by good volume growth in Italy and Iberia, partially offset by more difficult conditions in France. Volumes in the final two months of the year were challenged, with Covid-19 related reductions due to widespread disruption amongst our customers. Volumes in the Europac business continued to grow well through the year, well ahead of the Group average, reflecting the commercial focus we have applied to the Europac packaging operations since ownership. Revenues grew 10 per cent due to the inclusion of Europac for an incremental c. nine months, partially offset by reduced paper prices and the deflationary impact on box prices as well as a higher level of paper integration in the business and the consequential reduction in external paper sales.

Adjusted operating profit increased by 70 per cent, reflecting the contribution both from the incremental nine months ownership of Europac and from good price retention in the packaging operations, partially offset by reduced paper prices in the region. Consequently, return on sales increased to above our target range at 14.2 per cent. Adjusting integration costs of £19 million were incurred in respect of Europac (2018/19: £14 million).

**Eastern Europe**

| | Year ended 30 April 2020 | Year ended 30 April 2019 | Change – reported | Change – constant currency |
|---|---|---|---|---|
| Revenue | £892m | £933m | (4%) | (3%) |
| Adjusted operating profit(1) | £88m | £76m | +16% | +17% |
| Return on sales(1) | 9.9% | 8.1% | +180bps | +170bps |

(1)Adjusted to exclude amortisation and adjusting items

Volumes in this region have again been good throughout the period, well ahead of Group growth, with particularly strong performance in operations in Poland and the Baltics. Revenues declined by 3 per cent, driven by the decline in packaging pricing partially offset by growing volumes.

Adjusted operating profit increased 17 per cent, reflecting good price retention by packaging operations, only partially offset by the decline in paper prices. As a result, return on sales increased by 170 basis points.

**North America**

| | Year ended 30 April 2020 | Year ended 30 April 2019 | Change – reported | Change – constant currency |
|---|---|---|---|---|
| Revenue | £604m | £639m | (5%) | (9%) |
| Adjusted operating profit(1) | £39m | £106m | (63%) | (65%) |
| Return on sales(1) | 6.5% | 16.6% | (-1,010bps) | (-1,030bps) |

(1)Adjusted for amortisation and adjusting items

The performance of the North America Packaging and Paper division has been impacted substantially by the decline in the US export paper price, to which approximately a third of paper manufactured is sold. In the corrugated packaging operations, volumes were broadly flat across the year with an improving trend in H2, before a very challenging final month due to Covid-19. The new packaging site in Indiana, US opened on time and to budget at the beginning of the H2 period and is now delivering packaging for customers, increasing volumes in line with the start-up plan. Full ramp up remains on track to be completed over the next 24 months.

Revenue fell 9 per cent, principally due to the fall in the price for exported paper. Adjusted operating profit for the division fell by 65 per cent, largely reflecting the decline in profitability of the paper operations from the export sales pricing and the one-off costs of the Indiana site start-up, offset by the remaining $7 million cost synergies from the acquisition of Interstate, as announced at the time of acquisition, being delivered in the period. As a result, return on sales fell to 6.5 per cent. H2 profitability remained broadly in line with H1, excluding start-up costs relating to the Indiana site and the impact of Covid-19. Adjusting integration costs of £11 million were incurred in respect of Interstate (2018/19: £9 million).

**Brexit**

The UK left the EU at the start of this calendar year and the transition period is expected to end on 1 January 2021. The UK comprises c. 15 per cent of Group revenue with the majority of our operations in continental Europe. Product for UK customers is largely manufactured within the UK and materials sourced within the UK, and as such we do not expect a substantial disruption in the event of an orderly transition to new trading arrangements between the UK and EU. In the event of a disorderly transition, there could be short-term consequences, for example, disruption to haulage costs, but we would anticipate this effect to be relatively contained. Discussions and planning have taken place with key trading partners to mitigate against any potential disruption to the supply chain.

**Outlook**

Our business model is resilient, built on our consistent FMCG and e-commerce customer base. In the short term, however, the impact of Covid-19 on the economies in which we operate is likely to impact volumes to industrial customers and add to operating costs. In particular, infrastructure constraints have driven elevated OCC prices, although we expect the impact to be limited to H1. With the current economic uncertainty, we continue to focus on our employees, our customers, our communities and on the efficiency and cash generation of our business and stopping unessential expenditure.

In the medium-term, the growth drivers of e-commerce and sustainability are as strong as ever. The Covid-19 crisis is also expected to accelerate a number of the structural drivers for corrugated packaging and our scale and innovation led customer offering positions us well and gives us confidence for the future.

## Financial review

### Overview

### Strong performance demonstrating resilience

2019/20 presented a variety of economic challenges, yet, despite these, the overall performance of the Group has been strong. After achieving record profitability and return on sales in the first half, the second saw European box volumes growing steadily through Christmas and the new calendar year, as well as the start-up of the new box plant in North America, on time and in budget. The start-up losses for this new facility were in line with forecasts and a good early sales pipeline is being realised. The fourth quarter was completely overshadowed by the impact of the global Covid-19 pandemic on our customers in Europe and North America. Whilst this crisis required radical changes to working practices for office and factory-based employees, the business continued without interruption to provide essential products and services to our customers in all regions, a tribute to everyone concerned.

The integration of Papeles y Cartones de Europa, S.A. (Europac), acquired in January 2019, continued to make excellent progress, with the packaging segment of the acquisition benefiting from the Group's established manufacturing and commercial best practice programmes.

Net proceeds from completion of the sale of the Plastics business of £422 million were received in February 2020 and used to contribute towards de-leveraging in the period.

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

- Revenue down 2 per cent on a constant currency and reported basis to £6,043 million (2018/19: £6,171 million)
- Adjusted operating profit before adjusting items and amortisation of £660 million, an increase of 5 per cent on a reported basis and 4 per cent on a constant currency basis (2018/19: £631 million)
- 7 per cent growth in operating profit to £455 million on a reported basis; 6 per cent growth on a constant currency basis (2018/19: £427 million)
- 5 per cent growth in profit before tax to £368 million on a constant currency and reported basis (2018/19: £350 million)
- Organic corrugated box volume growth of 0.6 per cent (2018/19: 2.4 per cent)

- Growth in adjusted return on sales of 70 bps to 10.9 per cent (2018/19: 10.2 per cent)
- Adjusted return on average capital employed of 10.6 per cent (2018/19: 13.6 per cent)
- Net debt to EBITDA ratio of 2.1 times (2018/19: 2.3 times)
- Cash conversion 103 per cent (2018/19: 102 per cent)

Unless otherwise stated, the commentary below references the continuing operations of the Group. Comparatives have been re-presented following the finalisation of the acquisition accounting for Europac and to disclose lease liabilities separately. There have been no other restatements following the adoption of IFRS 16 *Leases*.

**Non-GAAP performance measures**

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

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

Note 15 explains further the use of non-GAAP performance measures and provides reconciliations as appropriate to information stemming directly from the financial statements. Where a non-GAAP measure is referred to in the review, the equivalent measure stemming directly from the financial statements (if available and appropriate) is also referred to.

**Trading results**

Revenue decreased by 2 per cent on a reported basis to £6,043 million (2018/19: £6,171 million), driven by a reduction in selling prices realised on packaging sales reflecting the decline in paper price benchmarks during the year, the impacts of paper and recyclate prices in Europe and the export pricing of paper from North America, which were partly offset by volume growth and the impact of a full year of Europac trading results, which contributed £376 million in incremental revenues in the year. Revenues have also decreased as a result of greater integration of paper produced in the Group's own paper mills into the Group's European box plants, thereby decreasing the volume of paper sold on the external market and the volume of paper purchased on the open market.

Reported revenues are subject to foreign currency translation effects. In the year, the euro accounted for 59 per cent of Group revenue. As such, the movements of the euro against sterling during the year constituted the majority of the £3 million of negative revenue currency impact. On a constant currency basis, revenues decreased by 2 per cent.

Corrugated box volume growth of 0.6 per cent (2018/19: 2.4 per cent growth) was adversely impacted in the fourth quarter by the enforced closure of a number of customer facilities across Europe following the global outbreak of the Covid-19 pandemic. Whilst this unparalleled economic disruption had an impact on overall box volume growth, it also demonstrated the resilience of the business and the strategy of building the business model around FMCG customers and taking a leadership position in e-commerce packaging solutions. The Group target of volume growth of GDP+1 per cent was achieved, with GDP (weighted by the countries we operate in) estimated at -0.6 per cent for the 12 months to April 2020, considerably influenced by the last month. As a Group, c.72 per cent of our corrugated box volumes are sold to FMCG customers, substantially ahead of the industry average, an indicator that the continued development of tailored and innovative packaging solutions is regarded as a differential offering in the market.

Operating profit increased to £455 million, a 6 and 7 per cent growth on a constant currency and reported basis, respectively (2018/19: £427 million). The business benefited from a strong performance of the Packaging business in balancing various commercial factors, including the headwinds of cost inflation prior to Covid-19 and the tailwinds of lower paper prices. In addition, the strong focus on value-added packaging and the benefit of a full 12 months' contribution from the Europac acquisition of £85 million more than offset the reduced margins in North America from lower pricing for exported paper and the start-up costs associated with the commissioning of the new facility in Indiana, US.

Growth in adjusted operating profit of 5 per cent to £660 million on a reported basis (2018/19: £631 million) is largely attributed to the strong contribution from Europac which, after a successful integration, is on track to deliver synergy benefits in line with targets. The adoption of IFRS16 *Leases* improved adjusted operating profit by £8 million. Adjusted operating profit grew 4 per cent on a constant currency basis.

Excluding Europac, the impact on profit from higher European box volumes (£7 million) and the net benefit of commercial programmes (£41 million) were partially offset by lower other volumes (£41 million). The Group manages its exposure to fluctuations in input costs through the combined efforts of operations, commercial, finance and procurement teams and continued capital investment targeting production efficiencies.

Depreciation increased to £296 million on a reported basis (2018/19: £189 million), representing a £72 million increase owing to the adoption of IFRS 16 *Leases*, the impact from a full year of ownership of the Europac business and the depreciation of additional capital commissioned during the year to support the Group's growth programme. Before adjusting items, amortisation increased by £29 million to £143 million, principally due to the amortisation of acquired intangible assets associated with the Europac acquisition.

In the prior year, the Group raised the medium-term adjusted return on sales margin target to 10 to 12 per cent. With the continued focus on margin recovery through commercial disciplines and ongoing cost management and efficiency programmes, adjusted return on sales grew 70 basis points to 10.9 per cent (2018/19: 10.2 per cent). This is regarded as a strong performance during a year where the Group faced a variety of economic challenges, including the unprecedented Covid-19 impact. The adoption of IFRS 16 *Leases* resulted in a marginal 10 basis points improvement.

The return on average capital employed (ROACE) decreased to 10.6 per cent (2018/19: 13.6 per cent), impacted by the prior year acquisition of Europac. The adoption of IFRS 16 *Leases* reduced ROACE by 30 basis points. Although the ROACE falls below the target set by the Board of 12 to 15 per cent, the rate remains above the Group's cost of capital.

| **Income statement – from continuing operations (unless otherwise stated)** | **2019/20 £m** | **2018/19[1] £m** |
|---|---|---|
| Revenue | 6,043 | 6,171 |
| Adjusted operating profit[2] | 660 | 631 |
| Operating profit | 455 | 427 |
| Adjusted return on sales[2] | 10.9% | 10.2% |
| Net financing costs | (87) | (71) |
| Share of profit of equity-accounted investments, net of tax | 7 | 9 |
| **Profit before income tax** | **368** | **350** |
| **Adjusted profit before income tax**[2] | **580** | **569** |
| Adjusted income tax expense[2] | (125) | (127) |
| **Adjusted earnings**[2] | **455** | **442** |
| Profit from discontinued operations, net of tax | 237 | 12 |
| Basic adjusted earnings per share[2] | 33.2p | 33.3p |
| Profit for the year attributable to owners of the parent (including discontinued operations) | 527 | 274 |
| Basic earnings per share from continuing and discontinued operations | 38.5p | 20.6p |
| Basic earnings per share | 21.2p | 19.7p |

[1] Comparatives have not been restated following the adoption of IFRS 16 *Leases*
[2] Adjusted to exclude amortisation and adjusting items (see note 3)

**Covid-19**

The Group's operations across all its regions were affected throughout the fourth quarter by the Covid-19 pandemic. As an essential supplier for critical supply chains in areas such as FMCG food and pharmaceuticals, the Group's sites remained fully operational throughout the period. Whilst the Group benefited from improved volumes in certain sectors and regions, overall box volumes declined by a low, single-digit percentage. Inventory on hand mitigated the increase in material costs in March, however the disruption to waste collections during lockdown has seen increased prices for OCC realised from April. Together with directly-identifiable additional cash costs in labour, cleaning and protective equipment, offset by some government support, the overall impact of Covid-19 was a reduction in operating profit by c. £15 million. Group working capital performance remained resilient, in particular around receivable collections. The postponement of the 2019/20 interim dividend did not impact year end debt due to the planned date of payment being May 2020. Management's response in respect of planning for the coming year and beyond is set out the going concern section of note 1.

**Adjusting items**
Adjusting items before tax and financing costs were £62 million (2018/19: £90 million).

The costs primarily consisted of ongoing integration programmes relating to acquisitions made in prior years of £30 million (2018/19: £27 million). Of these, £19 million relates to the Europac integration programme, including costs to deliver synergy projects implemented during the year, IT operational costs and site rebranding, and £11 million related to the North American integration programme, which includes the establishment of a shared service centre in that region and the recognition of an onerous contract provision. Merger and acquisition-related costs of £10 million (2018/19: £32 million) were incurred, being predominantly professional advisory fees, and contractual deferred consideration payments on prior year acquisitions.

Restructuring costs of £24 million principally relate to a material restructuring in Germany and a holistic review of the underlying, indirect cost base of the European packaging business. Impairment costs of £4 million have been recognised as a consequence of specific restructuring programmes in Europe.

Gains on acquisitions and divestments from continuing operations of £6 million were obtained through the completion of the Europac remedy disposals in June 2019.

Within discontinued operations, net profit after tax on the disposal of the Plastics business was £230 million, after costs incurred to complete the sale (including directly-attributable staff costs and legal and professional advisory fees) and other related costs.

Adjusting items before tax and financing costs in the 2020/21 financial year are estimated to be c. £50 million.

**Interest, tax and earnings per share**
Net finance costs were £94 million (2018/19: £86 million). The increase of £8 million on last year is primarily a result of the inclusion of finance costs on lease liabilities,

due to the adoption of IFRS 16 *Leases*. The employment benefit net finance expense of £3 million has remained at a similar level to the prior year.

Adjusting financing costs of £7 million (2018/19: £15 million) contain an element of the unwind of the Interstate Resources put option and have reduced compared to the prior year due to acquisition finance costs related to the Europac acquisition in 2018/19.

The share of profits of equity-accounted investments was £7 million (2018/19: £9 million).

Profit before tax increased by 5 per cent on a reported basis to £368 million (2018/19: £350 million), due to increased operating profit, partly offset by an increase in amortisation and financing costs and a decrease in share of results of associates. Adjusted profit before tax of £580 million (2018/19: £569 million) grew 2 per cent on a reported basis, owing to an increase in the underlying adjusted operating profit.

The tax charge of £78 million (2018/19: £88 million) reduced due to one-off benefits following the restructuring of financing activities and a separate claim in the US, partially offset by increased adjusted profits and provisions recognised in relation to uncertain tax positions. The Group's effective tax rate on adjusted profit, excluding amortisation, adjusting items and associates was 22.0 per cent (2018/19: 22.8 per cent). The tax credit through adjusting items was £14 million (2018/19: £13 million).

Profit for the year from discontinued operations until the date of completion of the sale was £237 million after tax (2018/19: £12 million) and includes the £230 million net after tax gain on sale and £7 million from pre-completion trading.

Reported profit after tax, amortisation and adjusting items was £527 million (2018/19: £274 million).

The growth in the operating profit drove an 8 per cent increase in basic earnings per share on a reported basis, to 21.2 pence (2018/19: 19.7 pence), with adjusted earnings per share remaining flat at 33.2 pence (2018/19: 33.3 pence). Total earnings per share, including discontinued operations, were 38.5 pence (2018/19: 20.6 pence).

**Acquisitions and disposals**
In recent years, the Group's strategy has focused on growth in order to support our global customers in more regions in which they operate. Throughout 2019/20, the Group continued to successfully integrate earlier acquisitions, including Europac in Iberia and Corrugated Container Corporation in North America, both acquired in 2018/19 and Interstate Resources in North America, acquired in 2017/18.

The Group announced the completion of the sale of the Plastics business on 27 February 2020 for net cash proceeds after transaction adjustments and expenses of

£422 million, delivering a profit on disposal, after tax of £230 million. The sale reinforces the Group's strategic desire to lead the way in sustainability and is a key step within the Group's deleveraging and organic cash flow delivery programmes. Additional net proceeds of £62 million (including the finalisation of the completion accounts mechanism payment, settled in January 2020) were realised from the completion of the Europac acquisition remedy disposals of three operations across Portugal and north-west France, as announced in the prior year.

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

**Cash flow**
Reported net debt of £2,101 million (30 April 2019: £2,277 million) has decreased from the prior year, driven by higher cash inflows from operating activities, the proceeds from the sale of the Plastics business and completion of the Europac remedy disposals, partially offset by the recognition of lease liabilities following the adoption of IFRS 16 *Leases* at the beginning of the year of £242 million. The definition of adjusted net debt defined by the Group's banking covenants excludes IFRS 16 lease liabilities.

Net working capital outflows of £30 million are driven by the reduction in paper and input prices during the year, which ultimately decreased trade payables and the value of inventory, and a reduction in factored receivables of £97 million. Improved cash collections and inventory management across the Group partially offset the net outflow, along with the reduction in trade receivables owing to the decreased average selling prices for packaging products.

Net capital expenditure after proceeds from disposals increased by £75 million to £364 million in the year, principally due to the construction of the new greenfield site in Indiana, US and investment in the Europac business to support synergy delivery. The Group continued to focus on growth and efficiency capital projects, which represented 55 per cent of the reported spend in the year. Proceeds from the disposal of property, plant and equipment were £12 million (2018/19: £14 million), generating profits of £2 million (2018/19: £4 million). Given the uncertainty in the global economic outlook for the next year, capital expenditure is expected to decrease to c. £300 million as part of the Group's cash management strategy during this unprecedented time.

Net interest payments of £77 million increased by £16 million over the prior year, reflecting the impact of the adoption of IFRS 16 *Leases* of £12 million. The balance is principally comprised of interest on the Euro medium-term notes, with amortisation of debt issue and other finance costs accounting for the majority of the difference between the cash interest paid and finance costs reported in the income statement.

Cash outflows associated with adjusting items decreased by £40 million to £53 million, and include restructuring and integration costs. The current year reduction is driven by a decrease in merger and acquisition costs incurred in the prior year primarily in relation to the Europac acquisition. Net proceeds from the disposal of the Plastics business and the Europac remedy disposals were £480 million (net of small acquisition-related payments). There were no new acquisitions made during the year.

Total dividend payments of £222 million relating to the 2018/19 interim and final dividends were made during the year.

Cash generated from operations before adjusting cash items increased by £115 million to £889 million, with net cash inflow of £561 million, a £2,006 million increase on prior year, driven by the proceeds from disposals in the current year compared to significant acquisition costs related principally to Europac in the prior year.

| **Cash flow** | **2019/20 £m** | **2018/19 £m** |
|---|---|---|
| Cash generated from operations before adjusting cash items | 889 | 774 |
| Capital expenditure (net of disposal of fixed assets) | (364) | (289) |
| Tax paid | (94) | (85) |
| Net interest paid | (77) | (61) |
| **Free cash flow** | **354** | **339** |
| Cash outflow for adjusting items | (53) | (93) |
| Dividends | (222) | (187) |
| Acquisitions and disposals of businesses, net of cash and cash equivalents | 480 | (1,498) |
| Other | 2 | (6) |
| **Net cash flow** | **561** | **(1,445)** |
| Issue of share capital | 2 | 1,006 |
| Loans and borrowings divested/(acquired) | 2 | (204) |
| Foreign exchange, fair value and other movements | (118) | 49 |
| **Net debt movement – continuing operations** | **447** | **(594)** |
| Net debt movement – discontinued operations | (29) | (3) |
| IFRS 16 right-of-use obligation at 1 May 2019 | (242) | - |
| Opening net debt | (2,277) | (1,680) |
| **Closing net debt** | **(2,101)** | **(2,277)** |

**Statement of financial position**

At 30 April 2020, shareholder funds increased to £3,350 million, from £3,111 million in the prior year. Profit attributable to shareholders of £527 million contributed to the growth (2018/19: £274 million), which was partly offset by a net change in cash flow hedges of £31 million (2018/19: £29 million gain), actuarial losses on employee benefits of £46 million (2018/19: £62 million loss), the reclassification of foreign exchange on divestment of Plastics of £30 million and dividends paid of £222 million (2018/19: £187 million). Equity attributable to non-controlling interests remained consistent with that reported in the prior year, at £1 million.

The Group's bank and private placement debt covenants stipulate the methodology upon which the net debt to adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) ratio is to be calculated. Factored receivables and the effects of IFRS 16 *Leases*, adopted since 1 May 2019, are excluded from the ratio's determination. The net proceeds obtained through the sale of the Plastics business, along with the Europac remedy disposals, has resulted in a decrease in the ratio to 2.1 times, down from 2.3 times at 30 April 2019. The ratio remains compliant with the covenant requirements, which at the year end specified a maximum ratio of net debt to EBITDA of 3.25 times. Subsequent to the year end, on 26 June 2020, the banking covenant was permanently amended to 3.75 times. As the exercise of the first tranche of the Interstate Resources put option was yet to be settled at 30 April 2020, this has not been factored in to the calculated ratio. If the exercise of the 20 per cent stake subject to the put option was included, the ratio would increase to c. 2.3 times. The Group's publicly traded euro and sterling bonds are not subject to any financial covenants. The bonds are, however, subject to a coupon step up of 125 basis points for any period the Group falls below an investment grade credit rating.

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

The covenant calculations also exclude income statement items identified as adjusting by the Group and any interest arising from the defined benefit pension schemes. At 30 April 2020, the Group has substantial headroom under its covenants, with the future outlook assessed as part of the going concern review in note 1 of the financial statements. The Group's investment grade credit rating from Standard and Poor's remains stable at BBB-, which takes into account all the items excluded from covenant calculations and working capital.

The Group adopted IFRS 16 *Leases*, from 1 May, which required the recognition of right-of-use assets and corresponding lease liabilities which, at 30 April 2020, had net carrying values of £256 million and £255 million, respectively.

The fair valuation exercise following the acquisition of Europac was completed during the year, the results of which are reflected in the reported property, plant and equipment at 30 April 2020 and, where material, re-presented in the 2018/19 comparative balances. There were no subsequent updates to the intangible asset valuation which was completed ahead of the 30 April 2019 reporting date.

| Statement of financial position | 2019/20 £m | 2018/19 £m[1] |
|---|---|---|
| Intangible assets | 3,197 | 3,262 |
| Property, plant and equipment | 3,042 | 2,934 |
| Right-of-use assets | 256 | - |
| Inventories | 518 | 584 |
| Trade and other receivables | 772 | 923 |
| Cash and cash equivalents | 595 | 382 |
| Assets held for sale | 3 | 237 |
| Other | 242 | 189 |
| **Total assets** | **8,625** | **8,511** |
| Bank overdrafts | (90) | (129) |
| Borrowings | (2,398) | (2,615) |
| Trade and other payables | (1,723) | (1,871) |
| Provisions | (70) | (33) |
| Employee benefits | (199) | (170) |
| Lease liabilities | (255) | (10) |
| Liabilities classified as held for sale | - | (93) |
| Other | (539) | (478) |
| **Total liabilities** | **(5,274)** | **(5,399)** |
| **Net assets** | **3,351** | **3,112** |
| **Net debt** | **2,101** | **2,277** |
| **Net debt to EBITDA ratio** | **2.1x** | **2.3x** |

[1] The 2018/19 comparatives have been re-presented for finalisation of the Europac acquisition accounting during the year and to show lease liabilities separately

**Energy costs**
Production facilities, in particular paper mills, are energy intensive, therefore energy costs are significant for the Group. In 2019/20, costs for gas, electricity and other fuels, net of periodic local incentives, were £318 million (2018/19: £318 million). The increased consumption in the year owing to a full 12 months of ownership of Europac was partially offset by a reduction in market prices for natural gas during the period. The Group continues to invest in energy efficiency projects and limits the exposure to volatile energy pricing by hedging energy costs with suppliers and financial institutions, managed by the Group's Energy Procurement team.

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

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

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

In November 2018, the Group signed a £1.4 billion five year committed syndicated revolving credit facility (RCF) with its core banks. The first extension option was exercised in November 2019 taking the maturity to 2024 with one further extension option available.

Available cash and debt facilities are reviewed regularly to ensure sufficient funds are available to support the Group's activities. At 30 April 2020, the Group's committed facilities totalled £3.8 billion, of which £1.4 billion remained undrawn and £3.7 billion matures beyond one year or more. Undrawn committed borrowing facilities are maintained to provide protection against refinancing risk. Committed facilities acquired with Europac of €206 million were repaid and cancelled during the year.

At 30 April 2020, the committed borrowing facilities had a weighted average maturity of 4.5 years (30 April 2019: 4.6 years). Additional detail on these facilities is provided below. Total gross borrowings at 30 April 2020 were £2,398 million (30 April 2019: £2,615 million). The committed borrowing facilities described do not include the £492 million of three-year committed factoring lines, which allow the sale of receivables without recourse. In November 2019, the Group established a €1 billion Euro Commercial Paper Programme. At 30 April 2020, the programme was undrawn due to the positive cash position in the Group.

Trade receivables have been sold without recourse by the Group for many years. Upon realisation, the trade receivable is de-recognised, with proceeds presented within operating cash flows. Such arrangements have systematically reduced early payment discounts, thereby providing the Group with more economic alternatives to facilitate the timely receipt of monies owed. The facilities utilised are generally committed for three years and are not relied upon by the Group for liquidity management purposes.

The balance of trade receivables sold as part of the factoring programme decreased £97 million to £428 million at 30 April 2020 (30 April 2019: £525 million).

| **Facilities** | **Currency** | **Maturity Date** | **£m equivalent** |
|---|---:|---:|---:|
| Syndicated RCF 2018 | Various | 2024 | 1,400 |
| Euro medium-term notes | EUR | 2022-26 | 1,608 |
| Sterling medium-term note | GBP | 2029 | 250 |
| Euro term loans | EUR | 2021-22 | 182 |
| Euro private placement | EUR | 2020 | 51 |
| US dollar private placement | USD | 2020-22 | 246 |
| Euro term loan | EUR | 2025 | 38 |
| **Committed facilities at 30 April 2020** | | | **3,775** |

**Impairment**
The net book value of goodwill and other intangibles at 30 April 2020 was £3,197 million (30 April 2019: £3,262).

IAS 36 *Impairment of Assets* requires annual testing of goodwill and other intangible assets, as well as an assessment any other assets for which there may be indicators of impairment. As part of this testing, the Group compares the carrying amount of the assets subject to testing with the higher of their net realisable value and value-in-use to identify whether any impairment exists. The asset or group of assets value-in-use is determined by discounting the future cash flows they expect to generate by the assumed pre-tax discount rate of 9.5 per cent, which represents a basic weighted average cost of capital (WACC) of 8.8 per cent, plus a blended country risk premium of 0.7 per cent. Asset values were tested as at 30 April 2020, with no impairment identified as a result of the testing performed.

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

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

| | **30 April 2020** | **30 April 2019** |
|---|---|---|
| Aggregate gross assets of schemes | £1,164 million | £1,102 million |
| Aggregate gross liabilities of schemes | £1,363 million | £1,272 million |
| Gross balance sheet deficit | £199 million | £170 million |
| Deferred tax assets | £45 million | £37 million |
| Net balance sheet deficit | £154 million | £133 million |

The increase in the deficit is driven largely by the impact of Covid-19 on underlying discount rate assumptions at 30 April 2020, driving variations in the valuation of the scheme liabilities, as well as the outcome of the updated triennial valuation of the main UK scheme, conducted at 30 April 2019. This is partially offset by an increase in the main UK scheme asset values which, as part of the investment strategy, are closely aligned to the movement in liabilities.

The 2019 triennial valuation of the main UK scheme incorporated updates to underlying scheme assumptions, including demographic and life expectancy rates, which, along with updates surrounding mortality and proportions married assumptions and future improvements, resulted in a net c. 2 per cent increase in the valuation of the scheme liabilities. No changes were made to the previously approved funding plan following the triennial valuation.

Total cash contributions paid into the Group pension schemes, reported within cash generated from operations in the cash flow, were £20 million in 2019/20 (2018/19: £20 million), which primarily constitutes £19 million towards the agreed contributions under the UK defined benefit scheme deficit recovery plan (2018/19: £19 million).

**IFRS 16 *Leases***

The Group adopted IFRS 16 *Leases* at 1 May 2019, electing to apply the modified retrospective approach with practical expedients. As such, comparative amounts have not been restated and continue to present lease accounting as previously required under IAS 17 *Leases*.

The Group's most significant leased assets are property and production equipment. On transition, right-of-use lease liabilities for continuing operations of £242 million were recognised, along with a corresponding increase in right-of-use lease assets of £239 million, the latter reflecting the effects of related onerous lease provisions.

The indicative impact of the adoption of IFRS 16 *Leases* disclosed in the pre-transition 30 April 2019 Annual report was a right-of-use asset and corresponding liability of c. £235 million. As a result of the implementation finalisation, particularly in recently acquired businesses and the finalisation of accounting judgements around lease terms, the final adjustments to the previously disclosed estimate are as follows:

| | £ million |
|---|---|
| Non-cancellable operating lease rentals reported as at 30 April 2019 | 259 |
| Additional commitments recognised in final implementation, including extension options reasonably certain to be exercised (undiscounted) | 30 |
| Other, including leases outside the scope of IFRS 16 *Leases* (undiscounted) | (7) |
| Impact of discounting liability under IFRS 16 *Leases* | (40) |
| **Lease liability recognised on transition to IFRS 16 at 1 May 2019** | **242** |
| Onerous lease provision impact | (3) |
| **Lease asset recognised on transition to IFRS 16 at 1 May 2019** | **239** |

An increase in depreciation expense of £72 million and interest expense of £12 million, the latter recognised within finance costs, have replaced what was previously reported as an operating lease expense. Further information on the adoption of the new accounting standard is provided in note 14.

At 30 April 2020, the adoption of IFRS 16 *Leases* has had the following impact on the Group's reported results:

| | | |
|---|---|---|
| Right-of-use assets | Increase | £256 million |
| Net debt | Increase | £249 million |
| EBITDA | Increase | £80 million |
| Profit before tax | Decrease | £4 million |
| Return on average capital employed (ROACE) | Decrease | 30 bps |

Right-of-use liabilities are currently excluded from the definition of adjusted net debt within the Group's banking covenant requirements. Similarly, adjusted EBITDA is calculated prior to the effects of IFRS 16 *Leases* and, as such, for the calculation of the net debt to EBITDA ratio, an adjustment is made to reflect the former IAS 17 *Leases* accounting basis on the calculation. Further information is provided in note 15.

**Discontinued operations**
During the year, the sale of the Plastics business was successfully completed, with the trading results up until the date of the sale's completion, as well as the profit on sale, reported as a discontinued operation within the consolidated income statement. The consolidated statement of cash presents a single amount of net cash flow from discontinued operations.

# Consolidated income statement

## Year ended 30 April 2020

| Continuing operations | Note | **Before adjusting items 2020 £m** | **Adjusting items 2020 (note 3) £m** | **After adjusting items 2020 £m** | Before adjusting items 2019 £m | Adjusting items 2019 (note 3) £m | After adjusting items 2019 £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 2 | **6,043** | **–** | **6,043** | 6,171 | – | 6,171 |
| Operating costs | | **(5,383)** | **(58)** | **(5,441)** | (5,540) | (50) | (5,590) |
| **Operating profit before amortisation, acquisitions, divestments, and guaranteed minimum pension equalisation** | 2 | **660** | **(58)** | **602** | 631 | (50) | 581 |
| Amortisation of intangible assets; acquisitions and divestments | 3 | **(143)** | **(4)** | **(147)** | (114) | (32) | (146) |
| Guaranteed minimum pension equalisation | 3 | **–** | **–** | **–** | – | (8) | (8) |
| **Operating profit** | | **517** | **(62)** | **455** | 517 | (90) | 427 |
| Finance income | 5 | **4** | **–** | **4** | – | – | – |
| Finance costs | 5, 3 | **(88)** | **(7)** | **(95)** | (69) | (15) | (84) |
| Employment benefit net finance expense | 4 | **(3)** | **–** | **(3)** | (2) | – | (2) |
| **Net financing costs** | | **(87)** | **(7)** | **(94)** | (71) | (15) | (86) |
| **Profit after financing costs** | | **430** | **(69)** | **361** | 446 | (105) | 341 |
| Share of profit of equity accounted investments, net of tax | | **7** | **–** | **7** | 9 | – | 9 |
| **Profit before income tax** | | **437** | **(69)** | **368** | 455 | (105) | 350 |
| Income tax (expense)/credit | 6, 3 | **(92)** | **14** | **(78)** | (101) | 13 | (88) |
| **Profit for the year from continuing operations** | | **345** | **(55)** | **290** | 354 | (92) | 262 |
| Discontinued operations | | | | | | | |
| Profit for the year from discontinued operations, net of tax | 13(a) | **10** | **227** | **237** | 22 | (10) | 12 |
| **Profit for the year** | | **355** | **172** | **527** | 376 | (102) | 274 |
| | | | | | | | |
| **Profit for the year attributable to:** | | | | | | | |
| Owners of the parent | | **355** | **172** | **527** | 376 | (102) | 274 |
| Non-controlling interests | | **–** | **–** | **–** | – | – | – |
| | | | | | | | |
| **Earnings per share** | | | | | | | |
| Earnings per share from continuing and discontinued operations | | | | | | | |
| Basic | 7 | | | **38.5p** | | | 20.6p |
| Diluted | 7 | | | **38.2p** | | | 20.6p |
| Earnings per share from continuing operations | | | | | | | |
| Basic | 7 | | | **21.2p** | | | 19.7p |
| Diluted | 7 | | | **21.0p** | | | 19.7p |
| Adjusted earnings per share from continuing operations | | | | | | | |
| Basic | 7, 15 | | **33.2p** | | | 33.3p | |
| Diluted | 7 | | **33.0p** | | | 33.2p | |

(a) The financial information presented in this preliminary announcement is extracted from, and is consistent with, the Group's audited financial statements for the year ended 30 April 2020. The financial information set out above does not constitute the Company's statutory financial statements for the years ended 30 April 2020 or 30 April 2019 but is derived from those financial statements. Statutory accounts for the year ended 30 April 2019 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 30 April 2020 will be delivered following the Company's Annual General Meeting. The Auditor's report on these accounts was not qualified or modified and did not contain any statement under Sections 498(2) or (3) of the Companies Act 2006.

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

## Consolidated statement of comprehensive income

Year ended 30 April 2020

| | Note | **2020 £m** | 2019 £m |
|---|---|---|---|
| **Profit for the year** | | **527** | 274 |
| Items which will not be reclassified subsequently to profit or loss | | | |
| Actuarial loss on employee benefits | 4 | **(46)** | (62) |
| Income tax on items which will not be reclassified subsequently to profit or loss | | **15** | 11 |
| Items which may be reclassified subsequently to profit or loss | | | |
| Foreign currency translation differences | | **39** | (45) |
| Reclassification from translation reserve to income statement arising on divestment | | **(30)** | – |
| Cash flow hedges fair value changes | | **(31)** | 29 |
| Reclassification from cash flow hedge reserve to income statement | | **(1)** | (37) |
| Movement in net investment hedge | | **(23)** | 17 |
| Income tax on items which may be reclassified subsequently to profit or loss | | **11** | 3 |
| **Other comprehensive expense for the year, net of tax** | | **(66)** | (84) |
| **Total comprehensive income for the year** | | **461** | 190 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | | **461** | 190 |
| Non-controlling interests | | **–** | – |

# Consolidated statement of financial position

At 30 April 2020

| | Note | 2020 £m | 2019 [1] £m |
|---|---|---|---|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | | **3,197** | 3,262 |
| Biological assets | | **9** | 9 |
| Property, plant and equipment | | **3,042** | 2,934 |
| Right-of-use assets | | **256** | – |
| Equity accounted investments | | **35** | 33 |
| Other investments | | **12** | 12 |
| Deferred tax assets | | **77** | 64 |
| Other receivables | | **19** | 9 |
| Derivative financial instruments | | **27** | 12 |
| **Total non-current assets** | | **6,674** | 6,335 |
| Current assets | | | |
| Inventories | | **518** | 584 |
| Biological assets | | **6** | 6 |
| Income tax receivable | | **42** | 18 |
| Trade and other receivables | | **753** | 914 |
| Cash and cash equivalents | | **595** | 382 |
| Derivative financial instruments | | **34** | 35 |
| Assets classified as held for sale | | **3** | 237 |
| **Total current assets** | | **1,951** | 2,176 |
| **Total assets** | | **8,625** | 8,511 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | | **(2,300)** | (2,385) |
| Employee benefits | 4 | **(199)** | (170) |
| Other payables | | **(15)** | (16) |
| Provisions | | **(12)** | (16) |
| Lease liabilities | | **(182)** | (7) |
| Deferred tax liabilities | | **(305)** | (315) |
| Derivative financial instruments | | **(41)** | (14) |
| **Total non-current liabilities** | | **(3,054)** | (2,923) |
| Current liabilities | | | |
| Bank overdrafts | | **(90)** | (129) |
| Borrowings | | **(98)** | (230) |
| Trade and other payables | | **(1,708)** | (1,855) |
| Income tax liabilities | | **(149)** | (133) |
| Provisions | | **(58)** | (17) |
| Lease liabilities | | **(73)** | (3) |
| Derivative financial instruments | | **(44)** | (16) |
| Liabilities classified as held for sale | | **-** | (93) |
| **Total current liabilities** | | **(2,220)** | (2,476) |
| **Total liabilities** | | **(5,274)** | (5,399) |
| **Net assets** | | **3,351** | 3,112 |
| Equity | | | |
| Issued capital | | **137** | 137 |
| Share premium | | **2,238** | 2,236 |
| Reserves | | **975** | 738 |
| **Total equity attributable to owners of the parent** | | **3,350** | 3,111 |
| **Non-controlling interests** | | **1** | 1 |
| **Total equity** | | **3,351** | 3,112 |

1. The 2019 comparative has been re-presented for finalisation of Europac acquisition accounting (note 13(c)) and to show lease liabilities separately (note 14).

Approved by the Board of Directors of DS Smith Plc on 1 July 2020 and signed on its behalf by:

**M W Roberts**
Director

**A R T Marsh**
Director

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

# Consolidated statement of changes in equity

Year ended 30 April 2020

| | Note | Share capital £m | Share premium £m | Hedging reserve £m | Translation reserve £m | Own shares £m | Retained earnings [1] £m | Total reserves attributable to owners of the parent £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 May 2018** | | **107** | **1,260** | **(7)** | **49** | **(1)** | **701** | **2,109** | **1** | **2,110** |
| Profit for the year | | – | – | – | – | – | 274 | 274 | – | 274 |
| Actuarial loss on employee benefits | | – | – | – | – | – | (62) | (62) | – | (62) |
| Foreign currency translation differences | | – | – | – | (44) | – | (1) | (45) | – | (45) |
| Cash flow hedges fair value changes | | – | – | 29 | – | – | – | 29 | – | 29 |
| Reclassification from cash flow hedge reserve to income statement | | – | – | (37) | – | – | – | (37) | – | (37) |
| Movement in net investment hedge | | – | – | – | 17 | – | – | 17 | – | 17 |
| Income tax on other comprehensive income | | – | – | 2 | 1 | – | 11 | 14 | – | 14 |
| **Total comprehensive (expense)/ income** | | **–** | **–** | **(6)** | **(26)** | **–** | **222** | **190** | **–** | **190** |
| Issue of share capital | | 30 | 976 | – | – | – | – | 1,006 | – | 1,006 |
| Employee share trust | | – | – | – | – | – | (8) | (8) | – | (8) |
| Share-based payment expense (net of tax) | | – | – | – | – | – | 1 | 1 | – | 1 |
| Dividends paid | 8 | – | – | – | – | – | (187) | (187) | – | (187) |
| **Other changes in equity in the year** | | **30** | **976** | **–** | **–** | **–** | **(194)** | **812** | **–** | **812** |
| **At 30 April 2019** | | **137** | **2,236** | **(13)** | **23** | **(1)** | **729** | **3,111** | **1** | **3,112** |
| Profit for the year | | – | – | – | – | – | 527 | 527 | – | 527 |
| Actuarial loss on employee benefits | | – | – | – | – | – | (46) | (46) | – | (46) |
| Foreign currency translation differences | | – | – | – | 39 | – | – | 39 | – | 39 |
| Reclassification from translation reserve to income statement arising on divestment | 13(a) | – | – | – | (30) | – | – | (30) | – | (30) |
| Cash flow hedges fair value changes | | – | – | (31) | – | – | – | (31) | – | (31) |
| Reclassification from cash flow hedge reserve to income statement | | – | – | (1) | – | – | – | (1) | – | (1) |
| Movement in net investment hedge | | – | – | – | (23) | – | – | (23) | – | (23) |
| Income tax on other comprehensive income | | – | – | 6 | 5 | – | 15 | 26 | – | 26 |
| **Total comprehensive (expense)/ income** | | **–** | **–** | **(26)** | **(9)** | **–** | **496** | **461** | **–** | **461** |
| Issue of share capital | | – | 2 | – | – | – | – | 2 | – | 2 |
| Employee share trust | | – | – | – | – | (2) | (2) | (4) | – | (4) |
| Share-based payment expense (net of tax) | | – | – | – | – | – | 2 | 2 | – | 2 |
| Dividends paid | 8 | – | – | – | – | – | (222) | (222) | – | (222) |
| **Other changes in equity in the year** | | **–** | **2** | **–** | **–** | **(2)** | **(222)** | **(222)** | **–** | **(222)** |
| **At 30 April 2020** | | **137** | **2,238** | **(39)** | **14** | **(3)** | **1,003** | **3,350** | **1** | **3,351** |

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

# Consolidated statement of cash flows

Year ended 30 April 2020

| Continuing operations | Note | 2020 £m | 2019 £m |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 10 | **836** | 681 |
| Interest received | | **2** | 1 |
| Interest paid | | **(79)** | (62) |
| Tax paid | | **(94)** | (85) |
| **Cash flows from operating activities** | | **665** | 535 |
| **Investing activities** | | | |
| Acquisition of subsidiary businesses, net of cash and cash equivalents | 13 | **(4)** | (1,498) |
| Divestment of discontinued operation, net of cash and cash equivalents | 13 | **422** | – |
| Divestment of subsidiary businesses, net of cash and cash equivalents | 13 | **62** | – |
| Capital expenditure | | **(376)** | (303) |
| Proceeds from sale of property, plant and equipment and intangible assets | | **12** | 14 |
| Cash flows from/(used in) restricted cash and other deposits | | **56** | (4) |
| Other | | **6** | – |
| **Cash flows from/(used in) investing activities** | | **178** | (1,791) |
| **Financing activities** | | | |
| Proceeds from issue of share capital | | **2** | 1,006 |
| Repayment of borrowings | | **(3,497)** | (3,335) |
| Proceeds from borrowings | | **3,235** | 3,810 |
| Payments in respect of derivative financial instruments | | **(5)** | (36) |
| Repayment of principal on lease liabilities | | **(71)** | (4) |
| Dividends paid to Group shareholders | 8 | **(222)** | (187) |
| Other | | **(4)** | (6) |
| **Cash flows (used in)/from financing activities** | | **(562)** | 1,248 |
| **Increase/(decrease) in cash and cash equivalents from continuing operations** | | **281** | (8) |
| Discontinued operations | | | |
| Cash flows used in discontinued operations | 13(a) | **(29)** | (3) |
| **Increase/(decrease) in cash and cash equivalents** | | **252** | (11) |
| Net cash and cash equivalents at beginning of the year | | **253** | 268 |
| Exchange losses on cash and cash equivalents | | **–** | (4) |
| **Net cash and cash equivalents at end of the year** | | **505** | 253 |

## 1. Basis of preparation

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

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

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

**Going concern**

The financial statements have been prepared on a going concern basis and the Directors consider that adequate resources exist for the Company to continue in operational existence for the foreseeable future. Given the global economic uncertainty of the Covid-19 pandemic, and taking into account the recent guidance issued by the FCA and the FRC, the Directors have considered a more comprehensive going concern review than in previous years. Further details, including the analysis performed and conclusion reached, are set out below.

The Group's liquidity and funding arrangements are described in the financial review. There is significant liquidity/financing headroom (in excess of £1 billion) across the going concern forecast period and the going concern review has focused more on forecast covenant compliance which is considered further below.

The Group has modelled three scenarios in its assessment of going concern – the base case, a downside case and an extreme downside case.

The base case takes into account the estimated impact of the Covid-19 pandemic across the going concern period and reflects the actual trading experience across March, April and early May 2020. The key inputs and assumptions in the base case include:

- On a Group basis, a low, single-digit decline in packaging volumes compared to 2019/20 consistent with the reduction in volume experienced at the height of the crisis;
- The price assumptions show price deflation reflecting paper price indices and the current and forecast mix of the business, with a further shift towards the food and drink and e-commerce sectors; and
- A temporary spike in the price of paper for recycling (PfR, the principal input cost in producing testliner) in the first quarter of 2020/21, the flow through impact of the above volume forecast on direct costs and a year-on-year reduction in capital expenditure.

Year to date trading to the end of May 2020 shows volumes in line with the base case forecast.

The downside case models a more pronounced decline in volumes in the first half of 2020/21 – an additional 4% decline over the base case, and then reverts back to the base case forecast for the second half of 2020/21, with modest recovery into 2021/22. The extreme downside case models a more pronounced 8% year-on-year decline in volumes over the whole of 2020/21, with only modest recovery into 2021/22.

The purpose of the scenarios was to consider if there was a significant risk that the Group would breach its year-end financial covenant on the committed bank facilities of net debt/EBITDA less than 3.25 times. Under all three scenarios the covenant is not breached at any of the forecast testing dates, being 31 October 2020, 30 April 2021, 31 October 2021 and 30 April 2022.

The extreme downside case has been used as a reverse stress test to consider the point at which the year-end covenants may be breached. Whilst the reverse stress test did not breach the year-end covenants (the lowest ratio being at April 2021), it did indicate that such a significant reduction in packaging volumes would require management to take further mitigating actions to protect profits, conserve cash and reduce capital expenditure to minimum maintenance levels. The Board consider the forecasts and assumptions used in the extreme downside case, as well as the events that could lead to it, to be extremely remote. Adjusted operating profit would need to fall by more than half from £660m achieved in the year before the year-end net debt/EBITDA covenant of 3.25 times would be breached. Subsequent to the year-end, on 26 June 2020, the net debt/EBITDA covenant was permanently amended to 3.75 times.

**Discontinued operation**

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

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

The Group announced the agreement to sell the Plastics division during the year ended 30 April 2019, which was completed on 27 February 2020 (see note 13(a)). Accordingly, the Group has classified the Plastics division as a discontinued operation.

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

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

All other notes to the financial statements include amounts for continuing operations.

**New accounting standards adopted**
The following new accounting standards, amendments or interpretations have been adopted by the Group as of 1 May 2019:

- IFRS 16 *Leases;*
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments;*
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures;* and
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement.*

IFRS 16 *Leases*
The Group adopted IFRS 16 on 1 May 2019 using the modified retrospective approach and practical expedients available. As per the specific transitional arrangements in the standard, comparative information has not been restated and all adjustments were made in the opening balance sheet as at 1 May 2019. As such, results for the year ended 30 April 2019 continue to be reported under the previous lease accounting standard, IAS 17 *Leases*.

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

IFRS 16 prescribes a single lessee accounting model that requires the recognition of a right-of-use asset and corresponding liability for all leases with terms over 12 months, unless the underlying asset is of low value. The liability is initially measured as the present value of future lease payments for the lease term. Depreciation of right-of-use assets and interest on the corresponding lease liabilities are recognised in the income statement over the lease term. In the cash flow statement, the total amount of cash paid is separated into a principal portion (within financing activities) and an interest portion (within operating activities). In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

The Group has applied the following practical expedients in adopting IFRS 16:

- The Group has not reassessed whether transition date contracts are or contain a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 May 2019;
- IFRS 16 has not been applied to low value assets or leases of less than 12 months in total, which will continue to be expensed to profit and loss on a straight-line basis over the lease term;
- The Group has placed reliance on previous assessments as to whether or not leases are onerous. Any onerous lease provisions were adjusted against the carrying value of the corresponding right-of-use asset on transition;
- On transition, all right-of-use assets were measured at an amount equal to the lease liability;
- Hindsight has been applied in determining the lease term where options to extend or terminate exist;
- For leases classified as finance leases under IAS 17, the previous carrying amount of the lease asset and liability under IAS 17 was taken as the carrying amount of the right-of-use asset and corresponding lease liability; and
- The Group applied a single discount rate to portfolios of leases with reasonably similar characteristics.

On implementation of IFRS 16 there was a material increase in lease liabilities, along with a corresponding increase in right-of-use assets.

Note 14 details the impact on the Group's financial statements and Key Performance Indicators of the adoption of IFRS 16.

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*
IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In particular, this Interpretation addresses whether uncertain tax treatments should be considered separately or together with one or more other uncertain tax treatments, addresses the assumptions an entity makes about the examination of tax treatment by taxation authorities and harmonises the methodology for measurement of uncertain tax treatments in both binary or a range of possible outcomes.

The Group adopted IFRIC Interpretation 23 as at 1 May 2019, with no material impact on the Group's financial statements.

Other than as disclosed above, the adoption of the other new accounting standards, amendments and interpretations has not had a material effect on the results for the year.

Except for the new accounting standards adopted during the year, the accounting policies, presentation methods and methods of computation followed are the same as those detailed in the 2019 Annual Report and Accounts, which is available on the Group's website (www.dssmith.com/investors/results-and-presentations). Whilst the financial information included in the preliminary announcement has been computed in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS.

## 2. Segment reporting

Operating segments

During the year, the Group changed its internal reporting structure, reducing the regional segments from five to four. Consequently, a corresponding change to the operating segments reported has been made, and the operating segment analysis for the comparative period has been restated.

The Plastics segment was classified as a discontinued operation during the year ended 30 April 2019 and as such is reported separately. Segmental reporting for the Plastics segment is set out in note 13(a).

| Year ended 30 April 2020 | Note | Northern Europe £m | Southern Europe £m | Eastern Europe £m | North America £m | Total continuing operations £m |
|---|---|---|---|---|---|---|
| **External revenue** | | **2,333** | **2,214** | **892** | **604** | **6,043** |
| Adjusted EBITDA[1] | | **335** | **422** | **127** | **72** | **956** |
| Depreciation | | **(116)** | **(108)** | **(39)** | **(33)** | **(296)** |
| **Adjusted operating profit[1]** | | **219** | **314** | **88** | **39** | **660** |
| Unallocated items: | | | | | | |
| Amortisation | | | | | | **(143)** |
| Adjusting items in operating profit | 3 | | | | | **(62)** |
| **Total operating profit (continuing operations)** | | | | | | **455** |
| Unallocated items: | | | | | | |
| Net financing costs | | | | | | **(94)** |
| Share of profit of equity accounted investments, net of tax | | | | | | **7** |
| **Profit before income tax** | | | | | | **368** |
| Income tax expense | | | | | | **(78)** |
| **Profit for the year (continuing operations)** | | | | | | **290** |

| | | | | | |
|---|---|---|---|---|---|
| **Analysis of total assets and total liabilities** | | | | | |
| Segment assets | **2,107** | **3,302** | **1,005** | **1,386** | **7,800** |
| Unallocated items: | | | | | |
| Equity accounted investments and other investments | | | | | **47** |
| Derivative financial instruments | | | | | **61** |
| Cash and cash equivalents | | | | | **595** |
| Tax | | | | | **119** |
| Assets classified as held for sale | | | | | **3** |
| **Total assets** | | | | | **8,625** |
| Segment liabilities | **(948)** | **(687)** | **(235)** | **(141)** | **(2,011)** |
| Unallocated items: | | | | | |
| Borrowings, overdrafts and interest payable | | | | | **(2,525)** |
| Derivative financial instruments | | | | | **(85)** |
| Tax | | | | | **(454)** |
| Employee benefits | | | | | **(199)** |
| **Total liabilities** | | | | | **(5,274)** |
| **Capital expenditure** | **103** | **135** | **53** | **85** | **376** |

1. Adjusted to exclude amortisation and adjusting items.

## 2. Segment reporting continued

| Year ended 30 April 2019 (restated) | Note | Northern Europe £m | Southern Europe £m | Eastern Europe £m | North America £m | Total continuing operations £m |
|---|---|---|---|---|---|---|
| **External revenue** | | 2,575 | 2,024 | 933 | 639 | 6,171 |
| Adjusted EBITDA[1] | | 336 | 248 | 106 | 130 | 820 |
| Depreciation | | (73) | (62) | (30) | (24) | (189) |
| **Adjusted operating profit[1]** | | 263 | 186 | 76 | 106 | 631 |
| Unallocated items: | | | | | | |
| Amortisation | | | | | | (114) |
| Adjusting items in operating profit | 3 | | | | | (90) |
| **Total operating profit (continuing operations)** | | | | | | 427 |
| Unallocated items: | | | | | | |
| Net financing costs | | | | | | (86) |
| Share of profit of equity accounted investment, net of tax | | | | | | 9 |
| **Profit before income tax** | | | | | | 350 |
| Income tax expense | | | | | | (88) |
| **Profit for the year** | | | | | | 262 |
| | | | | | | |
| **Analysis of total assets and total liabilities [2]** | | | | | | |
| Segment assets | | 2,080 | 3,363 | 1,013 | 1,262 | 7,718 |
| Unallocated items: | | | | | | |
| Equity accounted investment and other investments | | | | | | 45 |
| Derivative financial instruments | | | | | | 47 |
| Cash and cash equivalents | | | | | | 382 |
| Tax | | | | | | 82 |
| Assets classified as held for sale | | | | | | 237 |
| **Total assets** | | | | | | 8,511 |
| | | | | | | |
| Segment liabilities | | (915) | (677) | (201) | (88) | (1,881) |
| Unallocated items: | | | | | | |
| Borrowings, overdrafts and interest payable | | | | | | (2,777) |
| Derivative financial instruments | | | | | | (30) |
| Tax | | | | | | (448) |
| Employee benefits | | | | | | (170) |
| Liabilities classified as held for sale | | | | | | (93) |
| **Total liabilities** | | | | | | (5,399) |
| | | | | | | |
| **Capital expenditure** | | 111 | 102 | 52 | 38 | 303 |

1. Adjusted to exclude amortisation and adjusting items.
2. The 2019 comparative has been re-presented for finalisation of Europac acquisition accounting (note 13(c)) and to show lease liabilities separately (note 14).

### Geographical areas

In presenting information by geographical area, external revenue is based on the geographical location of customers.

| Continuing operations | **External revenue** **2020** **£m** | 2019 £m |
|---|---|---|
| UK | **828** | 1,053 |
| France | **844** | 933 |
| Germany | **587** | 680 |
| Italy | **563** | 649 |
| Iberia | **704** | 621 |
| USA | **569** | 652 |
| Rest of the World | **1,948** | 1,583 |
| | **6,043** | 6,171 |

## 3. Adjusting items

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

| Continuing operations | **2020 £m** | 2019 £m |
|---|---|---|
| Acquisition related costs | **(10)** | (32) |
| Gains on acquisitions and divestments | **6** | – |
| Acquisitions and divestments | **(4)** | (32) |
| Integration costs | **(30)** | (27) |
| Other restructuring costs | **(24)** | (3) |
| Impairment of assets | **(4)** | – |
| Guaranteed minimum pension equalisation | **–** | (8) |
| Other | **–** | (20) |
| **Total pre-tax adjusting items (recognised in operating profit)** | **(62)** | (90) |
| Finance costs adjusting items | **(7)** | (15) |
| Adjusting tax items | **(1)** | (1) |
| Current tax credit on adjusting items | **14** | 14 |
| Deferred tax credit on adjusting items | **1** | – |
| **Total post-tax adjusting items** | **(55)** | (92) |

### 2019/20

Acquisition related costs of £10m relate to professional advisory, legal and consultancy fees for review of potential deals, deferred consideration and retention bonuses.

Gains on acquisition and divestments relate primarily to the remedy disposal of legacy Group sites required as part of the Europac acquisition. The profit on disposal of the Plastics business is classified under discontinued operations (see note 13(a)).

Integration costs relate to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in the previous financial years (of which £19m relates to Europac and £11m relates to Interstate Resources). They include redundancies, professional fees, IT costs and those directly attributable internal salary costs which would otherwise not be incurred.

Other restructuring costs of £24m primarily comprise a reorganisation and restructuring project across the Packaging business, focusing predominantly on reduction of indirect costs.

Impairment of assets comprises impairment, primarily of property, plant and equipment, directly related to restructuring projects.

Finance costs adjusting items relate to the unwind of the discount on the redemption liability related to the purchase of Interstate Resources.

Adjusting items from discontinued operations are detailed in note 13(a).

### Adjusting tax items – 2019/20

The current tax credit on adjusting items of £14m in the year ended 30 April 2020 is the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excludes non-tax deductible deal related advisory fees in relation to acquisitions and divestments.

The adjusting tax item of £1m is an increase in the State Aid provision in relation to the estimate of interest on overdue tax covering the year to 30 April 2020.

### 2018/19

Acquisition related costs of £32m related to professional advisory, legal and consultancy fees and directly attributable internal salary costs relating to the review of potential deals, and deals completed during the year. Of the total, £22m related to the acquisition of Europac, with the most significant components being transaction and sponsor fees, legal costs, and financial and tax due diligence and advice costs.

Integration costs related to integration projects underway, primarily to achieve cost synergies from the major acquisitions made in 2018/19 and previous financial years (of which £14m related to Europac and £9m related to Interstate Resources). They included those directly attributable internal salary costs which would otherwise not have been incurred.

Other restructuring costs included reorganisation and restructuring in Southern and Northern Europe and various projects commenced in the previous year.

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

Other adjusting items of £20m principally related to a significant multi-year major IT project which was substantially completed in 2018/19. The costs of this project extended over several years and, as well as adjusting items, included capitalisation of intangible assets, particularly in the case of IT systems. Those costs are primarily as a result of the Group's acquisition activity, where the businesses acquired typically have a limited IT and financial reporting infrastructure.

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

Adjusting tax items - 2018/19

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

The current tax credit on adjusting items of £14m in the year ended 30 April 2019 was the tax effect at the local applicable tax rate of adjusting items that are subject to tax. This excluded non-tax deductible deal related advisory fees in relation to acquisitions and divestments.

## 4. Employee benefits

| | 2020 £m | 2019 £m |
|---|---|---|
| Employee benefit deficit at beginning of the year | **(170)** | (106) |
| Acquisitions | **-** | (12) |
| Divestments | **2** | - |
| Expense recognised in operating profit | **(7)** | (6) |
| Curtailment | **-** | 2 |
| Past service costs (GMP equalisation) recognised in adjusting items | **-** | (8) |
| Employment benefit net finance expense | **(2)** | (2) |
| Employer contributions | **20** | 20 |
| Other payments and contributions | **6** | - |
| Actuarial (losses)/gains | **(46)** | (62) |
| Currency translation | **(2)** | 2 |
| Reclassification | **-** | 2 |
| Employee benefit deficit at 30 April | **(199)** | (170) |
| Deferred tax asset | **45** | 37 |
| Net employee benefit deficit at end of the year | **(154)** | (133) |

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

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

## 5. Finance income and costs

| Continuing operations | **2020 £m** | 2019 £m |
|---|---|---|
| Interest income from financial assets | **(2)** | – |
| Other | **(2)** | – |
| **Finance income** | **(4)** | – |
| Interest on borrowings and overdrafts | **62** | 62 |
| Interest on lease liabilities | **12** | – |
| Other | **14** | 7 |
| **Finance costs before adjusting items** | **88** | 69 |
| Finance costs adjusting items (note 3) | **7** | 15 |
| **Finance costs** | **95** | 84 |

## 6. Income tax expense

| | 2020 £m | 2019 £m |
|---|---|---|
| **Current tax expense** | | |
| Current year | **(86)** | (123) |
| Adjustment in respect of prior years | **(16)** | 8 |
| | **(102)** | (115) |
| **Deferred tax credit** | | |
| Origination and reversal of temporary differences | **–** | 5 |
| Change in tax rates | **(3)** | (2) |
| Recognition of previously unrecognised deferred tax assets | **18** | – |
| Adjustment in respect of prior years | **(5)** | 11 |
| | **10** | 14 |
| **Total income tax expense before adjusting items** | **(92)** | (101) |
| Adjusting tax items (note 3) | **(1)** | (1) |
| Current tax credit on adjusting items (note 3) | **14** | 14 |
| Deferred tax credit on adjusting items (note 3) | **1** | – |
| **Total income tax expense in the income statement from continuing operations** | **(78)** | (88) |
| Total income tax expense in the income statement from discontinued operations (note 13(a)) | **(11)** | (6) |
| **Total income tax expense in the income statement – total Group** | **(89)** | (94) |

The tax credit on amortisation was £33m (2018/19: £26m).

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Profit before income tax on continuing operations | **368** | 350 |
| Profit before income tax on discontinued operations (note 13(a)) | **248** | 18 |
| Share of profit of equity accounted investments, net of tax | **(7)** | (9) |
| Profit before tax and share of profit of equity accounted investments, net of tax | **609** | 359 |
| | | |
| Income tax at the domestic corporation tax rate of 19.00% (2018/19: 19.00%) | **(116)** | (68) |
| Effect of additional taxes and tax rates in overseas jurisdictions | **(41)** | (36) |
| Additional items deductible for tax purposes | **19** | 19 |
| Non-deductible expenses | **(20)** | (25) |
| Non-taxable gain on disposal of business | **77** | – |
| Release of prior year provisions in relation to acquired businesses | **–** | 38 |
| Recognition of previously unrecognised deferred tax assets | **18** | – |
| Deferred tax not recognised | **(2)** | (2) |
| Foreign exchange | **–** | 1 |
| Adjustment in respect of prior years | **(21)** | (19) |
| Effect of change in corporation tax rates | **(3)** | (2) |
| **Income tax expense – total Group** | **(89)** | (94) |

The Group's effective tax rate, excluding amortisation, adjusting items and share of result from equity accounted investments, was 22.0% (2018/19: 22.8%).

The Finance Act 2020 included a 2% increase in the main UK corporation tax rate to 19% from 1 April 2020, which was substantially enacted on 17 March 2020. As announced in the March 2020 Budget, the reduction in the UK corporation tax rate to 17% will now not occur. Accordingly, the rate applied to UK deferred tax assets and liabilities is 19% (2019: 17%).

## 7. Earnings per share

Basic earnings per share from continuing operations

| | 2020 | 2019 |
|---|---|---|
| Profit from continuing operations attributable to ordinary shareholders | **£290m** | £262m |
| Weighted average number of ordinary shares | **1,371m** | 1,327m |
| Basic earnings per share | **21.2p** | 19.7p |

Diluted earnings per share from continuing operations

| | 2020 | 2019 |
|---|---|---|
| Profit from continuing operations attributable to ordinary shareholders | **£290m** | £262m |
| Weighted average number of ordinary shares | **1,371m** | 1,327m |
| Potentially dilutive shares issuable under share-based payment arrangements | **7m** | 6m |
| Weighted average number of ordinary shares (diluted) | **1,378m** | 1,333m |
| Diluted earnings per share | **21.0p** | 19.7p |

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2018/19: 1m).

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Basic pence per share | Diluted pence per share | Basic pence per share | Diluted pence per share |
| Earnings per share from continuing operations | **21.2p** | **21.0p** | 19.7p | 19.7p |
| Earnings per share from discontinued operations (note 13(a)) | **17.3p** | **17.2p** | 0.9p | 0.9p |
| Earnings per share from continuing and discontinued operations | **38.5p** | **38.2p** | 20.6p | 20.6p |

Adjusted earnings per share from continuing operations

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

Further detail about the use of non-GAAP performance measures, including details of why amortisation is excluded, is given in note 15.

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

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | £m | Basic pence per share | Diluted pence per share | £m | Basic pence per share | Diluted pence per share |
| Basic earnings | **290** | **21.2p** | **21.0p** | 262 | 19.7p | 19.7p |
| Add back: | | | | | | |
| Amortisation of intangible assets | **143** | **10.4p** | **10.4p** | 114 | 8.7p | 8.6p |
| Tax credit on amortisation | **(33)** | **(2.4p)** | **(2.4p)** | (26) | (2.0p) | (2.0p) |
| Adjusting items, before tax | **69** | **5.0p** | **5.0p** | 105 | 7.9p | 7.9p |
| Tax on adjusting items and adjusting tax items | **(14)** | **(1.0p)** | **(1.0p)** | (13) | (1.0p) | (1.0p) |
| **Adjusted earnings** | **455** | **33.2p** | **33.0p** | 442 | 33.3p | 33.2p |

## 8. Dividends proposed and paid

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Pence per share | £m | Pence per share | £m |
| 2018/19 interim dividend – paid | **–** | **–** | 5.2p | 71 |
| 2018/19 final dividend – paid | **–** | **–** | 11.0p | 151 |
| 2019/20 interim dividend – cancelled | **5.4p** | **74** | – | – |
| 2019/20 final dividend – proposed | **nil** | **–** | – | – |

| | 2020 £m | 2019 £m |
|---|---|---|
| Paid during the year | **222** | 187 |

The 2018/19 interim and final dividends were paid during the 2019/20 financial year. The Group announced on 8 April 2020 that the interim dividend in respect of 2019/20 of 5.4 pence per share (£74m), which was due to be paid after the year end on 1 May 2020, would no longer be paid, as a prudent action to respond to the significant uncertainty in the global environment as a result of Covid-19. The Directors have not proposed a final dividend in respect of 2019/20.

## 9. Net debt

The components of net debt and movement during the year is as follows:

| | At 30 April 2020 £m | At 30 April 2019 £m |
|---|---|---|
| Cash and cash equivalents | **595** | 382 |
| Overdrafts | **(90)** | (129) |
| Net cash and cash equivalents | **505** | 253 |
| Other investments – restricted cash | **3** | 3 |
| Other deposits | **33** | 89 |
| Borrowings –after one year | **(2,300)** | (2,385) |
| Borrowings –within one year | **(98)** | (230) |
| Lease liabilities | **(255)** | (10) |
| Derivative financial instruments | | |
| assets | **13** | 12 |
| liabilities | **(2)** | (9) |
| | **(2,606)** | (2,530) |
| **Net debt – reported basis** | **(2,101)** | (2,277) |
| **Net debt excluding IFRS 16 liabilities** | **(1,852)** | (2,277) |

Net debt is a non-GAAP measure not defined by IFRS. While the Group has included lease liabilities after transition to IFRS 16 *Leases* within total lease liabilities (in addition to arrangements previously classified as finance leases under IAS 17), IFRS 16 liabilities are currently excluded from the definition of net debt as set out in the Group's banking covenant requirements. Within lease liabilities of £255m at 30 April 2020 are £249m of lease liabilities that would have been classified as operating leases and £6m of lease liabilities that would have been classified as finance lease liabilities under IAS 17.

Further detail on the use of non-GAAP measures and a reconciliation showing the calculation of adjusted net debt, as defined in the Group's banking covenants, is included in note 15.

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

Non-cash movements relate to amortisation of fees incurred on debt issuance and new leases.

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

## 10. Cash generated from operations

| Continuing operations | 2020 £m | 2019 £m |
|---|---|---|
| Profit for the year | **290** | 262 |
| Adjustments for: | | |
| Pre-tax integration costs and other adjusting items | **58** | 50 |
| Amortisation of intangible assets; acquisitions and divestments | **147** | 146 |
| Guaranteed minimum pension equalisation | **–** | 8 |
| Cash outflow for adjusting items | **(53)** | (93) |
| Depreciation | **296** | 189 |
| Profit on sale of non-current assets | **(2)** | (4) |
| Share of profit of equity accounted investments, net of tax | **(7)** | (9) |
| Employment benefit net finance expense | **3** | 2 |
| Share-based payment expense | **5** | 7 |
| Finance income | **(4)** | – |
| Finance costs | **95** | 84 |
| Other non-cash items | **–** | (1) |
| Income tax expense | **78** | 88 |
| Change in provisions | **(21)** | (19) |
| Change in employee benefits | **(19)** | (17) |
| **Cash generation before working capital movement** | **866** | 693 |
| Changes in: | | |
| Inventories | **45** | (7) |
| Trade and other receivables | **86** | 3 |
| Trade and other payables | **(161)** | (8) |
| **Working capital movement** | **(30)** | (12) |
| **Cash generated from continuing operations** | **836** | 681 |

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

| | 2020 £m | 2019 £m |
|---|---|---|
| **Profit for the year** | **290** | 262 |
| Income tax expense | **78** | 88 |
| Share of profit of equity accounted investments, net of tax | **(7)** | (9) |
| Net financing costs | **94** | 86 |
| Amortisation of intangible assets; acquisitions and divestments | **147** | 146 |
| Guaranteed minimum pension equalisation | **–** | 8 |
| Pre-tax integration costs and other adjusting items | **58** | 50 |
| **Adjusted operating profit** | **660** | 631 |
| Depreciation | **296** | 189 |
| **Adjusted EBITDA** | **956** | 820 |
| Working capital movement | **(30)** | (12) |
| Change in provisions | **(21)** | (19) |
| Change in employee benefits | **(19)** | (17) |
| Other | **3** | 2 |
| **Cash generated from operations before adjusting cash items** | **889** | 774 |
| Capital expenditure | **(376)** | (303) |
| Proceeds from sale of property, plant and equipment and other investments | **12** | 14 |
| Tax paid | **(94)** | (85) |
| Net interest paid | **(77)** | (61) |
| **Free cash flow** | **354** | 339 |
| Cash outflow for adjusting items | **(53)** | (93) |
| Dividends paid | **(222)** | (187) |
| Acquisition of subsidiary businesses, net of cash and cash equivalents | **(4)** | (1,498) |
| Divestment of discontinued operation, net of cash and cash equivalents | **422** | – |
| Divestment of subsidiary businesses, net of cash and cash equivalents | **62** | – |
| Other | **2** | (6) |
| **Net cash flow** | **561** | (1,445) |
| Proceeds from issue of share capital | **2** | 1,006 |
| Borrowings divested/(acquired), including deposits | **2** | (204) |
| **Net movement on debt** | **565** | (643) |
| Foreign exchange, fair value and other non-cash movements | **(118)** | 49 |
| **Net debt movement – continuing operations** | **447** | (594) |
| Net debt movement – discontinued operation (note 13(a)) | **(29)** | (3) |
| Opening net debt | **(2,277)** | (1,680) |
| Transition to IFRS 16 (note 14) | **(242)** | – |
| **Closing net debt – reported basis** | **(2,101)** | (2,277) |

Adjusted operating profit, adjusted EBITDA, free cash flow, and net debt are non-GAAP measures not defined by IFRS. Further detail on the use of non-GAAP measures is included in note 15.

## 12. Financial instruments

Carrying amounts and fair values of financial assets and liabilities

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

| | | 2020 | | 2019 | |
|---|---|---|---|---|---|
| | Category | **Carrying amount £m** | **Fair value £m** | Carrying amount £m | Fair value £m |
| **Financial assets** | | | | | |
| Cash and cash equivalents | Amortised cost | **595** | **595** | 382 | 382 |
| Restricted cash | Amortised cost | **3** | **3** | 3 | 3 |
| Other investments | Fair value through other comprehensive income | **9** | **9** | 9 | 9 |
| Trade and other receivables | Amortised cost | **772** | **772** | 923 | 923 |
| Derivative financial instruments | Fair value – hedging instruments | **61** | **61** | 47 | 47 |
| **Total financial assets** | | **1,440** | **1,440** | 1,364 | 1,364 |
| **Financial liabilities** | | | | | |
| Trade and other payables | Amortised cost, except as detailed below | **(1,723)** | **(1,723)** | (1,871) | (1,871) |
| Bank and other loans | Amortised cost | **(14)** | **(14)** | (448) | (448) |
| Commercial paper | Amortised cost | **(21)** | **(21)** | (148) | (148) |
| Medium-term notes and other fixed-term debt | Amortised cost | **(2,363)** | **(2,376)** | (2,019) | (2,069) |
| Lease liabilities | Amortised cost | **(255)** | **(255)** | (10) | (10) |
| Bank overdrafts | Amortised cost | **(90)** | **(90)** | (129) | (129) |
| Derivative financial instruments | Fair value – hedging instruments | **(85)** | **(85)** | (30) | (30) |
| **Total financial liabilities** | | **(4,551)** | **(4,564)** | (4,655) | (4,705) |

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial instruments carried at fair value, market prices or rates are used to determine fair value where an active market exists. The Group uses forward prices for valuing forward foreign exchange and commodity contracts and uses valuation models with present value calculations based on market yield curves to value fixed rate borrowings and cross-currency swaps. All derivative financial instruments are shown at fair value in the consolidated statement of financial position.

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

The Group's financial assets and financial liabilities are categorised within the fair value hierarchy that reflects the significance of the inputs used in making the assessments. The majority of the Group's financial instruments are Level 2 financial instruments in accordance with the fair value hierarchy, meaning although the instruments are not traded in an active market, inputs to fair value are observable for the asset and liability, either directly (i.e. quoted market prices) or indirectly (i.e. derived from prices). The Group's medium-term notes are Level 1 financial instruments, as the notes are listed on the Luxembourg Stock Exchange. Other investments and the redemption liability arising on the acquisition of Interstate Resources (within trade and other payables) are Level 3 financial instruments.

## 13. Acquisitions and divestments

(a) Plastics division

On 27 February 2020, the sale of the Group's Plastics division to Olympus Partners and its affiliate Liqui-Box Holdings was completed.

Plastics principally comprised flexible packaging and dispensing solutions, extruded and injection moulded products and foam products.

The Plastics segment has been classified as a discontinued operation as disclosed in note 1. The consolidated income statement presents the Plastics segment as a discontinued operation with a single line amount of profit from discontinued operation, net of tax. At 30 April 2020, the Plastics division had been sold, but in the comparative consolidated statement of financial position the discontinued assets and liabilities are classified as 'assets held for sale' and 'liabilities held for sale' respectively. The consolidated statement of cash flows presents a single amount of net cash flow from discontinued operations.

Condensed consolidated income statement – discontinued operations

| | **Year ended 30 April 2020 £m** | Year ended 30 April 2019 £m |
|---|---|---|
| Revenue | **281** | 352 |
| Operating costs | **(259)** | (324) |
| **Operating profit before amortisation and adjusting items** | **22** | 28 |
| Amortisation of intangible assets | **(2)** | (1) |
| Profit on disposal before tax | **232** | – |
| Other pre-tax adjusting items | **(3)** | (10) |
| Net finance (cost)/income | **(1)** | 1 |
| **Profit before income tax** | **248** | 18 |
| Income tax expense | **(11)** | (6) |
| **Profit for the year from discontinued operations** | **237** | 12 |

The income tax expense is net of a tax credit on adjusting items of £2m (30 April 2019: nil) arising on the sale of the discontinued operation.

Basic earnings per share from discontinued operations

| | **2020** | 2019 |
|---|---|---|
| Profit from discontinued operations attributable to ordinary shareholders | **£237m** | £12m |
| Weighted average number of ordinary shares | **1,371m** | 1,327m |
| Basic earnings per share | **17.3p** | 0.9p |

Diluted earnings per share from discontinued operations

| | **2020** | 2019 |
|---|---|---|
| Profit from discontinued operations attributable to ordinary shareholders | **£237m** | £12m |
| Weighted average number of ordinary shares | **1,371m** | 1,327m |
| Potentially dilutive shares issuable under share-based payment arrangement | **7m** | 6m |
| Weighted average number of ordinary shares (diluted) | **1,378m** | 1,333m |
| Diluted earnings per share | **17.2p** | 0.9p |

The number of shares excludes the weighted average number of the Company's own shares held as treasury shares during the year of 1m (2018/19: 1m).

Adjusted earnings per share from discontinued operations

Further detail about the use of non-GAAP performance measures is given in note 15.

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

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **£m** | **Basic – pence per share** | **Diluted – pence per share** | £m | Basic – pence per share | Diluted – pence per share |
| Basic earnings from discontinued operations | **237** | **17.3p** | **17.2p** | 12 | 0.9p | 0.9p |
| Add back: | | | | | | |
| Amortisation of intangible assets, before tax of £nil | **2** | **0.1p** | **0.1p** | 1 | 0.1p | 0.1p |
| Adjusting items, before tax | **(229)** | **(16.6p)** | **(16.6p)** | 10 | 0.7p | 0.7p |
| Tax on adjusting items and adjusting tax items | **2** | **0.1p** | **0.1p** | – | – | – |
| **Adjusted earnings from discontinued operations** | **12** | **0.9p** | **0.8p** | 23 | 1.7p | 1.7p |

## 13. Acquisitions and divestments continued

(a) Plastics division continued

Cash flows used in discontinued operations

| | **Year ended 30 April 2020 £m** | Year ended 30 April 2019 £m |
|---|---|---|
| Net cash (used in)/from operating activities | **(18)** | 16 |
| Net cash used in investing activities | **(11)** | (19) |
| **Net cash flows for the year** | **(29)** | (3) |

Effect of disposal on the financial position of the Group

| | **2020 £m** |
|---|---|
| Intangible assets | **68** |
| Property, plant and equipment | **74** |
| Right-of-use assets | **18** |
| Deferred tax assets | **4** |
| Inventories | **33** |
| Income tax receivable | **2** |
| Trade and other receivables | **91** |
| Cash and cash equivalents | **6** |
| Employee benefits | **(2)** |
| Trade and other payables | **(81)** |
| Lease liabilities | **(18)** |
| Deferred tax liabilities | **(5)** |
| Income tax liabilities | **(15)** |
| **Net assets disposed** | **175** |
| **Consideration received, satisfied in cash** | **436** |
| Reclassification from translation reserve to income statement arising on divestment | **30** |
| Transaction and separation costs | **(59)** |
| **Profit on disposal before tax** | **232** |
| Tax charge on profit on disposal | **(2)** |
| **Profit on disposal after tax** | **230** |

| **Cash inflow on disposal** | **2020 £m** |
|---|---|
| Consideration received, satisfied in cash | **436** |
| Cash and cash equivalents divested | **(6)** |
| Transaction costs paid | **(8)** |
| **Net cash inflow** | **422** |

(b) Other 2019/20 acquisitions and divestments

In the year ended 30 April 2020, half of the put option was exercised by the sellers of Interstate Resources, for a further 10% stake in Interstate Resources for £106m. On 26 June 2020, the Group completed the purchase and paid £82m to the sellers of Interstate Resources, with, by agreement, the remainder deferred to October 2021. The final 10% stake remains subject to the put option. As a substantial shareholder of the Group, the seller met the definition of a related party.

In June 2019, the Group completed the remedy disposals required as part of the acquisition of Europac for €73m. Cash consideration received, net of transaction costs, was £62m, and including net debt disposed of, the total impact on net debt from disposals was £64m. Acquisition of subsidiary businesses, net of cash and cash equivalents of £4m in the statement of cash flows relates to completion accounts adjustments on prior year acquisitions. Neither the disposals or the acquisition adjustments were material to the Group individually or in aggregate.

## 13. Acquisitions and divestments continued

(c) 2018/19 acquisitions and divestments

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

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

The fair value of the identifiable assets and liabilities of Europac as at the date of acquisition were:

| | Provisional fair values £m | Adjustments in year ended 30 April 2020 £m | Final fair value on acquisition £m |
|---|---|---|---|
| Intangible assets | 488 | (5) | 483 |
| Biological assets | 6 | – | 6 |
| Property, plant and equipment | 604 | (59) | 545 |
| Other non-current assets | 9 | – | 9 |
| Inventories | 73 | (19) | 54 |
| Income tax receivable | 16 | – | 16 |
| Trade and other receivables | 117 | (7) | 110 |
| Cash and cash equivalents | 6 | – | 6 |
| Assets held for sale | – | 41 | 41 |
| Borrowings, including deposits | (200) | (5) | (205) |
| Other non-current payables | (94) | – | (94) |
| Trade and other payables | (125) | (6) | (131) |
| Provisions and employee benefits | (50) | (7) | (57) |
| Income tax liabilities | (23) | (4) | (27) |
| Net deferred tax liabilities | (148) | 8 | (140) |
| **Total identifiable net assets acquired** | 679 | (63) | 616 |
| Goodwill | | | 850 |
| **Total consideration** | | | 1,466 |
| Satisfied by: | | | |
| Cash consideration | | | 1,466 |
| **Total consideration transferred** | | | 1,466 |
| **Net cash flow arising on acquisition** | | | |
| Cash consideration | | | 1,466 |
| Cash and cash equivalents acquired | | | (6) |
| **Total cash outflow** | | | 1,460 |

In the current financial year, fair value adjustments were made, primarily in relation to property, plant and equipment, working capital, assets held for sale, provisions and tax balances, resulting in an increase to goodwill of £63m.

The 30 April 2019 comparative consolidated statement of financial position was re-presented to reflect the material adjustments to provisional amounts for intangible assets and goodwill, tangible fixed assets and net deferred tax liabilities, with no net impact on net assets. Other balance sheet captions have not been adjusted in the comparative. Accordingly, of the £63m increase in goodwill due to fair value adjustments, £56m has been reflected in the comparative, with the remaining £7m increase reflected in the current year. The change in depreciation from the acquisition date to 30 April 2019 was not material.

Other 2018/19 acquisitions and divestments

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

(d) Acquisition related costs

The Group incurred acquisition related costs of £10m (2018/19: £32m), primarily related to professional fees relating to review of potential deals, which have been included in administrative expenses within adjusting items.

## 14. Adoption of IFRS 16 *Leases*

As detailed in note 1, the Group adopted IFRS 16 on 1 May 2019 using the modified retrospective approach.

On implementation of IFRS 16, the Group recognised right-of-use assets of £239m and corresponding lease liabilities of £242m, with the difference related to the transfer of onerous lease provisions at 1 May 2019 to right-of-use assets. There was no impact on the Group's opening equity as a result of adopting IFRS 16.

The indicative impact of the adoption of IFRS 16 disclosed in the pre-transition 30 April 2019 Annual Report was a right-of-use asset and corresponding lease liability of c. £235m. As a result of the implementation finalisation, particularly in newly acquired businesses, and regarding the accounting judgements around lease term, final adjustments to the right-of-use assets and corresponding liabilities have been made as detailed in the reconciliation below.

The following table reconciles the difference between the operating lease commitments under IAS 17 at 30 April 2019 and the lease liability recognised on adoption of IFRS 16 at 1 May 2019:

| | £m |
|---|---|
| Non-cancellable operating lease rentals reported as at 30 April 2019 | 259 |
| Additional commitments recognised in final implementation, including extension options reasonably certain to be exercised (undiscounted) | 30 |
| Other, including leases outside the scope of IFRS 16 (undiscounted) | (7) |
| Impact of discounting liability under IFRS 16 | (40) |
| **Lease liability recognised on transition to IFRS 16 at 1 May 2019** | 242 |

The Group's most significant leases relate to property and production equipment.

The weighted average incremental borrowing rate applied to the Group's lease liabilities on transition at 1 May 2019 was 4.9%.

At 30 April 2020, the right-of-use assets were £256m, with a corresponding lease liability of £255m.

The adoption of IFRS 16 does not have a material impact on the Group's current accounting for those leases previously classified as finance leases under IAS 17, which represented £6m out of the Group's total lease liabilities of £255m at 30 April 2020, and £10m in the 30 April 2019 comparative. The 2019 comparative consolidated statement of financial position has been re-presented to show lease liabilities at 30 April 2019, previously presented within borrowings, separately.

The impact on the consolidated income statement was:

| | Year ended 30 April 2020 £m |
|---|---|
| Operating lease rentals | 80 |
| Depreciation | (72) |
| **Operating profit** | 8 |
| Finance costs | (12) |
| **Profit before tax** | (4) |

The impact on the Group's Key Performance Indicators at 30 April 2020 was:

| | | |
|---|---|---|
| Reported net debt (note 9) | Increase | £249m |
| EBITDA | Increase | £80m |
| Return on average capital employed | Decrease | 30bps |

The adoption of IFRS 16 has impacted the cash flow statement presentation - repayments of the principal of lease liabilities are included within financing activities and interest is presented in operating activities whereas operating lease rentals were previously presented in operating activities under IAS 17. In comparison to previous presentation, net cash inflows from operating activities increase, offset by an increase in net cash outflows from financing activities due to the interest paid.

IFRS 16 liabilities are currently excluded from the definition of net debt as set out in the Group's banking covenant requirements, and as such are removed from the calculation of adjusted net debt for the purposes of the Group's net debt to EBITDA ratio (see note 9 and note 15).

The adoption of IFRS 16 has not had a material effect on the Group's effective tax rate.

## 15. Non-GAAP performance measures

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

The principal adjustments to financial information are made to exclude the effects of adjusting items (refer to note 3) and amortisation.

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

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

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

Certain non-GAAP performance measures can be, and are, reconciled to information presented in the financial statements. Other financial key performance measures are calculated using information which is not presented in the financial statements and is based on, for example, average 12-month balances or average exchange rates.

### Changes to non-GAAP performance measures in the year ended 30 April 2020

The comparability of the Group's non-GAAP performance measures has been impacted by the adoption of IFRS 16 *Leases*. The Group's use of the modified retrospective transition approach means the current year is reported under the new standard, but that comparatives are prepared under the previous standard, IAS 17 *Leases*. The impact of the change on the Group's key non-GAAP performance measures is detailed in note 14.

Unlike other of the Group's non-GAAP performance measures, net debt and net debt/EBITDA remain calculated under the previous standard, IAS 17 *Leases*, because they are calculated in accordance with the Group's banking covenant requirements which remain on the previous GAAP basis. As such, for net debt and net debt/EBITDA, the reconciliation for the non-GAAP performance measure below has expanded to show the calculation to return the non-GAAP performance measure to the IAS 17 basis.

### Key non-GAAP performance measures

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

### Adjusted operating profit

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

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

### Operating profit before adjusting items

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

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

### Adjusted EBITDA

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

### Adjusted earnings per share

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

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

### Return on sales

Return on sales is adjusted operating profit measured as a percentage of revenue. Return on sales is used to measure the value we deliver to customers and the Group's ability to charge for that value.

| | **2020**<br>**£m** | 2019<br>£m |
|---|---|---|
| Adjusted operating profit | **660** | 631 |
| Revenue | **6,043** | 6,171 |
| **Return on sales** | **10.9%** | **10.2%** |

### Adjusted return on average capital employed (ROACE)

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

| | **2020 £m** | 2019 £m |
|---|---|---|
| Capital employed at 30 April | **6,010** | 5,674 |
| Currency, inter-month and acquisition/divestment movements | **244** | (1,022) |
| **Last 12 months' average capital employed** | **6,254** | 4,652 |
| Last 12 months' adjusted operating profit | **660** | 631 |
| **Adjusted return on average capital employed** | **10.6%** | 13.6% |

### Net debt and net debt/EBITDA

Net debt is the measure by which the Group assesses its level of overall indebtedness within its financial position. The components of net debt as they reconcile to the primary financial statements and notes to the accounts are disclosed in note 9.

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

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

The Group's banking covenant requirements currently exclude IFRS 16 liabilities from the definition of net debt, as well as requiring that EBITDA is calculated before the effects of IFRS 16, so an adjustment to the previous IAS 17 basis is made in the calculation.

In calculating the ratio, net debt is stated at average rates as opposed to closing rates, and adjusted EBITDA is adjusted operating profit before depreciation from the previous 12 month period adjusted for the full year effect of acquisitions and divestments in the period, and to adjust to an IAS 17 basis.

| | **2020 £m** | 2019 £m |
|---|---|---|
| Net debt – reported basis (see note 9) | **2,101** | 2,277 |
| IFRS 16 lease liabilities (see note 9) | **(249)** | – |
| Adjustment to average rate | **17** | 41 |
| **Net debt – adjusted basis** | **1,869** | 2,318 |
| Adjusted EBITDA – last 12 months' reported basis (continuing operations) | **956** | 820 |
| Adjust to IAS 17 basis | **(80)** | – |
| Acquisition and divestment effects | **(2)** | 136 |
| Add back of discontinued operations | **–** | 40 |
| **Adjusted EBITDA – banking covenant basis** | **874** | 996 |
| **Net debt/EBITDA** | **2.1x** | 2.3x |

### Free cash flow

Free cash flow is the net movement on debt before cash outflow for adjusting items, dividends paid, acquisition and divestment of subsidiary businesses (including borrowings acquired), and proceeds from issue of share capital.

A reconciliation from Adjusted EBITDA to free cash flow is set out in note 11.

### Cash conversion

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

| | **2020 £m** | 2019 £m |
|---|---|---|
| Growth capital expenditure | **137** | 140 |
| Non-growth capital expenditure | **239** | 163 |
| **Total capital expenditure (note 11)** | **376** | 303 |
| Free cash flow (note 11) | **354** | 339 |
| Tax paid (note 11) | **94** | 85 |
| Net interest paid (note 11) | **77** | 61 |
| Growth capital expenditure | **137** | 140 |
| Change in employee benefits (note 11) | **19** | 17 |
| **Adjusted free cash flow** | **681** | 642 |
| **Adjusted operating profit** | **660** | 631 |
| **Cash conversion** | **103%** | 102% |

### Average working capital to sales

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

| | **2020 £m** | 2019 £m |
|---|---|---|
| Inventories | **518** | 584 |
| Trade and other receivables | **736** | 833 |
| Trade and other payables | **(1,419)** | (1,587) |
| Inter-month movements and exclusion of capital and acquisition and divestment related items | **195** | 174 |
| **Last 12 months' average working capital** | **30** | 4 |
| Last 12 months' revenue | **6,043** | 6,171 |
| **Average working capital to sales** | **0.5%** | 0.1% |

### Constant currency and organic growth

The Group presents commentary on both reported and constant currency revenue and adjusted operating profit comparatives in order to explain the impact of exchange rates on the Group's key income statement items. Constant currency comparatives recalculate the prior year revenue and adjusted operating profit as if they had been generated using the current year exchange rates. In addition, the Group then separates the incremental effects of acquisitions made in the current year, and the incremental effects of acquisitions made in the previous year, to determine underlying organic growth. The table below shows the calculations:

| | **Revenue £m** | **Adjusted operating profit £m** |
|---|---|---|
| Reported basis – comparative year ended 30 April 2019 | **6,171** | **631** |
| Currency effects | **(3)** | **3** |
| Constant currency basis – comparative year ended 30 April 2019 | **6,168** | **634** |
| Prior year acquisitions | **376** | **50** |
| | **6,544** | **684** |
| Synergies | **–** | **35** |
| Organic growth | **(501)** | **(59)** |
| Reported basis – year ended 30 April 2020 | **6,043** | **660** |

### Dividend cover

Dividend cover is adjusted earnings per share divided by the total dividend for the year.

| | **2020** | 2019 |
|---|---|---|
| Adjusted earnings per share | **33.2p** | 33.3p |
| Total dividend | **n/a** | 16.2p |
| **Dividend cover** | **n/a** | 2.1x |

## 16. Subsequent events

On 26 June 2020, the Group paid £82m to the sellers of Interstate Resources, as it completed purchase of half of the put option remaining for £106m, with, by agreement, the remainder deferred to October 2021 (see note 13(b)).

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