

Company Registration No. 00058614

DS Smith Paper Limited

**Annual report and financial statements
for the year ended 30 April 2020**

DS Smith Paper Limited

Annual report and financial statements for the year ended 30 April 2020

Contents

Officers and professional advisers	1
Strategic report	2
Directors' report	5
Directors' responsibilities statement	7
Independent Auditor's report	8
Income statement	11
Statement of comprehensive income	12
Statement of financial position	13
Statement of changes in equity	14
Notes to the financial statements	15

DS Smith Paper Limited

Annual report and financial statements for the year ended 30 April 2020

Officers and professional advisers

Directors

W B Hicks

N J Miller

C S McIntyre

Company Secretary

Z W Stone

Registered office

350 Euston Road

London

NW1 3AX

United Kingdom

Registered number

00058614 (England and Wales)

Auditor

Deloitte LLP

Statutory Auditor

Cardiff

United Kingdom

Banker

National Westminster Bank Plc

1 Princes Street

London

EC2R 8AQ

Solicitor

Slaughter and May

One Bunhill Row

London

EC1Y 8YY

DS Smith Paper Limited

Strategic report

The Directors, in preparing this strategic report, have complied with s414c of the Companies Act 2006.

Principal activities

DS Smith Paper Limited (the 'Company') is a subsidiary of DS Smith Plc and operates as part of the DS Smith Group's ('the Group's') UK Paper and Corrugated division.

The Company's principal activities during the year were the manufacture and sale of corrugated case materials (CCM) and specialist paper grades. In addition to third party customers, the Company's customers include other companies within the Group.

Review of business

The Company is the leading producer of CCM in the UK, which accounts for over 85% of the paper it produces; CCM is converted by the Company's customers into corrugated board and boxes. The Company is also a leading European producer of plasterboard liner, which accounts for approximately 15% of its production.

During the year, as shown in the Company's income statement on page 11, the Company recorded a profit before tax of £43,992,000 (2019: profit of £86,973,000).

Sales volumes in the year increased by 2.1% from 2019 partly due to an increase in sales of brown grade paper in the last 2 months of the year due to increased e-commerce activity post-lockdown following the start of the Covid-19 pandemic. Revenue has declined from £365,889,000 in 2019 to £290,847,000 in 2020 reflecting the lower average paper price in the year (reflected in the various paper indices). Costs continue to remain a focus of attention for the Company and areas of its business have been reviewed to ensure their continued cost-effective operation.

Exceptional items of £2,866,000 in the current year (2019: £793,000) relate to ongoing restructuring (£994,000) and changes in legislation relating to Guaranteed Minimum Pension Equalisation (£1,872,000).

CO2 emissions fell by 8.4% in the year reflecting a number of ongoing energy saving initiatives around the business including LED lighting and machine efficiency upgrades. Looking ahead, there are a number of transformational capital projects underway that will further mitigate the Company's impact on the environment ranging from a new, more efficient combined heat and power ('CHP') facility to renewing Kemsley's principal water supply pipe.

The net assets of the Company, as shown in the statement of financial position on page 13, increased from £314,576,000 to £344,101,000 during the year.

Key performance indicators

Return on sales, being operating profit before exceptional items expressed as a percentage of revenue, decreased from 24% in 2019 to 16.1% in 2020 reflecting the lower sales prices during the year.

Return on average capital employed ('ROACE') is the last 12 months' operating profit before exceptional items 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, intangible assets, working capital, capital debtors/creditors and provisions. During the year ROACE decreased from 47.2% in 2019 to 23.2% reflecting the drop in profit as described above and the small increase in capital employed.

Section 172(1) of the Companies Act 2006

The Board of Directors comprises the Divisional Chief Executive of Supply Engine, the Finance Director – Paper & Recycling and the Group Financial Controller. The Directors aim to promote the success of the Company for the benefit of its shareholder and the Group as a whole, taking into account the long-term consequences of its decisions and looking at those decisions through a variety of lenses. The Company contributes to the Group's 3 year corporate plan which provides long-term strategic direction for the business. The Directors and management are continuously thinking about the interests of the Company's stakeholders; about the importance of maintaining the Company's reputation for high standards of business conduct; and about the environment. The Company's key stakeholders and their differing perspectives are identified and taken into account, not only as part of the Board's annual strategy and corporate planning discussions, but also in the Board's project assessments and in Board conversations.

DS Smith Paper Limited

Strategic report (continued)

Section 172(1) of the Companies Act 2006 (continued)

The Company's key stakeholders have been identified as its employees, its customers, the communities in which the Company operates, non-governmental organisations and its suppliers. Examples of how this has been achieved is provided below:

Employees

The Company employs approximately 446 people and has a modern, inclusive and diverse culture. It is committed to both the principle and achievement of equal opportunities in employment and policies are designed to provide such equality irrespective of sex, creed, ethnic origin, nationality, sexual orientation, age or disability. Dependent upon their skills and abilities, the Company applies the same criteria to disabled persons as it does to other employees whether in selection, promotion or training. If any employee becomes disabled during employment with the Company, every effort is made to find suitable continuing employment. The Company fully recognises its responsibilities and continues to promote all aspects of health and safety in the interests of its employees and members of the public.

The Company is fully committed to ensuring that sufficient emphasis is placed on employee involvement and communication through a variety of methods, and continues to keep employees informed on matters affecting them as employees and on the various factors affecting the performance of the Company and the wider Group. The Company engage people in a number of ways: on site through team briefings and leadership visits, online and in print through newsletters and providing mechanisms for feedback through employee works councils, employee surveys and more regular pulse surveys, which inform local action plans and sharing of best practice. The Group has a confidential hotline known as 'Speak Up!' for employees to report concerns where they do not wish to go through their line manager. An example of the Company's partnership approach has been the co-creation of an employee charter setting out our shared values and principles on issues that matter to our people. Furthermore, the Group operates a Sharesave Plan which encourages employees' involvement in the Group and Company's performance.

Customers

The Company supplies both external customers, and the Group's Packaging Division. It has a deep understanding of its customers as a result of working closely with them over many years, combining this understanding with creativity to develop innovative, sophisticated packaging that improves the efficiency of supply chains, saving customers money and improving their security of supply. During the Covid-19 pandemic, the Company has supported its customers as they keep essential goods, food and pharmaceuticals moving.

Communities and non-governmental organisations

The Company's employees are engaged in local community programmes to promote the protection of the environment, biodiversity and good community relations. The Directors consult with government and industry organisations as well as non-governmental organisations such as the Ellen MacArthur Foundation on the circular economy and broader sustainability issues.

Suppliers

A substantial portion of fibre is sourced internally as part of the circular supply chain, and the Company therefore works closely with these suppliers. The Company engages with all suppliers to enforce established supplier standards and a supplier code of conduct, which set out the Company's ways of working, including for example, in relation to the Company's obligations under anti-modern slavery laws and ensuring compliance with sustainability standards.

Environment

The Company recognises the importance of its environmental responsibilities and monitors its impact on the environment. The Company has testing environment targets so that it continues to improve its impact on the environment.

Initiatives designed to minimise the Company's impact on the environment include reducing and recycling waste and investment in equipment designed to improve energy efficiencies. The long term nature of paper machinery makes consistent carbon reduction a challenge. However, there are a number of transformational capital projects underway that will further mitigate the Company's impact on the environment ranging from a new, more efficient combined heat and power ('CHP') facility to renewing Kemsley's principal water supply pipe.

DS Smith Paper Limited

Strategic report (continued)

Principal risks and uncertainties

Competitive pressure in the Company's core markets is a constant risk that could result in the Company losing sales to key competitors and margins being eroded. This risk is managed by working closely with customers to provide quality products and solutions and to ensure good service levels are maintained.

Against this background, the volatility of the Company's main input costs, waste and energy, continues to be a risk, particularly given the price rises over the last year, since additional cost needs to be passed onto the customer in order to maintain margin. The Company has an active programme in place to manage its supplies and costs of waste and energy. Additionally, the Company is very active in implementing productivity improvements and other cost reduction programmes to counter the financial impact of this risk and to protect the margin from inflationary increases particularly in energy.

Credit risk is seen as an increasing issue faced by the Company as our customers continue to face a competitive market. This risk is mitigated by strict application of our credit policy and regular management review of accounts that are rated as higher risk.

Group risks are discussed in the Group's annual report which does not form part of this report.

Covid-19

The Covid-19 pandemic has resulted in the shutdown of economies across the world, resulting in job losses and business failures and a global recession, including in the UK. The Directors' primary focus has been the health and wellbeing of the Company's employees. Secondly, the Directors have focused on maintaining an uninterrupted supply in the Group's supply chain. The Group's packaging sites have generally been classified as essential operations as they supply FMCG companies which are essential in the food supply chain. This has sustained demand in paper. All 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. In response to the pandemic the Company has undertaken measures to reinforce the Company's financial position and ongoing performance through conserving cash and managing costs. Capital expenditure will be reduced and all non-essential expenditure deferred.

Future developments

The Company will strive to remain a low cost and flexible producer of its core products and maintain its focus on quality and customer service. At the same time, a strategy of developing waste paper recycling operations and products complementary to CCM will continue to be pursued. The Covid-19 pandemic remains a challenge and the Directors will continue to monitor the impact the pandemic will have on its stakeholders. The Company has already taken actions to conserve cash and manage costs and will continue to do so. Given how well its people and operations have performed during the peak of the pandemic, the Directors are confident in the Company's ability to continue to perform well in the future.

Financial risk management objectives and policies

The Company's operations expose it to a number of financial risks that include liquidity risk and cash flow risk. Wherever possible the Company complies with Group policies.

Liquidity and cash flow risk

The Company actively manages its liquidity risk by short-term debt finance with Group treasury, supported by external borrowings where appropriate, that is designed to ensure the Company has sufficient available funds for operations.

Approved by the Board of Directors and signed on behalf of the Board:

W B Hicks

Director

5 November 2020

DS Smith Paper Limited

Directors' report

The Directors present their annual report and the audited financial statements of the Company for the year ended 30 April 2020. Matters that have been disclosed in the strategic report include: Engagement with employees; Future developments and Financial risk management objectives and policies.

Dividends

The Directors have not proposed or paid a dividend for the year ended 30 April 2020 (2019: £nil).

Directors

The Directors who held office during the year and to the date of signing the financial statements were as follows:

C S McIntyre

W B Hicks

N J Miller

Secretary

Z W Stone

Directors' and officers' indemnity

During the year and up to the date of approval of these financial statements, the ultimate parent company maintained qualifying third-party indemnity arrangements for the Directors and other officers of the Company.

Engagement with suppliers, customers and others

Details about the Company's engagement with suppliers, customers and others can be found in the Section 172(1) statement of the Companies Act 2006 in the Strategic report on page 3.

Brexit

The UK left the EU at the start of 2020 and the transition period is expected to end on 1 January 2021. In 2020 the UK comprised c. 86% of the Company's revenue for which product was largely sourced within the UK and as such the Directors do not expect a substantial disruption in the event of an orderly transition to new trading arrangements between the UK and the EU. In the event of a disorderly transition, there could be short-term consequences, for example, disruption to haulage providers, but would expect this to be relatively contained. Discussions and planning have taken place with key trading partners to mitigate against any potential disruption to the supply chain.

Political contributions

No political contributions were made during the year (2019: £nil).

Research and development

The Company recognises the importance of continuing investment in research and development. It is Company policy to develop new product specifications commensurate with customer and environmental needs. Research is also conducted into ways to improve product quality and finding more cost-efficient production methods.

An amount of £103,000 (2019: £53,000) was charged to the income statement for research costs incurred in the year.

DS Smith Paper Limited

Directors' report (continued)

Going concern

The financial statements have been prepared using the going concern basis of accounting. In making their assessment on the appropriateness of using the going concern basis, the Directors have considered any material uncertainties relating to events or conditions that may cast significant doubt upon the continuing use of the going concern basis of accounting in future periods. The Directors have considered a period of at least 12 months from the date the financial statements are expected to be authorised for issue. The Going concern assessment was made using latest forecast trading results. The Covid-19 pandemic has led to increased demand from Packaging customers in the FMCG and e-commerce sectors.

The paper price is a key assumption in the trading forecast, however the forecast shows an increase in volumes on FY20.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The financial position of the Company is as shown in the statement of financial position on page 13.

The Company's ultimate parent Company and controlling party is DS Smith Plc, whose financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has access to considerable financial resources from across the Group. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. Taking into consideration the financial performance and financial position of the Company, they continue to adopt the going concern basis in preparing the financial statements.

Events after the balance sheet date

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

Streamlined Energy and Carbon Reporting

The Company is included in the Group reporting of the ultimate parent company which has provided its consolidated CO2 emissions and energy consumption on page 34 of the Strategic report in the Group's 2020 annual report.

Auditor

Each person who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be reappointed as Auditor in the absence of an Annual General Meeting pursuant to s487 of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board:

W B Hicks

Director

5 November 2020

DS Smith Paper Limited

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of DS Smith Paper Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of DS Smith Paper Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 30 April 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent Auditor's report to the members of DS Smith Paper Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

Independent Auditor's report to the members of DS Smith Paper Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Hedditch (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Cardiff, United Kingdom

5 November 2020

DS Smith Paper Limited
Income Statement
For the year ended 30 April 2020

	Notes	2020 £'000	2019 £'000
Revenue	2	290,847	365,889
Cost of sales		(227,144)	(256,218)
Gross profit		63,703	109,671
Distribution costs		(12,988)	(13,613)
Administrative expenses		(10,928)	(14,064)
Other income	3	7,030	5,904
Operating profit before exceptional items	4	46,817	87,898
Exceptional items	7	(2,866)	(793)
Operating profit after exceptional items		43,951	87,105
Finance income/(costs)	8	247	(195)
Employment benefit net finance (expense)/income	16	(206)	63
Net financing income/(costs)		41	(132)
Profit before income tax		43,992	86,973
Income tax expense	9	(7,760)	(16,593)
Profit for the financial year		36,232	70,380

All results are from continuing operations.

DS Smith Paper Limited
Statement of comprehensive income
For the year ended 30 April 2020

	Notes	2020 £'000	2019 £'000
Profit for the year		36,232	70,380
Items which will be not be reclassified subsequently to profit or loss:			
Actuarial losses on employee benefits	16	(9,624)	(13,746)
Income tax on actuarial losses	9	2,917	2,655
Other comprehensive expense for the year, net of tax		(6,707)	(11,091)
Total comprehensive income for the year		29,525	59,289

DS Smith Paper Limited
Statement of financial position
As at 30 April 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Intangible assets	10	1,148	1,812
Property, plant and equipment	11	189,256	185,772
Investments in subsidiaries	12	38,548	38,548
Deferred tax assets	13	3,090	10,294
Total non-current assets		232,042	236,426
Current assets			
Inventories	14	16,938	17,806
Trade and other receivables	15	229,602	224,333
Cash and cash equivalents		12,626	12,891
Income tax asset		12,044	4,661
Total current assets		271,210	259,691
Total assets		503,252	496,117
Liabilities			
Non-current liabilities			
Employee benefits	16	(16,090)	(11,001)
Provisions	17	(1,000)	-
Total non-current liabilities		(17,090)	(11,001)
Current liabilities			
Trade and other payables	18	(138,840)	(169,224)
Provisions	17	(3,221)	(1,316)
Total current liabilities		(142,061)	(170,540)
Net current assets		129,149	89,151
Total assets less current liabilities		361,191	325,577
Total liabilities		(159,151)	(181,541)
Net assets		344,101	314,576
Equity			
Called-up share capital	19	196,275	196,275
Share premium account		1,919	1,919
Revaluation reserve		8,704	8,704
Equity reserves		10,811	10,811
Retained earnings		126,392	96,867
Shareholders' equity		344,101	314,576

These financial statements for DS Smith Paper Limited (registered number 00058614), were approved by the Board of Directors and authorised for issue on 5 November 2020.

Signed on behalf of the Board of Directors:

W B Hicks
Director

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

DS Smith Paper Limited
Statement of changes in equity
For the year ended 30 April 2020

	Called-up share capital £'000	Share premium £'000	Revalu- ation reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 1 May 2018	196,275	1,919	8,704	10,811	37,578	255,287
Profit for the year	-	-	-	-	70,380	70,380
Actuarial loss on employee benefits	-	-	-	-	(13,746)	(13,746)
Income tax on other comprehensive income	-	-	-	-	2,655	2,655
Total comprehensive income	-	-	-	-	59,289	59,289
At 30 April 2019	196,275	1,919	8,704	10,811	96,867	314,576
Profit for the year	-	-	-	-	36,232	36,232
Actuarial loss on employee benefits	-	-	-	-	(9,624)	(9,624)
Income tax on other comprehensive income	-	-	-	-	2,917	2,917
Total comprehensive income	-	-	-	-	29,525	29,525
At 30 April 2020	196,275	1,919	8,704	10,811	126,392	344,101

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020

1. Principal accounting policies

Basis of preparation

The Company is a private company limited by shares and is registered in England & Wales. The address of the Company's registered office is shown on page 1.

The accounts are prepared under the historical cost convention. The financial statements of the Company have been prepared on the going concern basis and in accordance with Financial Reporting Standard 102 and the UK Companies Act 2006.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because it is a wholly owned subsidiary of DS Smith Plc which prepares consolidated financial statements which are publicly available.

In these financial statements, the Company has applied the exemptions available under FRS 102 in respect of the following disclosures as they are a qualifying entity:

- statement of cash flows and related notes;
- a reconciliation for number of shares outstanding;
- disclosures in respect of financial instruments including categories of financial instruments, items of income, expenses, gains or losses relating to financial instruments and exposure to and management of financial risks; and
- disclosures in respect of key management personnel.

As the Group financial statements include the equivalent disclosures, the Company has also taken advantage of the exemptions under FRS 102 available in respect of Share-based Payments regarding Group-settled share-based payments.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Revenue

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

Revenue from the sale of goods is recognised when:

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

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

Foreign currencies

The presentation currency is sterling. Transactions in foreign currencies are recorded using the rate of exchange ruling at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated using the rate of exchange ruling at that date.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

1. Principal accounting policies (continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss.

Exceptional items

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

Such items can include business disposals, restructuring and optimisation, and impairments.

Intangible assets

Goodwill is recorded at cost less accumulated impairment losses. Goodwill is amortised on a straight-line basis over its expected useful life not exceeding 10 years, and is tested annually for impairment; or more frequently if impairment is indicated.

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

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

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

The estimated useful lives are as follows:

Computer software	3-5 years
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Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Such costs include costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold and long-leasehold buildings	2% to 10% per annum (straight-line)
Freehold land	not depreciated
Plant and machinery; Fixtures and fittings	5% to 25% per annum (straight-line)

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of freehold or leasehold land and buildings is charged to the income statement as appropriate.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

1. Principal accounting policies (continued)

Customer contributions to fixed asset purchases

Customer contributions to purchases of property, plant and equipment are included within deferred income in the statement of financial position, and are credited to operating profit over the estimated useful lives of the assets to which they relate.

Investments in subsidiaries

Investments in subsidiary undertakings are valued at cost less provisions for impairment.

Employee benefits

Defined contribution schemes

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

Defined benefit schemes

The Company is an employer participating in a UK funded, defined benefit scheme, the DS Smith Group Pension scheme (the 'Scheme') of which the ultimate parent, DS Smith Plc, is the sponsoring employer.

The Group has in place a stated policy for allocating the net defined benefit cost and employer contributions relating to the Scheme to participating Group entities based on the most recent available member data.

Accordingly, both the Company's statement of financial position and income statement reflect the Company's share of the net defined benefit liability and net defined benefit cost in respect of the Scheme, allocated per the stated policy. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

Share-based payment transactions

The ultimate parent company, DS Smith Plc, operates an equity-settled, share-based compensation plan covering certain employees of the Company. The fair value of these employee services received by the Company in exchange for the grant of the options is recognised as an expense in the Company's books by means of a recharge from the ultimate parent company. The fair value of the options granted is measured using a stochastic model, taking into account the terms and conditions upon which the options were granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date the Company revises its estimates of the numbers of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement.

Provisions

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

Leases

The Company as lessee

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

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

1. Principal accounting policies (continued)

Inventories

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

Guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. In accordance with Group policy, the Company surrenders current year tax losses to other members of the Group, and receives payment for those tax losses at the rate of tax prevailing in the year.

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

Financial instruments

The Company uses derivative financial instruments, currency swaps, to currency risk associated with the Company's underlying business activities.

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

Derivative financial instruments are accounted for as hedges when designated as hedges at the inception of the contract and when the financial instruments provide an effective hedge of the underlying risk. Any gains or losses arising from the hedging instruments are offset against the hedged items.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; and
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

1. Principal accounting policies (continued)

Financial instruments (continued)

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Finance income

Finance income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Going concern

The financial statements have been prepared using the going concern basis of accounting. In making their assessment on the appropriateness of using the going concern basis, the Directors have considered any material uncertainties relating to events or conditions that may cast significant doubt upon the continuing use of the going concern basis of accounting in future periods. The Directors have considered a period of at least 12 months from the date the financial statements are expected to be authorised for issue. The Going concern assessment was made using latest forecast trading results. The Covid-19 pandemic has led to increased demand from Packaging customers in the FMCG and e-commerce sectors. The paper price is a key assumption in the trading forecast, however the forecast shows an increase in volumes on FY20.

The financial position of the Company is as shown in the statement of financial position.

The Company's ultimate parent company and controlling party is DS Smith Plc, whose financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has access to considerable financial resources which would be available to the Company if necessary. As a consequence, the Directors believe the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have formed a judgement at the time of approving these financial statements, that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing these financial statements.

Critical accounting judgements in applying the Company's accounting policies

There were no critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies.

Key sources of estimation uncertainty

In applying the Company's accounting policies, which are described above, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Defined benefit pension obligations

The cost of pension benefits is determined using actuarial valuations. This involves making assumptions about future changes in salaries, pension increases, mortality rates and discount rates. Due to the long-term nature of these plans, considerable management judgement is necessary and estimates are subject to uncertainty. Further details about the assumptions used are given in Note 16.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

1. Principal accounting policies (continued)

Defined benefit pension obligations (continued)

A 0.5% decrease in the discount rate assumption used in the actuarial valuation would increase the pension liability by approximately £103 million. A 0.5% increase in the inflation rate assumption would increase the pension liability by approximately £66 million and a 1 year increase in the life expectancy assumption would increase the pension liability by approximately £47 million.

2. Revenue

	2020	2019
	£'000	£'000
Revenue by geographical destination:		
United Kingdom	249,858	325,030
Continental Europe	38,550	36,329
Rest of world	2,439	4,530
	290,847	365,889
	2020	2019
	£'000	£'000
Revenue is in respect of:		
Sale of goods	287,014	360,913
Provision of services	3,833	4,976
	290,847	365,889

3. Other income

Other income comprises income from the anaerobic digester facility and the new combined heat and power facility. During the year the Directors decided to present other income separately including income which in 2019 was reported within Administrative expenses. This has no impact on operating profit, net profit or net assets.

4. Operating profit before exceptional items

Operating profit before exceptional items is stated after charging/(crediting):

	2020	2019
	£'000	£'000
Auditor's remuneration – fees payable for the audit of the Company's financial statements	61	56
Depreciation of owned property, plant and equipment (see note 11)	15,226	13,243
Research and development expenditure	103	53
Amortisation of intangible assets (see note 10)	758	979
Foreign exchange (gains)/losses	(88)	323
Operating lease rentals	1,429	1,408
Cost of inventory	210,934	225,596

No fees in relation to non-audit services were paid to the Company's Auditor in the current or preceding year

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

5. Directors' emoluments

	2020 £'000	2019 £'000
Remuneration as executives	1,164	787

The emoluments of the highest paid Director were £881,666 (2019: £517,256) including pension contributions of £nil (2019: £10,000).

The number of Directors for which pension contributions have been paid by the Company during the financial year was nil (2019: 1).

6. Employee information

The average monthly number of staff (including Directors) employed by the Company during the financial year was:

	2020 Number	2019 Number
Average number of staff by activity during the year:		
Direct production	206	203
Indirect production	205	205
Administration	35	36
	446	444

	2020 £'000	2019 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	26,310	24,432
Social security costs	2,722	2,534
Contributions to defined contribution pension plans (note 15)	2,210	1,999
	31,242	28,965

Wages and salaries include £548,107 (2019: £531,455) in respect of share options granted by the ultimate parent company during the financial year. The Company's management participates in the performance share plan of the parent company.

For further details see note 21.

7. Exceptional items

	2020 £'000	2019 £'000
Restructuring costs	994	793
Guaranteed minimum pension equalisation	1,872	-
	2,866	793

Restructuring costs relate to ongoing restructuring to rationalise operations and to achieve cost efficiency.

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 legislation was a charge of £1,872,000 for the Company.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

8. Finance income/(costs)

	2020 £'000	2019 £'000
Interest received from Group undertakings	380	-
Bank interest	139	457
Other	63	110
Finance income	582	567
Factoring costs	(335)	(722)
Other	-	(40)
Finance costs	(335)	(762)
Finance income/(costs)	247	(195)

9. Income tax expense

	2020 £'000	2019 £'000
Current tax credit/(expense)		
UK Corporation tax in respect of current year	(3,318)	(14,016)
Adjustment in respect of prior years	5,679	3,475
Total current tax	2,361	(10,541)
Deferred tax expense		
Origination and reversal of temporary differences	(5,350)	(2,246)
Change in tax rates	(393)	-
Adjustment in respect of prior years	(4,378)	(3,806)
Total deferred tax	(10,121)	(6,052)
Total income tax expense	(7,760)	(16,593)
Tax on profit before exceptional items	(7,949)	(16,744)
Tax credit on exceptional items	189	151
Total income tax expense	(7,760)	(16,593)
Tax on other comprehensive income and equity	2020 £000	2019 £'000
Tax on actuarial loss	1,828	2,655
Impact of change in tax rate	1,089	-
Total tax credit included in other comprehensive income and equity	2,917	2,655

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

9. Income tax expense (continued)

The difference between the actual tax charge and the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%) is as follows:

	2020 £'000	2019 £'000
Profit before tax	43,992	86,973
Income tax at the UK standard rate of corporation tax of 19.00% (2019: 19.00%)	(8,358)	(16,525)
- Permanent differences	(310)	(1)
- Effect of change in corporation tax rate	(393)	264
- Adjustments in respect of prior years	1,301	(331)
Income tax expense	(7,760)	(16,593)

In the Finance Act 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. Accordingly, the rate applied to UK deferred tax assets is 19% (2019: 17%).

In future years, the tax charge will be affected by the extent to which any capital gains can either be rolled over or sheltered by capital losses within the Group as well as subsequently enacted changes in the tax rate.

10. Intangible assets

	Goodwill £'000	Software £'000	Other £'000	Carbon credits £'000	Total £'000
Cost					
At 1 May 2019	13,557	3,668	557	1,485	19,267
Reclassified from property, plant and equipment	-	94	-	-	94
At 30 April 2020	13,557	3,762	557	1,485	19,361
Amortisation and impairment					
At 1 May 2019	(13,557)	(1,932)	(481)	(1,485)	(17,455)
Amortisation	-	(682)	(76)	-	(758)
At 30 April 2020	(13,557)	(2,614)	(557)	(1,485)	(18,213)
Net book value					
At 30 April 2020	-	1,148	-	-	1,148
At 30 April 2019	-	1,736	76	-	1,812

Amortisation for the year is shown within administrative expenses.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

11. Property, plant and equipment

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Under const- ruction £'000	Total £'000
Cost						
At 1 May 2019	80,911	5,506	377,304	827	16,601	481,149
Additions	5,707	-	12,193	921	(17)	18,804
Reclassified to intangible assets	-	-	(94)	-	-	(94)
At 30 April 2020	86,618	5,506	389,403	1,748	16,584	499,859
Accumulated depreciation						
At 1 May 2019	(39,856)	(5,506)	(249,939)	(76)	-	(295,377)
Charge for the year	(1,494)	-	(13,677)	(55)	-	(15,226)
At 30 April 2020	(41,350)	(5,506)	(263,616)	(131)	-	(310,603)
Net book value						
At 30 April 2020	45,268	-	125,787	1,617	16,584	189,256
At 30 April 2019	41,055	-	127,365	751	16,601	185,772

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

12. Investments in subsidiaries

	Shares in subsidiary undertakings £'000
Cost	
At 1 May 2019 and at 30 April 2020	42,320
Provisions for impairment	
At 1 May 2019 and at 30 April 2020	(3,772)
Net book value	
At 30 April 2020	38,548
At 30 April 2019	38,548

The Company's interests in subsidiary undertakings are as follows. The registered address of all of the companies listed below is 350 Euston Road, London, NW1 3AX.

Name of Company	Nature of business	Country of Incorporation	Share Class	Percentage of share capital held
DS Smith Logistics Limited	Logistics business	England and Wales	Ordinary Non- cumulative preference	100% 100%
Grovehurst Energy Limited	Non-Trading	England and Wales	Ordinary	100%
SRP New Thames Limited	Dormant	England and Wales	Ordinary Cumulative redeemable preference Fixed cumulative redeemable preference	100% 100% 100%
A.A. Griggs and Company Limited	Dormant	England and Wales	Ordinary	100%
St Regis Kemsley Limited	Dormant	England and Wales	Ordinary	100%

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

13. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Company and movements during the prior and current reporting period.

	Capital allowances £'000	Employee benefits including pensions £'000	Other £'000	Total £'000
At 1 May 2019	8,425	1,869	-	10,294
Charged to income statement	(8,391)	(1,730)	-	(10,121)
Credited to other comprehensive income	-	2,917	-	2,917
At 30 April 2020	34	3,056	-	3,090

14. Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	7,866	8,299
Finished goods	9,072	9,507
	16,938	17,806

There is no material difference between the statement of financial position value of inventories and their replacement cost. Inventory provisions at 30 April 2020 were £3.2m (30 April 2019: £4.1m).

15. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	7,906	9,242
Amounts owed by Group undertakings	211,663	209,536
Other receivables	1,349	2,535
Prepayments	5,936	2,515
Accrued income	2,748	505
	229,602	224,333

Interest is charged on the amounts owed by Group undertakings as follows:

£112,492 on which interest is charged at 1 month LIBOR which is unsecured and with no fixed date of repayment.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

16. Employee benefits

Defined benefit scheme

The Company is a participating employer in the DS Smith Group Pension Scheme (the 'Scheme'). The Scheme is a UK funded final salary defined benefit scheme providing pensions and lump sum benefits to members and dependants. The Scheme closed to future accrual from 30 April 2011 with pensions calculated based on pensionable salaries up to the point of closure (or the date of leaving the Scheme, if earlier).

The Scheme has a normal retirement age of 65 although some members are able to take their benefits earlier than this. Increases to pensions are affected by changes in the rate of inflation for the majority of members.

The Scheme exposes the Group to risks, such as longevity risk, currency risk, inflation risk, interest rate risk and investment risk. As the Scheme's obligation is to provide lifetime pension benefits to members upon retirement, increases in life expectancy will result in an increase in the Scheme's liabilities. Other assumptions used to value the defined benefit obligation are also uncertain.

The Group has in place a stated policy for allocating the net defined benefit cost relating to the Scheme to participating Group entities. The consolidated financial statements for the year to 30 April 2020 for DS Smith Plc included information about the funding position of the Scheme as a whole as at 30 April 2020.

	2020 £'000	2019 £'000
Present value of funded obligations	(1,169,207)	(1,086,119)
Fair value of Scheme assets	1,097,829	1,035,855
Total deficit, net	(71,378)	(50,264)
Allocated to other participating employers	55,288	39,263
Company's share of deficit, net	(16,090)	(11,001)

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 May 2019	258,339	(269,340)	(11,001)
Employment benefit net finance expense			(206)
Employer contributions			4,741
Actuarial losses – financial assumptions			(25,757)
Actuarial losses - demographic			(4,391)
Actuarial gains - experience			4,123
Actuarial gains – Scheme assets			16,401
Company's share of deficit, net			(16,090)

An analysis of the Scheme assets is provided below:

	2020 %	2019 %
Equities/multi-strategy	-	32
Debt instruments	24	20
Derivatives	68	47
Cash and cash equivalents	5	1
Other	3	-
	100	100

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

16. Employee benefits (continued)

The most recent funding valuation of the Scheme was carried out on 30 April 2019, following which a deficit recovery plan was agreed with the Trustee Board on 14 April 2020. The Group has agreed to maintain the previous Schedule of Contributions. The contribution for the year ended 30 April 2020 under the plan was £19 million. The recovery plan is expected to be completed on or around September 2025. The Trustee Board and the Group have in place a secondary Long-Term Funding Target ('LTFT'), in addition to the statutory funding requirement, the purpose of which is to achieve material additional security for the Scheme's members. The objective of the LTFT is for the Scheme to be funded by 30 April 2035 to a level that does not expect to rely on future contributions from the Group.

Principal actuarial assumptions for the Scheme are as follows:

	2020	2019
	%	%
Discount rate for scheme liabilities	1.6	2.4
Inflation	1.8	2.1
Pre-retirement pension increases	1.8	2.1
Future pension increases for pre 30 April 2005 service	1.9	2.2
Future pension increases for post 30 April 2005 service	1.5	1.6

For the Group Scheme at 30 April 2020, the mortality base table used is SAPS 3 (year of birth), with CMI 2019 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. At 30 April 2019 the mortality base table used was SAPS 2 (year of birth), with CMI 2018 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. As part of the Group Scheme actuarial valuation exercise the projected life expectancies were as follows:

	2020	2020	2019	2019
	Male	Female	Male	Female
Life expectancy at age 65				
Member currently aged 65	21.2	23.4	20.5	22.6
Member currently aged 45	22.3	25.0	21.4	24.2

Sensitivity analysis

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

	Increase in pension liability £'m
0.5% decrease in discount rate	(103)
0.5% increase in inflation	(66)
1 year increase in life expectance	(47)

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

16. Employee benefits (continued)

Defined contribution scheme

The Company also participates in a UK defined contribution scheme, which is a trust-based arrangement offering members a range of investments. All assets are held independently from the Group.

The amount recognised as an expense for the defined contribution scheme in the year, relating to current year contributions, was £2,210,000 (2019: £1,999,000).

17. Provisions

	Landfill £'000	Carbon credit £'000	Restructuring £'000	Total £'000
At 1 May 2019	1,316	-	-	1,316
Charged to income statement	-	2,624	1,431	4,055
Utilised during the year	(120)	-	(1,030)	(1,150)
At 30 April 2020	1,196	2,624	401	4,221

	Landfill £'000	Carbon credit £'000	Restructuring £'000	Total £'000
Non-current	1,000	-	-	1,000
Current	196	2,624	401	3,221
At 30 April 2020	1,196	2,624	401	4,221

The landfill provision relates to the ongoing costs of maintaining landfill sites. The landfill provision will be utilised over the next 25 years. The carbon credit provision is in respect of the liability for CO2 emissions in excess of the CO2 allowance and is expected to be utilised in the next year. The restructuring provision relates to ongoing restructuring to rationalise operations and to achieve cost efficiency and is expected to be utilised in the next year.

18. Trade and other payables

	2020 £'000	2019 £'000
Trade payables	50,765	58,802
Amounts owed to Group undertakings	70,437	92,765
Other taxes and social security	9,250	5,789
Other creditors	2,261	5,764
Accruals	6,127	6,104
	138,840	169,224

There is no interest charged on the amounts owed to Group undertakings which are unsecured and repayable on demand.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

19. Share capital

	2020 £'000	2019 £'000
Authorised and allotted, called-up and fully paid:		
250,500,000 (2019: 250,500,000) ordinary shares of £0.50 each	125,250	125,250
1,370,400 (2019: 1,370,400) 'A' ordinary shares of £0.50 each	685	685
340,000 (2019: 340,000) 6% cumulative preference shares of £1 each	340	340
70,000,000 (2019: 70,000,000) 'A' preference shares of £1 each	70,000	70,000
	196,275	196,275

Preference shares

The 6% cumulative preference shares of £1 each are not redeemable and the dividends are at the option of the Directors.

Holders of the 6% cumulative preference shares shall have the right on winding-up to receive, in priority to any other class of shares, the amounts paid up on such shares together with a sum equal to the arrears or deficiency of fixed dividend thereon.

"A" Preference shares

The "A" preference shares shall be entitled as follows:

(a) On a return of capital on liquidation, the assets of the Company available for distribution among the members, shall be applied in repaying to the holders of the "A" preference shares the amounts paid up on such shares, plus any accrued dividends. The "A" preference shares shall rank, on a return of capital on liquidation, in priority to any other shares for the time being in issue; and

(b) Dividends shall accrue on the "A" preference shares at 10 per cent, per annum, fixed rate; the declaration and payment shall be at the absolute discretion of the Company.

The company has 2 classes of ordinary shares which carries no right to fixed income.

20. Contingent liabilities

The Company is a participant in the DS Smith Group's uncommitted overdraft facility with a net limit of £5m. The participants in the facility cross-guarantee the overdrawn balances under the facility.

The Company has provided unsecured guarantees to third parties in the ordinary course of business. At 30 April 2020, the guarantees outstanding amounted to £350,000 (2019: £350,000).

The Company has outstanding duty deferment account guarantees totalling £350,000 (2019: £350,000).

21. Share-based payments

The Company participates in the Group's share-based payment arrangements as follows:

(i) Performance Share Plan (PSP)

Awards under the PSP normally become exercisable after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. Awards have been made under the PSP annually since 2008, originally based on the following performance measures, in the proportions shown below:

- i. the Company's total shareholder return (TSR) compared to the constituents of the Industrial Goods and Services Supersector within the FTSE 250;
- ii. average adjusted earnings per share (EPS); and
- iii. average adjusted return on average capital employed (ROACE).

Awards between 2013 and 2014 are subject to three performance measures:

- i. 50% of each award based on a TSR component;

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

21. Share-based payments (continued)

- ii. 25% of each award based on average adjusted EPS; and
- iii. 25% of each award based on average adjusted ROACE.

Awards made between 2015 and 2016 are subject to three performance measures:

- i. 33.3% of each award based on a TSR component;
- ii. 33.3% of each award based on average adjusted EPS; and
- iii. 33.3% of each award based on average adjusted ROACE.

Awards made in 2017, 2018 and 2019 are subject to either two performance measures, or to three performance measures:

- (a) Two performance measures:
 - i. 50% of each award based on average adjusted EPS; and
 - ii. 50% of each award based on average adjusted ROACE.
- (b) Three performance measures:
 - i. 33.3% of each award based on a TSR component;
 - ii. 33.3% of each award based on average adjusted EPS; and
 - iii. 33.3% of each award based on average adjusted ROACE.

The awards granted between 2013, 2014 and 2016 have vested but have not yet been fully exercised. The awards granted in 2012 and 2015 have vested and have been fully exercised.

(ii) Deferred Share Bonus Plan (DSBP)

This plan is operated for Executive Directors and, from 2012/13, for senior executives. Shares awarded under the Plan will vest automatically if the Director or senior executive is still employed by the Company three years after the grant of the award.

The 2012, 2014, 2015 and 2016 awards have vested, but have not yet been fully exercised.

(iii) Long-Term Incentive Plan (LTIP)

This plan is operated for selected senior managers with the first award made in 2013/14. The award will vest after three years subject to remaining in service and the satisfaction of performance conditions measured over the three financial years commencing with the year of grant. The performance conditions of the award are based 50% on average adjusted EPS and 50% on average adjusted ROACE. No further awards under this Plan will be made subsequent to the 2016/17 award granted in July 2016.

(iv) Sharesave Plan

A Sharesave Plan was introduced in the UK in January 2014 with further invitations being made in January 2016, January 2017, January 2018 and January 2019. All employees of the Company and participating subsidiaries were eligible to participate in this Plan or an HMRC approved UK Sharesave Plan. Options are granted to participants who have contracted to save up to a maximum of £250 across all open invitations per month over a period of three years, at a discount of up to 20% to the average closing mid-market price of a DS Smith Plc ordinary share on the three dealing days prior to invitation. Options cannot normally be exercised until a minimum of three years has elapsed. In common with most plans of this type there are no performance conditions applicable to options granted under this Plan.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

21. Share-based payments (continued)

Details of the share options exercised during the year and outstanding at the year-end are as follows:

2019/20	Performance Share Plan		Deferred Share Bonus Plan	
	Weighted average exercise price (p)	Options '000	Weighted average exercise price (p)	Options '000
Exercised	Nil	44	Nil	34
At 30 April 2020	Nil	432	Nil	110

2019/20	Long-term Incentive Plan		Sharesave Plan	
	Weighted average exercise price (p)	Options £'000	Weighted average exercise price (p)	Options £'000
Exercised	Nil	18	303.7	49
At 30 April 2020	Nil	-	313.8	993

Details of the share options exercised during the prior year and outstanding at the prior year-end are as follows:

2018/19	Performance Share Plan		Deferred Share Bonus Plan	
	Weighted average exercise price (p)	Options '000	Weighted average exercise price (p)	Options '000
Exercised	Nil	85	Nil	-
At 30 April 2019	Nil	370	Nil	93

2018/19	Long-term Incentive Plan		Sharesave Plan	
	Weighted average exercise price (p)	Options £'000	Weighted average exercise price (p)	Options '000
Exercised	Nil	43	301.6	257
At 30 April 2019	Nil	18	314.3	1124

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2020 (continued)

22. Capital commitments and other commitments

The Company had the following capital commitments:

	2020	2019
	£'000	£'000
Contracts for future capital expenditure not provided	6,641	2,633

The total of future minimum lease payments under non-cancellable operating leases are as follows:

	2020	2019
	£'000	£'000
Within one year	505	944
Between one and two years	214	460
Between two and five years	216	-
	935	1,404

23. Ultimate parent undertaking and controlling party

See note 4 for details of Directors' emoluments. The Company has taken the exemption available under Section 33 of FRS 102 from disclosing related party transactions entered into between two or more members of the Group, provided that the fellow Group entities are wholly-owned by the Group.

24. Ultimate parent undertaking and controlling party

The Company's immediate parent company is DS Smith Holdings Limited, a company incorporated in the United Kingdom.

The ultimate parent company and the ultimate controlling party is DS Smith Plc, a company incorporated in the United Kingdom.

DS Smith Plc represents both the largest and smallest group of undertakings for which Group financial statements are prepared and of which the Company is a member. Copies of the Group financial statements are available from the Company Secretary of DS Smith Plc at 350 Euston Road, London, NW1 3AX which is the registered address.

25. Subsequent events

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