

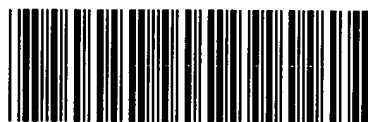
Company Registration No. 00058614

DS Smith Paper Limited

Annual Report and Financial Statements

For the year ended 30 April 2015

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DS Smith Paper Limited

Annual Report and Financial Statements For the year ended 30 April 2015

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DS Smith Paper Limited

Officers and Professional Advisers For the year ended 30 April 2015

Directors

C S McIntyre
W B Hicks
J C Jones

Secretary

A Steele

Registered Office

350 Euston Road
London
NW1 3AX

Registered Number

00058614 (England and Wales)

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London

DS Smith Paper Limited

Strategic Report

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

Principal activities

The Company is a subsidiary of DS Smith Plc and operates as part of 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 DS Smith Group.

Review of business

The Company is the leading producer of CCM in the UK, which accounts for over 76% 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 16% of its production.

During the year, as shown in the Company's profit and loss account on page 8 the Company recorded a profit before tax of £9.8 m (2014: loss before tax of £2.1m).

During the year the business was affected by substantial increases in raw material costs. Sales prices were successfully increased throughout this period, thanks to constructive commercial customer relationships and improved service levels, which enabled some recovery in margin. Costs remained a focus of attention for the Company and areas of its business have been reviewed to ensure their continued cost effective operation.

As at 1 May 2013 the customer contracts and supplier contracts for the majority of the recycling business were transferred to DS Smith Recycling UK Ltd. The fixed assets and employee contracts were retained in DS Smith Paper Ltd but the costs of these have been recharged to DS Smith Recycling UK Ltd until 1 November 2014. At this time the fixed assets and employee contracts were transferred to DS Smith Recycling UK Ltd.

The result for the current year includes an exceptional item of £0.5m for restructuring costs for the closure of the Pavidda site in Bromsgrove.

The net assets of the Company as shown on page 10 of the financial statements increased from £198.3m to £218.1m during the year.

DS Smith Plc, the ultimate parent Company, manages its operations on a divisional basis. On this basis the Company's Directors believe that the disclosure of further performance indicators for the Company is not appropriate for an understanding of the development, performance or position of the business.

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 DS Smith Group's Annual Report which does not form part of this report.

DS Smith Paper Limited

Strategic Report

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 be pursued.

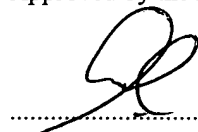
Subsequent events

On 27 August 2015 it was announced that there was to be a consultation with regards to the closure of Wansbrough Paper Mill. At the conclusion of the consultation it was announced that production would cease at the mill on 24 December 2015. All the costs associated with the closure will be made during the financial year ending April 2016. As at 30 April 2015 the fixed assets were valued at £19.8m and as part of the closure the assets have been impaired by £18.0m.

Financial risk management objectives and policy

The Directors meet periodically to discuss financial and other risks. The discussion of key price risk and credit risk is discussed within the reviews of the business. No hedging instruments are entered into by the Company; this is carried out by the parent company, DS Smith Plc. Liquidity and cash flow risk is considered in the going concern section in the Directors' Report

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


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W B Hicks
Director

Date 28 January 2016

DS Smith Paper Limited

Directors' Report

The Directors present their Annual Report with the Financial Statements of the Company for the year ended 30 April 2015.

The information that fulfils the Companies Act requirements of the business review is included in the Strategic Report. This included a review of the development of the Company during the year, financial risk management policies, principal risks and uncertainties, future developments and subsequent events.

Dividends

No dividends were paid during the current or previous financial year.

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 £61,458 (2014: £85,000) was charged to the profit and loss account for research costs incurred in the year.

Directors

Directors who held office during the year and until signing, except as noted, were as follows:

C R Rosser (resigned 21 August 2014)
S Rossi (resigned 29 September 2014)
P J Brown (appointed 21 August 2014, resigned 1 April 2015)
C S McIntyre (appointed 17 March 2015)
J C Jones (appointed 7 October 2015)
A R T Marsh (resigned 21 July 2015)
W B Hicks (appointed 21 January 2016)
M P Jowett (resigned 21 January 2016)

Political contributions

No political donations were made by the Company (2014: £nil).

Going concern

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 Balance Sheet on page 10.

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 DS Smith 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.

Directors' and officers' liability insurance

During the year, the ultimate parent Company maintained liability insurance for the Directors and Officers of the Company.

DS Smith Paper Limited

Directors' Report

Environment

The Company recognises the importance of its environmental responsibilities and monitors 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.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. Employee communication takes several forms including the DS Smith intranet and a monthly DS Smith Paper newsletter.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Directors' 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 have been followed; 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 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.

Auditor

Each of the persons 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
- the director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself 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 S418 of the Companies Act 2006.

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the Company in general meeting and the appointment of auditors annually are currently in force. The Auditor, Deloitte LLP, will

DS Smith Paper Limited

Directors' Report

Auditor (continued)

therefore be deemed to have been reappointed at the end of the period of 28 days beginning with the day on which copies of this report and accounts are sent to members unless a resolution is passed to the effect that their appointment be brought to an end.

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



W B Hicks
Director

Date 28 January 2016

DS Smith Paper Limited

Independent Auditor's Report

We have audited the financial statements of DS Smith Paper Limited for the year ended 30 April 2015 which comprise the Profit and Loss Account, the note of Historical Cost Profits and Losses, the Balance Sheet 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 (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate throughout the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

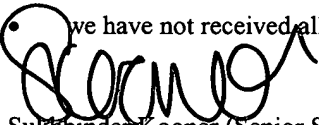
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors Report and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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.



Sukhbinder Kooner (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
Date: 28 January 2016

DS Smith Paper Limited

Profit and loss account For the year ended 30 April 2015

		2015 £'000	2015 £'000	2015 £'000	2014 £'000	2014 £'000	2014 £'000
	Note	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Turnover	2	350,141	-	350,141	342,587	-	342,587
Cost of sales		(316,833)	-	(316,833)	(317,863)	-	(317,863)
Gross profit		33,308	-	33,308	24,724	-	24,724
Distribution costs		(16,048)	-	(16,048)	(13,810)	-	(13,810)
Administrative expenses		(6,415)	(453)	(6,868)	(8,244)	(4,091)	(12,335)
Operating profit/(loss)	5	10,845	(453)	10,392	2,670	(4,091)	(1,421)
Net finance charges	6	(625)	-	(625)	(639)	-	(639)
Profit/(loss) before income tax		10,220	(453)	9,767	2,031	(4,091)	(2,060)
Tax on profit/(loss)	7	9,904	95	9,999	(180)	-	(180)
Profit/(loss) for the financial year		20,124	(358)	19,766	1,851	(4,091)	(2,240)

The results above are from continuing operations.

There are no recognised gains or losses other than those detailed in the Profit and Loss account, and therefore no separate Statement of Total Recognised Gains and Losses has been presented.

DS Smith Paper Limited

Note of Historical Cost Profits and Losses For the year ended 30 April 2015

	2015 £'000	2014 £'000
Reported profit/(loss) on ordinary activities before taxation	9,767	(2,060)
Difference between fixed assets depreciation based on historical cost and depreciation based on revalued amounts	<u>449</u>	<u>449</u>
Historical cost profit/(loss) on ordinary activities before taxation	<u>10,216</u>	<u>(1,611)</u>
Historical cost profit/(loss) for the year retained after taxation	<u>20,215</u>	<u>(1,791)</u>

DS Smith Paper Limited

Balance sheet 30 April 2015

	Notes	2015 £000	2014 £000
Fixed assets			
Intangible assets	8	501	858
Tangible assets	9	171,670	181,324
Investments	10	38,548	38,548
		<u>210,719</u>	<u>220,730</u>
Current assets			
Stocks	11	21,372	28,915
Debtors: due within one year	12	58,387	75,474
Debtors: due after more than one year	12	13,949	3,809
Cash at bank		11,027	-
		<u>104,735</u>	<u>108,198</u>
Creditors: amounts falling due within one year	13	<u>(94,735)</u>	<u>(125,191)</u>
Net current assets/(liabilities)		<u>10,000</u>	<u>(16,993)</u>
Total assets less current liabilities		<u>220,719</u>	<u>203,737</u>
Provisions for liabilities	14	<u>(2,630)</u>	<u>(5,414)</u>
Net assets		<u>218,089</u>	<u>198,323</u>
Capital and reserves			
Called up share capital	15	196,275	196,275
Share premium	16	1,919	1,919
Revaluation reserve	16	10,051	10,500
Equity reserves	16	10,811	10,811
Profit and loss account	16	(967)	(21,182)
Shareholder's funds		<u>218,089</u>	<u>198,323</u>

The financial statements of DS Smith Paper Limited, registered number 00058614, were approved by the Board of Directors on 28 January 2016.

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

Notes to the Financial Statements For the year ended 30 April 2015

1. Accounting policies

Basis of preparing the financial statements

Going concern

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 DS Smith 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.

Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom accounting standards.

Accounting convention

The financial statements have been prepared on a going concern basis as set out on page 4 in the Directors' Report.

Preparation of consolidated financial statements

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements and accordingly presents information about the undertaking as an individual undertaking and not about its group.

Preparation of cashflow statement

Under the provisions of Financial Reporting Standard 1 (Revised 1996), the Company is exempt from preparing a cash flow statement because it is a wholly-owned subsidiary of DS Smith Plc and its cash flows are included within the consolidated cash flow statement of that Company.

Turnover

Turnover comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts. Revenue from the sale of goods is recognised in the profit and loss account when the significant risks and rewards of ownership have been transferred to the buyer.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

1. Accounting policies (continued)

Goodwill

Purchased goodwill, both positive and negative, arising on the acquisition of businesses before 2 May 1998 has been written off directly to reserves and, as permitted by the transitional provisions of Financial Reporting Standard 10 'Goodwill and Intangible Assets', has not been reinstated. Positive goodwill arising on acquisitions completed after 2 May 1998 is capitalised and amortised on a straight-line basis over its expected useful life not exceeding 20 years.

For businesses that are sold or closed after 2 May 1998, any such goodwill that has not been amortised through the profit and loss account has been included in calculating the profit or loss on sale or closure.

Negative goodwill arising on acquisitions since 2 May 1998 is included within intangibles and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

Investments

Fixed asset investments are shown at cost less provision for impairment. An impairment review is undertaken on an annual basis to identify if any further impairment is necessary.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment except for certain freehold property which is included at historical valuation which will not be updated (under the transitional arrangements of Financial Reporting Standard 15 'Tangible fixed assets'). 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)
Short-leasehold properties	over the lease term (straight-line)
Freehold land	not depreciated
Plant and machinery	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 profit and loss account as appropriate.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost includes any expenditure incurred in bringing the stock to its present location and condition. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Stocks are valued on the first-in first-out principle.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

1. Accounting policies (continued)

Taxation

Current UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rate and laws that have been enacted or substantively enacted by the balance sheet date. In accordance with DS Smith Plc Group policy, the Company surrenders current year tax losses to other members of the DS Smith Plc Group, and receives payment for those tax losses at the rate of tax prevailing in the period.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the foreign exchange rate ruling at that date. All exchange differences are included in the profit and loss account.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

1. Accounting policies (continued)

Pensions

The Company is a participating employer in the DS Smith Group Pension Scheme (the 'Scheme'), a defined benefit scheme. The Company makes contributions to the Scheme as agreed with DS Smith Plc (the ultimate parent undertaking which accounts for the Scheme in its financial statements), and, as permitted by FRS 17, 'Retirement Benefits', accounts for the Scheme as a defined contribution scheme and recognises as pension cost the contributions payable in each financial period. On 30 April 2011, the scheme closed to future accrual.

Related party disclosure

The Company is exempt under the terms of Financial Reporting Standard 8 "Related Party Disclosures" from disclosing related party transactions with entities that are wholly-owned members of DS Smith Group or investees of the group qualifying as related parties.

Provisions

A provision is recognised in the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities.

Exceptional items

Exceptional items are separately presented on the face of the Profit and Loss account.

Share based payments

The ultimate holding 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 re-charge from the ultimate holding 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 balance sheet 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 Profit and Loss Account.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

2. Turnover

The turnover and profit before taxation are attributable to the principal activities of the Company.

An analysis of turnover by origination is given below:

	2015 £'000	2014 £'000
United Kingdom	346,066	338,572
European Countries	4,075	4,015
	<u>350,141</u>	<u>342,587</u>

An analysis of turnover by geographical market based on destination is given below:

	2015 £'000	2014 £'000
United Kingdom	173,692	170,639
European Countries	166,279	168,787
Rest of the World	10,170	3,161
	<u>350,141</u>	<u>342,587</u>

3. Staff costs

	2015 £'000	2014 £'000
Wages and salaries	30,861	37,454
Social security costs	3,783	4,341
Other pension costs	1,887	2,122
	<u>36,531</u>	<u>43,917</u>

Wages and salaries includes £251,830 (2014: £316,004) in respect of share options granted by the ultimate holding company. For further details on the share options, see note 23.

The average monthly number of employees (excluding directors) during the year was as follows:

	2015	2014
Production and distribution	530	798
Selling and administration	289	268
	<u>819</u>	<u>1,066</u>

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

4. Directors' emoluments

	2015 £'000	2014 £'000
Remuneration as executives (including pension contributions)	119	-

Messrs M P Jowett, S Rossi, A Marsh, C Rosser, C S McIntyre and J C Jones have been remunerated by the parent undertaking, DS Smith Plc, for their service to the Group as a whole. None have been remunerated specifically in respect of their services to the Company.

5. Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting):

	2015 £'000	2014 £'000
Depreciation – owned assets	16,694	16,774
Profit on disposal of fixed assets	(615)	(886)
Impairment of goodwill	-	300
Amortisation of goodwill	357	393
Research and development	61	85
Impairment of carbon credits	-	630
Exchange gain	(908)	(81)
Fees payable to the Company's auditor for the audit of the Company's annual accounts	75	75

Exceptional costs

	2015 £'000	2014 £'000
SCA integration cost	-	621
Rebranding	-	217
Restructuring	453	3,013
Customer rebate payment	-	240
	453	4,091

Items are presented as exceptional where there 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 company. Further details on the exceptional items are contained within the Strategic Report.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

6. Net finance charges

	2015 £'000	2014 £'000
Bank interest payable	(390)	(719)
Factoring interest payable	(259)	(185)
Interest receivable from Group undertakings	24	265
	<u>(625)</u>	<u>(639)</u>

7. Taxation

(a) Analysis of tax (credit)/charge in the period

	2015 £'000	2014 £'000
Current taxation		
UK corporation tax - group relief payable/(receivable)		
- current year at 20.92% (2014: 22.83%)	730	(1,682)
Adjustment in respect of prior years	1,879	4,325
	<u>2,609</u>	<u>2,643</u>
Deferred taxation		
Origination and reversal of timing differences	1,583	1,223
Effect of change in tax rate	(70)	384
Adjustment in respect of prior years	(5,308)	(4,070)
Adjustment to recoverable amount in prior years	(8,813)	-
	<u>(12,608)</u>	<u>(2,463)</u>
Total (credit)/charge on loss on ordinary activities	<u>(9,999)</u>	<u>180</u>
Effective tax rate	<u>(102.7%)</u>	<u>8.7%</u>

The current tax (credit)/charge for the year is higher (2014: higher) than that calculated by applying the standard rate of corporation tax in the UK of 20.92 % (2014: 22.83%) to the profit before tax. The differences are explained below.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

7. Taxation (continued)

(b) Tax reconciliation

	2015 £'000	2014 £'000
Profit/(loss) on ordinary activities before taxation	9,767	(2,060)
Tax charge/(credit) on loss at 20.92% (2014: 22.83%)	2,043	(470)
Effects of:		
Depreciation for period in excess of capital allowances	(1,583)	(1,347)
Permanent differences	270	185
Other timing differences	-	(50)
Adjustments in respect of prior years	1,879	4,325
	<u>2,609</u>	<u>2,643</u>

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.

Finance Act 2013 includes a reduction in the standard rate of tax from 23% to 21% effective from 1 April 2014 and a further reduction in the rate of corporation tax to 20%, effective from 1 April 2015, which was substantively enacted at the balance sheet date. The Company's deferred tax balances are therefore calculated using the corporation tax rate of 20%.

Finance Act 2015 includes a reduction in the standard rate of corporation tax from 20% to 19% effective from 1 April 2017, and a further reduction in the rate of corporation tax to 18%, effective from 1 April 2020. Neither of these corporation tax rate changes were substantively enacted at the balance sheet date.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

8. Intangible fixed assets

	Goodwill £'000	Carbon credits £'000	Totals £'000
Cost			
At 1 May 2014	13,557	1,485	15,042
At 30 April 2015	<u>13,557</u>	<u>1,485</u>	<u>15,042</u>
Amortisation			
At 1 May 2014	(12,699)	(1,485)	(14,184)
Amortisation for year	<u>(357)</u>	<u>-</u>	<u>(357)</u>
At 30 April 2015	<u>(13,056)</u>	<u>(1,485)</u>	<u>(14,541)</u>
Net book value			
At 30 April 2015	<u>501</u>	<u>-</u>	<u>501</u>
At 30 April 2014	<u>858</u>	<u>-</u>	<u>858</u>

Goodwill is being written off in equal annual instalments over its estimated economic life of between three and twenty years.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

9. Tangible fixed assets

	Land and buildings £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost				
At 1 May 2014	96,302	359,165	8,944	464,411
Additions	422	9,457	1,080	10,959
Transfers	-	4,475	(4,475)	-
Disposals	(5,050)	(16,066)	-	(21,116)
At 30 April 2015	91,674	357,031	5,549	454,254
Depreciation				
At 1 May 2014	43,547	239,540	-	283,087
Charge for the year	1,534	15,160	-	16,694
Disposals	(1,769)	(15,428)	-	(17,197)
At 30 April 2015	43,312	239,272	-	282,584
Net book value				
At 30 April 2015	48,362	117,759	5,549	171,670
At 30 April 2014	52,755	119,625	8,944	181,324

Leased assets

Assets held under finance leases, capitalised and included in plant and machinery.

	2015 £'000	2014 £'000
Cost	10,088	10,088
Accumulated depreciation	(10,088)	(10,088)
Net book value	-	-

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

9. Tangible fixed assets (continued)

Land and buildings

Basis of valuation

The freehold and long leasehold properties were revalued as at 29 April 1995 by King Sturge & Co, a firm of independent chartered surveyors. Non-specialised properties were valued on an open market, existing use basis. Specialised properties were valued at depreciated replacement cost. Properties held as investments were valued on an open market basis.

	Freehold property £'000	Long- leasehold property £'000	Short- leasehold property £'000	Total land and buildings £'000
Cost				
At 1 May 2014	90,796	5,307	199	96,302
Additions	422	-	-	422
Disposals	(5,050)	-	-	(5,050)
At 30 April 2015	86,168	5,307	199	91,674
Comprising cost	86,168	5,307	199	91,674
Comprising valuation	-	-	-	-
	86,168	5,307	199	91,674
Depreciation				
At 1 May 2014	38,041	5,307	199	43,547
Charge for the year	1,534	-	-	1,534
Disposals	(1,769)	-	-	(1,769)
At 30 April 2015	37,806	5,307	199	43,312
Net book value				
At 30 April 2015	48,362	-	-	48,362
At 30 April 2014	52,755	-	-	52,755

The value of land included in freehold property not subject to depreciation is £21,799,000 (2014: £21,799,000).

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

10. Fixed asset investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 May 2014 and 30 April 2015	42,320
Impairment	
At 1 May 2014 and 30 April 2015	(3,772)
Net book value	
At 1 May 2014 and 30 April 2015	38,548

The Company has the following directly owned investments:

Company name	Nature of business	Country of registration or incorporation and operation	Class of shares 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	50
Papertrade Ltd	Paper agent	England and Wales	Ordinary	80

The dormant subsidiaries are exempt from audit under s394A of the Companies Act 2006 and will be filing dormant accounts in line with s448A of the Companies Act 2006.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

11. Stocks

There is no material difference between balance sheet values of stock and their replacement costs.

	2015 £'000	2014 £'000
Raw materials	8,606	13,473
Finished goods	12,766	15,442
	<u>21,372</u>	<u>28,915</u>

12. Debtors

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Trade debtors	11,626	13,700
Amounts owed by Group undertakings	40,967	55,302
Other debtors	4,794	3,456
Prepayments and accrued income	1,000	3,016
	<u>58,387</u>	<u>75,474</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	-	2,468
Deferred tax asset	13,949	1,341
	<u>13,949</u>	<u>3,809</u>
Total debtors	<u>72,336</u>	<u>79,283</u>

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

12. Debtors (continued)

	2015 £'000	2014 £'000
Deferred tax asset		
Balance as at 1 May	1,341	(1,911)
Transfer in from Grovehurst Energy Ltd	-	789
Adjustment to recoverable amount in prior years	8,813	-
Credit to the profit and loss account	3,795	2,463
	<u>13,949</u>	<u>1,341</u>
Asset as at 30 April	13,949	1,341

Deferred taxation is analysed as follows:

	2015 £'000	2014 £'000
Accelerated capital allowances	4,942	797
Tax losses	8,873	-
Other timing differences	134	544
	<u>13,949</u>	<u>1,341</u>

The analysis of deferred taxation excludes additional tax payable on capital gains which may arise if land and buildings were sold for amounts at which they are carried in the Balance Sheet.

In the opinion of the Directors, such properties will be retained for use in the business or if sold would be replaced by similar assets.

13. Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Trade creditors	38,496	50,898
Social security and other taxes	6,103	1,688
Bank overdraft	-	7,186
Amounts owed to Group undertakings	22,387	40,931
Amounts owed to Group undertaking – group relief	2,768	159
Other creditors	3,493	5,229
Accruals and deferred income	21,488	19,100
	<u>94,735</u>	<u>125,191</u>

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

14. Provisions for liabilities

	2015 £'000	2014 £'000
Other provisions	2,630	5,414
Balance at 30 April	2,630	5,414
Unrecognised deferred tax (liability)/asset		
Transferred on acquisition	2015 £'000	2014 £'000
Tax losses	-	8,813
Revaluation of land and buildings	(1,355)	(1,355)
	(1,355)	7,458

A previously unrecognised deferred tax asset of £8.8m in respect of ring fenced losses transferred on the acquisition of SRP New Thames Limited's trade, assets and liabilities in a previous year has now been recognised as it is expected that sufficient suitable taxable profits will be generated against which these losses can be utilised.

Other provisions

	Closure provisions £'000	Other provisions £'000	Total £'000
Balance at 1 May 2014	3,904	1,510	5,414
Charged to the profit and loss account	104	482	586
Utilised during the year	(2,943)	(427)	(3,370)
Balance at 30 April 2015	1,065	1,565	2,630

Closure provisions are in respect of site closures, redundancies and other reorganisational costs. It is expected that the majority of the closure provisions charged to the profit and loss within this financial year will be incurred in the next financial year.

Other provisions relate to ongoing regulatory costs for landfill sites.

15. Called up share capital

Allotted, called up and fully paid:

	2015 £'000	2014 £'000
250,500,000 ordinary shares of 50p each	125,520	125,250
1,370,400 "A" ordinary shares of 50p each	685	685
340,000 6% cumulative preference shares of £1 each	340	340
70,000,000 "A" preference shares of £1 each	70,000	70,000
	196,275	196,275

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

15. Called up share capital (continued)

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.

16. Reserves

	Profit and loss account £'000	Share premium £'000	Revaluation reserve £'000	Equity reserves £'000	Total £'000
At 1 May 2014	(21,182)	1,919	10,500	10,811	2,048
Profit for the year	19,766	-	-	-	19,766
Transfer: Revaluation Reserve	449	-	(449)	-	-
At 30 April 2015	(967)	1,919	10,051	10,811	21,814

The equity reserve represents the equity component of the convertible debt issued in 2008 and converted to "A" Preference shares in March 2010.

The transfer from revaluation reserve to the profit and loss account is the amount equivalent to additional depreciation on revalued assets.

17. Sale of division

On 1 November 2014 the fixed assets of the UK Recycling division in DS Smith Paper Limited was sold to DS Smith Recycling (UK) Limited. Under the terms of the agreement it was agreed to settle the consideration of the transaction through an intercompany loan.

No difference was identified between the fair value and fixed assets carrying value balances acquired by the Company.

18. 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 2015, the guarantees outstanding amounted to £350,000 (2014: £350,000).

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

19. Capital commitments

	2015 £'000	2014 £'000
Contracted but not provided for in the financial statements	288	553

20. Other financial commitments

At the year end the Company had annual commitments under non-cancellable operating leases as set out below:

	Other 2015 £'000	2014 £'000
Operating leases which expire:		
Within one year	3	54
Within two to five years	595	49
	598	103

21. Reconciliation of movements in shareholder's funds

	2015 £'000	2014 £'000
Profit/(loss) for the financial year	19,766	(2,240)
Net increase/(decrease) to shareholder's funds	19,766	(2,240)
Opening shareholder's funds	198,323	200,563
Closing shareholder's funds	218,089	198,323

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

22. Pension arrangements

The Company is a participating employer in the DS Smith Group Pension Scheme (the 'Scheme'), a defined benefit scheme. The Company makes contributions to the Scheme as agreed with DS Smith Plc (the ultimate parent undertaking which accounts for the Scheme in its financial statements), and, as permitted by FRS 17, 'Retirement Benefits', accounts for the Scheme as a defined contribution scheme as DS Smith plc is unable to identify DS Smith Logistics' share of the scheme assets and liabilities and recognises as pension cost the contributions payable in each financial period. The consolidated financial statements for the year to 30 April 2015 for DS Smith Plc included information about the funding position of the Scheme as a whole as at 30 April 2015.

As at 30 April 2015, the deficit in the scheme was £200.0 m (2014: £151.0m).

	2015 %	2014 %
Discount rate for scheme liabilities	3.5%	4.4%
Inflation	2.1%	2.3%
Pre-retirement pension increases	1.9%	2.3%
Future pension increases for pre 30 April 2005 service	2.2%	2.3%
Future pension increases for post 30 April 2005 service	1.8%	2.1%

Future mortality is the most significant demographic assumption.

The current life expectancies (in years) are:

	2015 Male	2015 Female	2014 Male	2014 Female
Life expectancy at age 65				
Pensioner currently age 65	21.5	23.9	22.2	23.4
Member currently age 45	23.1	25.7	22.6	24.9

The Company's pension cost charge for the year amounted to £1,887,000 (2014: £2,122,000). The amount payable at 30 April 2015 was £nil (30 April 2014: £nil).

23. Share based payments

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

(i) A 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:

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

Awards since 2010 are subject to three performance measures:

- 50% of each award based on a TSR component;
- 25% of each award based on average adjusted EPS; and
- 25% of each award based on average adjusted ROACE.

The 2010 and 2011 awards have vested, but have not yet been fully exercised.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

23. Shared based payments (continued)

(ii) A Deferred Share Bonus Plan (DSBP) is operated for Executive Directors and, from 2012/13, for senior executives. Shares awarded under the Plan vest automatically if the Director or senior executive is still employed by the Company three years after the grant of the award.

(iii) A Long-Term Incentive Plan (LTI) 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.

(iv) A Sharesave Plan was introduced in the UK in January 2014. All UK employees of the Company and participating subsidiaries were eligible to participate in this Plan. Under this HMRC approved Plan options are granted to participants who have contracted to save up to £250 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.

Details of the share options outstanding during the year are as follows:

2014/15	Performance Share Plan		Deferred Share Bonus Plan	
	Weighted average exercise price (p)	Options ('000's)	Weighted average exercise price (p)	Options ('000's)
At 1 May 2014	Nil	42	Nil	2
Granted	Nil	3	Nil	-
Exercised	Nil	(33)	Nil	-
Lapsed	Nil	(1)	Nil	-
At 30 April 2015	Nil	11	Nil	2
Exercisable at 30 April 2015	Nil	-	Nil	-

2014/15	Long-Term Term Incentive Plan		Sharesave Plan	
	Weighted average exercise price (p)	Options (£'000's)	Weighted average exercise price (p)	Options ('000's)
At 1 May 2014	Nil	23	269.0	772
Exercised	Nil	-	130.6	(3)
Lapsed	Nil	-	269.0	(71)
At 30 April 2015	Nil	23	269.0	698
Exercisable at 30 April 2015	Nil	-	269.0	-

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

23. Shared based premium (continued)

2013/14	Performance Share Plan		Deferred Share Bonus Plan	
	Weighted average exercise price (p)	Options (‘000’s)	Weighted average exercise price (p)	Options (‘000’s)
At 1 May 2013	Nil	98	Nil	2
Granted	Nil	10	Nil	-
Exercised	Nil	(66)	Nil	-
At 30 April 2014	Nil	42	Nil	2
Exercisable at 30 April 2014	Nil	-	Nil	-

2013/14	Long-Term Term Incentive Plan		Sharesave Plan	
	Weighted average exercise price (p)	Options (£‘000’s)	Weighted average exercise price (p)	Options (‘000’s)
At 1 May 2013	Nil	23	119.2	1,438
Granted	Nil	-	269.0	772
Exercised	Nil	-	119.2	(1,438)
At 30 April 2014	Nil	23	269.0	772
Exercisable at 30 April 2014	Nil	-	269.0	-

The fair value of the PSP award granted during the year, determined using the stochastic valuation model, was £3.7m (2014: £3.7m). The significant inputs into the model were: a share price of 263.6p for the PSP at the grant date (2014: 250.9p); the exercise prices shown above; an expected initial volatility of the share price of 23.4% (2014: 29.1%) and long-term volatility of 28.8% (2014: 28.9%); the scheme life disclosed above; an annual risk-free interest rate of 1.47% (2014: 0.63%) and an expected dividend yield of nil (2014: nil). The volatility of share price returns measured as the standard deviation of expected share price returns is based on statistical analysis of average weekly share prices from 1 January 1970.

The Group recognised a total charge for the year relating to share-based payments of £5m (2013/14: £4m).

24. Subsequent events

On 27 August 2015 it was announced that there was to be a consultation with regards to the closure of Wansbrough Paper Mill. At the conclusion of the consultation it was announced that production would cease at the mill on 24 December 2015. All the costs associated with the closure will be made during the financial year ending April 2016. As at 30 April 2015 the fixed assets were valued at £19.8m and as part of the closure the assets have been impaired by £18.0m.

DS Smith Paper Limited

Notes to the Financial Statements For the year ended 30 April 2015

25. Ultimate controlling party

The 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.