

Company Registration No. 00058614

DS Smith Paper Limited

**Annual report and financial statements
for the year ended 30 April 2017**

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DS Smith Paper Limited

Annual report and financial statements for the year ended 30 April 2017

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DS Smith Paper Limited

Annual report and financial statements for the year ended 30 April 2017

Officers and professional advisers

Directors

W B Hicks

N J Miller

C S McIntyre

Company Secretary

A Steele

Registered Office

350 Euston Road

London

NW1 3AX

United Kingdom

Registered Number

00058614 (England and Wales)

Auditor

Deloitte LLP

Statutory Auditor

London

United Kingdom

Bankers

National Westminster Bank Plc

1 Princes Street

London

EC2R 8AQ

Solicitors

Allen & Overy LLP

One Bishops Square

London

E1 6AD

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 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 9, the Company recorded a profit before tax of £20,438,000 (2016: loss of £13,217,000).

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. In the second half of the year sales prices continued to rise due to capacity constraints in the European market. Costs remained a focus of attention for the Company and areas of its business have been reviewed to ensure their continued cost effective operation.

The net assets of the Company, as shown on page 11 in the statement of financial position, increased from £179,991,000 to £194,723,000 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.

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.

DS Smith Paper Limited
Strategic report

Financial risk management objectives and policy

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 DS Smith Group policies.

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



W B Hicks

Director

13 March 2018

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 2017. Matters that have been disclosed in the Strategic report include Financial risks management policy and Future developments.

Dividends

The Directors have not proposed or paid a dividend for the year ended 30 April 2017 (2016: £nil).

Directors

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

C S McIntyre

W B Hicks

J C Jones (resigned 22 August 2016)

N J Miller (appointed 22 August 2016)

Directors' and officers' liability insurance

During the year and up to the date of approval of these financial statements, the parent company maintained liability insurance for the Directors and other officers of the Company.

Employees

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 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.

Political contributions

No political contributions were made during the year (2016: £nil).

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.

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 £84,000 (2016: £57,000) was charged to the income statement for research costs incurred in the year.

DS Smith Paper Limited

Directors' report (continued)

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 statement of financial position on page 11.

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.

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

13 March 2018

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 prepared 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

We have audited the financial statements of DS Smith Paper Limited for the year ended 30 April 2017 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 (United Kingdom Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

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, 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 to 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 2017 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, 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 and 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

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.

Ian Waller

Ian Waller (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

13th March 2018

DS Smith Paper Limited
Income statement
Year ended 30 April 2017

	Note	Continuing Operations 2017 £'000	Continuing Operations 2016 £'000	Discontinued Operations 2016 £'000	Total 2016 £'000
Revenue	2	287,297	282,338	40,430	322,768
Cost of sales		(246,900)	(251,303)	(31,834)	(283,137)
Gross profit		40,397	31,035	8,596	39,631
Distribution costs		(12,347)	(11,415)	(2,159)	(13,574)
Administrative expenses		(4,535)	(5,160)	(842)	(6,002)
Operating profit before exceptional items	3	23,515	14,460	5,595	20,055
Exceptional items	7	(1,807)	-	(31,947)	(31,947)
Operating profit/(loss) after exceptional items	3	21,708	14,460	(26,352)	(11,892)
Finance costs	6	(572)	(486)	-	(486)
Employment benefit net finance expense	20	(698)	(839)	-	(839)
Net financing costs		(1,270)	(1,325)	-	(1,325)
Profit/(loss) before income tax		20,438	13,135	(26,352)	(13,217)
Income tax (expense)/credit	8	(4,694)	(1,697)	1,536	(161)
Profit/(loss) for the financial year		15,744	11,438	(24,816)	(13,378)

The discontinued results shown above relate to the closure of the Wansbrough Paper Mill in December 2015.

DS Smith Paper Limited
Statement of comprehensive income
Year ended 30 April 2017

	Note	2017 £'000	2016 £'000
Profit/(loss) for the year		15,744	(13,378)
Items which will be not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on employee benefits	20	(505)	640
Impact of change in tax rate		(593)	(1,206)
Income tax on actuarial (losses)/gains		86	(115)
Other comprehensive expense for the year, net of tax		(1,012)	(681)
Total comprehensive income/(expense) for the year		14,732	(14,059)

DS Smith Paper Limited
Statement of financial position
As at 30 April 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	9	1,009	1,413
Property, plant and equipment	10	155,572	152,505
Investments in subsidiaries	11	38,548	38,548
Deferred tax assets	16	19,744	21,590
Total non-current assets		214,873	214,056
Current assets			
Inventories	12	18,154	19,583
Trade and other receivables	13	119,667	45,439
Cash and cash equivalents		18,827	8,725
Income tax asset		4,146	2,886
Total current assets		160,794	76,633
Total assets		375,667	290,689
Liabilities			
Non-current liabilities			
Employee benefits	20	(19,270)	(22,213)
Provisions	15	-	(950)
Total non-current liabilities		(19,270)	(23,163)
Current liabilities			
Trade and other payables	14	(160,156)	(83,023)
Provisions	15	(1,443)	(4,465)
Derivative financial instruments	17	(75)	(47)
Total current liabilities		(161,674)	(87,535)
Total assets less current liabilities		213,993	203,154
Total liabilities		(180,944)	(110,698)
Net assets		194,723	179,991
Equity			
Issued capital	18	196,275	196,275
Share premium account		1,919	1,919
Revaluation reserve		9,153	9,602
Equity reserves		10,811	10,811
Retained earnings		(23,435)	(38,616)
Shareholders' equity		194,723	179,991

These financial statements for DS Smith Paper Limited (registered number 00058614), were approved by the Board of Directors and authorised for issue on 13 March 2018.

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
Year ended 30 April 2017

	Share capital £'000	Share premium £'000	Revalu- ation reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 1 May 2015	196,275	1,919	10,051	10,811	(25,006)	194,050
Loss for the year	-	-	(449)	-	(12,929)	(13,378)
Actuarial gain on employee benefits	-	-	-	-	640	640
Income tax on other comprehensive income	-	-	-	-	(1,321)	(1,321)
Total comprehensive income/(expense)	-	-	(449)	-	(13,610)	(14,059)
At 30 April 2016	196,275	1,919	9,602	10,811	(38,616)	179,991
Profit for the year	-	-	(449)	-	16,193	15,744
Actuarial loss on employee benefits	-	-	-	-	(505)	(505)
Income tax on other comprehensive expense	-	-	-	-	(507)	(507)
Total comprehensive income/(expense)	-	-	(449)	-	15,181	14,732
At 30 April 2017	196,275	1,919	9,153	10,811	(23,435)	194,723

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017

1. Principal accounting policies

Basis of preparation

The accounts are prepared under the historical cost convention.

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

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;
- 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.

Consolidated financial statements

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 publically available.

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 GBP. 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 2017 (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.

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. The useful life of goodwill is considered to be and 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:

Intellectual property	Up to 10 years
Computer software	3-5 years

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

1. Principal accounting policies (continued)

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)
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.

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.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

1. Principal accounting policies (continued)

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 relating to the Scheme to participating Group entities.

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 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 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

Operating leases

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

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (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 or first-in first-out basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. 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 DS Smith 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.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

1. Principal accounting policies (continued)

Going concern

The financial position of the Company is as shown in the statement of financial position. Due to the Company being in a net current liability position, a letter of support has been received from the ultimate parent company stating they intend to provide any financial support necessary to meet the Company's financial obligations as they fall due for a period of at least 12 months from the date these financial statements are signed.

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 and estimates

The Directors do not deem there to be any critical accounting judgements or estimation uncertainty in the preparation of the financial statements.

2. Revenue

	2017 £'000	2016 £'000
Revenue by geographical destination		
United Kingdom	147,503	156,828
Continental Europe	132,238	156,604
Rest of World	7,556	9,336
	287,297	322,768

All revenue is derived from the principal activities of the Company.

3. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	2017 £'000	2016 £'000
Auditor's remuneration – fees payable for the audit of the Company's financial statements	75	75
Depreciation of owned property, plant and equipment	12,607	12,758
Research and development expenditure	84	57
Amortisation of intangible assets	404	891
Operating leases	640	598
Foreign exchange losses	205	7
Cost of inventory	197,624	217,507

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 2017 (continued)

4. Directors' emoluments

	2017 £'000	2016 £'000
Remuneration as executives (including pension contributions)	508	532

The emoluments of the highest paid Director were £508,572 (2016: £405,000) including pension contributions of £4,958.

The number of Directors for which pension contributions have been paid by the Company during the financial year was 1 (2016: 2).

5. Employee information

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

	2017 Number	2016 Number
Average number of staff (full time equivalent) by activity during the year:		
Production	318	441
Selling and distribution	71	78
Management and administration	44	38
	433	557

	2017 £'000	2016 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	20,608	23,642
Social security costs	2,624	2,665
Contributions to defined contribution pension plans (note 20)	1,633	1,701
	24,865	28,008

Wages and salaries include £443,980 (2016: £389,253) 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.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

6. Finance income and costs

	2017 £'000	2016 £'000
Factoring interest payable	(356)	(259)
Bank interest	(216)	(227)
Finance costs	(572)	(486)

7. Exceptional items

	2017 £'000	2016 £'000
Restructuring costs	1,807	13,960
Impairment of assets	-	17,987
	1,807	31,947

The 2016 costs relate to the closure of the Wansbrough site.

8. Income tax expense

Continuing operations	2017 £'000	2016 £'000
Current tax expense		
UK Corporation tax in respect of current year	(3,337)	2,775
Adjustment in respect of prior years	(19)	3,426
Total current tax	(3,356)	6,201
Deferred tax credit		
Origination and reversal of temporary differences	(497)	(3,007)
Impact in change of tax rate	(594)	871
Adjustment in respect of prior years	(247)	(2,368)
Adjustment to recoverable amount in previous periods	-	-
Total deferred tax	(1,338)	(4,504)
Total income tax expense in the income statement from continuing operations	4,694	1,659
Discontinued operations		
Total income tax expense in the income statement from discontinued operations	-	(1,536)
Tax on other comprehensive income and equity	2017 £'000	2016 £'000
Tax on actuarial gain/(loss)	(86)	115
Impact of change in tax rate	(593)	1,206
Total tax expense included in other comprehensive income and equity	(507)	1,321

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

8. Income tax expense (continued)

The difference between the actual tax charge and the standard rate of corporation tax in the UK of 19.92% (2016: 20.00%) is as follows:

	2017 £'000	2016 £'000
Profit/(loss) before tax	20,438	(13,217)
Income tax at the UK standard rate of corporation tax of 19.92% (2016: 20.00%)	(4,071)	(2,643)
Effects of:		
- Expenditure not deductible for tax purposes	151	542
- Permanent differences	(508)	1,204
- Adjustments in respect of prior years	(266)	1,058
Income tax expense	(4,694)	161

Finance Act 2015 included a staged 2% reduction to the main UK Corporation tax rate to 18% which was substantively enacted on 26 October 2015. Accordingly, the rate applied in measuring the UK deferred tax assets is 18% (2014/15: 20%). Since the balance sheet date, Finance Act 2016 included a further reduction in the rate of UK corporation tax to 17% from 2020.

9. Intangible assets

	Goodwill £'000	Software £'000	Carbon credits £'000	Total £'000
Cost				
At 1 May 2016 and 30 April 2017	13,557	1,803	1,485	16,845
Amortisation and impairment				
At 1 May 2016	(13,356)	(591)	(1,485)	(15,432)
Amortisation	-	(404)	-	(404)
At 30 April 2017	(13,356)	(995)	(1,485)	(15,836)
Net book value				
At 30 April 2017	201	808	-	1,009
At 30 April 2016	201	1,212	-	1,413

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

10. Property, plant and equipment

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Under const- ruction £'000	Total £'000
Cost						
At 1 May 2016	86,791	5,506	358,801	551	12,835	464,484
Additions	635	-	11,199	-	3,886	15,720
Disposals	-	-	(50)	-	-	(50)
At 30 April 2017	87,426	5,506	369,950	551	16,721	480,154
Accumulated depreciation						
At 1 May 2016	(42,550)	(5,506)	(263,903)	(20)	-	(311,979)
Charge for the year	(1,395)	-	(11,192)	(20)	-	(12,607)
Disposals	-	-	4	-	-	4
At 30 April 2017	(43,945)	(5,506)	(275,091)	(40)	-	(324,582)
Net book value						
At 30 April 2017	43,481	-	94,859	511	16,721	155,572
At 30 April 2016	44,241	-	94,898	531	12,835	152,505

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.

The gross book value of freehold land and buildings includes £21,799,000 (2016: £21,799,000) of depreciable assets.

DS Smith Paper Limited**Notes to the financial statements for the year ended 30 April 2017
(continued)****11. Investments in subsidiaries**

	Shares in subsidiary undertakings £'000
Cost	
At 1 May 2016 and at 30 April 2017	42,320
Provisions for impairment	
At 1 May 2016 and at 30 April 2017	(3,772)
Net book value	
At 30 April 2017	38,548
At 30 April 2016	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	100%
			Non-cumulative preference	100%
Grovehurst Energy Limited	Non-Trading	England and Wales	Ordinary	100%
SRP New Thames Limited	Dormant	England and Wales	Ordinary	100%
			Cumulative redeemable preference	100%
			Fixed-cumulative redeemable preference	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 2017
(continued)****12. Inventories**

	2017 £'000	2016 £'000
Raw materials and consumables	7,867	7,165
Finished goods	10,287	12,418
	18,154	19,583

There is no material difference between the balance sheet value of inventories and their replacement cost. Inventory provisions at 30 April 2017 were £3.2m (30 April 2016: £3.8m).

13. Trade and other receivables

	Current £'000	Current £'000
Trade receivables	9,485	12,339
Amounts owed by Group undertakings	106,403	31,311
Other receivables	3,004	1,467
Prepayments and accrued income	775	322
	119,667	45,439

There is no interest charged on the loans which are unsecured and repayable on demand.

14. Trade and other payables

	Current £'000	Current £'000
Trade payables	49,858	30,466
Amounts owed to Group undertakings	93,181	30,639
Other taxes and social security	4,707	3,896
Other creditors	3,125	2,949
Accruals and deferred income	9,285	15,073
	160,156	83,023

There is no interest charged on the loans which are unsecured and repayable on demand.

15. Provisions

	Plant disposal/ closure £'000	Other £'000	Total £'000
At 1 May 2016	4,174	1,241	5,415
Charged to income statement	551	-	551
Utilised during the year	(4,100)	(423)	(4,523)
At 30 April 2017	625	818	1,443

The provisions relate to the closure of Wansbrough Mill, the remediation of Silverton Mill and the ongoing costs of maintaining landfill sites.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

16. 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.

	Accelerated capital allowances £'000	Employee benefits including pensions £'000	Other £'000	Total £'000
At 1 May 2015	4,179	5,221	9,007	18,407
Charged/(credited) to income statement	7,510	99	(3,105)	4,504
Charged/(credited) to other comprehensive income	-	(1,321)	-	(1,321)
At 30 April 2016	11,689	3,999	5,902	21,590
At 1 May 2016	11,689	3,999	5,902	21,590
Charged/(credited) to Income Statement	1,284	(216)	(2,406)	(1,338)
Charged/(credited) to other comprehensive income	-	(507)	-	(507)
At 30 April 2017	12,973	3,276	3,495	19,744

17. Derivative financial instruments

The Company has the following financial liabilities measured at fair value through profit and loss:

	2017 £'000	2016 £'000
Derivative financial instruments	(75)	(47)

The Company enters into forward foreign currency contracts to mitigate the exchange rate risk for major purchases of property, plant and equipment, sales and purchases made in euros. At 30 April 2017, the outstanding contracts all mature within 3 months (30 April 2016: 3 months) of the year end. The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the relevant exchange rates.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

18. Share capital

	2017 £'000	2016 £'000
Allotted, called-up and fully paid:		
250,500,000 (2016: 250,500,000) ordinary shares of £0.50 each	125,250	125,250
1,370,400 (2016: 1,370,400) 'A' ordinary shares of £0.50 each	685	685
340,000 (2016: 340,000) 6% cumulative preference shares of £1 each	340	340
70,000,000 (2016: 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.

19. 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 2017, the guarantees outstanding amounted to £350,000 (2016: £350,000).

The Company has outstanding duty deferment account guarantees totalling £350,000 (2016: £350,000).

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

20. Employee benefits

Defined benefits scheme

The Company is a participating employer in the DS Smith Group Pension Scheme (the 'Scheme'), a defined benefit scheme. 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 2016 for DS Smith Plc included information about the funding position of the Scheme as a whole as at 30 April 2016.

	2017 £'000	2016 £'000
Present value of funded obligations	(1,133,482)	(999,453)
Fair value of scheme assets	1,051,400	912,899
Total IAS 19 deficit, net	(82,082)	(86,554)
Allocated to other participating employers	(62,812)	(64,341)
Company's share of IAS 19 deficit, net	(19,270)	(22,213)

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 May 2016	232,137	(254,350)	(22,213)
Employment benefit net finance expense			(698)
Employer contributions			4,146
Actuarial gains/(losses)			(505)
Company's share of IAS 19 deficit, net			(19,270)

Principal actuarial assumptions for the Scheme are as follows:

	2017 %	2016 %
Discount rate for scheme liabilities	2.5	3.5
Inflation	2.2	1.8
Pre-retirement pension increases	2.2	1.9
Future pension increases for pre 30 April 2005 service	2.2	1.9
Future pension increases for post 30 April 2005 service	1.8	1.6

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

20. Employee benefits (continued)

Assumptions regarding future mortality experience are set based on actuarial advice and in accordance with the relevant standard mortality tables in each country. For the Group Scheme at 30 April 2016, the mortality base table used is S1NMA/S1NFA (year of birth) with a +1 year age rating, with CMI 2015 projections with a 1.25% per annum long-term rate of improvement used for future longevity improvement. At 30 April 2015 the mortality base table used is S1NMA/S1NFA (year of birth) with a +1 year age rating, with CMI 2014 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:

	2017 Male	2017 Female	2016 Male	2016 Female
Life expectancy at age 65				
Member currently aged 65	21.2	23.2	21.3	23.7
Member currently aged 45	21.1	25.0	23.0	25.6

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 %
0.5% decrease in discount rate	8.5
0.5% increase in inflation	5.8
1 year increase in life expectance	2.9

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 period contributions was £1,634,000 (2016: £1,701,000).

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

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 operated by the Company's ultimate parent DS Smith Plc (Plc), 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. Plc awards have been made under the PSP annually since 2008, originally based on the following performance measures, in the proportions shown below:

- Plc'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 between 2010 and 2014 are subject to three performance measures:

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

Awards made since 2015 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.

The 2013 award has vested, but has not yet been fully exercised.

(ii) Deferred Share Bonus Plan (DSBP)

This plan is operated by Plc for Executive Directors and, from 2012/13, for senior executives. Shares awarded under DSBP 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 and 2013 awards have vested, but have not yet been fully exercised.

(iii) Long-Term Incentive Plan (LTIP)

This plan is operated by Plc 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) Sharesave Plan

A Sharesave Plan was introduced in the UK in January 2014 with further invitations being made in January 2016 and January 2017. All employees of the Company and participating subsidiaries were eligible to participate in this sharesave. Under this HMRC approved 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 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 sharesave plan.

DS Smith Paper Limited

Notes to the financial statements for the year ended 30 April 2017 (continued)

21. Share-based payments (continued)

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

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

2016/17	Performance Share Plan		Deferred Share Bonus Plan	
	Weighted average exercise price (p)	Options '000	Weighted average exercise price (p)	Options '000
Exercised	Nil	17	Nil	4
At 30 April 2017	Nil	88	Nil	10

2016/17	Long-term Incentive Plan		Sharesave Plan	
	Weighted average exercise price (p)	Options £'000	Weighted average exercise price (p)	Options '000
Exercised	Nil	129	269.1	1,288
At 30 April 2017	Nil	575	314.1	3,784

22. Capital commitments and other commitments

The Company had the following capital commitments:

	2017 £'000	2016 £'000
Contracts for future capital expenditure not provided	4,612	2,556

Annual commitments payable under non-cancellable operating leases are as follows:

	2017 £'000	2016 £'000
Within one year	743	828
Between two and five years	3,896	3,113
Over five years	-	-
	4,639	3,941

23. Related parties

See note 4 for details of Directors' remuneration. Other related party transactions were with wholly owned subsidiaries within the DS Smith 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.