**DS Smith**
**Conference Call re SCA Packaging Integration – Transcript**

Speaker key

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| MR | Miles Roberts |
| GS | Gary Saunders |
| PF | Per Frederiksen |
| CW | Carolyn Wagner |
| SD | Steve Dryden |
| AM | Alexander Mees |
| AH | Alex Hugh |
| DP | David Phillips |
| HF | Hector Forsyth |
| BD | Barry Dixon |
| CS | Kartik Swaminathan |
| OP | Operator |
| CG | Carl Green |

MR Hi, good morning, and welcome to everybody. It's 100 days, exactly 100 days have elapsed since the completion of the acquisition of SCA Packaging. And what a time. It's been very busy, but I have to say it's been thoroughly enjoyable. We've learned a lot. As a company, we've really come together, and there's no doubt that we're pleased with progress. But it really is just the end of the beginning; now the real works starts with the integration, but we're pleased with the progress to date.

So thank you all for coming. I'm joined by some colleagues at the front here, who I'll introduce shortly. But also in the audience you'll see many people from DS Smith; some from the old DS Smith, but many from the former SCA Packaging, colleagues who've been with us for 100 days and have been instrumental in getting us to where we are today. And as always, Gareth, Gareth Davies, our chairman, is joining us as well.

So the key themes. I'll be running through a brief introduction to the presentations, explaining the work that we've been conducting and the broad numbers and how things are looking. I'll then ask Gary, Gary Saunders, many of you have met Gary before. He's an old colleague of mine. He used to run the UK business for us but then set up all the integration teams. And when the acquisition went live, he took up the role as the Head of Packaging, the largest division we have, and it's been a fundamental role to date. Gary will introduce two new colleagues of ours; both have joined us from SCA. They have both been promoted up on the first day of acquisition to their new roles. And they'll be talking to you about how they've seen the customer reaction and their first thoughts about the acquisition and working in an enlarged company. Then Steve Dryden, our Finance Director, will take you through the numbers and the integration today, and then I'll conclude. And we've got plenty of time for questions from the audience, but we're also joined by many people listening externally and there'll be time for questions from the external listeners as well.

Firstly, the key themes. Let's just quickly remind ourselves, back in 2010, DS Smith was primarily a UK business, heavily dependent or focussed on paper, a long paper tradition and some other businesses such as Spicers Office Products. But since then, we've been reshaping the business towards the core packaging part, improving the business mix, fundamentally changing our focus on our end customer, and how do we get it right with our customer, because we believe that focus will provide the best returns for our shareholders. And we've defined those returns as our primary return on capital, supported by a strong return on sales, growth above GDP, and a balance sheet that has debt below two times EBITDA. That's what we defined. And yes, SCA

Packaging is part of that journey that we're on. And if we remind yourselves what was the reason for the SCA Packaging acquisition. Why do we want to do it? Because it's not just about being bigger; you've got to be better. And what this gave us is a pan-European footprint to really start to serve the customer group that we felt under representative; the large, growing pan-European customers, a position of supply that nobody else could offer, and to start to give leadership, leadership, particularly, in innovation, where the market's been so fragmented.

And for shareholders, realise significant cost working capital and Capex savings, such in the first full year of ownership we will deliver above our cost of capital, together with substantial earnings accretion. That's what we said at the time of the acquisition and as we see we're well on track on that.

So how do we look now? This gives a map of our packaging positions across Europe. What it's really showing is how we moved from this very strong position in the UK to really having a pan-European presence, which extends to all the major markets in Europe, so we can now reach everywhere, particularly in that Central European region, Northern European region, around Germany, the largest market in Europe, where many of our big customers have substantial operations and we just couldn't reach previously. So it's given us that, but as well it's given us the scale where we can invest heavily in innovation to support the new region, but also that growing eastern European presence. We now have significant positions in Poland, in Czech, in Slovakia, together with our joint venture in Ukraine.

So what's our structure like? If we're so focused on the customer, how are we aligning ourselves internally to meet the need to deliver the opportunity that we believe is there? On day one, the first day of acquisition, we put in a completely new management structure. As you can see, it's centred on packaging. We've aligned the group to our final customers. Most of our customers are regional, so the packaging divisions are on a regional basis, supported by a packaging head office, and then the paper and recycling support the packaging division. So it's customer focused. It puts accountability at the coalface. So our regional managers, they're the ones driving the group. They're facing the customer. They have the responsibility, the accountability, and the tools to deliver the successful business. And this structure is well-known. We tested it, we planned for it, we put the procedures and processes around it, tried and trusted, so that the risk during integration was significantly reduced. And it was all supported by Group functions which, as you know, have been strengthened over the last two years. Group functions in finance, in M&A, in Legal, in Procurement, and the pan-European customer management. So the structure went in from day one.

So how have we populated the structure? Again, this is the beauty of having six months, nearly six months from when we announced the acquisition, having good access to the business so we could plan throughout that period. That's from day one. We've interviewed and profiled the top 80 management. We've done assessments of the SCA business, and ourselves, to see where those cultural differences were going to appear so we could deal with them, so we could communicate. So, on day one, we put in the right management structure and we populated it with the right people, the right technical skills, the right behaviours, with the right accountability. That's given clarity, it's given ownership; therefore, we can get the synergy plans being delivered from the ground up, and that, again, starts to reduce that integration risk in what is a reverse takeover.

That's our management structure and the team. We're pleased with that. But what about our customers? How do they react when they see their supplier base consolidated? Do they get worried and think that we're trying to corner them, or do they welcome you? We did a lot of work with our customers. We knew how they felt about the highly fragmented base within packaging, about the lack of pan-European supply. So they told us they wanted it, and now that is how it is, that is exactly how they've responded. It's early days, but they want us to show leadership. They know what we're capable of, but they've been very supportive. Very supportive indeed, and we'll hear more of that later from Per and Carolyn as they talk about some specific examples and how we're starting to get it right with the customer.

What about employees, all 22,000 people, spread across Europe? If you've got the right structure and you've got the right management team, if you've got the customer support, what about everybody in the company? How do we engage these people when you're doubling the size of the group? You simply have to engage the people in what you want to do, particularly when the accountability is at the coalface. So it's fundamental to us to get that right. It also gives us speed. We spent a lot of time on the culture assessment, and from that we built the communication programme. So on day one, the communication to every employee; on day three, the top 250 managers together, just along the motorway at Heathrow, in the hotel there for two days where we really aimed to get people together to tell them in our words what we were trying to achieve about a stronger business, supporting our customers, a growing business. This is why we've done it, and you start to capture people's enthusiasm. You start to get their understanding. And with that, they want to own it. They want to be part of it. So they take the plans and they develop them in their way of thinking. Do you know what? They then come with their ideas. That's why we're doing better, because we've harnessed the ideas from people that joined us from SCA. So we've learned. Getting this right will provide the continuous improvement of the future. Not just synergies in the first few years, but as it then drives the business for a number of years to come, using that structural advantage that we've engineered.

Improve the return to shareholders. And this is where we see the return – in the business mix, in synergies, and in opportunities for development. What is the right business mix? We've had a good look at the business, and there're some parts of it that are pretty modest. We knew they were there. We just don't believe they are in the best interests of shareholders. We don't think they will give the right return and therefore warrant the investment they need. It's a modest area, but with discipline, just as we've done in the old business, these are not areas that we'll be pushing hard, so we'll be withdrawing from them. They're not significant but I think it's very important to have a disciplined approach and start to focus on the higher value added. It's an easy thing to say, but let's not forget about the platform that we've now established with innovation, with service, where we can start to sell our capabilities, and we should be able to capture that. As I said, we'll be talking about more of that later. Yes, we have taken on some more paper. We're short in paper. But we'd like to come from about our 70% integration level today back towards where it's been previously, more around the 50% level. We think that is in the best interests of the Group and our investors, to limit your exposure to what is a highly volatile business, but, at the same time, without bearing an unrealistic level of risk on the security of supply, so you'll see as we address the paper integration.

On the synergies, cost savings, we said €75 million. We brought everybody together. We got the the SCA people, and they've been building the plan. They've been rigorously reviewed, they've been tested. If you have one of these plans, you've got to sit in front of Steve and explain it. It's got to work. We've increased it from €75 to €100 million over three years. On the cash savings, which is primarily working capital, we said €40 million previously; it's now €130 million. And we can also see some surplus assets, assets that are there, they aren't really driving value. They are just there. How do we dispose of them? Some of them have already been disposed of. They have already gone, contracts exchanged, and we'll be receiving the money. And opportunities then for the development, the third area of driving it. This is the medium term; this is when we use the enhanced footprint and efficiency to drive with our customers. We now have a different proposition to our pan-European customers, enabling us to compete at levels that other people cannot. And in a geography, the products we have in old DS Smith, in primarily UK and France, we're now spreading them across the rest of Europe as a road to suppliers. And, on innovation, bringing together the 17 design centres, innovation centres, SCA with us. And we've enhanced those resources. We're spending more in those areas. That's all included in those synergy targets.

So, in summary, DS Smith is changing. It's in line with what we've said. There's good momentum. We are pleased with progress. The plans are there. Execution to date has been as expected. We feel our customers and all our employees are supporting what we're doing, and actively supporting. But let's not forget, we are really at the end of this first phase. It's now about the delivery, and we are really looking forward to that.

Gary, if I could ask you to take us through your section.

GS Thanks, Miles. Good morning. I'm Gary Saunders and I run our European packaging business and I want to take you through our customer base and where we see opportunities for profitable growth. Before I joined DS Smith two years ago, I spent 30 years in FMCG and retail businesses, and therefore I do understand the needs of our customers, having been one for all that time, and what they require from a truly excellent packaging supplier.

As a leading supplier of recycled corrugated packaging across Europe, we're fortunate enough to supply some of the biggest names in European business. I say fortunate because that means we have a very robust customer base. Our top 30 customers include Nestle, P&G, Unilever, Danone, Kraft and Mars, to name a few. They're all FMCG and pan-European in their manufacturing and distribution footprint.

And what they want is they all seek strong, reliable and innovative suppliers who can support their strategies and their growth aspirations. What they want is quality products and new packaging solutions. And this bias that we have towards FMCG does reflect the focus we've been pursuing over the last couple of years.

Our top 30 also includes some strong, more regional FMCG businesses, such as United Biscuits and Lactalis and some excellent industrial customers such as Valleo and Ford. And the strong growth area of the Internet distribution is well covered in our supply to the market leader, Amazon. But, having said that about those top 30, no one customer represents more than 2% of our turnover, making this both a robust and low-risk customer base. But it's also one that has significant opportunities. Even with one of our largest customers such as Nestle, we still only supply around a third of their corrugated requirements. And I think that opportunity is really well depicted on this this slide, a rather busy slide; but whilst each logo on the previous slide was just one customer, it's worth reflecting on the scale and opportunity that comes from supplying businesses that have numerous European, or even worldwide, strong brands.

You can see here the brands owned by ten of some of the largest FMCG companies. It's a vast, vast range. And we have strong relationships with over half of these customers. But even then, as I said before, we're not supplying every brand you can see on this chart; within that lies the opportunity. The brands you see on this slide are brands that require excellence in their packaging to help improve their on-shelf visibility and support their sales growth. And we have the skills, the innovation and service to meet our customers' needs and help them drive these strong brands forward. Brands such as Friskies, Felix, Quaker, Gatorade, Harvest Crunch and Chewits that are all up there are very dear to my heart from my previous experiences. And, to be honest, they're likely to be the brands that support me in my old age through my pension. But it's those experiences and those experiences of some of my colleagues across Europe that will help us deliver value adding solutions to meet our customers' needs.

If we now look at our top 75 customers, they make up around about 25% of our overall revenue. And, within this top 75, 82% of the sales are with FMCG customers. This, to some extent, reflects the size of these FMCG customers, because they are big across Europe. But I think it also highlights our strength and ability to deliver in this sector. Our overall customer base is about 59% FMCG, still biased, obviously towards that sector, but also it highlights the size of the industrial corrugated market across Europe. And if we're going to be successful in our aim to be the leading supplier of recycled packaging in Europe, we have to be able to profitably meet the needs of this sector. Fortunately, with the acquisition of SCA, it provided us too with an excellent customer base from which we can build.

Let's look at the way we're now structured. We've structured our business to meet our customer needs. We mustn't forget, the majority of our customers remain local, and that's why we retain local accountability right the way down to profitability and the geographic structure. We do see pan-European counts as a significant area for growth, and we believe it's where we're different from many others in the market in our geographic reach and the quality of our innovations. We've put in place a strong pan-European sales structure that'll be dedicated to those customers that want to operate and work on a pan-European basis. And we'll also work with other customers that want to develop their ability to operate on a pan-European platform.

Our new pan-European marketing innovation and design teams are now developing consistent messaging and consistent innovation for those customers that want it. Whilst, at the same time, ensuring that we continue to supply the market-leading service to all our local customers that still make up 75% of our total sales. But because we now have true European scale, we have the capability to invest and to grow, to meet the needs of all our customers, whether they be pan-European, regional or local. A phrase used by me and many other FMCG managers back in the '90s was think global, act local. It might seem a bit clichéd these days, but I think it does accurately reflect what we need to do to meet the needs of all of our customers today.

So, even with our newly acquired scale and capability, it's important that we still have clear priorities in our growth aspirations. The priority growth areas will be assessed by where we can add most value, not just for ourselves but also for our customers. We'll look to sectors where there'll be higher market growth and, therefore, a growing margin pull, such as Central and Eastern Europe and the FMCG sector. We'll also focus on pan-European customers, as I've said before, where our footprint and capability matches their needs, and giving them a great supply across a wide number of their sites in Europe. And finally, we'll focus on customers that want innovation and excellent service to help them drive their business forward. We see these growth areas as being sectors where the margin pull will be growing. The added value is going to be higher, and there'll be lower cyclicality.

I keep mentioning the FMCG sector, but it is a sector that we believe will grow in the long term. The FMCG customers are getting larger; there continues to be consolidation in this market, and they also are looking to Central and Eastern Europe for their European growth. And with the reduction of the effectiveness of traditional marketing techniques such as TV advertising, they're looking for more quality and innovative packaging to give them a better in-store presence to have a competitive advantage. Publicly available data shows the FMCG sector is over 50% of the market, and set to grow faster than the average over the next few years. Also within 'Other' is the Internet distribution sector, which we still think will be a key source of growth for us going forward.

With SCA Packaging, we acquired a thriving industrial business. It's a business that covers the full automotive supply chain of transport of chemicals, electronics and pharmaceuticals. The acquisition of SCA highlighted a number of areas within this market that actually are more akin to FMCG markets in that they require great service, great innovation, and scale to serve them effectively. In return, the margins are good and the cyclicality much reduced. A good example of this is the business model we've adopted for supplying the automotive spare parts sector. Spare parts, in their nature, are less cyclical than parts for new cars. But it's our business model that gives us the competitive edge. By offering these customers a full service, similar to the way in which we supply the FMCG customers, we move away from being just a corrugated box supplier. We're experts in managing complexity that the packaging supply chain brings with it, and we use this skill to provide a packaging service for both corrugated packaging and other packaging mediums that we buy in. That way, we support our customer in an area that adds or takes away complexity for them and frees them up to focus on the areas where they can add most value.

The net impact is a win/win situation, and we believe we can expand this service across many industrial sectors.

I'd now like to introduce two of our regional MDs, Per and Carolyn, and they're going to take you through a few examples of what I've been talking about. Thank you.

PF Thank you very much, Gary. Good morning, everybody. My name is Per Frederiksen and I'm in charge of our Northern European operations. I'm very pleased to meet all of you. As you can see from the slide, I'm really a packaging guy. I've been in different parts of the industry and taking some experience from that. For the past three years, I have been acting as MD of SCA Packaging in Denmark, going through what you can call a classic turnaround, taking the operation from a return on capital of minus 3% to plus 14% in a flat market. I like challenges and I like change, so I think this is a good place to be. I have an international background, which is useful in my current role, and as you can see I have also lived in the UK, actually running a packaging company in Cambridge, which now happens to be a part of DS Smith.

Before I start, I would like just to comment on the initial interaction with DS Smith management team. Just within a few weeks of announcing the acquisition, Steve and Miles came to meet the entire European management team of SCA Packaging, and it gave us a chance to get to know them and get to understand the thoughts behind the acquisition. That was really important for the management team of SCA Packaging, because, after that came a five-month period whereby we were waiting for the different approvals, and, in that period, we all knew what to expect. During the course of that period, waiting for the approvals, we also had, as it was mentioned, extensive tests done for the top 80 managers in SCA packaging. We had interviews and we had extensive feedback sessions at SCA. That gave us an impression that this was a professional and also a fair process. And it meant that all management decisions were filled on day one. We had the clarity and the authority to act efficiently in our individual regions.

On day three, we met, as mentioned, the top 250 managers of the combined business, and already then we had the feeling that we acted as one team, and we started executing at a very high level. Three months down the road, I'm very impressed with the quality of the management team. We've taken the best of the two companies and we have, I believe, very high ambitions and a very high speed of execution. Nobody is hiding the fact that this is indeed an acquisition, but, at the same time, there is lots of mutual respect on both sides. It's two worthy opponents coming together, and the strategies and the values of the two original companies are quite similar.

I've chosen to give you an example of Lego, a major customer of the SCA Packaging business since 2008. Lego is a significant customer, manufacturing at a number of sites throughout Europe, and we supply all of those sites. They require high quality, high impact packaging to stand out on the shelf in the competitive toy market and to maintain their high quality brand image. In the past four years, we have grown our position with them and we have worked to improve the amount of value we add to the packaging design process at every step. We have gone from providing relatively simple packaging boxes to being integral to the design process of the pack, along with in-store displays, which are used throughout Europe.

With the Lego, we are backing a winning company with high growth rates. They are the category leader, and they are very demanding. We are interacting with more than 50 people at Lego, which shows how integrated our work is. We interface not only with procurement, but, actually, to a much greater extent with marketing, design, logistics – the whole supply chain. Together with the Lego manufacturer, marketing and design teams, we are creating a whole new concept for future packaging. The pack on the slide is a good example of one of our designs created from concept to manufacturing, through a collaboration interface with Lego marketing, and by sharing our consumer insights that were develop through a series of workshops. In the spirit of our partnership, Lego even supported our internal SCA design centre challenge in 2012 as a key sponsor.

Since SCA Packaging became part of DS Smith, we have, in fact, continued to win business with Lego. They are happy because the combined business is stronger in Central and Eastern Europe, where they already have significant production and where they see growth in production in the future. They see DS Smith as a company willing to invest both in capacity and in competencies. And we are now able to offer a yet wider range of innovative and technical skills, and build on what we have been doing before. I have no doubt that we have the potential to even double our business with Lego, as we leverage the strength of our combined business.

In conclusion, this example shows how we work in partnership with our customers, delivering more value to them and, hence, growing our business with them and improving the quality of our business mix. At DS Smith, that position gives us additional credibility in the market to be able to support customers with a pan-European manufacturing base and a requirement for a continuous stream of innovation.

I'd now like to hand over to my colleagues in the management team.

CW Good morning, ladies – and I have spotted some ladies – and gentlemen. And thank you very much to you, Per, for a very good synergy story on Lego, which leads us very nicely into the region I represent, which is Central Europe, because we've just signed a contract with Lego for several hundred thousand euros of display business in our plant in Hanau. I'm Carolyn Wagner. I've been appointed, as Miles pointed out, as Managing Director for the region Central Europe, which consists of Germany, Austria and Switzerland, after the acquisition by DS Smith. As you can see, I'm a packaging engineer. I have a strong background in the technology of our business. I have a wealth of experience in paper, packaging, corrugated, print and display, but don't worry about it, I will not bore you with technical explanations. But if you're really interested, we can discuss them in private.

I represent a market, which is quite interesting, and I know it very well. Although I started out as an engineer, I've spent the last 11 years in packaging in sales, mostly in the German market. And, as you might recall from Miles's slide in the beginning, the German market – that's that big chunk in the middle – and it has a very, very big circle to it, which represents actually the size of the market, and the size of the market is quite substantial. You might also recall the number that is in that circle. We're number three today in this market, so there might be some further aspiration for us there. What is this market, the German packaging market? It's the biggest market there is for our product. It's an 8 billion square metre market, if you want to think in those dimensions, or if you can think in those dimensions, of corrugated. And it's also a very, very interesting display market with an estimate turnover in display of about €500 million per annum. When you think of Germany, you probably think of a very industrialised country, and that's, of course, very true. Strong foothold, as we've seen, in industrial companies like Bayer, Roche, those come to mind. And don't we all love our Audis, BMWs and Porsches, which are all being made in Germany. God bless the automotive industry. But it's also a country where we have a very strong FMCG foundation. So really, literally, every brand that might come to your mind – and Gary reminded you of some of them – has a stronghold in the German market, actually producing some of their really global brands that all of us use every day. Mars is there, Kraft is there, Unilever is there. Nestle is actually producing a full range of products in many sites, 12 all included, in the German market. So whatever you buy, be it a coffee product from Nestle or a Nespresso, I think we all like it, or whether you buy a chocolate, toffees, it's all being produced in Germany. And it's very, very positive. Those are really all our buying customers and based on a strong foundation of FMCG customers in our market.

Now, when we first talked to these customers about DS Smith and SCA Packaging being acquired by DS Smith, what was their reaction? Just like you heard before, they were very, very positive because they are looking for a partner that has a real and true European footprint and that can really offer them a wide range of products in the whole European geography. So they were quite pleased in this acquisition, really, and what they're looking for is, obviously, a partner who is just as innovative as they are. Those FMCG companies, they have to come out with new products basically every month. Not all of them survive but they have to come out with them, and all of them need a good packaging solution to even make it on the shelf. So they are looking for a very innovative partner and they have found the partner in us in very many cases. And now we can actually offer our customers an even enlarged, innovative product range. And I have just selected two examples where already, today, our customers, in our geography in central Europe, can benefit from the new company, DS Smith. One of them is called the mandrel construction packaging; it's actually been developed by DS Smith in France. It's a patented product; it's now been licensed to RockTenn in the US, and we can drive this opportunity in Europe big time. It's a system solution. It's not just a box. It's not just something corrugated; it's really a system solution. That's what makes it so attractive to our customers. And again, it is fluid, it's a specific fluid type, it is installed in 70 sites. It's already very strong in Europe and recently we've installed in our region in Germany, in Hanau, where we're now actually producing this.

So what's so specific about this? What's so exciting about a box? I can get very excited about a box. This is another really leading edge company, some of you might know this, but this is a product, Febreze. It's made by Procter & Gamble, and I'm sure you all agree with me that Procter & Gamble is one of the most innovative, global FMCG companies with really leading edge strands. Febreze example here is really the mandrel construction, as I said, I can study this in detail. It is already being used in the plants in France, Belgium, Czech Republic, Germany and Italy, on their lines, and what does it do for the customer? It actually does exactly what they need. It improves their run speed on packaging lines. It allows micro weight corrugated floor to be used – and you've got it on the right side of the chart – marketing, shelf ready. Bring the product to the customer in an easy way, easy to use, attractive. And improve your own production environment, and of course, procurement always comes into the equation, be competitive with it.

So Per took us back to our childhood with Lego, and another example, also coming from this company, P&G, is taking us even further back. Some might have a use for this very soon. What’s the story behind this, Pampers? Pampers is a leading brand and, as you know, P&G always expects high standards of innovation. Pampers comes out with many new designs. They actually come out with new diaper products all the time and there is flexibility also on their packaging.

P&G was already a customer of ours but they needed to go to a different type of print and this was possible by actually bringing the business to the plant in Hanau in Germany and we’re now using the same technology in our plant in Hanau in Germany that P&G finds very innovative and is actually using in their factories.

I just met the director of research and development, Lisa Sanchez, and she’s coming to Germany next month. She’s excited that we’re now supplying this customer out of Hanau. Actually, P&G are also coming to Hanau to finally see how this is being made so it’s a very, very good story of how already after 100 days, there are actually changes for us and our customers.

If you ask Miles which is the best place to be in the first week, the last week of September in Germany, in Bavaria, Miles would not say it’s the Oktoberfest. I hope Miles would probably say the best place to be in Germany in Bavaria in the last week of September is actually at FachPack, which is one of the leading European trade fairs for packaging materials and packaging products. This year we’ve had our first ever commerce presence of DS Smith packaging at the FachPack in Nuremberg with a common stand. And colleagues, sales professionals from Germany, Switzerland, Austria and France together actually generated 700,000 customer leads within just three days of the fair and we’re going to make them fruitful.

SD Morning. Thank you, Carolyn, some great examples there. I’m Steve Dryden, I’m the Finance Director at DS Smith. I really just want to show you, put some detail behind the synergies that we’ve announced this morning and show you how they’re going to translate into our financial performance. I guess the theme is more synergies, faster. To some extent you could say, we've only had 100 days but the reality is we had almost 11 months looking at SCA packaging, six months' detailed due diligence and even after that we spent time with the management teams getting to really think about what are the synergies behind combining these two big organisations.

What are they? Cost, cash and probably what's new today is disposing of some surplus assets. The cost synergies we announced in January; €75 million. Today we're confident of achieving €100 million. Cash; we announced €40million. Today we're confident of €130 million. Surplus asset disposals; we're confident that over the next three years we'll achieve disposal proceeds of €100 million. And I think the key thing is, after 100 days, we have bottom-up ownership at all levels of the organisation and from the teams that work for them for delivering these synergies in the timelines that we've talked about.

And why are we better? We're better in terms of our synergies because we've built in what the SCA Packaging team can see and what they've identified for us and also the level of detail and timing that we have in terms of our actual plan for this is such that we can reduce the integration discount that we apply to these synergies.

On that, it's all about a clear plan for delivery so on the cost side, I know when we spoke in January it was €75 million; behind that the detail is on procurement; €53 million. We have now established a pan-European procurement network, really working with our suppliers to show them what a high-quality, secure, financially strong customer they have. From that we can see procurement savings, cost savings of €64 million.

Head offices; we talked about €10 million cost benefit. We now see €16 million because obviously there is an SCA Packaging head office. We've announced the closure and relocation to a much smaller office but also there are other smaller head offices across the SCA Packaging group that we can look to combine with DS Smith and see those savings.

Finally, operational agreements. We talked about €12 million in January. We now see €20 million. For example one of our first conversations was the opportunity to reduce costs operationally in Sweden and certainly I've got an example later on to show you what we're going to do in Poland. So cost savings; €25 million increase. In this financial year to April 2013 we expect to deliver €25 million of cost synergies and the balance evenly over the following two years. Cost to achieve this has only increased by €10 million to €90 million; again, that'll be spread evenly over the next three years.

Cash savings, and I have to say, substantial cash savings from the size of acquisition that we've done. Working capital was €32 million. We now see €100 million. Just to help you really see that context, SCA Packaging had €280 million of working capital when we acquired it. That's about 10% of revenue. DS Smith operates on a model of 5% of revenue so you'll see there in terms of the opportunity to improve, we can see the actions we're going to take, the opportunity to improve by €100 million.

Capex efficiency, we said €8 million, we now see €30 million, some of it better buying, the work referred to earlier as procurement going through. Some of it; SCA Packaging is a well-invested business. We can use some of that infrastructure that's in place to get access to our customers quicker than we had planned to before.

The new thing's really surplus assets; €100 million. There's obviously the EU revenue disposals that we announced in May, that's factoring in there but also, as we've gone through a detailed look at all the properties that existed in SCA Packaging, there are surplus properties there that we can look to sell for reasonable proceeds, all helping bring down our debt.

Delivery this year in terms of capital expenditure and working capital will be €60 million. You've really got to think about the return on capital employed implications and don't forget, that is the most important measure for DS Smith. It's not just about driving profit and earnings. Of course, the cost synergies help with that. Think about the denominator of what's happening with the capital base here. We paid €1.58 billion for SCA Packaging. We're going to take out €100 million of working capital and take out €100 million surplus assets and the net investment side of that return on capital employed will be of a denominator of €1.38 billion and that's one of the real areas we see to drive shareholder returns.

Just to give you a tangible example of what we are doing on operational improvement, this is Poland. I'm sure many of you know that DS Smith has always made an attractive return on sales, attractive returns on capital in our Polish business. SCA Packaging didn't make good returns on sales or return on capital. It's all about making the combined business stronger so we're looking to close two sites, one production, ones sales/distribution and downsizing a third site. What we'll have is a much more efficient, lower-cost business in the enlarged Poland.

Finally in the south-west we were planning to start a greenfield site in Poland over the next two years. That would have been quite substantial capital investment, probably 30, €35 million. We now find ourselves in the fortunate position of SCA Packaging owning a site there in Olawa where we can invest ten to €13 million, thereby delivering quite significant capital expenditure saving and getting there to market with our customers far faster.

There are often other benefits from acquisitions and I thought I'd just take the opportunity to update you on those which are obviously outside of the immediate cost and cash synergies. Net debt/EBITDA; as you know, when we announced this acquisition we said, at the time of acquisition, we would be above two. That's actually above our medium-term target of two times net debt to EBITDA. We're really pleased to be able to say today, we expect to be able to achieve that medium-term target one year earlier so net debt to EBITDA by the end of April 2013 will be at or below two times.

Interest rates; small change here, only 20 basis points but I think what's encouraging is in terms of appetite to finance DS Smith and there we undertook a refinancing during the summer, taking some of the bridge financing out to a nine-year maturity. Again there we managed to achieve not just a lengthening of our maturity but also a modest improvement in our finance costs.

Tax rate; at the time of acquisition we said 27.6%. We now are confident that this year and beyond – so it's not just a one-off – we'll be at 24%. It really comes from just having a better understanding of not just the countries where we can make profits but the actual tax rates and the structures therein and that means that we're confident of the 24% tax rate.

Capex, and I referred to capex efficiency; one of the benefits of that; our previous guidance was for cash capex of £160 million; looking into this year and next that'll be £150 million. Also, just to remind you, DS Smith, compared to what it was previously, is a much, much more European business. Some 60% of our revenues are in euros and if you work down the profit/loss accounts, we are sensitive to euro translation. One euro cent is about £1 million of our profit before tax.

Finally, this is what it really all means in terms of our medium-term targets. In terms of volume growth, you can clearly see from Gary, Per and Carolyn's presentations, there are clear areas that we've identified which give us confidence about GDP plus 1% volume growth and that we're going to be in the right sectors. But having said that, we've got to recognise there may be a short-term effect. This business is run on return on sales and return on capital and if there's parts of the business that aren't going to help us achieve those objectives, we're not going to be in them. We're going to exit in the most sensible way possible.

On return on sales, the medium-term target has always been seven to 9%. The pro forma for the enlarged group's about 6%. I'm sure you can see, with that €100 million of cost synergies coming in, why we feel confident of that seven to 9% range. Similarly, for return on average capital employed, pro forma is about 12% return on capital. Again, that combination of cash, of the cost synergies and the asset base falling with the cash synergies means that we think we will be towards the upper end of that medium-term target and that cashflow to operating profit will be strong with the cash synergies coming through.

Finally, the net debt/EBITDA; that combination of cost synergies but also the cash synergies coming through means we're very confident that we're going to get there to below two times and a year earlier than we actually said in January.

MR Okay. Thank you. As I'm sure you'll all agree, it is just 100 days but you've seen what everybody's been saying and you can see not only the knowledge and the depth but the enthusiasm as well so thank you. To recap, we're pleased with the progress. We've spent a lot of time thinking about the business. To go right back to when we approached it, we had six months of bilateral exclusive negotiations, full access to the company so we felt we had a very good idea about what was there. Post the announcement we had again five months of access to plans to understand the business so at day one we were ready.

So yes, it's looking good but frankly, that's just come from good planning in the first place. We feel the footprint that we have created in Europe offers a structural advantage to us that we just haven't had before and that, combined with a much more efficient cost base, asset base and backed with the increased innovation capability again will put us in a very strong position going forward. But it is built on engagement, on all of our stakeholders, so about customers and getting it right there.

But we've been pleased with the support. We're ready with our people and how we're starting to engage everyone in creating a stronger business where the ownership is as far into the organisation as we can possibly get it. So we're going to continue working on this and we are going to come back to shareholders in the first half of the next financial year and again have a similar session to today where we can really talk about how we're starting to optimise our position in the marketplace, to give further updates on progress.

But I do have a very short video and it's just designed to give you a flavour of the way that we've started to engage people in the SCA business on day three. It's very short but it just goes to about how together the companies are stronger. Thank you.

[Video plays]

Thank you very much for your time. Myself and my colleagues are very happy to take any questions that any of you may have and then we'll come onto people listening to the telephones. I'm sure they have a few questions. Please. There's a microphone. Just tell the audience who you are.

AM Thanks, Miles. It's Alexander Mees from JP Morgan Cazenove. Just a couple of questions, firstly on industrial packaging. Clearly, the focus of the group has historically been on FMCG and continues to be so, I assume. 41% of corrugated volumes, I believe, are now industrial. Where do you see that going into the future? In addition, what are the differences in the return on capital employed in industrial compared to consumer goods? And thirdly, what are the different challenges and opportunities you see in industrial packaging compared to FMCG?

MR Gary

GS Yes. We still see FMCG as our growth area, as I mentioned in my presentation, although we're not going to grow the whole business by walking away from industrial, we certainly aren't. Industrial's going to remain an important part of our business; as you said, 41%. What we want to do is to focus on areas of industrial where we can really add more value and what the SCA acquisition's taught us is that a number of areas in industrial that actually do have very good returns; yes, they may well be a little more cyclical but actually some of them are a lot less cyclical than we originally thought, which is the upside.

What's really good is there are areas where there is a huge amount of innovation. The designs for the packaging are actually very complex and if we can bring our knowledge of great service and great innovations to the sector by offering a more full service orientation, we think we can actually be delivering markets and return on capital as per the FMCG businesses and manage that cyclicality much more effectively.

So I think for us it's going to remain as important an area. Yes, our focus will be FMCG but what we want to do is to try and bring all of our learnings from those areas to the industrial sectors and to those customers who want a fuller, wider service. Hopefully whilst we build and add more value to their business and we'll get more value added ourselves.

AM Just one more, if I may, with regard to revenue synergies, it's something we haven't talked about today. Clearly, I know you may be reluctant to quantify this but can you just explain whether you'd expect revenue synergies as part of this?

MR Clearly we think there are opportunities there and we've said we'll come back in the first half of next year and talk more about that because it's one thing to have ideas. What we're very keen for our shareholders is when we say things, they're proper plans, it's fully justifiable and that is going to be delivered. We're talking to customers. The response has been good. Some of them could be in a one-year or two-year contract and they may be part of the way through that so I think it's important for us to really understand and then come back to you not only with those opportunities but also the segmentation, etc, and show how both businesses, with the combining skills, can really grow the categories and the areas.

You've already mentioned FMCG; exactly what are we going to be doing there? I think we're going to have to come back with a fuller presentation. You're right, there's nothing in the case on that at the moment.

AH Hi, it's Alex Hugh at UBS. I've got two questions. The first one is a bit multifaceted so I'll just do that one. On the operational synergies, the number that you put out there of €20 million doesn't necessarily seem that high. I was just wondering if you could, to help us, just put the margins for the SCA Packaging business on the new format that you're going to do, if you could just talk through the margins on the different divisions and then maybe by function as well, so recycling is where I'm thinking.

MR Steve

SD Yes. A lot more than the €12 million we originally said so as Miles has already said, we'll come out to tell people when we've got bottom-up plans in place, commitment to set out and deliver and that's where we are. If there's scope in the future, we're always looking and the reference about some of the lower-margin business we may decide, as Gary said, there's things we can do operationally to improve those returns as opposed to just not participating in some of those categories. So trying to say, can we do more than 20? Well, let's make sure we deliver the 20 and then we'll update that in time.

On the margin by division, that was in the prospectus to some extent. From memory, the prior year was 5.7%. I think, as we start to report a change in that, you'll start to see how we've developed a segmental analysis in here, very much just showing this is the historical DS Smith segmental analysis. That's what's in the appendix in there but the overall margin was 5.7%. I think there's a slight debate there when you start saying, how much is in the paper and how much is in packaging? Because it all depends on the historical transfer prices that have been adopted there.

We may not adopt those going forward so we've got to look at how it was previously reported. Our recycling business, though, does make better margins than the SCA Packaging, the second business because we're a lot more about trying to sell a closed-loop recycling model where the model is inherently a lot more about sourcing,.

AH So there's nothing to prevent you, in Continental Europe, from going more towards that, what do you call it, cradle-to-grave type process that you've got in the UK?

SD That's part of our model but that's all about developing in time. We're not setting any sort of timeframe on that.

AH Okay, that's not built into the synergies number that you've given, I guess.

SD In the operational, there are certainly duplications of locations in there that, in turn, will give us some synergies but the closing of recycling model businesses will be built in there.

AH Okay. Then my second question, which is much more straightforward; in terms of customer retention rates, any differences between the two businesses? And also customer win rates, actually, while we're on that.

MR The customer retention we're experiencing, to be honest, is better than we thought. We thought there would be more overlaps and that where there were, we would get into some more immediate customary bun-fights. But it has actually been better than expected and the retention rate in terms of the contract churn in the big FMCG company sector, where we can really compare, they aren't that dissimilar. But they're both enjoying quite extended periods so it goes on for many, many years.

If I could just add one thing to what Steve said on the operational synergies, when we talk synergies, this is value-added as a result of the acquisition that goes to the bottom line. It is not business as usual and the growth number is much higher. But of course, it will improve labour efficiency, will improve wastage, will improve this. That's business as usual and sometimes you see on history shows, some people will put up some big numbers.

Of course, it's competed away. We're not saying it's a structural change that could not have happened without the acquisition. That's why the number's here and that's why it's build into forecast and that's why investors can see it coming through. I think there's a very important rigour that we apply to the numbers that we give people.

AH Okay, thank you very much.

MR The gentleman in the pink shirt.

DP Thanks, good morning. David Phillips from Citi. Can I just ask about competitor reaction and what you've seen in the first two or three months on the ground, people phoning up? I take your point that customer churn has been very good but have you seen any more signs of aggressive behaviour from the incumbents in the market?

MR Gary.

GS You always have pockets of strong customer reaction or competitor reaction but I don't think there's been any more than we've seen in the past in this competitive market. No, I don't think we've seen anything out of the ordinary.

DP Slightly related to that, with the tough macro environment in mind, any particular regions within countries, or countries themselves, that have surprised you on the downside either through customer closures or just general very, very tough economic conditions or is it as you expected?

GS I think it's pretty much as we expected. The economic environment is tough and it's been tough for a little while so I don't think it's anything new. So from my perspective, no, all the markets remain competitive and we see business as usual from that perspective.

I think one of the points to add on the synergies from operational; one of the things you often see in such big acquisitions is the fact that you get dis-synergies on sales and Miles said, we haven't lost a lot of business. That's the sort of thing you would expect when big companies come together. The corollary of that, of course, is that there's not much overlap and that's why we haven't had those losses of sales so you don't get the ability to rationalise your footprint where you don't have the overlap. Equally, the upside is you don't have the problem of dis-synergies on a sales basis. You almost can't have one without the other.

DP And just one final one, if my memory of the prospectus is right, back in January you were talking about an FMCG/industrial split of about 51, 52 versus 48 and today we're talking 59/41. Has there been some change with the asset discovered the split slightly differently or had I picked it up incorrectly at the outset?

GS I think one's group and one's the SCA.

SD Absolutely. I think one was DS Smith before, where we were 70%, and one's SCA where it's about 50/50. What Gary said today is the combined split.

DP Okay, thank you.

GS About 60/40 so the good news on the economy is it's exactly as we expected it was going to be. The bad news is, it's exactly as we expected it was going to be, which is no growth.

MR I think Hector maybe up first there, just on the second row.

HF Good morning, Hector Forsythe from Oriel Securities. You've made a play –and clearly importantly so – on comparative advantage, competitive advantage from innovation. The two examples you've given are both coming out of the old DS Smith business into the combined organisation. Could you just say how you're going to organise the innovation going forward on a group basis and give us an idea of development cost comparatively between the two organisations pre and what kind of number you think you're going to end up with post?

SD I don't think, we're not…What I would say is that none of the cost synergies is assumed reduction in spend. It will be one of the largest packaging businesses in Europe.

I think the other point to say is that often development can be spent in isolation and you can come up with some clever ideas but the structure we have is a lot more about what are the customer opportunities and aligning with the development resources that we have.

DE Just building on that, as an example, the mandrel technology and R-Flute® were a DS Smith innovation in the past that we're now moving across. However, with the Lego is the fact that what SCA were offering is a much wider ability to go through the whole development with a customer.

So what they have is a wider spread of capability through that innovation to help their customer through the graphics and that's something new for legacy for DS Smith.

So I think there are examples in both businesses and certainly the way we'll be organising ourselves going forward is to pull both learnings together and create the best of both. As I said earlier, we're trying to bring SCA's innovation centre and their design centres and link them in with our impact and innovation centres we have within DS Smith, which I know some of you may have visited, and get the best of both. What we want to do is be able to combine those so we have hopefully a really industry-leading capability.

HF Okay, thanks.

MR Thanks. Perhaps I'll just take a couple more questions from the floor and then we'll open up our lines and – conscious of everyone's time.

BD Thank you, good morning. It's Barry Dixon from Davy Research. Thanks for a very comprehensive presentation. Just a couple of questions; in terms of the working capital, it's a very impressive number in terms of the revised take-up. You must just give us some sense of how you actually do that, the elements of that because clearly SCA was a very much less efficient business than your own in terms of working capital management. How easy has it been to change the creditor or debtor terms and has it been around reduction of excess inventory?

The second question is around the recycling business. You clearly have a very successful recycling business here in the UK. I think you had mentioned previously that you would look at trying to set up something similar in Continental Europe. Maybe you might just help us to understand your plans on that.

And then the third question is around the disposal of the surplus assets. Are there businesses in that or is it just assets and if there are businesses, what impact would that have on either top-line profits or margins and/or returns? Thank you very much.

MR I'll just take the recycling and then Steve will take you through the other two questions. The recycling; the way we collect and actually drive the use of corrugated through our recycling is unparalleled in the industry. There's nobody else who has this approach. We believe the interface with the retailer, driving the use of recycled packaging at the point of sale for the final consumer influencing that has been fundamental to out growth and development. We are very successful at this in the UK and the opportunity that SCA affords us is to replicate that model.

So again, from day one the organisational structure's gone in to ensure that we're able to do that and today we've got people who are working on that. We have all of Tesco's operations now across the continent in all regions, including in Ireland as well and we work with the other major retailers in Europe as to how we can start to build that model. Peter McGuinness , who runs our recycling operation, is actually here today and I'm sure, if people hang around for a cup of tea afterwards, he'll be very pleased to take you through more of that.

But you will see the development of that model going further forward but it's not built into any revenue assumptions at the moment. So, Steve, in terms of our working capital, where we've started to…

SD Yes, it's great, isn't it, this whole debate about efficiency. I don't think it was that SCA Packaging was inefficient, it just wasn't an area of focus. It's quite interesting when we start interacting and engaging with people, just monthly working capital to revenue wasn't really an area of focus. So it's trying to get it right not just at a certain time of year but every single month. What do we do? We've spent a lot of time thinking about the business model so eventually, we have a view of what types of stock of different types should be at different types of factory.

On debt, think about the business model. There's certain products that we might export and we get paid when the boat leaves. In the SCA world, it was when the boat arrived so these things all add up and it's really just thinking about capital. And of course, on payable, we are a strong, well-financed company in quite an uncertain world so the clients need to know that on their customer side, they've got a secure, growing customer but we do expect best price and best terms. All of those together improve the working capital position.

On the surplus assets, there's a mixture in there. There's some revenue, which I said, we announced in May and at the time we said it was about 1% of our annual EBITDA. So it's not a huge amount of profit. We always have to look at value from a capital return perspective and also there are a whole host of surplus properties. Individually they're all quite small so that number is really contingent on, we've got to sell that piece of land for an absolutely fantastic price. It's a whole stream of properties. We've got a person dedicated to working on property disposals in DS Smith before and he's got a lot more to work on now.

MR Is there one last question from the audience? Then we'll open the lines. The gentleman here.

KS Thank you. Kartik Swaminathan from Bank of America Merrill Lynch. I had a couple of quick questions, if I may. The first is on the closures you're enacting in Eastern Europe. I was just wondering how much capacity, if any, is going to be taken out or are you planning on moving machinery around to maintain your output there? Because if you were cutting I would think it's a bit counterintuitive relative to your growth plans for there.

GS We've got absolutely no capacity issues from that at all.

KS So it's simply just moving things around?

GS The closing is a reorganisation. Our capital programme that Steve has put in allows for us putting a reduced amount of capital to satisfy the market. We have a fabulous position there and it's almost uncanny the way they have a factory there. Their asset utilisation is about 25% of ours, their asset turnover. Look at what we bought. We've bought a business that's asset turnover was just over one times. DS Smith is nearly two times so it's all about using the asset. It's the same issue on working capital. It's about a return on capital philosophy and that's asset utilisation and asset turnover as well as margin and it's understanding those.

So we don't believe that that will cause us any capacity issues in Eastern Europe. It's a key management tool, this asset utilisation and how we continue to get more and more out of it. It's the same with working capital, property disposal, surplus assets and it's often the balance sheet. I think generally not everyone really understands that. You say to companies, what's your asset turnover? How many times is it on a presentation? It's fundamental to the way we work and we should never forget that. Anyway, your second question.

KS Thank you. That leads quite nicely into my second question, which was on ROACE and the targets. The first part was, are you looking for a similar return to what you achieved on the Otor acquisition for SCA? And the second part was, given that you could be towards the top end of your revenue target range through the cycle post-synergy, will you be looking for a re-basing?

GS We don't give forecasts. We paid £1.6 billion for the asset. Its historic profits were £159 million. We've taken £230 million out of the asset base and we put £100 million of synergies on that. You can start to work the numbers out. It's about return on capital and we're confident we're going to delight our shareholders on it. As any targets are set, we'll come back to you in due course but the numbers and the cashflow coming from that – and that's why the debts are coming down, that's why the EBITDA's coming down, the cashflow is fantastic.

MR Could we just open for any questions on the calls? I'm conscious of everybody's time.

OP Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad.

We have a question coming through. It comes from the line of Carl Green from Co-Op Asset Management. Please go ahead.

CG Good morning, thanks for taking my questions. Just a couple of very simple modelling questions. In terms of the categories which are up for potential discontinuation, 4% of group revenues, you've already said it contributes minimal profitability. Just what about the EBITDA contribution in terms of reducing depreciation going forwards?

And then secondly just on the tax guidance, that's a P&L rate that you've talked about. What about the cash tax rate?

SD When I say minimum profitability, that's factoring in the EBITDA or EBITA. It's minimum. That's why we just don't think it's attractive and it's absorbing capital and they're not the best earners, they're not a source of capital.

On the asset, there's an income statement driving 24%. The actual cash tax should be a couple of percentage points below that because we're inherently a conservative company and when we say 24%, actually the cash tax is slightly behind that.

CG Okay, thank you.

MR Are there any more questions on the lines? If not we'll wrap up.

OP We currently have no further questions coming through from the phones.

MR Okay, everybody. We are around afterwards. Hopefully there's a cup of tea being arranged. Thanks very much for your time. We really appreciate seeing so many of you here and we look forward to our three close shortly and then obviously our half-year results December and coming back in the first half of next year. Thank you, everybody, for your time. Thank you.

OP Ladies and gentlemen, thank you for joining today's conference. You may now replace your handsets.