DS Smith Plc

Half year results 2012/13

6 December 2012

D S Smith Plc

Introduction

Miles Roberts

Group Chief Executive

The journey so far...

Since 2010 we have refocused and reshaped DS Smith:

- Grown both organically and through successful acquisitions
- Improved our business mix
- Differentiated by adding value for our customers
- Built a pan-European supply coverage
- Extended our reach and influence through technology licensing
- Started delivering sustainable and attractive financial returns
- Strengthened the balance sheet
- Good momentum in the business – SCA Packaging integration going well

Continued strong momentum

For the half year to 31 October 2012

- Adjusted operating profit[1] up 57% to £123.2m
- PBT[1] up 62% to £106.1m
- EPS[1] +16% to 8.8p
- Return on sales[1] 7.4%
- ROACE[1] up 80bps to 13.7%
- Free cash flow up 175% to £151.8m
- Net debt/EBITDA 2.1x
- Interim dividend per share up 32% to 2.5p

[1] Continuing operations, before exceptional items and amortisation

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Financial Review

Steve Dryden

Group Finance Director

Consistent value creation

Strong cash generation	• Free cash flow of £151.8m, a 175% increase, FCF per share 16.5p • Significant cash inflow from working capital improvement
Debt reduction ahead of plan	• Balance sheet strengthened • Net debt/Ebitda at 2.1x, on track to meet target of ≤2.0x by April 2013
Returns above cost of capital	• Return on average capital employed 13.7%, an 80bps improvement • Significantly above our cost of capital of c.9.5%
Underlying margin growth	• Underlying margin growth in Packaging • As expected, weaker performance in Paper
Progressive dividend growth	• Dividend growth ahead of eps growth • Interim dividend up 31.6% to 2.5p

Note – All figures based on continuing operations, unless otherwise stated

Financial Highlights

Continuing operations* (£m)	HY 2012/13	HY 2011/12	*Actual change*
Revenue	1,671.8	1,034.5	*+637.3*
Operating profit	123.2	78.3	*+44.9*
Return on sales	**7.4%**	**7.6%**	***-20bps***
Profit before tax	106.1	65.3	*+40.8*
Adjusted earnings	81.4	47.9	*+33.5*
Adjusted EPS	8.8p	7.6p	*+1.2p*
Asset turnover**	1.9x	1.9x	-
Return on average capital employed	**13.7%**	**12.9%**	***+80bps***

* Before amortisation and exceptional items

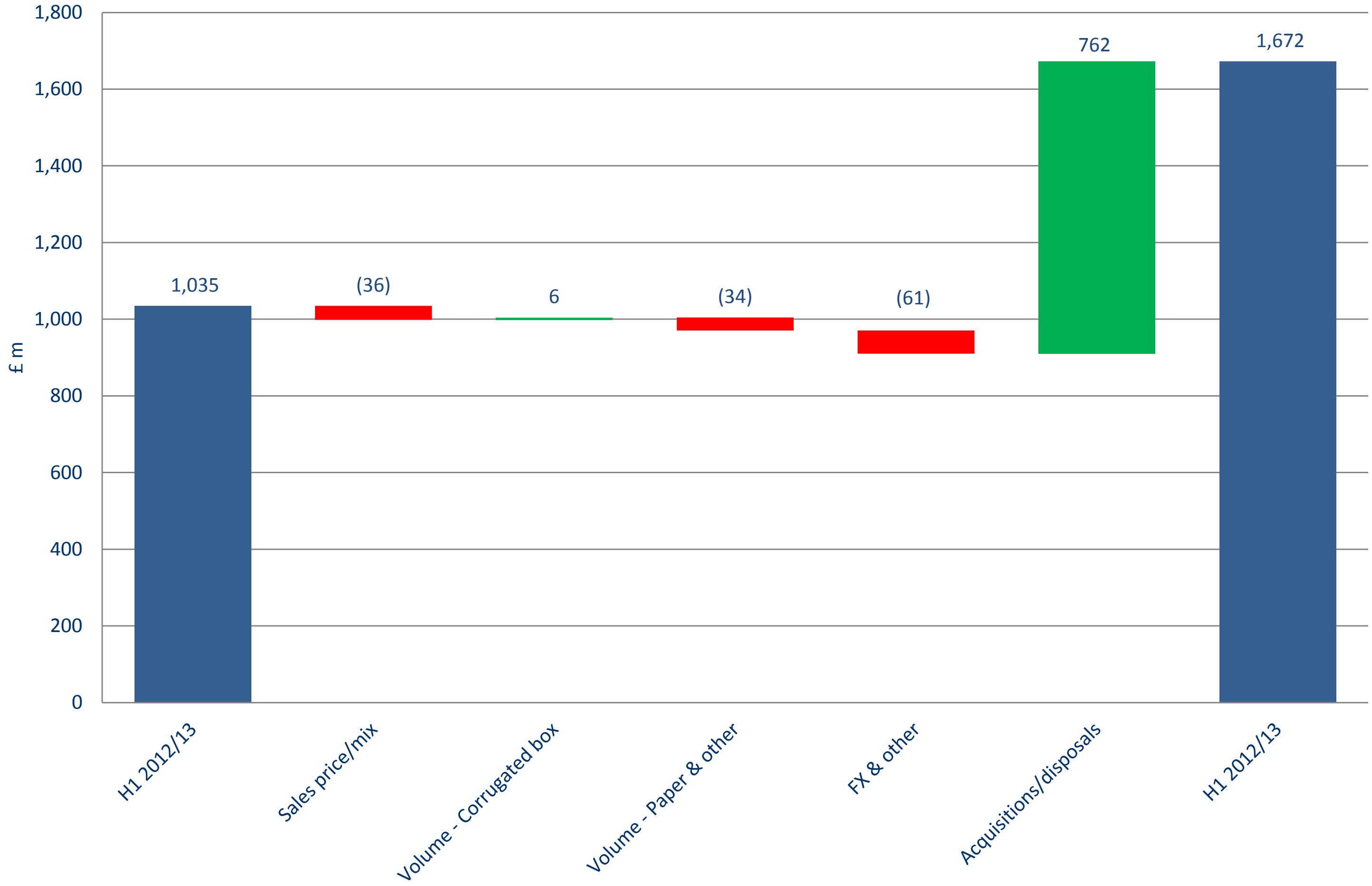
** Revenue divided by average capital employed for the period

Group Income Statement

£m	HY 2012/13	HY 2011/12	*Change (£m)*
Operating profit*	**123.2**	**78.3**	***44.9***
Net interest charge	(14.8)	(10.5)	*(4.3)*
Pension finance charge	(2.3)	(2.5)	*0.2*
Amortisation of intangible assets	(18.2)	(4.5)	*(13.7)*
Profit before tax	**87.9**	**60.8**	***27.1***
Income tax	(21.1)	(17.2)	*(3.9)*
Underlying tax rate	*24.0%*	*28.3%*	*(430bps)*
Profit after tax	**66.8**	**43.6**	***23.2***
SCA acquisition costs (net of tax)	(6.7)	-	*(6.7)*
SCA integration costs (net of tax)	(15.2)	-	*(15.2)*
Other exceptional items (net of tax)	(1.7)	(14.7)	*13.0*
Discontinued operations (including profit on disposal)	-	5.9	*(5.9)*
Share of profit of associate	1.0	-	*1.0*
Profit for the period	**44.2**	**34.8**	***9.4***

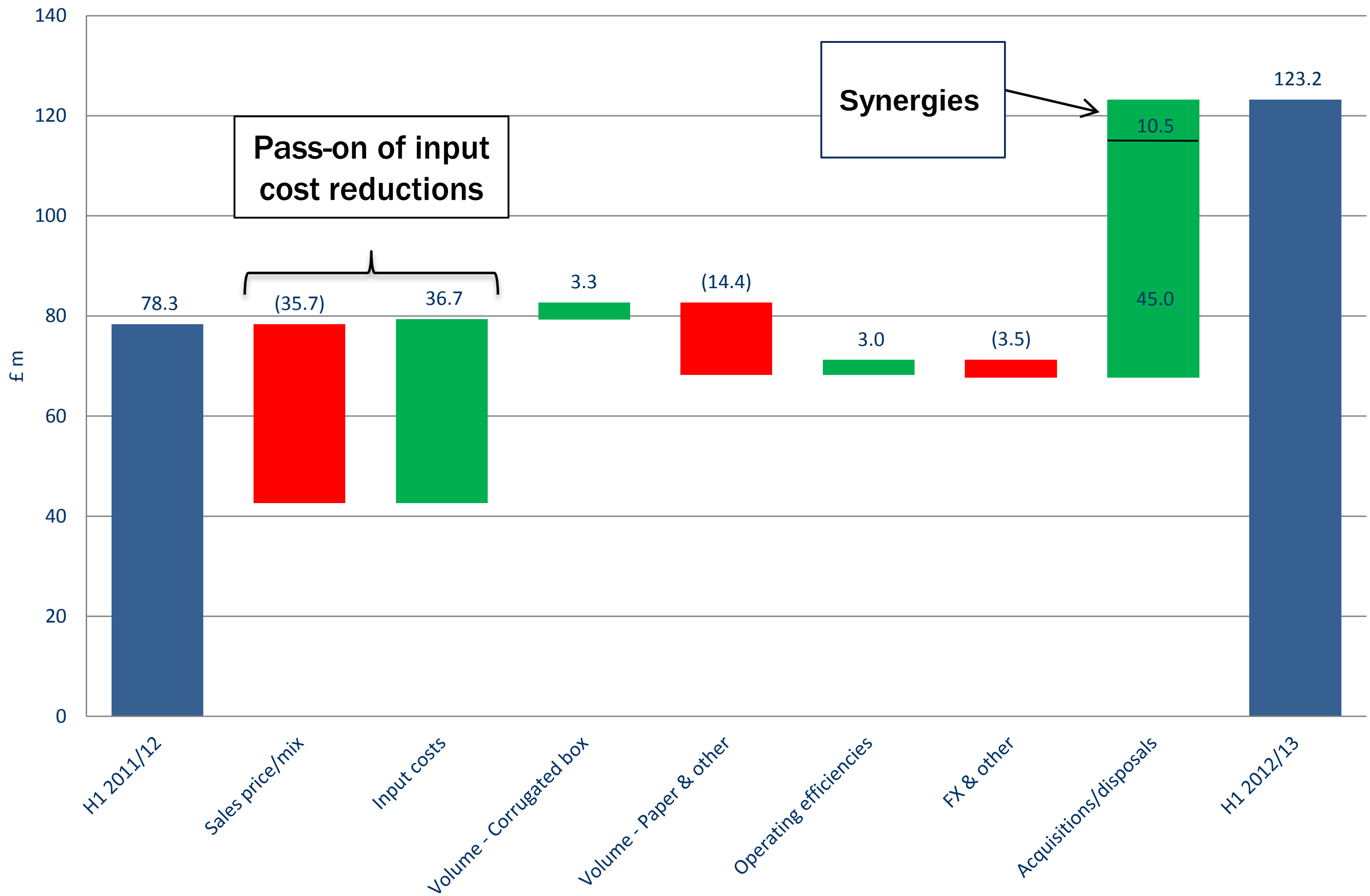
* Continuing operations excluding exceptional items

Revenue bridge*



* Continuing operations

Operating profit bridge*



* Continuing operations, excluding amortisation and exceptional items

Regional performances – return on sales

Region*	HY 2012/13	HY 2011/12	Comment
UK	5.3%	7.8%	Paper performance
Western Europe	8.5%	6.5%	Business mix
DACH and Northern Europe	8.0%	5.4%	Very small comparator
Central Europe and Italy	7.7%	9.9%	Paper performance
Plastics	9.0%	7.8%	Good LP&D performance

*See slide 34 for regional definitions

Free cash flow up 175%

£m	HY 2012/13	HY 2011/12	*Change*
EBITDA	**176.5**	**111.8**	***64.7***
Working capital	79.7	8.5	*71.2*
Pension payments/other	(3.9)	(5.7)	*1.8*
Capital expenditure (net of asset sale proceeds)	(65.4)	(37.3)	*(28.1)*
Tax paid	(23.2)	(11.4)	*(11.8)*
Net interest paid	(11.9)	(10.8)	*(1.1)*
Free cash flow	**151.8**	**55.1**	***96.7***
FCF per share	**16.5p**	**8.8p**	***7.7p***

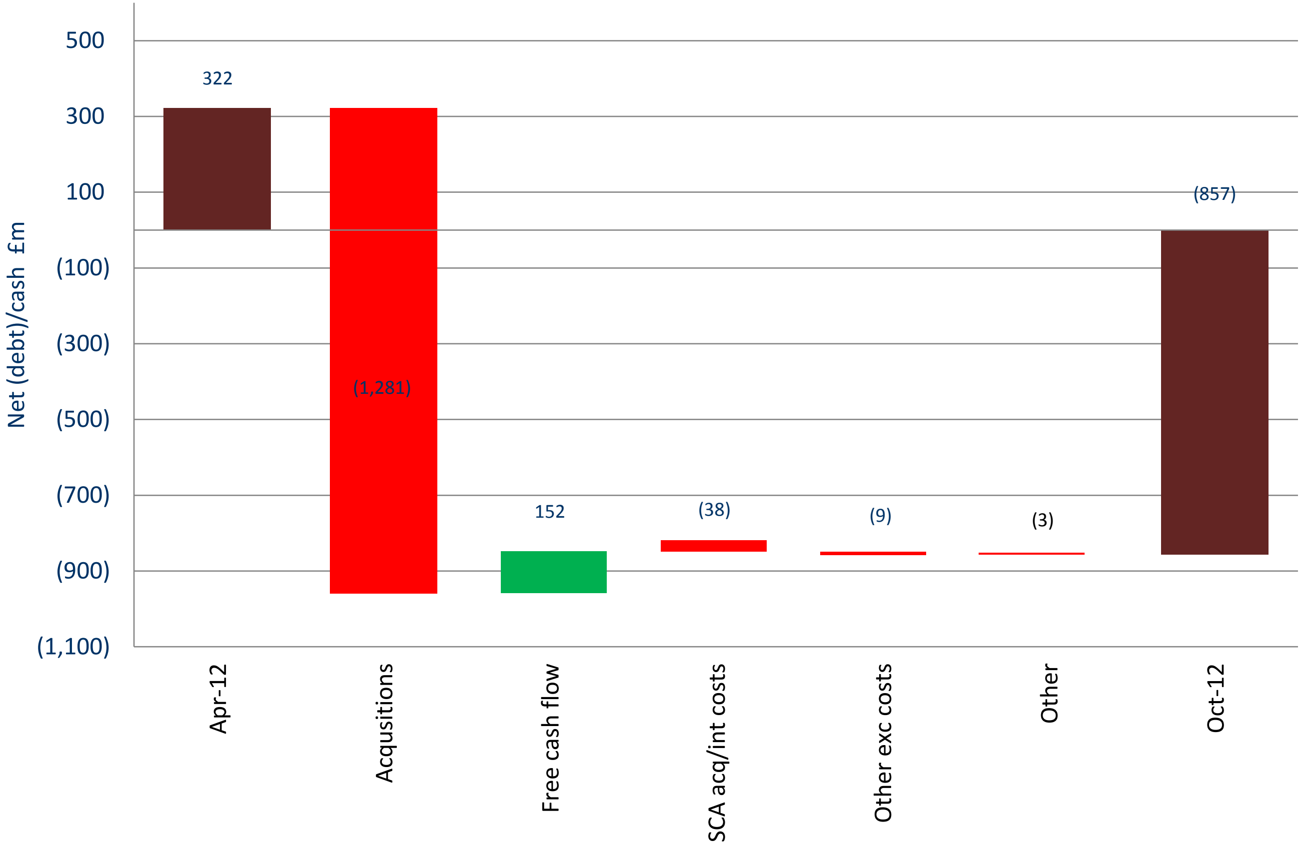
Working capital

Significant post-acquisition working capital improvement

	DS Smith	SCA Packaging	Group
	April 2012	**Dec 2011***	**HY 2012/13**
Average monthly working capital/sales	4.9%	10.3%	5.0%
	April 2012	**April 2012**	**HY 2012/13**
Inventory days	27.1	25.4	23.2

* As per the prospectus for the acquisition of SCA Packaging

Net debt falling faster



At 31 October 2012:

- Net debt £(857)m
- Net debt/EBITDA 2.1x
- EBITDA interest cover 11.1x
- Committed facilities of c.£1.4bn (following repayment of 2002 private placement in November)
- Next material refinancing in 2016

Delivering on our strategic financial targets

Metric	Medium term target	HY 2012/13		
Volume growth*	GDP + 1% =+0.2%	0.5%	✓	Growing underlying business, flat SCA Packaging, exiting low margin business
EBITA margin**	7% - 9%	7.4%	✓	Tight control on pricing and preservation of margin
ROACE**	12% - 15%	13.7%	✓	Growth despite dilution from SCA Packaging
Cash conversion	>120%	176%	✓	Significant cash inflow from SCA Packaging working capital reduction
Net debt / EBITDA***	≤2.0x	2.1x		By April 2013

* Corrugated boxes

** Before amortisation and exceptional items

*** EBITDA on an annualised basis, including pre-acquisition SCA Packaging EBITDA

Delivered more synergies – faster

Synergy	Updated target (0ctober 2012)	Delivered in H1 2012/13
Cost savings by April 2015	€100m (€25m by April 2013, with balance spread evenly over following 2 years)	€13m
Cash savings by April 2015	€130m (€60m by April 2013, with balance spread approximately 60:40 over following 2 years)	€60m
Disposal of surplus assets by April 2015	€100m	Nil[1]

- Total one-off cost to achieve both cash and cost savings of €90m

[1] Contracts exchanged for €55m. Working on other surplus properties/assets.

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Technical guidance

- Capex of £150m for 2012/13, down from £160m
- Interest rate 4.4% for 2012/13
- Tax rate 24% for 2012/13
- Certain income statement items determined on a provisional basis - amortisation charge of £50m (annualised)
- Net debt/EBITDA * ≤2.0x by April 2013
- Full year pension interest charge £6m for 2012/13
- H1/H2 seasonal split – reflecting balance of 4 months contribution of SCA Packaging in H1 and 6 months contribution in H2

* EBITDA on an annualised basis, including pre-acquisition SCA Packaging EBITDA

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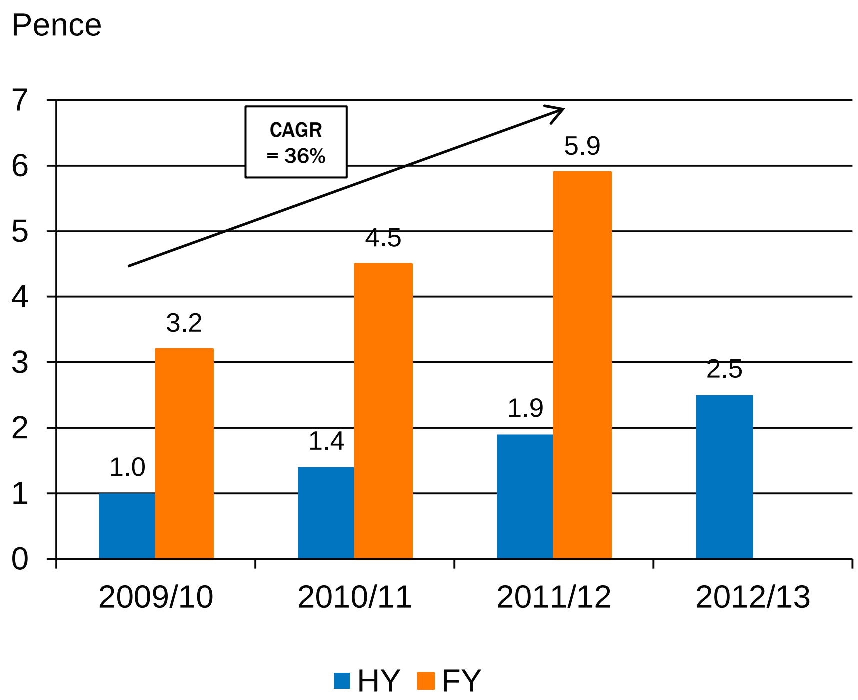
Delivering sustainable dividends



- Strategy to improve returns and to reduce cyclicality in the business
- Dividend policy to pay 2-2.5x cover through the cycle
- Adjusted EPS from continuing operations up 15.8%
- DPS up 31.6% to 2.5p

* Restated for rights issue bonus factor

Business review and strategy

Miles Roberts

Group Chief Executive

Creating shareholder value

Sustainable and growing returns

- ✓ Consistent GDP+ growth
- ✓ Much reduced cyclicality
- ✓ Higher margins
- ✓ Returns above our cost of capital

- Business mix
- Differentiation
- Efficiency
- Culture
- Managing implementation risk
- Synergies
- Opportunities for development

Delivering in all markets

Strategy to focus on more resilient and faster growth areas

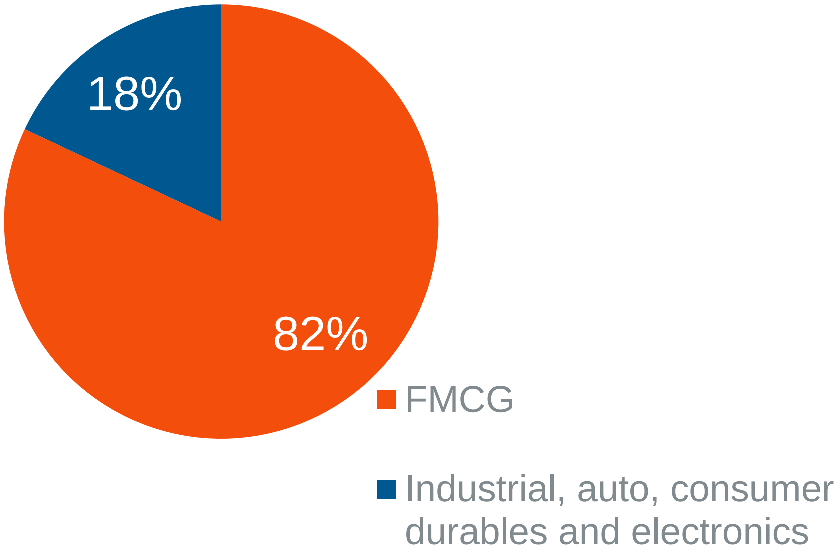
- Market conditions tough – GDP growth weak in UK and Eurozone (-0.8% in year to September*)
- Focusing on more resilient FMCG customers – corrugated demand forecast to continue growing
- Increasing exposure to large and faster growing markets and customers
- Self-help through synergies
- Targeted and strong capital expenditure programme
- Assessing level of paper integration

* Source: Global Insights using weighted average for the countries in which DS Smith operates

Business mix

Focusing on resilient and higher-return packaging business

Top 75 corrugated customers
= c. 25% of Group revenue



- Continuing focus on building FMCG – approaching 60% of volumes
- Some industrial customers more akin to FMCG
- Reduce /exit low value-added products
- Building recycling model on Continent
- Assessing paper integration level

Organisation focused on our packaging customers

Differentiation through recycling

Bringing us closer to our end customer

- Closed-loop recycling process focused on FMCG customers
- Collection of fibre from major retailers
- Promotes the use of corrugated recycled packaging: less carbon, less cost, higher sales
- Provides security of supply for our internal paper requirements
- Establishing closed loop collection in France, Italy and Eastern Europe with major retailers.

Differentiation through short position in paper

Returns from paper very volatile

- Currently manufacturing around 70% of Group requirement
- Assessing paper integration level

000 tonnes	Recycling →	Paper →	Packaging
DS Smith – UK[1]	1,800	600	550
DS Smith – Cont'l Europe[1]	0	135	690
SCA Packaging[2]	3,600	1,400	1,800
Pro forma total	5,400	2,135	3,040
	Long	Short	Long

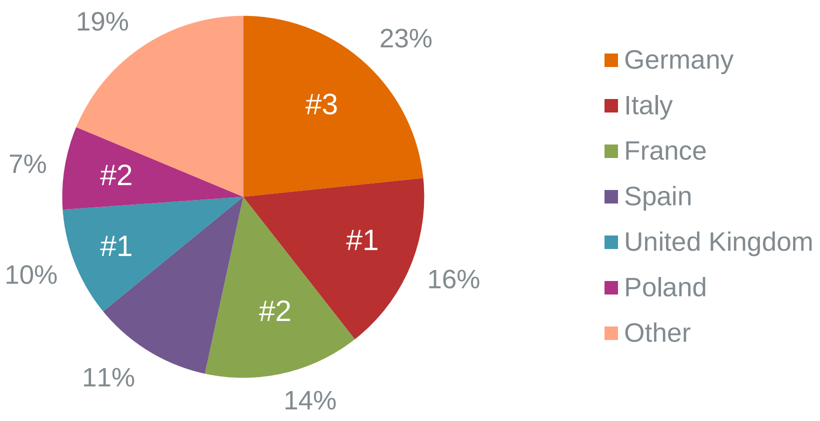
(1) For the year 2011/12,excluding Higher Kings Mill (sold Sept 2011) and Hollins Mill (being closed in calendar H2 2012)
(2) For the year 2011 (per Supplementary Prospectus 26 Jan 2012) with respect to paper and packaging. Fibre per Prospectus 17 January 2012.
N.B Paper as given above = packaging grades (CCM). The Group also manufactures 450kt of other paper grades

Transforming commercial positioning (1)

True pan-European footprint

- Previously operating in 7 markets in Europe
- Now fully operational in 15 markets across Europe
- Limited operations in a further 10 markets
- Exposure to larger markets within Europe

European Corrugated Market By Country 2011



# denotes DS Smith market position

Source: FEFCO

Transforming commercial positioning (2)

New markets, new opportunities

- Exposure to higher growth markets within Europe e.g. Eastern Europe
- Around one third of incremental corrugated volume growth forecast in FMCG between 2010 – 2015 is expected to come from Central and Eastern Europe
- Significant opportunities to grow market share through existing customer base and through new national and local customers
- Expect corrugated volumes to continue growing over coming years through new uses and substitution
- Revenue synergies in the medium term

Driving sales through innovation

Pipeline of DS Smith-developed technology

Mandrel-construction packaging	R-Flute®
Developed in DS Smith France	Installed in 7 UK sites
Licensed to RockTenn in the US	Legacy DS Smith sites in Europe now making R-Flute®
Driving opportunities in Europe	Recently installed in Hanau, Germany and now supplying customers

Complementary plastic packaging business

Continuing to show strong growth in LP&D

- A world leader in bag-in-box packaging
- Attractive margins and returns on capital
- Strong market position
- Highly fragmented market: attractive growth opportunities
- Focused on FMCG and Quick Serve Restaurant customers
- Bag-in-box complementary to corrugated box sales

Completion of SCA Packaging acquisition

Transformational period

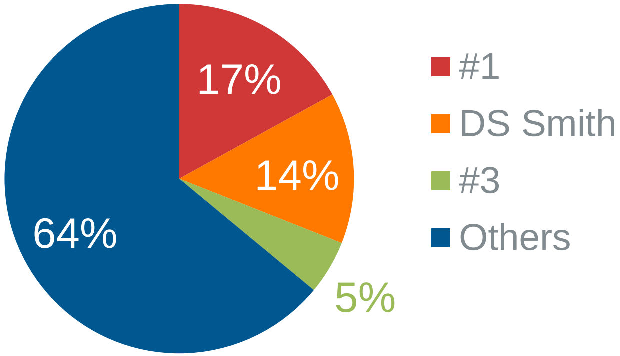
- Integration process going to plan
- Taking the best from both businesses
- Cash and cost synergies in line with revised targets
- Focus on higher margin business – short-term impact on volumes
- Continue to receive good employee buy-in
- Good and improving reaction from customers – revenue synergies emerging

European corrugated market highly fragmented

Scope for further growth

- Still only #3 in Germany – largest single market in Europe
- Attractive opportunities in higher growth markets such as Eastern Europe
- 64% of market represented by huge tail of smaller companies with over 400 companies in Europe (source: FEFCO)

European Corrugated Market[1]



[1] The markets in which DS Smith operates

In summary . . .

Strong financial returns and increasing dividend

Continuing to grow and strengthen

Self help compensates weak market

Delivering on promises

Current trading and outlook remain positive

APPENDIX

Revised reporting structure
Our reporting divisions

Reporting division	Constituent businesses
UK	UK
Western Europe	France, Belgium, Netherlands, Spain
DACH and Northern Europe	Germany, Austria, Switzerland, Denmark, Sweden, Finland, Norway
Central Europe and Italy	Poland, Czech Republic, Romania, Hungary, Slovakia, the Baltics, Italy
Plastics	Global liquid packaging and dispensing, and returnable transit packaging plastics businesses

Revised reporting structure

Re-stated revenue break-down

Reporting division	HY to 31 October 2012 (£m)	HY to 31 October 2011 (£m)	FY to 30 April 2012 (£m)
UK	490.3	514.4	960.2
Western Europe	444.6	296.3	569.4
DACH and Northern Europe	327.7	3.4	7.3
Central Europe and Italy	257.1	86.5	167.2
Plastics	152.1	133.9	265.3
Total	**1,671.8**	**1,034.5**	**1,969.4**

Revised reporting structure

Re-stated EBITA break-down

Reporting division	HY to 31 October 2012 (£m)	HY to 31 October 2011 (£m)	FY to 30 April 2012 (£m)
UK	26.0	39.9	64.4
Western Europe	37.6	19.2	38.9
DACH and Northern Europe	26.1	0.2	0.3
Central Europe and Italy	19.9	8.6	16.4
Plastics	13.6	10.4	22.0
Total	**123.2**	**78.3**	**142.0**

Amortisation

£m	Provisional fair value	Useful life (years)	HY charge 2012/13 (£m)	Estimated FY charge 2012/13 (£m)	Annualised charge (£m)
Customer relationships	233	15	5.2	12.9	15.5
Software & technology	65	7	3.1	7.7	9.3
Supply contracts	32	5	2.1	5.3	6.4
Brand & trademarks	24	20	0.4	1.0	1.2
Other	17	Various	2.5	6.4	7.6
Acquired intangibles	**371**		**13.3**	**33.3**	**40.0**
Existing intangibles			4.9	9.8	9.8
Total			**18.2**	**43.1**	**49.8**

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SCA Acquisition and integration costs

Acquisition costs (£m)	Share premium	Exceptional Items	Capitalised finance costs	Total
Cumulative to YE 2011/12	16.9	17.6	7.0	41.5
HY 2012/13	(0.1)	8.2	2.7	10.8
Cumulative to HY 2012/13	16.8	25.8	9.7	52.3
Forecast total				**53.1**

Integration costs (£m)	Synergy implementation	Project management office	Total
Cumulative to HY 2012/13	11.5	9.0	20.5
Further costs	36.4	20.6	57.0
Forecast total	**47.9**	**29.6**	**77.5**

Forex exposure

Half Year 2012/13:

- £3.5m reduction in operating profit due to adverse movements in currency
- C. 55% of revenues denominated in EUR (in H1)
- C. 60% of revenues denominated in EUR (annualised, including full year of SCA Packaging)

Future Sensitivity:

- 1 cent movement in EUR has a £1m impact on PBT