

DS Smith Plc

2010/11 Half-Year Results and Review of Business Strategy

Half-year results to 31 October 2010

Review of business strategy

The market opportunity

Delivering a winning strategy

Transformed financial profile

Conclusion

Welcome

- We have had a successful half-year
 - Turnover up 15.3%, 10.5% excluding Otor
 - Operating profit up 19.3%, 10.8% excluding Otor
 - ROACE up 170bps to 10.9%
 - Free cash flow up 121.4%
 - EPS up 31.8%, dividend up 33.3%
- Otor is delivering better than expected
- The business strategy review has been completed
- Current trading is in line with expectations

Half-year results to 31 October 2010

Review of business strategy

The market opportunity

Delivering a winning strategy

Transformed financial profile

Conclusion

Key themes

Growth

Gained market share through service, quality and innovation

Input Cost Recovery

Substantial cost increases - close to 100% recovered

Returns

Return on sales up 20 bps to 5.2%
Return on capital up 170 bps to 10.9%

Cash flow

Free cash flow more than doubled
Free cash flow per share 18.0p (H1 2009/10: 8.6p)

Otor

Trading above expectations
Integrating well – synergy target up €1m to €10.3m

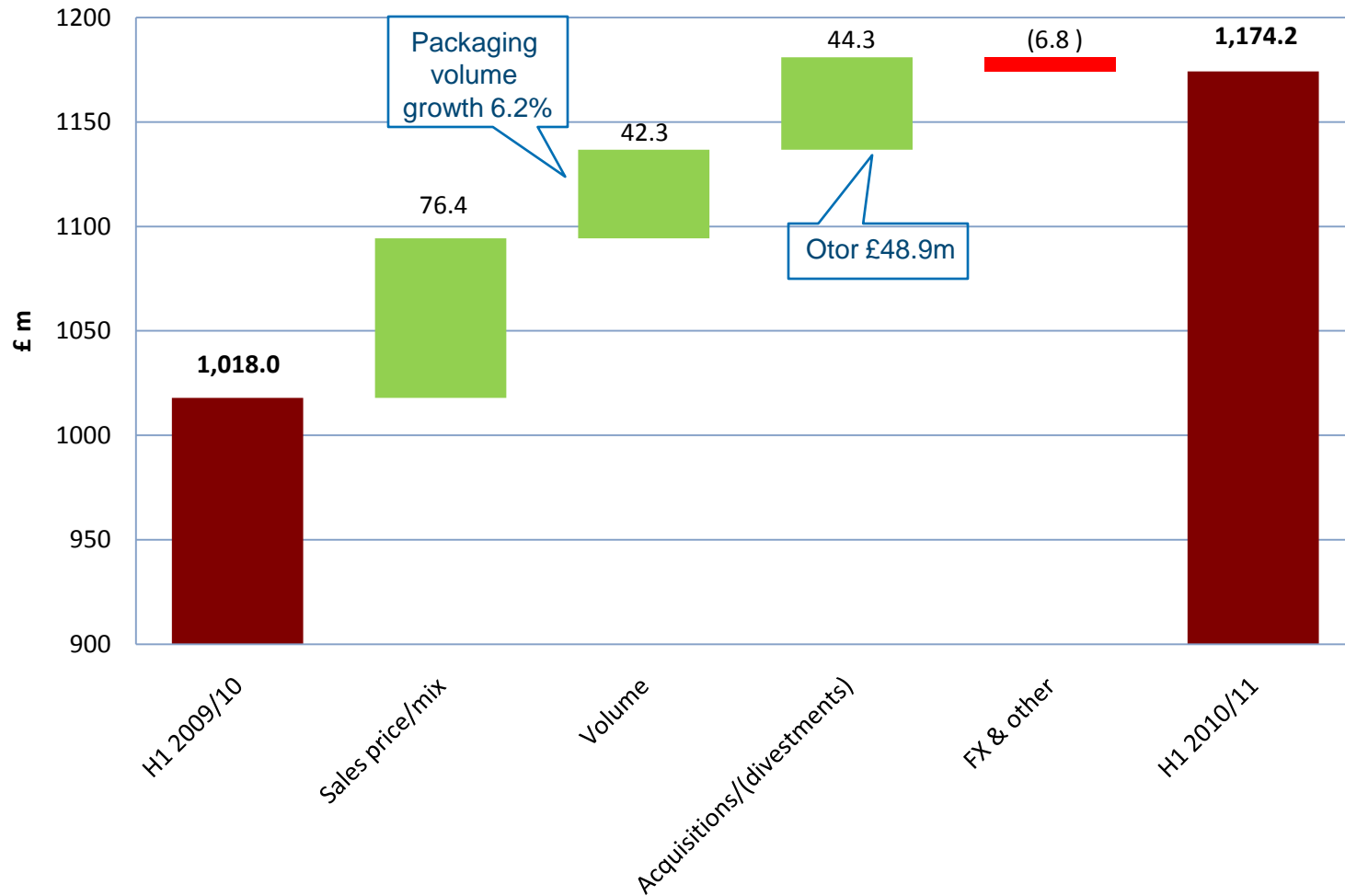
Results for 6 months to 31 October 2010

£ million	H1 2010/11	H1 2009/10	Change
Revenue	1,174.2	1,018.0	+15.3%
Operating Profit *	60.5	50.7	+19.3%
Return on sales *	5.2%	5.0%	+20 bps
Profit before tax *	48.7	36.9	+32.0%
Profit before tax	40.2	34.2	+17.5%
Adjusted EPS *	8.7p	6.6p	+31.8%
Free cash flow	74.6	33.7	+121.4%
Net debt	345.1	239.5[#]	105.6
Return on capital employed *	10.9%	9.2%	+170 bps
Dividend	2.0p	1.5p	33.3%

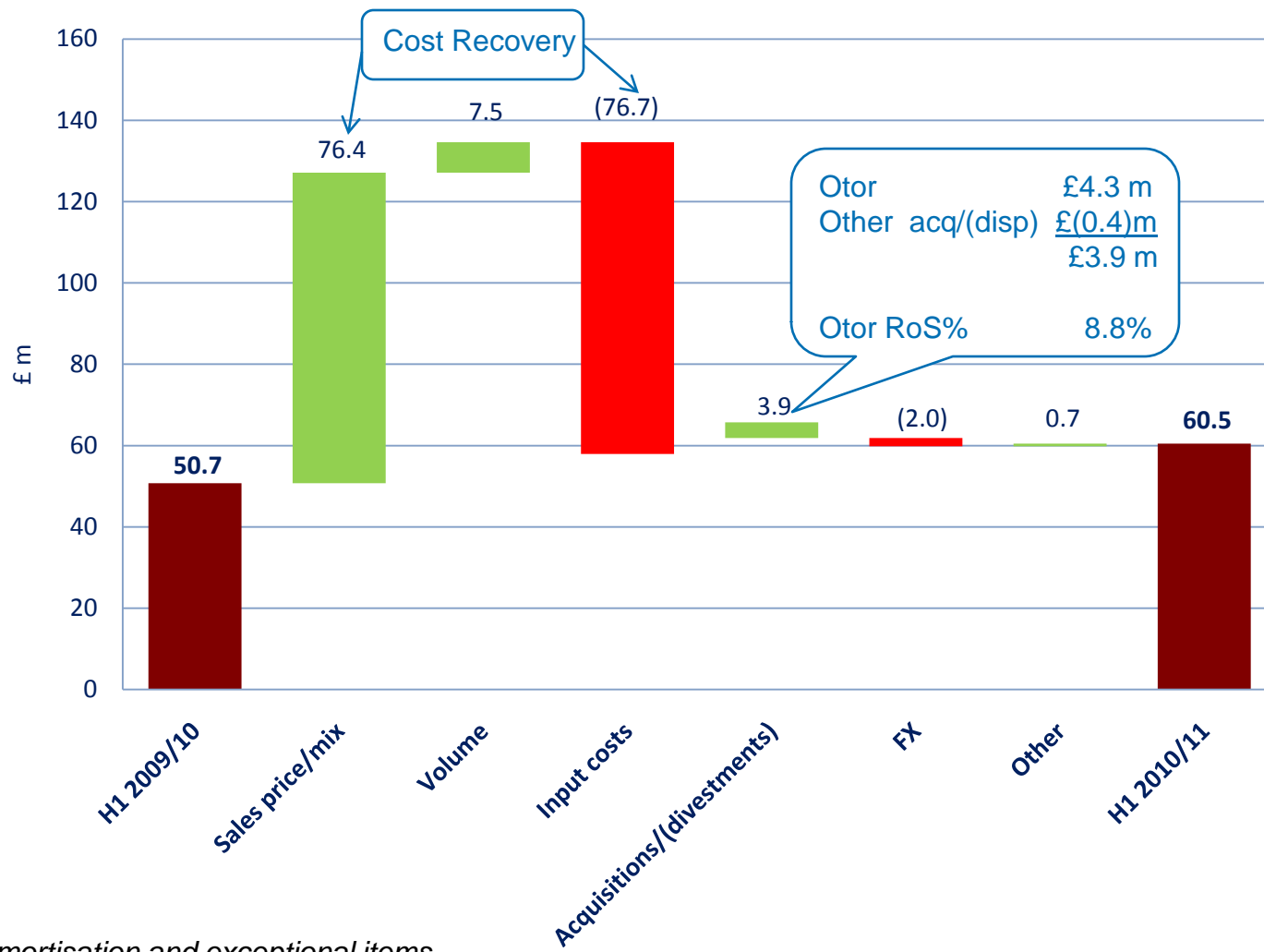
* before amortisation and exceptional items

as at 30 April 2010

Revenue bridge



Operating profit bridge*



* before amortisation and exceptional items

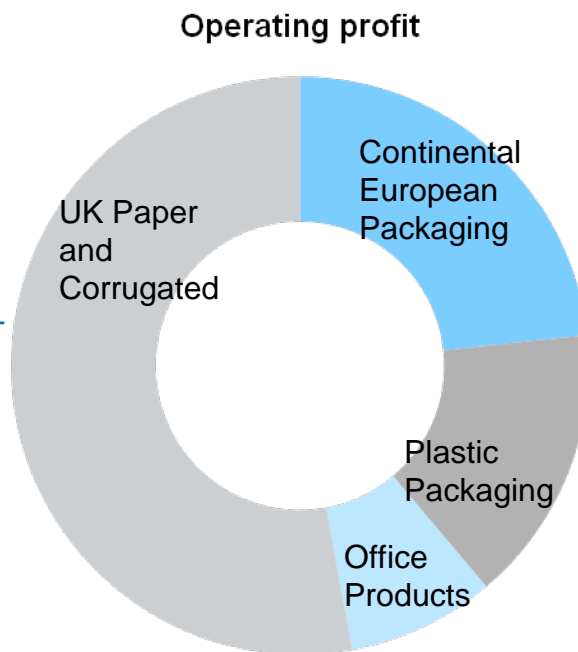
Divisional performance for 6 months to 31 October 2010

UK Paper & Corrugated Δ

Revenue	£450.3m	+22.6%
Operating profit *	£32.0m	+33.3%
Return on sales *	7.1%	+60 bps
ROACE % *	8.4%	+250bps

Office Products Δ

Revenue	£352.0m	-2.0%
Operating profit *	£5.0m	-
Return on sales *	1.4%	-
ROACE % *	18.5%	+230bps



Cont'l European Δ

Revenue	£247.5m	+44.1%
Operating profit *	£14.1m	+11.0%
Return on sales *	5.7%	-170bps
ROACE % *	11.0%	-290bps

Plastic Packaging Δ

Revenue	£124.4m	+3.7%
Operating profit *	£9.4m	+4.4%
Return on sales *	7.6%	+10 bps
ROACE % *	14.5%	+490bps

* before exceptional items and amortisation

Cost recovery going well

Cost increases	£m
Waste paper	30.7
Paper/polymer	39.1
Energy	6.9
Total	76.7

Price recovery	£m
UK Paper & Corrugated	58.1
Cont'l European Corrugated	13.8
Plastic Packaging	4.5
Total	76.4

Good cost recovery from service, quality and innovation

Excellent cash flow performance

£million	H1 2010/11	H1 2009/10	Change
EBITDA	93.3	84.4	8.9
Working capital	15.3	(1.9)	17.2
Other	(4.0)	(5.4)	1.4
Capital expenditure	(18.0)	(23.4)	5.4
Taxation	(5.3)	(10.9)	5.6
Net interest paid	(6.7)	(9.1)	2.4
Free cash flow	74.6	33.7	40.9
Exceptional cash costs	(10.2)	(13.5)	3.3
Dividends	(13.4)	(6.9)	(6.5)
Acquisitions / disposals	(196.0)	-	(196.0)
Share issues	47.0	-	47.0
Net cash flow	(98.0)	13.3	(111.3)
Free cash flow per share	18.0p	8.6p	9.4p
Net debt / EBITDA	1.7x	1.7x	-

Pension – action taken to reduce risk

- Latest UK actuarial valuation completed
 - Closure and change in inflation from RPI to CPI will reduce actuarial deficit by c.£80m to c.£178m
 - Position agreed with trustees on contributions
 - Income statement impact – cost neutral DC scheme replaces DB scheme

IFRS 19	October 2010	April 2010
Gross	200.6	203.1
Tax	(57.2)	(57.0)
Net	143.4	146.1



Pro forma IFRS 19	October 2010
Gross	120.6
Tax	(35.6)
Net	85.0

Otor delivering ahead of expectations

- Performance better than expected – 8.8% return on sales
- We are pleased about
 - ✓ Customer and commercial reaction excellent
 - ✓ Revenue growth opportunities
 - ✓ Integration process
- Cost synergies will be better than expected
 - ✓ Now expect €10.3m p.a. by the second full year of ownership – an additional €1.0m

Otor	2 months to 31 October 2010
Revenue	£48.9m
Operating profit	£4.3m
Return on sales	8.8%
ROIC	12.8%

Outlook

- Notwithstanding continued increases in input costs, trading in the second half to date is progressing well
- Otor ahead of expectations
- We look forward to the remainder of the year with confidence, delivering in line with our expectations

Half-year results to 31 October 2010

Review of business strategy

The market opportunity

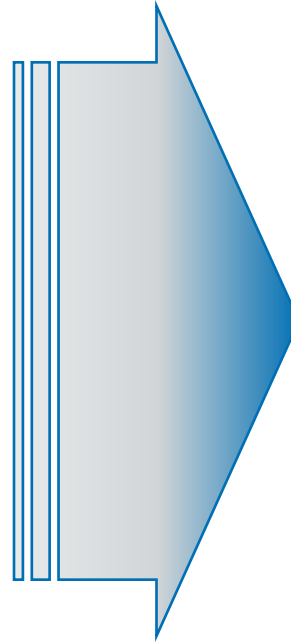
Delivering a winning strategy

Transformed financial profile

Conclusion

Background – what we said in June at full-year results

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



- Business mix
- Differentiation
- Efficiency
- Culture
- Managing implementation risk

All linked to clear KPIs

Key themes of our strategy

The leading supplier of recycled packaging for consumer goods

- Build packaging and recycling business
 - In existing markets and new emerging markets
- Significantly reduce non-integrated paper manufacturing
- Streamlined Group
- Realise significant efficiency and working capital savings
- Engage our people

Half-year results to 31 October 2010

Review of business strategy

The market opportunity

Delivering a winning strategy

Transformed financial profile

Conclusion

Major retailers and FMCG companies are driving adoption of retail-ready packaging



Retailers and FMCG companies benefit from retail-ready packaging

- Reduced costs
 - Faster shelf-stacking
 - Less transit packaging
 - Faster packing lines
 - Quicker to identify
 - Easier to dispose of
- Packaging 100% recyclable
- Higher sales
 - Easy product identification



Market growing at GDP+

Organic growth

GDP+

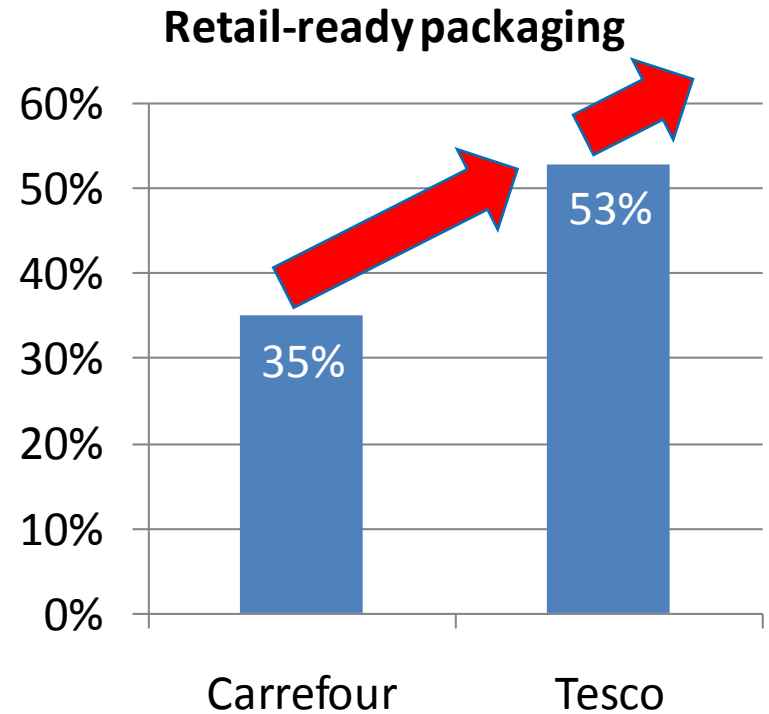
Good margins and returns

High value-added product

Sustained demand

Linked to FMCG consumption

Attractive acquisition opportunities



% use of retail-ready packaging on store shelves

Source: OC&C

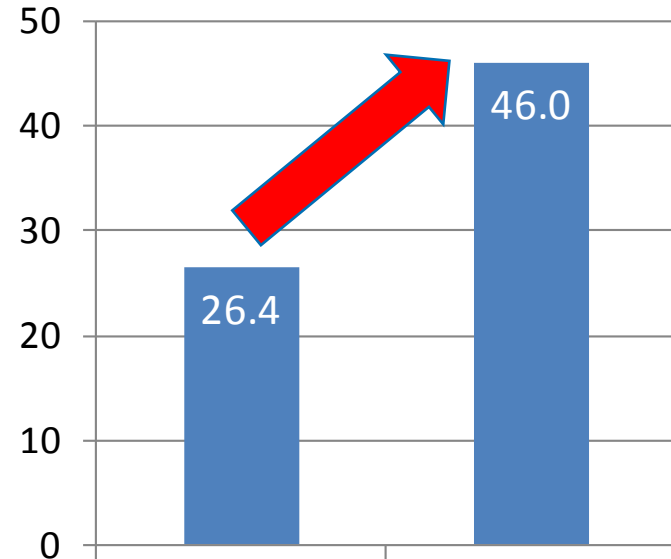
Building on our customers' growth



Significant growth opportunity in Central and Eastern Europe

- Growing middle classes
- Sophisticated retailers taking share
- Significant FMCG manufacturing presence
- Low corrugated penetration
- Significant growth opportunity in packaging with recycling
- Opportunity to be the market leader in retail-ready packaging

Corrugated consumption



CEE

W. Europe

Population (m) 104

311

GDP / capita €000's 8.2

26.6

Corrugated consumption (2009) kg / per capita.

CEE = Poland, Czech Republic, Hungary, Ukraine

Western Europe = UK, France, Germany, Spain, Italy

Sources: OC&C, World bank, IMF, ONS

Half-year results to 31 October 2010

Conclusions of review of business strategy

The market opportunity

Delivering a winning strategy

Transformed financial profile

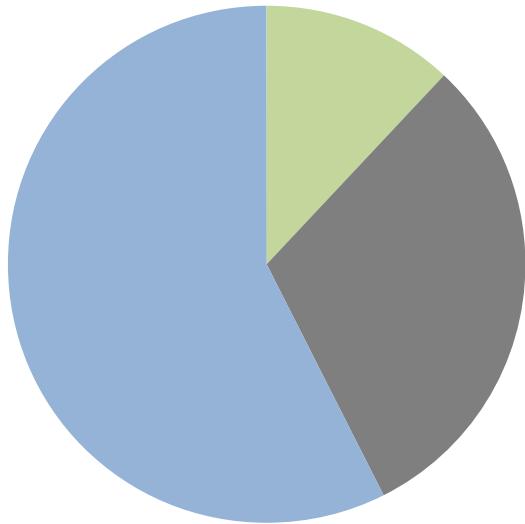
Conclusion

Our starting point

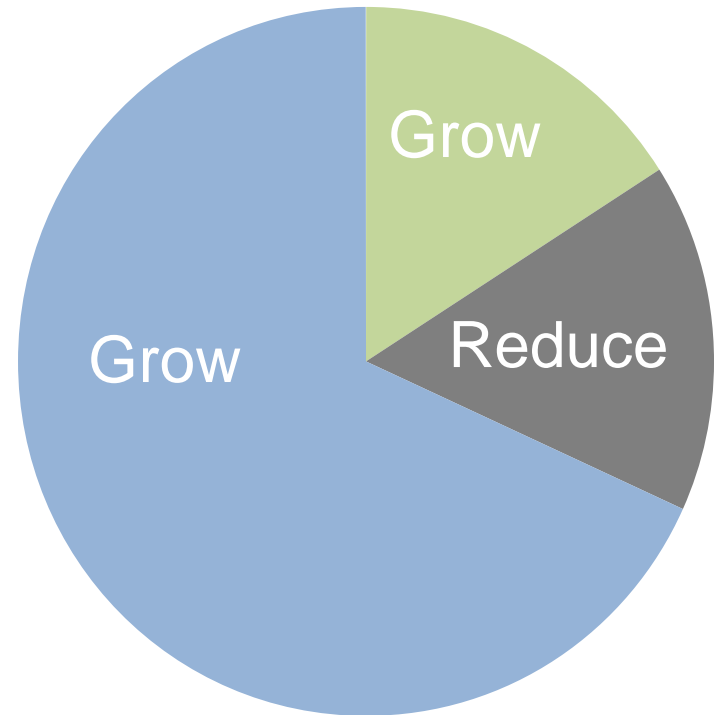
Business activity	Reduces cyclical-ity of returns	Improves Group cost of capital	Synergy with packaging business
Recycling	✓ ✓	✓ ✓	✓ ✓
Paper	✗	✗	✓
Corrugated packaging	✓	✓ ✓	✓ ✓
Plastic packaging	✓	✓ ✓	✓
Office products wholesaling	✓	✗	✗

Build packaging with recycling, reduce paper

2009 / 10 packaging sales



The future...



Recycling
Paper
Packaging

Growing with our customers

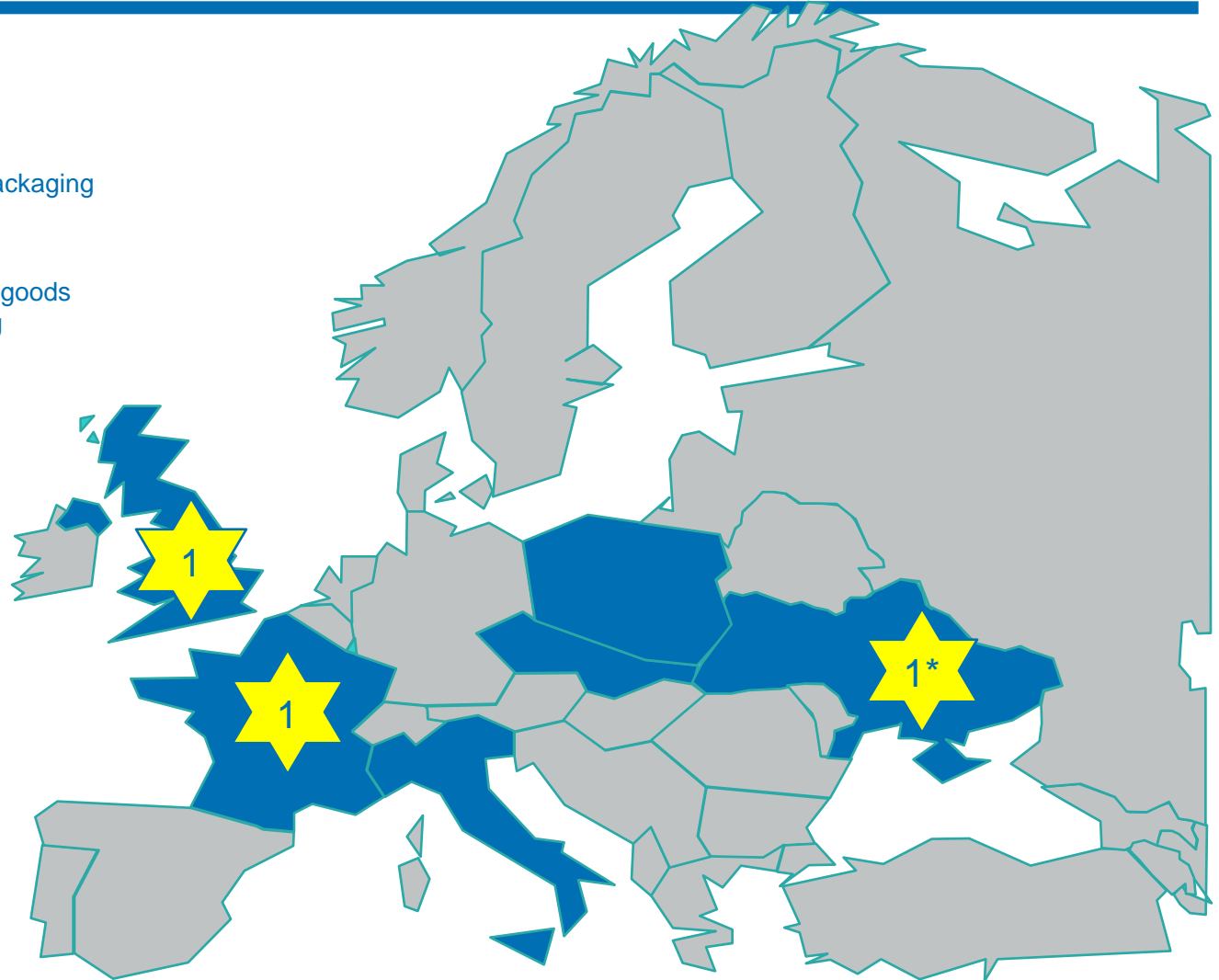
Key



DS Smith corrugated packaging



Position in consumer goods
corrugated packaging



* Associate company

Differentiate through service, quality, innovation and environmental solutions

Service

<24hr order lead times, on-time, in-full

Quality

The Cadbury logo is written in a purple, cursive script font.

Print colour consistent throughout Europe

Innovation

R-Flute®

Lighter, thinner, better printing, just as strong

Environment

Fully recycled: help customers meet their environmental goals

Our 14 day box-to-box cycle connects us with our retailer customers



TESCO

Sainsbury's

MARKS &
SPENCER



MORRISONS

We will be focused on packaging

Plastic Packaging

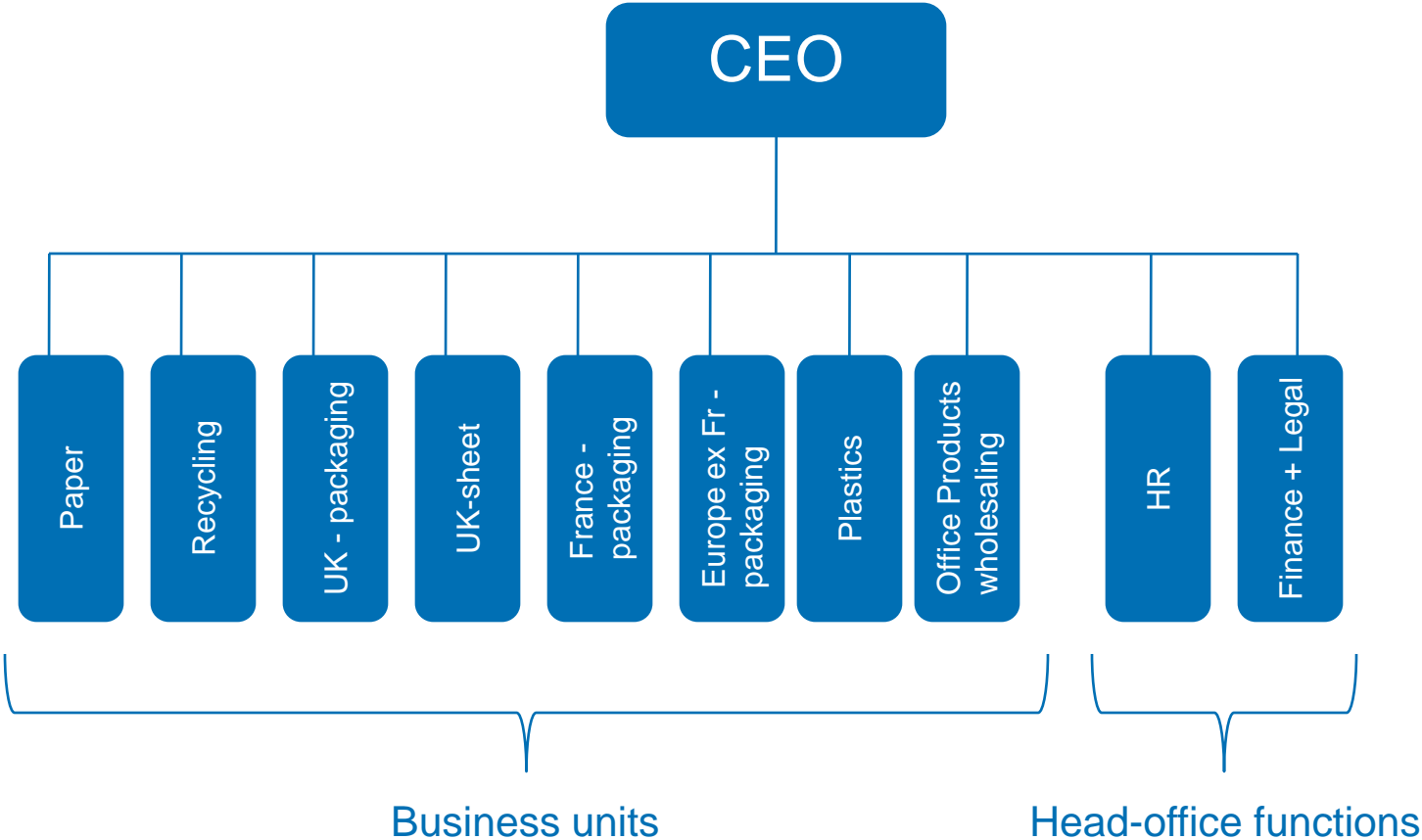
- Synergy with corrugated packaging business
- High level of service and innovation
- Defined market niches, good returns

Office Products Wholesaling

- No synergy
- Strengthening management team
- Continue to drive improvement to maximise shareholder value

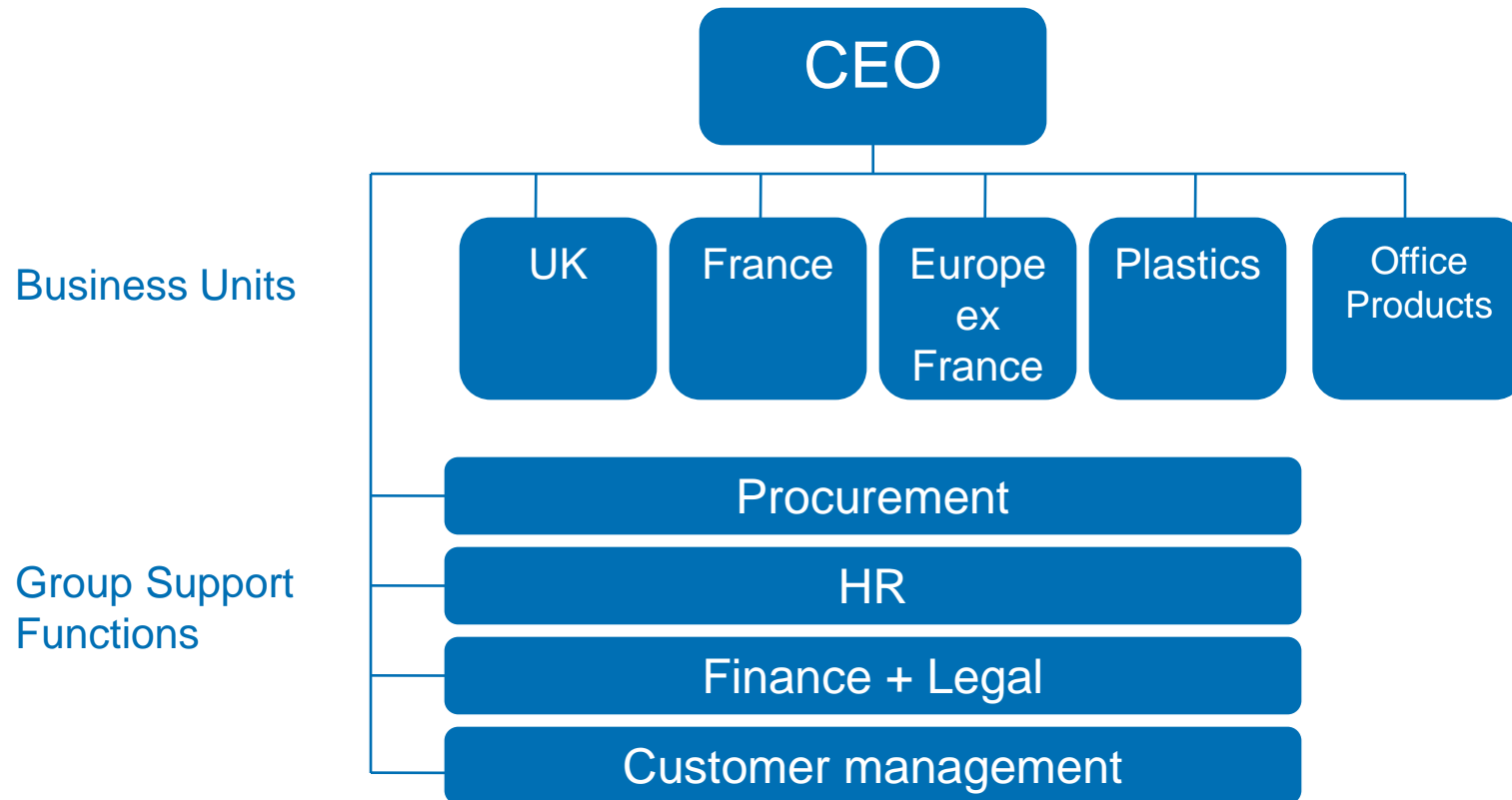
Aligning our organisation...

Old...



... to support the business functions...

New...



... and to drive financial performance

Operational efficiencies

- More integrated Group
- £10m out of structural costs
- Significant savings in procurement

Building a winning culture

Current behaviours

- Skilled
- Dedicated
- Hard-working

Enhancing behaviours

- Build competencies
- Appraisals
- Talent management
- Opinion surveys
- Remuneration linked to profit and ROACE

Managing risk by building on what we have

Expertise

Customers

Products

Management team

Employees

Half-year results to 31 October 2010

Review of business strategy

The market opportunity

Delivering a winning strategy

Transformed financial profile

Conclusion

Our actions will reduce cyclicality

Causes of cyclicality

Our actions

Paper cycle

Exit 250kt non-integrated production

Packaging

Volumes

Growing demand from FMCG customers

Pricing

Shorter term contracts for faster cost recovery

Mix

Increase recycling business

We will use capital strategically and with discipline

Capital Efficiency

- Significant improvement in working capital, by 2013/14
 - As at 31 October 2010, over £200m inventories and over £400m debtors
- Capital invested strategically
- Reduce cost of capital through changes in business mix

We will deliver good organic growth and higher margins and returns

Metric	FY 2009/10	Target
Like-for-like volume growth	Flat	+3%
Return on Sales	4.7%	6 – 8%
Return on Capital Employed	10.1%	12 – 15%
WACC	11.8%	<11%
Net debt / EBITDA	1.4x	≤2.0x
Operational cash flow [#] / operating profit	>150%	>120%

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

All measures on a pre-exceptional items and pre amortisation basis
before growth capital expenditure

Better returns for shareholders

- Strategy delivers good earnings growth
- Progressive dividend
- Target average dividend cover over the cycle of 2.0 – 2.5x

Half-year results to 31 October 2010

Review of business strategy

The market opportunity

Delivering a winning strategy

Transformed financial profile

Conclusion

Summary

- Good half-year results
- Otor delivering ahead of our expectations
- Trading well, in line with expectations
- Review of business strategy completed
- Capital markets day 10 March 2011

Summary

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

Recycled packaging for
consumer goods

THANK YOU

APPENDICES

Financial guidance

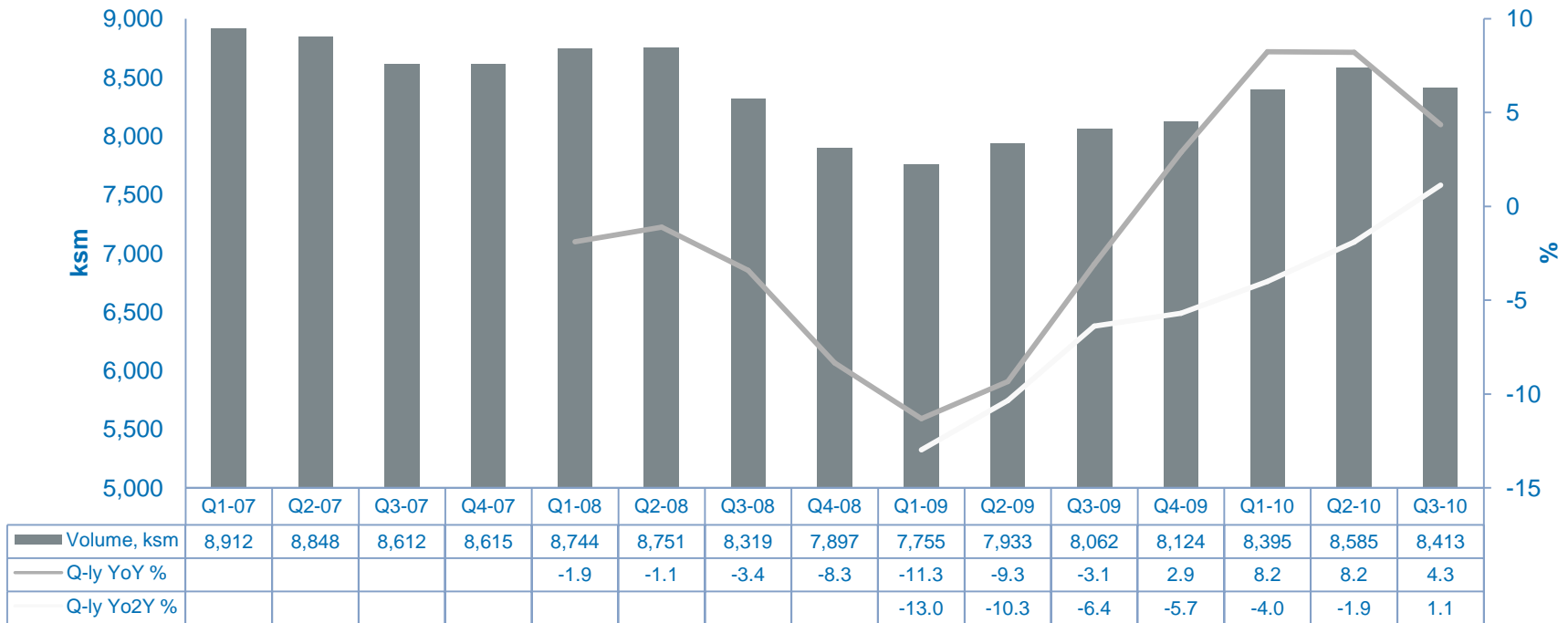
	Current	Previous
Capex	£70-75m	£55m
Net pension finance charge	£7.0m	£8.0m
Interest rates	5.0%	5.0%
Effective tax rate	27%	28-30%

European market corrugated volume

European Corrugated Volumes and Trends - FEFCO

Qtr3-10 vs Qtr3-09: +4.3%

Qtr3-10 vs Qtr3-08: +1.1%



2007

2008

2009

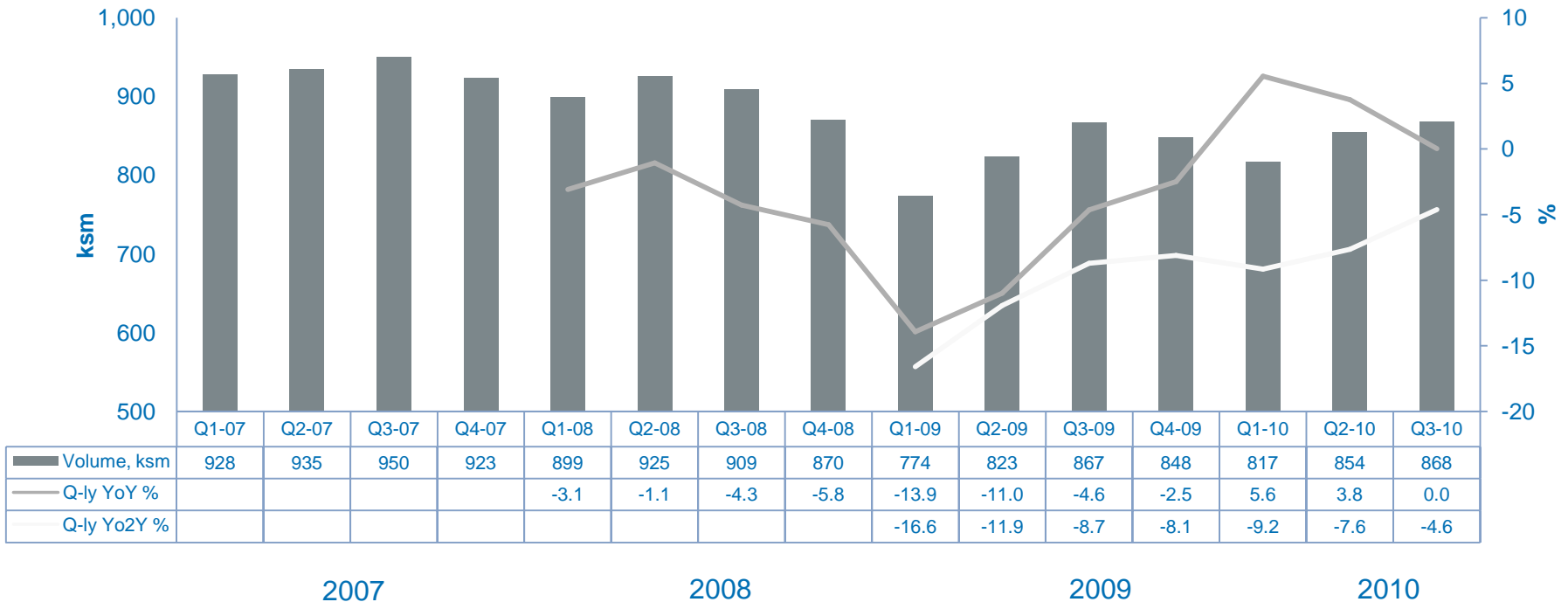
2010

UK market corrugated volume

UK Corrugated Volumes and Trends - FEFCO

Qtr3-10 vs Qtr3-09: 0%

Qtr3-10 vs Qtr3-08: -4.6%



Innovation: two-piece tray with centering device

Goals : create a new type of tray with lighter papers and better stacking performances

- reduce the stacking strength requirement with centering devices
- Increase stacking strength : vertical fluting on 4 sides

