**DS Smith Full Year Results 2012/13**
**27 June 2013**

**Speaker key**

MR Miles Roberts
SD Steve Dryden
JW Jolyon Wellington
BD Barry Dixon
CO'G Catriona O'Grady
HF Hector Forsythe
ET Eshan Toorabally
CD Chris Dyett
OP Operator

MR Good morning, everybody and, as always, we're delighted so many of you can make the time to listen to our full year results, the results for the 12 months to the end of April including ten months of the SCA acquisition, which has obviously been a bit of a dominant theme for the last year. Welcome!

Here we are for the full year and, as always, I'm joined by Steve Dryden, our Finance Director. I'll take you through the introduction. Steve will go through financial numbers. We'll then talk about the business review. This is myself. And then we'll have a Q&A and be joined by some people on the telephone.

The results for the year; you've read them. We're pleased. We're pleased with the EPS being up 36%. The dividend, in line with our policy at a cover of 2.2, is up 36%, but the return on capital, our primary measure, 12.3%, which is up on a pro forma basis. What's this telling us? That our model is working; in a low-growth, challenging environment the model is working. And what a year, because we have made substantial progress on operational, financial, but the strategic progress that we've made is of particular note. It's not about just being bigger. You've got to be better.

You've got to earn the right to be a large company. And we very much believe we've improved our performance, to all of our stakeholders, our shareholders, our employees, our customers, the environment, because that's what builds sustainable returns for shareholders. So we're not just bigger, we're better as well, and that stronger business model is a platform for further growth. Not because we, just because we want it, it's because our stakeholders want it, a platform for further growth. Steve?

SD Thank you, Miles. I'm Steve Dryden. I'm the Group Finance Director of DS Smith. Really what we see here is another year of consistent value creation. Free cash flow, £270 million, 186% increase and, what you'll see there in terms of the working capital slide later, significant inflow from working capital. It's important to note we worked really hard to get cash our of the business that we acquired, and you'll see that coming out of the SCA Packaging business, but also out of DS Smith business. Balance sheet strengthened. We said we'd get net debt down below two time; that's our medium term target. We got there a year earlier than when we announced the acquisition. Margins 6.8%; 20 basis points up on the pro forma. And when we say pro forma we're making reference to a prospectus that we issued where we showed you the SCA Packaging numbers. That pro forma number, which was 6.6% for last year, is 20 basis points up. If we look behind that a little bit you see that we've continued to improve in Packaging, and Paper as we expected a year ago, has been weak.

Return on average capital employed, and if you remember that is now our most important measure for this business, the pro forma, on the same basis as the return on sales, is 12%. We've delivered 12.3%. And, if you remember, our medium term target of 12 to 15%, so we're just inside that, albeit at the lower range. It's still well ahead of our cost of capital of 9.5%. And dividends; full year dividend up 36%. The board has got a very clear dividend policy. Dividend cover last time was 2.2 times; this time it's 2.2 times.

Financial highlights; revenue and profits up, but I'll show you that later on, on the bridge, so you can see the different drivers in there. Return on sales pro forma is really up 20 basis points. Adjusted earnings up 74% and it's important that you realise the actual cash quantum at the year end is up 74%, which is because we completed on the SCA Packaging acquisition at the end of June 2012. We actually had two months of dilution, so we had the shares out there following the rights issue but no earnings coming from the acquisition. That's why we have that difference between earnings, adjusted earnings of 74% and adjusted earnings per share of 76%. Asset turnover fell slightly to 1.8 times. Again, that's the first year of having a large acquisition in, but return on average capital employed 12.3%.

And then on this slide, I'll just pick out the key points. Obviously finance cost went up following the draw-down of funds to support the acquisition. The income tax, we guided to a 24% income tax charge and we're at 23.6%. Amortisation, you'll find there'll be a slide at the back in the appendices just takes you through our amortising the different parts of the intangibles and over what period. SCA acquisition costs net of tax; as you know, we completed at the end of June, so that's predominantly the cost of drawing down the debt to fund the acquisition. The integration costs, again there's a slide there, but that's integral to deliver the synergies. And you'll see in the appendices where we've tried to match up where the synergies are coming from and where the integration costs are against that. There're a number of exceptional items of £6.7m. It's a combination of the final tranche of the disposal proceeds from Spicers offset by one or two factory closures; as we've closed loss-making facilities we've continued to make ourselves more efficient.

As I promised, a revenue bridge, in the same format I hope you're used to. Last year we were a £2 billion revenue company. This year we're reporting a £3.7 billion revenue. You can see there the impact of ten months of SCA Packaging; that's £1.8 billion. Our selling prices came off, and I'll show you how those related to costs in a moment, but our selling prices reduced by £68 million. We've continued to grow in Packaging. Our Packaging volume growth contributed £13 million to our revenue line. Paper; we've flagged in various IMS's how challenging Paper is, so revenue there is off by £29 million. Finally foreign exchange and translation predominantly of the euro reduced our revenue by £39 million.

On a similar basis, the operating profit bridge. Again last year we were at £142 million operating profit this year reported £251 million. So you see the impact there of ten months of SCA Packaging at £102 million, the impact of selling prices falling £68 million offset by lower costs, £56 million. It's quite interesting to think about how that progressed through the year and certainly in the earlier part of the year we had falling selling prices as our input costs fell. But the back end of the year costs started to rise and selling prices started to move and it's important that you appreciate legacy DS Smith is on a three months cost recovery with contract reviews. SCA Packaging, that's on a six months, and then any things we want to be doing over time, like the integration, is bringing that six months cost recovery down to three months. The volume growth on Corrugated is just £6 million and then Paper minus £16 million. That's exactly what we said a year ago, we said that Paper would be a breakeven business and that's what's happened. Finally, synergies at £33 million of benefit or €40 million.

It's quite interesting just to track an acquisition and look at all these SCA Packaging sites, businesses and the individual profit centres and we can track in huge detail what costs, what synergies apply to each business. The reality is as we integrate the business, as we did on day one, we've moved volume and business between different sites. For instance, we've got the DS Smith site in France where we've transferred business to our former SCA Packaging site business in Germany. Very hard to track that, but I can show you synergies and the SCA performance with huge preciseness in the financial systems. The reality is we started to integrate and put these businesses together from day one.

Regional performance; it's quite interesting, all of our regions make attractive returns on sales. Where they are below the average it's predominantly because they've got a heavy paper component. The UK has got a large facility at Kemsley. That drew down the UK performance to 5% return on sales. Similarly in Central Europe and Italy where there's a large paper mill in Italy, that drew down our high return on sales. Finally Plastics has continued to deliver attractive returns, predominantly coming out of the liquid packaging and dispensing business, which continues to make great progress.

Free cash flow up 186% and you can see the huge working capital inflow there. The most pleasing thing is that's not just from the SCA Packaging business that we acquired. It's also from continued improvement within DS Smith. And the other thing is a lot of companies when they do a large acquisition stop spending money. We are still continuing to invest in CapEx and that CapEx, three quarters of it, has gone into Packaging. And if we look at our CapEx number about 40% of it is growth, 50% of it is for efficiency. So DS Smith is a business that's continuing to invest to support and grow with its customers. Free cash flow £270.4 million or 29.2p. You can see there the trend in terms of consistent free cash flow generation over the last three years. You can see the SCA integration synergies coming through there this year.

Working capital; this is the average monthly, so this is the result that every single month, all 12 months, divided by one year. Last year we were at 4.9%. We acquired a business with about 10% working capital. We've managed to finish the year with an average, monthly working capital level of 4.5%. It's been a lot of time, a lot of work, but I think we've gone after a lot of the easier things that you'd expect us to prioritise on; receivables and the procurement, working through on inventories. And yet we're still starting to make some improvement on inventories with inventory days falling to 23.7. It's probably fair to say that inventory is probably the one area, the hardest, because it goes through procurement, manufacturing, commercial, but that's the area where there's still opportunity for further improvement.

Net debt; we started the year with £322 million cash. You see there we're not affected; the SCA acquisition saw an outflow of £1.23 billion. Free cash flow I showed you earlier. Net of cash costs of the SCA acquisition and the integration costs, the exceptionals, the dividend returns to our shareholders, and then the foreign exchange translation and the euro-denominated debt there of minus £30 million. We finish the year with £817 million of net debt and the ratio of net debt we're at 1.97 times EBITDA. That's in line with our medium term target. A significant amount of cover on the interest cover to EBITDA at 9.7 times. And facilities, the debt facilities are £1.4 billion and, importantly, the next material refinancing for DS Smith is 2016.

These are our strategic targets that we've showed you many times and I think it's important when you have strategic targets test yourself about how well you're performing against them. Volume growth target is GDP +1%. If you looked across Europe and you rated the average where DS Smith revenues are the GDP fell last year by 0.5%, so we're pleased to show that we grew by 0.6% on our corrugated volume. It's an interesting mix there. DS Smith continued to grow strongly with that focus on FMCG. SCA was flat but encouragingly, recently, the SCA, the former SCA Packaging business started to show growth again. Return on sales at 6.8%, marginally below the target but when you think in terms of buying a large acquisition as the synergies start to phase in we should be in that 7 to 9% range. Return on average capital employed, 12.3%, at the lower end of that range but still within that range of 12 to 15%. Cash conversion has obviously been exceptional this year at 171%. A lot of work getting the working capital benefit out of the SCA Packaging acquisition. Net debt to EBITDA, that's in line with our less than two times target.

Listed here are our synergies split between the cost, the cash and the asset disposals. And we've really achieved more and we've achieved it faster. Our cost savings were originally €75 million and when we spoke to you last October we had grown that to €100 million. And we’ve actually delivered in this financial year €40 million and our guidance, looking out for the three years, is €120 million. And we expect that second €80 to be delivered €40 million and €40 million. Our cash savings, €40 million a year, we've done very well there. €120 million delivered this year and our guidance in total is now €150 million. And finally disposal of surplus assets or any amounts per transaction, we didn't give any commitment there. But we’ve actually, our target is to achieve €100 million and in the bank delivered in terms of this financial year we've delivered €60 million, so we're well on the way there. Our cost to achieve the cost savings has risen to €120 million from the original guidance of €90 million.

Some guidance for '13/'14, or this financial year ahead, just quickly. Our net CapEx is consistent with what we said before at £160 million, depreciation is £130 million. Interest rates at 4.3%. Tax rate guidance at 23%. Amortisation charge - and there's a slide in the appendices to help you there - that is £50 million. And I know a lot of companies have had a few questions about the IAS 19 pension charge. That will be £10 million and I've got some £5 million this year and there's a further drag on the operating profit of £2 million.

Finally, delivering sustainable dividends. We've got a very clear strategy and we're implementing it well, and that's given us the ability to reduce the cyclicality in the business. The dividend policy is very clear, 2 to 2.5 times cover, and what you see here is at 2.2 times cover we've grown the earnings by 36% and our dividend per share is up 36% to 8.0p.

Thank you. I'll pass you to Miles now.

MR Thank you, Steve - very clear. The business review and our strategy; where are we? I said in the introduction, it's not just about delivering the synergies and being priced for size, it's that we have a stronger business. Stronger business is more sustainable and we believe we've build a strong platform for growth. And I'm going to run through each one of our four, main stakeholders so you start to understand what underpins our confidence in the future. For employees, one culture aligned to the objectives of the group, that people see the combined strength of the team. The environment in which we're operating in; we talk about our mission but it's the way we work with the local communities and their national governments, as well. And then our customers, giving the service, the quality, the innovation to support them, going forward, so we strengthen your business.

First are our shareholders. It's an old slide, but why re-create something which served us so well? Our financial objectives are to ensure we achieve GDP plus growth, address the issue of cyclicality that's been so prevalent in industries like ours, drive the margin, the return on sales, to show the resilience of the product that we are selling. But fundamentally every year to achieve above cost of capital returns, and we're very pleased to say that we've done that again.

The way we address this is by looking at our business mix. So you have a short paper position. It's a paper position we want to become shorter in as we grow our packaging, to minimise the exposure of our shareholders to what is a highly cyclical business that doesn't earn its cost of capital. To grow the recycling business where we go and collect the old cardboard boxes from every retailer from the majority of the high street and expanding that out of the UK into France, into Italy and into Eastern Europe. This allows us to own the fibre and then grow the packaging. Growing the packaging business focused on FMCG, which I'll talk more about later.

And then how do we differentiate ourselves in the market? How can we really add value compared to our competitors? And we're going to show how we do that consistently. Efficiency, driving efficiency of the balance sheet as well as the operational side, working capital, capital allocation, as well as operating performance. And that culture that underpins us in such a diverse organisation, different nationalities, different economic regions, how do you bind people together to have one focus that produces the strongest business model? And managing risk; we sold Spicers a long time ago. No issues there. Closed the pension fund. No issues there. Bought Otor in France and restructured in France. No issues there. And just now with SCA Packaging. Many things have come at the company that we didn't expect, but we have planned for that in looking at the risks that we face in what is an uncertain environment. So to deliver the returns of consistent growth, above cost of capital returns, the business mix, how we differentiate to drive efficiency and manage that risk has been at the centre of our thinking.

And let's just look at SCA Packaging, because it has exceeded our expectation. I think the most pleasing thing is the support that we've received from our employees' works council, union, as well as our customers. And taking the issue of one theme, aligning all the SCA Packaging colleagues with our own, and we're absolutely delighted with the way that's happened. And with our customers, they gave us the benefit of the doubt. And we took over a business, I must say, that was losing volume and, as Steve said, the volumes in SCA Packaging were flat. DS Smith has grown. But during the year we turned from a position of negative growth in SCA through a flat position and now we're starting to see things improve as we improve the service, the quality, on the innovation, building on the platform to supply across Europe.

And a cultural change programme within the Group, because ultimately this is what shareholders build the returns on. We did put in a management team on day one. We put in a structure on day one of the acquisition. By midday the teams were in place and the structures were in place, the processes were in place and that delivered for us. We're going to keep that structure because it works very well. We've worked a lot on the culture of the organisation. We're spoken previously about our OWN IT programme. They make people, everybody in the company, understand what are our three and five year objectives so when you come to work and feel part of building a stronger business and aligning the individual success with the company's success. You build aligned interest, personal responsibility and accountability and the way we've shown the results of this is not just in the synergies that have been achieved.

Some of them are difficult to achieve and they involve rationalisation and they see this. They see it in the health and safety. We have substantially improved the health and safety record of the ex-SCA business. It is a substantial improvement that we've driven that as well as in DS Smith. And in our engagement survey just under 90% of all staff responded to our questionnaires, a half hour questionnaire, to tell you what they felt about the company and we're starting to work on that. We are building a culture to support the company's interests to directly align with shareholders.

Our first stakeholders are our customers. The second is in the environment. This is an issue for our consumer. It's not just nice to do because of the regulation. The final consumer is asking increasingly about the environmental performance. In some ways all the recent debate about taxation rates; that's the environment we're working in. Are you a good corporate citizen? And we put out targets for the company. We have significantly improved the CO2, the waste level and the water usage not only in DS Smith but in the SCA businesses, as well, reducing our environmental impact just because our final consumer is demanding it. When you buy a product you consume you want to feel that that consumption has a minimum effect on the environment and we're able to demonstrate this time and time again working with the environment.

And with our customers, we look at this in where the opportunities are, and we have three circles and I'll go through each of these. But it is the pan-European customers that are very important to us, but then it's all customers, but we see the pan-European thing as being something that we can offer particular strength to. I'll talk more about fast moving consumer groups, why the reasons in Central and Eastern Europe and more about the innovation, but let's come on to the FMCGs and customers. When the market trends just favour scale players, if you look at the presentations from our major customers, Nestlé, Proctor, Kraft, Unilever, Reckitt, marvellous, world class companies. They're looking for increasingly common solutions across Europe. They're taking best practice from one part of Europe and applying that throughout all their operations. They're starting to centralise production of particular products and categories in particular regions. Gone are the days when one factory did everything. They have one factory for Europe that does a product. So they want to ensure that they can have best practice throughout their supply chain and that immediately favours a pan-European supplier, of which we are the leader.

And why FMCG? Because it's so resilient. Our volumes have never gone down in FMCG, never, for the last ten years. We talk about resilience; this is food and drink. That's why we focus on them. That's why we absolutely need that category. How do you add value in that? It is about innovative packaging, reducing raw materials, the CO2, the cost, the carbon footprint. And I'll talk more about that later. And what does this mean? Nestlé, who is a fabulous customer of ours, we are their number one supplier on 26 criteria, sustainability, relationships, technical capability, absolutely the number one supplier and we're delighted to receive that.

And that's come into innovation. I think it's become increasingly important. It is about providing solutions that our customers, for our customers' problems. And I'll give you a wonderful example later. It's just to remind you that we have a European innovation centre in Brussels and on 6th September we're holding a Capital Markets Day there so that our investors and the buyers particularly can come and actually see firsthand what we mean by solving our customers' problems. And how that adds value and how resilient that model is. Behind that we have three impact innovation centres, building a fourth, a network across Europe so that customers can come and experience how their products work in the retail environment, how they work in the supermarkets, in the express stores, in the hypermarkets. And 17 design centres across Europe; a total design capacity of over 500 people. These are all linked together sharing design, common solutions for customers in different regions.

We've talked about the efficiency, how we've upgraded our efficiency targets. We've spent more on R&D and innovation and I was just beginning to think in absolute terms the two businesses together, who are really strong, are going to put more behind it because we will see such value coming from it. We continue to roll out R-Flute® going in across Europe we've talked about our Mandrel-construction before, how we form the box in our customers' factories improving line speed, reducing energy consumption, how we've licensed that into the US to RockTenn, DS Smith technology that their customers are demanding to be put in place in the US and now it's going into the Far East, as well. Solving customers' problems; they're looking for it on a global footprint.

And let's just look at some of this innovation. You can see in the picture down the bottom that a guy on a mobile, it's a forklift truck, you can see a product on the pallet on its prongs. And here we have our customers who are saying to us, we've got a real problem with this, because as retailers are going to convenience stores they don't sell so much of one product. They actually sell a little of many products.

So when we deliver to them we don't deliver one pallet of one product, we've got to deliver one pallet with lots of different products on it. But the way factories work you can only lay one layer on a pallet of the same product. But also we need interleaving; we need to have a pallet, a product, and another set of interleaving to put another product on top and another pallet. And our customers are coming to us and saying, on the left hand side, this is the way we do it at the moment, we use wooden pallets. Because those wooden pallets have to be lifted our health and safety record is suffering. We're getting many more injuries from our staff as we construct that. In fact, that pallet, not only is it very difficult to construct and it's also very heavy and that causes us a lot of problems because it adds a lot of weight to the lorry. It takes up a lot of space. And it's also extremely expensive for us using a wooden pallet to support a product that's actually very light.

So what we've introduced is the cardboard pallet. This has been around for a long time, but you can see how well the cardboard pallet… 80% lighter than the wooden pallet. 20% more space on the pallet by using corrugated and in terms of cost, 25% cheaper. But the way to solve the problem is how these are recycled and with our recycling arm we can do that. This is an example of solving customers' problems, coming away from the old, wooden pallets into a corrugated pallet, improving health and safety, improving carbon, improving cost and it's extremely good news for our shareholders. An innovative solution that we think will increase and do very well in the future.

And just to remind ourselves business in plastic packaging, another very strong year here. Liquid packaging, dispensing, bag-in-box. The transportation of liquids in cans and tins, etc, is very inefficient. The transportation of liquid in cardboard boxes, which is huge, has become increasingly important. We say here we've a strong market position; we're one of the world's leaders. We operate in the US, across Europe and the Far East. This focus on FMCG. We've opened some new factories in the Far East. The returns are absolutely super and we believe there are significant further opportunities as the market is fragmented. And our international customer base wants the same solutions throughout the world and they're coming to us to get it.

We've talked about our customers and our employees. I'd just like to build on that last part about FMCG, innovation and the regions. There's a lot of talk about Europe and how it's performing. And this is a map that we've used previously and if we look at each one of the regions, if we look at the UK, for us, as you can see, very stable. It's one of our big profit areas. The market has been stable, maybe with a bit of a sign of life in the UK economy. Packaging very stable, huge focus on FMCG, very stable, big profit earning regions for us underpinning our results. And in France, number two/number one, we bob about a bit here, but we're the absolute leaders in FMCG, over 80% of the business in FMCG and volumes have never gone down. They continue to grow. This is France with all the publicity it's had. Again, a very stable base. Italy; we're seeing a return to growing here, there another stable position and we think those three markets will remain stable. We don't think they're going to move ahead significantly; we think they'll be stable for us.

But when it comes to Central and Eastern Europe, there we see growth. We've already been growing in these regions and we see further significant growth. When we look at our capital investment programmes we've said that by far the majority is in Packaging. If you split it out, not only is it Packaging, the investment is going in, in the Central and Eastern Europe and that's why we continue to take market share there. Overall Europe has moved from having a stable base and a growing base. We don't have any regions because of the focus on FMCG where we're seeing substantial decline, huge erosion, etc; it's been very stable for us and that's underpinned the results.

The summary; we're delivering. The third year I've put this up there to talk about what we're going to do. I'd just like to say that that's the outstanding leadership on my behalf, but I'm afraid it's a little bit more to do with how the business model works, the strategy works and we're proving it. There's no doubt there are big expectations on us, on the Group, and we're fully in line with those expectations. The market backdrop is challenging; it's not going to go away. We've assumed growth is really hard to come by across Europe. That's always been our assumption. It's no different. And there are, we continue, as always, to see input cost pressures whether it's on labour, whatever, all being dealt with. But they are there.

We've strengthened our customer proposition and we continue to invest heavily behind that and the returns we get from that investment are very exciting. But with more R&D and innovation we are gaining share modestly and we've got further synergies and those underpin the confidence we have for the future. But most of all, but we're excited, we really are excited about what we're building here and about the future.

Thank you. Now questions.

JW Good morning. Jolyon Wellington from JP Morgan. I've got three questions, if I may, firstly on pricing. Could you just talk about what happened, your box pricing over the last year and how that's started for the current year? Secondly, CapEx, if you could just talk about where you're going to be putting in, putting that CapEx in for next year. I think you said in your release you were going to put some capacity into Poland. And then, thirdly and finally, the SCA acquisition, if it's possible to quantify any revenue synergies at this stage. Thank you.

MR I'll take pricing and then Steve will run through the CapEx. We are aiming to pass through a change in the price of paper and over the last year, broadly, the price of paper fell and then stayed down. During the year that was passed back to our customers so the price of the box, on average, fell. Just as when the price goes up we raise prices, when the price comes down we lower prices. And that's why we focus on the volume.

The market is competitive, there's no doubt about that. There's no change. Prices come down because of the reduction in paper and we'll have to see where it goes in the future; if the price of paper goes up then our prices will go up. People say to me, do you expect it to go up? I haven't got a clue. If you ask me about the price of paper one month, two months or three months I'll say I just have no idea whatsoever. It is what it is. People talk about one type of paper going up. None of it… it just hasn't happened. We wait to see, but we are prepared for whatever happens. If it goes up we recover it.

And your last question about the revenue synergies, we are starting to see much more stability and a much clearer picture on the SCA business. On 6th September we'll talk a lot more about this and I'm sure you wouldn't want me to… I'm sure you'd want me to keep my powder dry for that for September.

But Steve, on the CapEx …

SD We're investing in Packaging; that's how our capital allocation works. Recycling is a very low capital intensive business. Most of our investment is going into Packaging and it's actually making more complex boxes for our customers' needs, making them faster and using less material. The locations that our level of investment will be going into, as you said there Jolyon, it's Poland and Germany where we see opportunities to continue to grow. As you can see, we've got great market share in the UK, France, Italy, so probably more you'll see some investments going in there in efficiencies, reducing waste and making things safer and faster. The business mix is fundamental; our capital allocation is towards Packaging and Plastics within Packaging, as well.

JW Thank you very much.

BD Barry Dixon from Davy. Three questions also, if I could? Just a follow-on on the paper pricing question. The paper prices went up by €30 or 40 a ton, or whatever the number was, in February or March. Has that now been passed through into box prices or do you expect to pass that through in the second half of the year? And the second question, you mentioned that you're short paper position currently and that you wanted to come shorter paper. Does that come about through growth in your Packaging business? Or does it mean that you're going to consider closing one of the existing paper plants, particularly maybe in the context of what's going on in Italy at the moment? And then thirdly, just to clarify the percentage of your overall business which is FMCG, I think you had a target of getting to 75%. Where are you on that journey? Thank you.

MR Just in terms of paper, there are many different grades of paper, many different types, and you have papers called kraft papers that are made from new material and there we've seen virtually no change at all. In terms of some of the other papers, indeed, some of them have increased by €20, some €30, some €40, and as these increases come through there's always a lag as we pass them on. It depends which part of the business; in the ex-DS Smith business that tends to happen more quickly and in the ex-SCA business that happens more slowly all due to contract periods. But there is a lag there. That's in our results. But recovery is going according to our expectations, but it is just different as we shorten or lengthen prices. Anything could happen in the future. There could be further increase or it could be reduced; we just simply do not know if capacity is coming on and coming off. This is why we want to put a short paper position.

And in answer to your question of where we are we, ideally we'd like to be around the 50% of our packaging requirements being met from our in-house capability. But hugely long in the recycling, so we collect three or four times more fibre than we actually use. We convert about… we produce about half the paper we need and we think this is the optimum model. At the moment we are just under 70% and we've seen the Packaging business grow. We don't have a final solution on the paper that we're ready to announce, but we can certainly see how we can reduce our shareholders' exposure to the paper industry in a way that leaves the business sustainable in terms of access to the right grades. And again, we'll outline more of that in the near future.

I apologise, your third question was on the…?

BD FMCG percentages.

MR We used to be over 70% in DS Smith and we'd like you to know that we're now over 60% of the combined. We've been growing that and again we'll talk a lot more about that in September, just allocating all the right positions. But we are moving ahead. We've grown that, but we will outline a lot more in September and where we expect that to get to, because that'll be our target.

KO'G Hi there. It's Catriona O'Grady from UBS. A couple of questions, firstly on the volume growth. Have your pan-European customer volumes been growing ahead of your country-specific or more regional customers? Secondly, could you give a bit more colour on what's been going on with the RockTenn licensing deal, whether that's the same kind of deal that you've now rolled out into other geographies? And finally, on the map that you showed showing your European position, can you just give a little bit of colour on where you think that goes in three to five years? Are we talking more number ones and twos? Or are we talking more deep orange areas?

MR If I take the first two, Steve are you happy taking the third?

SD That's fine [?].

MR In terms of our large customers, when we took over SCA we knew that we were going to lose some business that was unattractive. It just didn't provide… there were lots of poor volumes about. Anybody can get poor volumes, but it's return on capital that's the issue. We knew that. Plus we had some overlaps with other parts of the business and we had a position in SCA that had been in decline. So when we look at the whole year we've grown despite all those. And, yes, we've exited. Yes, there's an overlap. Yes, we've had a decline in position, but the volume has grown and the reason for that is that the DS Smith business, the legacy, grew really quite strongly and it grew strongly in the large FMCG customers. So we're significantly ahead of the overall market.

When we look at the year it's coming down as stable and we're starting to see that SCA business turn around. When we look at overall we've done well with the larger customers, despite some exits and despite some overlap. We've done better and we expect that trend to continue. Not because that's what we want but because that's what they're saying to us.

KO'G And then the other one on the RockTenn licensing?

MR On the RockTenn licensing, DS Smith has technology that allows our large FMCG customers to have very, very fast lines to construct the box on their factory at a very, very high speed, typically 20-30% faster than traditional methods. Not only that, the way the box is formed allows the box to be made of a number of different pieces of card. There's nobody else in the business nowhere near, nobody near us. If we go to a company, a large FMCG company, with our technology, your line speeds will be faster reducing your costs and we use much less fibre in our box, as well, because we construct the box in many instances very quickly.

Such is the strength of demand for this some of our large customers wanted US suppliers to use the same technology and therefore we've licensed it to RockTenn. It's been licensed in for a number of months and I have to say we're absolutely delighted with how that's been received in the market in the US. It's just a straight licensing deal our technology patented to the second largest supplier in the US, because their customers said we want the DS Smith solution. And we've now started licensing that to the Far East because the customers are saying we want the same solution in Europe, in the US and in the Far East and there's nobody else that comes near to us, nobody, and we're very pleased. We are now looking at how do we now start to invest in that further, pure licensing?

SD I think, I reckon you're looking at slide 30 there, and it was two parts. It's a pie chart where you can see just how fragmented the competitive environment is there, with 64% held outside the top three. I think one of the attractions of, certainly for DS Smith of those particularly private or family-owned businesses when they do wish to sell I think we offer quite a compelling business model. We're buying them with their customers and their market position not because, to get customers to take paper. And we can see how, in terms of the acquisitions we've done, we've grown and developed and built those acquisitions and I think for the seller DS Smith is quite interesting.

From a shareholder perspective I think you'll see for us that we don't overpay, we integrate well and hence there's the attractive returns coming for the shareholders. In terms of geographies, in terms of where we've got strong market share, UK, France, Italy, number one and number two positions in Northern Europe because we like the quite small, niche bolt-ons. And the larger opportunities are clearly in Eastern Europe and Germany where we've got a good footprint to start with and the opportunity to grow. And it's not just by acquisitions, it's also organically. That's partly your question about the CapEx; that's where some of the CapEx is going. You can see we can take some of the products that Miles is talking about there and sell them to customers across other markets in Germany and across Eastern Europe; a mix of organic and acquisition opportunities there.

HF Hi, it's Hector Forsythe from Oriel Securities. A couple of questions from me, if I may, first on Paper. Can you just give us an indication of your expectations on returns for this year?

SD The good news is we were right when said Paper would make no money. And the bad news is we were right; it's making no money. We've given up trying to predict what happens on Paper. The reality is we just want to have a business model that responds so we want to be short in paper and we want to be able to change the prices quickly.

HF Could you say what current trading is, and prospects?

SD Current trading on paper?

HF Yes.

SD It's got a little bit better but it is dire as a comparison, so we're not relying on a resurgence in Paper to achieve our numbers for the year.

HF Thanks. Just then in terms of your outlook statement you make some references in there to R&D and business development costs. Could you give us a guide as to the percentage of sales that you're spending on R&D and how you think that's going to increase over the course of time, or change, at least? And, more specifically, flesh out those business developments, what that reference really means.

SD R&D, pure research, relatively low; most of it's directly with our customers. You see about 1% of our annual revenues in terms of R&D, taking all the design and development also we have. Business development, as well, effectively that's the job of our commercial teams across… that's what we do. That's our business model and it's quite hard to visibly quantify it but that's the commercial, the operational, the whole organisation's geared up towards that business development side.

HF But the reference in terms of the outlook statement, you make it specifically there, what does… can you… why is that reference there?

SD Because that's where we see our growth. You can see that we're putting in capital investment to support, answering the question there about the more complex boxes, making them better with less material. And the other side is innovation. We've started to roll out some of the DS Smith products which our customers are asking across from the operations that they're running; can we supply them. A great example would be P&G who we're supplying in the UK and France. We had a customer asking for it in Germany. It's now being rolled out across the customer base in Germany. That gives our customer the opportunity for lighter packaging and it gives DS Smith the opportunity for lighter packaging and more innovation. It's a continuation and that's why we feel that the market may be challenging but what DS Smith's doing in terms of its R&D on its products and its generation of business development all underpins the progress we expect to make this year.

HF Thank you. And the last one is on the exceptional costs. You've outlined that you think, if I'm correct, that the cost of delivering synergies has grown from €70 million to €90 million, which is proportionately more than the increase in cost savings. Can you outline why that is and where it's actually going?

SD I think when you find there's going to be an acquisition you prioritise and you do the fastest and the easiest things first and that's first the returns that you get. After that there's almost a set of diminishing returns. We see additional cost synergies; it's just going to cost more to achieve them. There's a combination in there. We've done, a lot of the work we've started to deliver on procurement, cost has gone in and that should start to come through next year. But some of the efficiency moves that we need to make where there is duplication, that's where you will see additional costs coming in. And it's just prioritising easiest and quickest first and the harder things, the comment about the inventory and the synergies there, it's harder, it takes longer and it costs more.

HF And just at this stage are those the only exceptional costs that you envisage?

SD In terms of the current year that's the exceptional costs we can see at the minute. But you know, Hector, we'll react in terms of business performance in specific geographies, sites, etc. If it's not adequate we'll respond.

HF Understood. Thank you very much.

ET Hi, it's Eshan Toorabally from Goldman Sachs. Just three questions from me. Firstly, in terms of your outlook statement you did make allusions to input cost pressure; if you could just elaborate on that point first of all. Secondly, in terms of your free cash generation in the current year, working capital is a very big component of that. Is the 4.5% of sales as far as you can go, or is there further improvement that you can see? And can you give some guidance perhaps related to that? And then thirdly in terms of the RockTenn licensing agreement, what're the revenues that you're deriving from that and what is the opportunity potentially from other, similar arrangements? Thanks.

SD Input costs, I think Miles has answered that about different increases that you quoted there, and that's what I've read in the papers, etc, that's what we're seeing in terms of the €30-40. As I said, I can't predict whether it'll go up more than that or if it'll actually come off. What I do know is we've got a business model that's set up to recover those costs on a, ideally on a three month recovery period. With SCA we're starting with six months. There's work to do to reduce that. We'll react and respond and pass that through as needs be.

ET So it's paper costs as opposed to any other?

SD Yes. If you went back to our April IMS in the pre-close, interestingly energy costs were looking as if they were going to be moving up. I would say particularly now that pressure is greatly reduced. We'll update you on moves and costs as and when they happen. To us the important thing is we have a business model that can react to those cost moves and recover those cost moves with the usual phasing in terms of timing.

On free cash flow I suppose 4.5% is pretty good, actually. It's about half what quite a few competitors are running at. But a lot of the savings we see coming through there are on payables and receivables. There's some work in terms of inventory and there is opportunity to do more to improvement on inventory, but that's the, just some of the comment about the synergies, the inventory is the hardest to get and that takes the longest. And I think the working capital can continue to improve by, on the inventory.

I think that was the last one.

MR License income -here we're under confidentiality agreements so we're not, unfortunately, allowed to individually disclose it. As the business builds we're certain we can do more, but at the moment we have several contractual obligations, I'm afraid. It's not, in the current year, material by any means but it's a start, but there're a lot of opportunities for the future.

ET Thank you very much.

MR Thank you. Last question?

CD Morning. Chris Dyett, Investec. I've only got two questions rather than three, firstly around synergy benefits. In the appendix you've given us a breakdown of how that's coming through. For the year we've gone into is it going to look broadly similar in makeup stages-wise with procurement being just over 50% of the benefits?

SD I think that's fair, Chris, in terms of the… probably slightly more coming through on procurement, as I say, and some of the, more on the facility cost.

CD Second question going back to working capital, I think in the past you've given us an idea of SCA versus core DS Smith where those percentages end at the year end. Where was core DS Smith? Where did it end the year? Was it actually somewhere around three?

SD Not too far away, Chris.

CD I'll write down three. And just finally given this is your last set of results, I just want to say thanks on behalf of the analysts in the room. You've been very helpful in the last 12, 18 months in helping me understand the model, so thank you.

SD Chris, thank you.

MR I think we just have… is anybody on the dial in with any questions?

OP Ladies and gentlemen, if you would like to ask a question please press star, one, on your telephone keypad. Just a reminder, please press star, one, on your keypad to ask a question. There are no questions from the phone lines.

MR Lastly, thank you everybody for coming and listening to us. I'll summarise. We're delivering on our strategy. The year has started well and in line with expectations, but we really are excited about the future. And I'd just like to extend our thanks to Steve, as well, over the last five years for all your work, thank you very much indeed, Steve.

SD Thank you.

OP Thank you for joining today's conference call. You may now replace your handsets.