DS Smith
2011/12 Full Year Results – 28 June 2012

Speaker key

MR	Miles Roberts
SD	Steve Dryden
DP	David Phillips
MM	Mike Murphy
HF	Hector Forsythe
DO'B	David O'Brian
HD	Harry Dixon
OP	Operator

MR Welcome, everybody, and thank you very much for sparing the time to come and hear myself and the Finance Director, Steve, present our full year results. But two years ago we stood here for the first time and we said, in DS Smith we have a company which has substantial opportunity to create real value for shareholders; real value by less cyclical, a higher return on sales, producing year in year out returns above the cost of capital. And we set out some targets. And we were told, you're being ambitious. And today, for the second full year, we start to show the value that's coming out of DS Smith. So, thank you for your time to come and listen to us. So, what are the presentation themes? Well, it's been quite a year, and we're going to talk about how DS Smith has really transformed itself over the last year, changing our mix of business, disposing of companies and hopefully acquiring another one on Saturday, at the same time as delivering on a robust business model. That's what we're built on: the robustness and the resilience of our business model. And we'll talk about the results as well; results which we're pleased with, as I said, showing the value that can come out of DS Smith to shareholders. And, lastly, we'll turn to the outlook; uncertain times, but it's the robustness of our outlook for the coming year. So, what are those results? The underlying business has improved every division, and not just financially, but operationally. The customer service level's up; quality, up; health and safety accidents, down; so we improved in the quality of the business, and that's why the operating profit has improved the return on sales to 7.2%. The EPS, up 28%; the return on capital, 14.6%, up 310 basis points, and that's why we've raised the dividend by 31%. Steve.

SD Good morning, everyone, I'm Steve Dryden, I'm the Finance Director, DS Smith. What you see here is really another six months of consistent delivery, profits, return on capital, and the cash flow. And there's five key themes in these results, and they're key themes that you've seen before; sustainable growth, faster cost recovery, margin progression, returns above our cost of capital, strong cash generation. So, in terms of sustainable growth, like for like revenue growth, so excluding acquisitions, at 8%. Corrugated box volumes, up, again, like for like, 2.2%. Faster cost recovery; and this is the key initiative to reduce the volatility in our earnings. And I've got a slide to show you later how we have fully recovered cost increases of £125 million. And we've improved our margins 90 basis points, from mix, from volume, from cost reduction and from successful acquisition integration. Return on capital employed, the most important measure to DS Smith, up 310 basis points to 14.6% and, finally, excellent free cash flow, up 31% to £95 million of cash generation, with working capital consistently below our 5% of revenue target. Just looking at the top part of the group income statement, to revenue, can you see that on the right, up like for like 8%, profits, like for like, up 20%. Margins up 90 basis points to 7.2%; our earnings are

actually up 42% due to lower finance and tax costs. And, actually, our earnings per share is actually only up, I say only up, 28%, and that's due to the higher number of shares from the February rights issue that we completed. Asset turn is up from 1.8 times to 2 times; that's as we use our balance sheet more efficiently. So, finally, return on capital employed, obviously with better margins, better asset turnover, means our return on capital employed is up to 14.6%. And I think one of the key points behind these results is really the strength of the improvement that you're seeing, is actually across all three divisions. It's across the UK, it's across Continental Europe, and it's across our Plastic Packaging business. Return on sales, that's up to 80 basis points, 90 basis points and 130 basis points respectively across these divisions. Similar returns on capital, obviously coming from the margin but also the better asset utilisations: up 360 basis points, 150 basis points, and 470 basis points improvements in return on capital across these divisions.

These are the charts that you've seen before, in terms of the format, but effectively bridging from last year's, £1,759 million of continuing revenue, to revenue delivered this year of £1,969 million continuing revenue. The first thing that strikes you is £130 million of price recovery and mix. Actually, I say mix, because it's important that you understand that we're constantly trying to supply more sophisticated packaging solutions to help our customers sell more or to save money. In terms of volume, volume in corrugated, which we said is up 2.2%, or £29 million. Paper volume is down, but that's because frankly, as usual, we have prioritised maintaining margins over chasing volumes. In terms of acquisitions, less some smaller disposals, and that's obviously principally the full year effect from the extra four months from last year's Otor acquisition. That contributed £72 million. So, finally, we finished the year, on the right, with reported revenue of £1,969 million.

Here's a chart in a similar format for operated profit; again, I'm bridging on the left, from £110.9 million to £142 million continuing operations profit. I think the thing that strikes you is it's another year of full recovery of cost increases in fibre, in energy and paper. Profit benefit coming from the early volume increases is £5.8 million; £12 million of operated efficiencies – that's in line with our previous guidance, and actually I've got a slide to take you through those specifically later on. Finally, acquisitions, less some smaller disposals, profit benefit, £8.5 million.

Just a few points to note on the income statement below operating profit: net interest charge is slightly lower, by £1.6 million; it's obviously with the benefit from the disposal proceeds from Spicers and the rights issue funds that we've placed on deposit from February. Pension finance charge is lower, and that's following the steps that we took last year to close the UK pension scheme to future accrual. Tax, 60 basis points lower, but is in line with previous guidance. Profit before tax on exceptional items is up £25 million to £80.1 million. Exceptional items are a net £3.3 million credit after tax. There's obviously a gain on the Spicers disposal, offset by impairments and restructuring of the packaging business, as we previously advised, and absolutely in line with our strategy to further improve competitiveness. So, there the two UK paper mill exits, there's obviously the Otor integration, and finally we can look to improve our competitiveness with plastic packaging in Europe.

Loss of associates at £0.5 million; that represents the cumulative loss after tax from DS Smith's investment in this Ukrainian based associate. It has a long paper position, as you know, and obviously combined with higher finance costs from the refinancing there, we've lost money November to March, but returned to profit in April.

And here's a bridge just explaining how we've managed to move from net debt last year of £351 million to this year's surplus of £322 million of cash. The major moves on net debt really are obviously coming from the acquisition and the disposal activity that we undertook during the year, and that's actually probably obscured for you the strength of the underlying cash generation. So, free cash flow, there on the left in green, at £95 million. I've got a slide just break that out for you later. The Spicers disposal, or Office Products Wholesaling, generated £182 million; that was completed, it went through in December. Obviously the rights issue that we completed in February generated £450 million net inflow.

In terms of debt structuring, it's important for you to realise that we actually have no significant refinancing that has to be done until 2016. At the end of June this year, at the end of June 2012, we agreed pricing on a new private placement of $400 million for funds at an average maturity of 9.1 years, which will enable, when drawn in August, repayment of €300 million of the SCA acquisition bridge facility.

As I promised, this is the slide on free cash flow. It's up 31%, or £22.5 million. Obviously some of that's coming from EBITDA being up £28 million, but I think the working capital inflow is quite striking at £44 million, and you need to see that in the context of we actually still managed to grow revenue 8%, like for like, but with a working capital inflow, £44 million. And the working capital is consistently, every month of the year, been at 5% or below.

Pension payments, behind that line, was £15 million per annum; that was the regular, the agreed deficit recovery that we reached with the trustee last year.

Finally, capex is higher; capex is higher because we're investing in the capability to make more sophisticated packaging, and behind that number is growth capex of £33 million.

These are the targets, and the cost savings that we announced well over a year ago. Now, I'll just take you through them, to give you an update on our progress. In terms of UK efficiency, we set a target of £10m run-rate by April 2014. We're actually just under £8 million as a run-rate, delivered in 11/12. It's really very simple. It's from better integrated working between our UK and Packaging businesses, being more efficient about how we work together. On procurement, we are continuing to deliver benefit. It's benefit in terms of the obvious things, like unit cost and capital spend, but procurement plays a key part in us improving our payment terms with our suppliers. We've delivered £13 million this year. On Otor, we delivered €10 million benefit in the year, and we're well on track to achieve our revised €13 million target that we increased from the original €9 million that we'd committed to. Lastly, as I said, working capital is excellent, consistent improving throughout the year, and we've actually achieved our target of being below 5% of revenue two years earlier than we originally said.

As you'd expect from a clear strategy to deliver consistent cash flow, you can see here the benefit flowing through into dividends. Our dividend policy remains very clear; achieve 2 to 2.5x cover, and for this year, with earnings per share being up 28%, free cash flow being up 31%, the dividend per share is at 31%. This covered 2.2x on earnings. Finally, it's ever so important, when you set yourself medium-term targets, to reflect and see how you're progressing against them. On the left are the targets we set there for volume growth, for margins, returns on capital, cash generation and where we start the right capital structure for our business wares in the long-term.

So, in terms of volume, we're at 2.2%, which is GDP plus 1%, so we're there on our volume target. On our margins, we're 7% to 9%; we're below at 7.2%, but we're in range, and that needs to be seen as a 90bps improvement on prior year. Return on capital employed, we're really pleased at how well we managed to sustainably take cash out of our balance sheet, and you can see that from the return on capital, we're at the upper end of the range at 14.6%. Operating cash flow to profit, 139%. Again there, the exceptional performance coming out of working capital has helped do that. It also gives us the ability to keep investing to build, strengthen and grow the business. Lastly, net debt/EBITDA, obviously with a cash position it's not quite the metric that we expected at the time, but equally we're absolutely committed to the long-term capital structure net debt/EBITDA being less than 2x for this business.

MR Thanks, Steve. So, we're going to return after, you've seen the results, around the robustness and the resilience of our business model, about the momentum that's building in the company, just in terms of culture, but in terms of some of the key processes, and then we'll return to the outlook, how we see the coming year. But, the tie to the slide is about leadership. As you know, it's a very fragmented industry. There has been no leader in this industry, and that's what our customers want. Our large customers, global customers, whose levels of expectation, in terms of development, in terms of support, in terms of quality, basics that aren't being supplied by the industry, and that's what we're going to build over the coming years.

So, what have we...? With that sort of background, just to remind ourselves, over the last two years, how we have been changing the business to produce a business that has the right business mix, you've got to be in the right businesses. No matter how good you are, if you're in the wrong business, it's going to end in tears. You've got to be in businesses that are growing, have the opportunity to deliver sustainable returns. Sustainable returns built on customers, built on employees, built on the environment, how we operate in the communities in which we work, and that will provide the sustainability for shareholder returns.

So, going back 23 months, we announced the acquisition of Otor, a French business, bought it from Carlyle, a big venture capitalist, owned it for ten years. We halved the working capital, we took a lot of cost out of it, and the revenue synergy has been absolutely excellent. It's now fully built into our business. It's integrated. We're absolutely delighted with it. We've also been closing some paper mills, and disposing of them. We've closed the pension scheme in the UK, which was unaffordable. Very regrettable, but unaffordable. Selling Spicers, a further third of the group, back in December, and most recently, announcing the acquisition of SCA, which will close on Saturday. So, we're starting to build a type of business that we believe is really attractive for shareholders.

We are on a journey. We're on a journey to create that leadership in the industry. That current mix is showing how we are currently struck in terms of the mix of business. We believe very strongly in a long packaging position, a long recycling position, and the smallest bit of paper we possibly need to ensure security of supply for our packaging operations. So, in DS Smith today, you can we've got 1.2 million tonnes of packaging, and we're making about 700 kt paper. That will reduce further, as we previously announced, as a short paper position. Paper's highly cyclical. For us, it doesn't produce the return on capital that we want to see. It represents about 10% of our profit. It's still there, but it's a very modest part. Go back two years; DS Smith was long in paper. We're now short.

In the SCA business that we're acquiring, we've deliberately left the kraft mills. We don't want them, not because we don't like them, just because they're not attractive to our shareholders, and we don't need them to support the business. So, we're buying a business again that's short in paper, long in packaging, and a long recycling position. Long recycling, because that means you own the fibre, the raw material. Other interests mean trading is then actually going collecting it from the retailers, providing the service, providing assurance that nothing will go to landfill. Everything is fully recycled. We'll look at the carbon footprint; we'll monitor where all the bales of waste go. Some of our customers won't let their waste leave the country in which it was generated, because they don't want to see it exported to the third world. We can guarantee that. Owning the fibre, short paper, and a long packaging position focussed on FMCG.

We believe that's the right business. That's why we're generating the returns that we are, and we are building the main momentum in the business. All divisions have improved. They've outperformed their markets. It's interesting, market share in the finances, but incidentally our level of service to our customers has improved again, on top of last year's improvement. Our level of quality, which is still not the level that it needs to be, has improvement significantly. Our accident rate has fallen substantially. Our CO_2 output has fallen substantially, creating these operational sustainability to the results. We have restructured our divisions. Steve outlined some of the costs, absolutely as we said we're going to. The UK has got lots of different parts, but we've brought them together. Better service internally, and lower cost; releasing working capital as well.

And reconfiguring the group, starting to think of the group as a group, instead of individual functions. That takes a change in culture of bringing the business together so we're stronger together, as a business, than in separate parts. So, if that's procurement, setting up the procurement function. It's quite a cultural change. It's now buying across the group. That's a service from our suppliers at better prices and better payment terms. Working with our customers, uniform service, uniform quality, uniform solutions, putting the infrastructure in the group behind that, I've said. At the same time, preparing for the SCA acquisition, where we're doubling our size. We've had a long time to look at it, on a division by division basis, and we're ready.

How do we drive the further growth? We talked about the resilience of the business. Well, that's in the past. That's last year. We're into a new year now, and one of the key drivers I just want to build further on is around innovation. You simply have to have the right product. Just selling any product, just competing on a price basis, will always be difficult for our shareholders' returns. You have to build a business on the products and the service that we offer, looking for the uniqueness and having the financial systems to extract the right value for that.

And so, here we're talking about how to develop our top customers. We've talked about building our pan-European capability, central sales, supply and innovation. We've built, what we call, PackRight. This is the way we innovate for our customers. You can see on the bottom of the slide; it's got PackRight, DesignRight, SupplyRight, ImageRight and RecycleRight. What does that mean? It's not just about the box. The DesignRight is how we design the box that goes in the pallet that runs down the lines in the machines. They added a lot of our own software, our own patented products that we are now licensing outside of Europe to other packaging companies that do not compete with us in our markets. They are buying our solutions from us. They're buying

the intellectual property. That's around the right product, which is DesignRight.

SupplyRight is, you've got to supply it to the customer. Since you've got the box, how do you deliver it to the customer? We talked about our cementing the past, how we take out 20% of the logistics costs of our customers, because the product is so much more compressed. And then how that stores in their warehouse, how it then runs through the lines of our customers is the total cost of supply. So, we have our people in the factories of some of our customers. In some of our customers, we're guaranteeing the run speeds of their line, because it's about the total cost.

ImageRight is all around the quality. It's got to be right. It's got to be the quality of a product, making sure our systems ensure that the colour of our printing, the quality of, above all, is absolutely uniform across all of our factories. Because if you buy a bar of Dairy Milk chocolates, if you buy it in the UK, you buy it in France, you buy it in Germany, you buy it in Poland, it's got to have the same colour. It's got to look the same, and it's got to taste the same. So, our packaging has to be the same, and that's what we've building into the company.

And RecycleRight – our consumers want to know that the packaging that you're using in consumption is on a sustainable basis, so we're the only packaging company that offers the service to our retailers, are picking up all of the refuse, sourcing it, recycling it back into the supply chain, where we guarantee nothing goes to landfill; the full CO_2 footprint. So, our customers know if they come to us, they get the DesignRight, the SupplyRight, the ImageRight and the RecycleRight. This is about innovation. Our customers want a total solution. That's why our revenues for our top 25 increased by 13% last year; building that credibility with them, and how do we do this?

Just another example. How do we visualise this to our customers? This is an Impact and Innovation Centre. It's the third one we've built now. We've got one in the UK; we just put one in France, and now we're opening up in Poland. This is actually one of our factories, and it's a mock-up of a supermarket, with all of our customers' products on the shelves, and it actually has a mock-up of a warehouse. This is to demonstrate the SupplyRight about the unit right, and how it actually works in the retailer, and in the supply chain, so our customers can see how the value of our packaging really comes into their products. Lower costs, lower carbon, more efficiency and we argue strongly, higher sales. So, we visualise it. Three centres across Europe, bringing our customers there, showing them how it works. This is what we've been working on, over the last year.

So, we grew 13% with our largest customers on a like for like basis, and just a reminder, we are very conscious, as everybody is, of the economic environment in which we work. It is very difficult. This is our European business. This is predominantly the euro zone, and we're showing here quarter-on-quarter of volumes, like-for-like volumes. They've never fallen below 3% growth, guys. Never. We put it after Otor, so it's on that, see, like-for-like basis, every quarter. 5% like for like, 7% like-for-like, 3.4% like for like, 4.1%, 4.5% and then 3.1%. But the 3.1% in the final quarter was on a 7% comparative. That means over the last two years that like-for-like is now 10% up on the final quarter; recycled packaging filling in the right way. That's what we mean by the resilience of our business model.

But, ultimately, shareholders, what you're buying is a culture. That's what you're buying into. We have assets; we have very good assets, well invested, but in such a fast-moving business, it is about the culture, and as we change DS Smith to being a

packaging focus, it does require us to bring the organisation with us. We've been doing a lot of work on what we call the Own It campaign, and this is probably the most famous guy in the company. He just happened to be holding a cup of tea, when we went into one of our factories. We said do you mind if we take your photograph? He's in every site; he's on every pamphlet; he's everywhere. Bob is his name. It's true. Bob.

And he's the hero, because everybody associates him with what we're trying to achieve in the company. Rolling out to every employee what we are trying to achieve, and if we're trying to service customers consistently, across the group, it means we've got to work together in a consistent way. So, when we brought in the Otor business from France – from Carlyle – there's a private-equity culture that's very different to ours. We want sustainability; we want to get that long-term position right. How do you move their business much more into ours? It's about this common culture, rolling out across everybody. What we expect from people, how we behave ourselves, supporting that drive for continuous improvement, and it's enforced with the management systems that we have in place. Rolled out, all communicated, started 12 months ago, the costs of that are all in the results that you've seen, building the resilience of the business.

The last – sorry – the second part talking about the resilience of our business model, about that momentum, about the cultural change. This has just come onto SCA, because we've been spending a lot of time on this. We've been working on it for about a year. We had six months of exclusive, bi-lateral negotiations with SCA. A lot of access to the business, leading up to the announcement. We're absolutely with the support we received from our shareholders. We were absolutely delighted with how they supported the rights issue, the acquisition during a difficult time, generally. Since acquisition, we have been working on the integration plans, and you can see in the business here, just to remind ourselves, it is a northern European business. We show the primary market positions. The blue circles are DS Smith, where they are today, and the green circles are where SCA are, and the wonderful thing is that complementarity, where we are weak, they are strong, and where we are strong; they have a very modest presence. That structure gives us a fabulous position across Europe to continue to service our customers. Highly complementary, with tremendous growth potential, as we raise the standards of both companies.

So, it's not that we're twice the size; it's about being ten times stronger. Better service, better quality, better innovation, better efficiency, better supply. That's what we're after. That's what we're seeking to achieve. We'll own it from 30 June. And we're going to create this pan-European business, and we've done a lot of work to date. We've interviewed; we've profiled the top senior managers. On day one, Saturday, we'll have a unified management structure. Day one, so everybody knows the structure of the group, everyone knows who's running each part, and we'll have the key processes in place on day one. If there are any banks in here, you've probably seen the work that's there's been just transferring the bank accounts across. If that doesn't work, then we'll all be in trouble. But it is going to work.

Plans for our customers. What are we going to say to each customer on day one? Who do they deal with? What about common pricing? When they ask, how do we do that? It's all in place for day one. All the communications to our employees, all ready for day one. This is what we're trying to do, this is where you fit in, this is what you can expect from us. Integration team fully resourced; it's been there for six months. It's a substantial team. It's built into each division. It's a proven process to integrate SCA into DS Smith. And this is what we'll be working for in the first three months. We're going

to come back to shareholders on 11 October with a 100-day update, and in the first 30 days we're going to be allocating those costs synergies, we know where they are and where they'll be allocated. We have management responsibility, and process responsibility behind the €75 million.

The new structure will go in and as I've said already, the communication. Then building the 60 days; we've only seen the synergies that we've seen. We don't know what they see from us, so we've got to capture that. So, you go in with your eyes open, your ears open, and frankly, your mouth shut, so that we learn, and in our first 60 days, we capture the value they see. We built that in to update our plans, and I've said we'll come back 11 October to tell shareholders how we're seeing the synergies in cost, in working capital, in capex, about the revenue opportunities, and more about the management team.

So, the outlook. You've all read the words. The fact is the macro-environment is difficult. There's no question about that. It's difficult. It has been difficult for a while. We have never assumed it was going to improve. The SCA acquisition, I've said, there were no heroic assumptions on revenue. Our plans assume the markets remain difficult. I think there's going to be more of an increasing differentiation between strong companies and weaker companies. We're seeing it already. We're seeing it in our customers, the ones that are really moving forward, and frankly; our customers are looking at their supply chain, as well. Who is investing? Who is going to support us over the next five years? Do you want to be with this supplier or that supplier? It's not so much about fragmenting your supplier base now. It's more about having the right support, and we believe, particularly with SCA, there's no question that we'll be one of the strongest – the strongest – company in the industry, and the consolidation will continue. So, difficult environment, with seeming low growth, but we are seeing the differentiation between strong and weak companies, and we think that's going to continue.

So, in summary, for DS Smith, there are significant opportunities. We saw them two years ago. We've been delivering them consistently. Our position will be transformed on Saturday. We have a clear strategy to maximise returns to shareholders, built on a resilient customer base. We have strengthened market positions, substantial synergies through the integration process, and if you come into DS Smith, as soon as you walk in, you'll feel the momentum. Thank you very much for your time.

Now, we have a question and answer session, and we're going to take it in two parts. Obviously, we have a live broadcast of a voice, rather than a visual, broadcast. So, what I'd like to do is take any questions people have from the floor, first, and then we'll switch, if there are any questions from listeners.

DP Good morning. David Phillips from Citi. Can I just ask you about the working capital momentum? Clearly, the consistency through the year, and the fact that, with above 5%, is very positive. When you look at SCA, is there any structural in there that will inhibit you getting a similar sort of result on a medium to long-term view?

MR Steve?

SD Yes, okay then. First of all, we are... because we're actually complete on SCA, until the end of this month, and so, subject to all the rules that went in the prospectus. That was the first thing I have to say. So, in the prospectus we said €40 million of cash benefit. That's what we expect to get out of the business. We said that, as you know,

they've got €280 million, and that's over 10%. I have to say, we couldn't find anything in our due diligence which pointed for why their working capital sales should be twice the estimates. We've committed to get €40 million out. We'll update you in 100 days on the terms of full opportunities, but we spent six months doing a lot of due diligence, and structurally, I can't see why their working capital is so high. What I do know is they don't focus on return on capital with the focus, vigour and energy that DS Smith does. So that's something, obviously, in terms of our management processes, our incentive plans, etc, that we'll be able to push through the enlarged SCA and I expect them to have the same sort of focus on returns on capital, and as a subset of that, working capital efficiency on the part of DS Smith.

DP And then just as a quick follow-up to that one, is 5% the lowest you can get it in the rest of the business to core DS Smith and Otor, or do you think there's even some you can aspire to there?

SD Aye, there's more work. I think we've done well on receivables and payables. I think there's more work that we can do on inventory, and we're getting better and better, and we're challenging the people who have too much inventory, so there's more work to do, to bring that down. It's a constant work stream, to become more efficient about how you run your supply chain.

DP And another question from me. The top 25 customers are up 13%. Is the correct comparator for that the 8% organic, for the group?

SD The top 25 going in?

MR Yes that's right, because they're both on a like for like basis.

DP Is it a real focus, to make the top 25, top 50 customers grow at double the rate of the rest of the group, or weren't you surprised the way it happened?

MR The truth is we don't really know, and I'm not trying to dodge the question. When we talk about leadership of the industry, it's not about new boxes and new colours; we'll have a whole way, the sales, the marketing, the innovation behind each customer. And we're starting, and we're delighted with the response from our customers. It's a very good question, just how far can it go, because we believe when SCA comes in, it will significantly improve our capability. Together, in terms of R&D capability, there's just nobody comes near us. And the footprint as well, and that's what we're starting to talk to customers about. That's one of the things we need to come back to at the 100 days, and put a little bit more colour on this, because we think there's a significant opportunity, but really, today, we're still going through it, just refining just what is that in terms of numbers? We're asking the same questions you are.

DP Thank you.

MM Mike Murphy at Numis. Can you just talk us through the second half performance of each of the divisions? It's clear that there has been a slowdown in H2. In H2 there was the UK gain going backwards. I know you're still confident about the start into the current financial year, but I'm just drawing a line through the early H2 performance. The profit performance is good; I'm just looking at the top-line revenues.

MR Steve?

SD Yes, we've put that into some supplemental slides, Mike, on slide 40, just doing the maths of H1 and H2. One of the messages we wanted to give to people was obviously, H1 was up strongly 41%, but obviously that's the benefit of having the Otor acquisition in there. There's no Otor acquisition benefit in H2, and we're still up 15%, and the UK in there was up 10%. If your question is about UK revenue, Mike, there you're right; it's down. That comes to the point I was making on the bridge about, with paper, we don't chase volumes, we maintain our cash margins, which basically means that we're prepared to sacrifice top-line revenue to maintain our margins. That's one of the advantages of being a short paper business.

MM And that 2%, at the variance, is that on a like for like basis? I just wondered what the impact would be if you did it on a constant currency basis, Steve, for H2?

SD I think the 15% goes to 16%, Mike.

MM Does it?

SD Yes, it was quite small.

MM So it would be a small impact on the revenue line as well.

SD Yes.

MM Okay, so in underlying it would probably have been just slightly better than the 2% continental packaging H2 on H2?

SD Yes, correct.

MR I'd really reinforce what Steve said there about our focus on return on capital. We believe that is the primary measure for shareholders, and if it doesn't work in the return on capital, and we don't think it's us, in other words, we're inefficient, we won't do it.

MM I don't know that you covered this in the last question, or just running through some numbers, on those top 25 customers, how much do those account of the total sales?

MR We haven't disclosed that. We'll come back to you.

SD Did you give it in the prospectus?

MR We did, yes.

SD We'll come back to you, we'll find the numbers and we'll get back to you at the very end, because Rachel will probably be able to tell me. But, we'll come back to you at the end.

MR There's one more question here, and I think we will then switch to the external calls.

HF Okay, just a couple of questions for you. Can you say on those programmes that you're running, in terms of cost savings that you're advancing quite nicely, and particularly on the procurement programme, does that go on? You've hit your target; what more is there to do?

MR It's about the philosophy of the company. Steve can obviously pick up on where we are in terms of what's left, because we haven't actually hit the full run there, by any means. The only campaign, the whole concert of continuous improvement, and it comes back to work in capital as well, we set some initial targets. We're confident of achievement, and then we'll come back to other targets. It never stops. It's as simple as that. We keep on going, and that's the culture in the organisation, whether it's procurement, whether it's working capital, operation efficiency, service, quality, etc. It's getting that mentality in, and getting the confidence in the organisation to do that, and to see more of that.

HF Do you think you'll be resetting that target?

MR What we have to do is to integrate SCA and come back in 100 days and see what's there, and that's really why we put it there, because I think it's not only good for shareholders to be clear, we need to draw a line in the sand, and say right, this is really how it does look. Let's work towards that, and also we can update whenever necessary.

HF Just on capex, you've given some guidance, I think, in terms of capex. Can you break that up between growth and maintenance, and the growth components? What are you spending your money on?

SD The growth capex this year is £33 million, as I said. That's probably the same guidance for next year, Hector, is £160 million, so I've used the same proportion. We're basically spending it on making more colours, more sophisticated boxes, making them quicker. It falls into that, so numbers of colours, the ability to glue, cut faster. So, that's what our customers want, and that's what we're investing behind. The actual amounts are individually relatively modest, and if it doesn't work out in a specific factory or region, we can easily move them. They're quite mobile assets that we can move as well. It's relatively asset-light investment, and we're responding to what our customers want.

HF Okay, thank you. Finally, one on energy prices. Can you say what the movement in energy prices means for you and how you've hedged that forward?

SD We hedge between 25% and 75%. We are at the lower end of that as energy prices come up. We hedge out on a sliding scale going out over the next two and half years, so we're at the low end of that hedging rate. We see energy prices being weaker. But, in a sense, they'll be what they are; they'll apply to everyone in the industry. So, all the papermakers will face the same energy cost. We just have to set out to recover those costs.

HF Thank you.

MR We'll just take one more, and then we'll move to the external.

DO'B Just on volume growth, would you be able to quantify the difference in performance between FMCG customers and your more industrial centres, and secondly, I suppose you did very well on price recovery in the year to 2012. Now do you think the pain over price is coming off either 15 or is it 20, you see in target, the price is coming under any sort of pressure now?

MR The resilience of a business is built on a customer base. There's no doubt that some sectors like construction, I'm talking about Europe in general, construction is under

pressure. Quite interesting, automotive, because so much comes out of Germany, that should be at least robust, but overall the industrial sector hasn't been as buoyant as the FMCG sector, so we assumed, unfortunately, that's what's happened. The outlook going forward, as you say, we are very cautious on any real change. Our plans assume quarterly no change. It will remain difficult, and then the second part of your question, you'll have to forgive me; it's just slipped my mind.

DO'B You've done pretty well under, if you call it, recovery last year.

MR Absolutely, we're after consistent returns, and as you can see, we've talked about the shortening of our contract periods. They used to be six months, they're now three months, so you get a full cost recovery in the current year, and then prices fall, then it's all the material costs fall, then that will go back to our customers. I have to say, what we want is consistency of returns. So there's always the lag on the way up, and there'll be lag on the way down, but it's pretty short. Consistent returns, consistent return on capital. That's what we're building it on. Can I just ask – I know there's some people listening in externally – are there any questions from the moderator, or through the moderator?

OP Thank you ladies and gentleman. Just a reminder, if you do wish to ask a question via the telephone line, please press star, one on your telephone keypad now. And we have a question coming through, from the line of Harry Dixon, from Davy in Dublin. Please go ahead with your question.

HD Yes, good morning gentlemen. A couple of clarifications, really. Steve, in terms of the exceptional item of £54.7 million, apologies if you've given this. I'm on a bad line. Do you mind giving me some breakdown on that? The second one is again, just a clarification, the like for likes last year were up 2%, yet on that chart, the quarterly one; it's showing consistently above 3%. Then finally, just on the SCA acquisition, and in terms of the corrugated product, could you give us some sense of how many big assets you're acquiring, just I suppose, in the sense of us trying to understand if you need to be targeting still, as you pursue the FCMG strategy, do you have enough from the SCA assets that you're acquiring, or will you have to invest in more capex in order to build those out? Thank you.

SD On the exceptionals, let's take value; most of them you'll see going into the two paper businesses that we exited. As we re-structured, we sold Higher Kings Mill and of course, Hollins Mill. That exception again, that's what we said in terms of reducing our paper footprint. We've also, I think, there's a brief announcement by the Welsh Development Authority, who will create a service centre in Wales. Again, that's where some of the cost has gone. As I said in the presentation, the bridge booked the European packaging business, to improve the terms there in plastic and in corrugated. So, it's across a number of areas, but the overriding message is reducing paper content, and becoming more efficient in our packaging businesses. The like-for-like?

MR Exactly as announced previously, these are the areas, these are the costs, so there's no different to any numbers that have been previously announced.

SD Like-for-likes, GDP plus 1% business, so if let's say that GDP across Europe, we weight this by the market, that we're in, has weakened therefore our gross has probably come down from 2.6% to 2.2%. On the SCA acquisition facilities and capex, we did six months of due diligence. We've done site visits. We are very happy with their facilities. There are some areas where there's additional investment on health and safety that

we've identified, but we've allowed for that in the cost projections that we gave you, in the capex guidance we've given, the £160 million, that is perfect adequate to build and develop that business. There's nothing special or unique about investing to FCMG. That complexity is simple, yes, about making more complex boxes, but it's not going to drive levels of investing. We're very comfortable at £160 million of capex guidance that we've given the market. Did I cover all those, Harry?

HD Thank you.

OP Thank you, and we have no further questions coming through from the telephone line.

MR That's great. Well, look, just to say again, thank you everybody for your..

SD I think Mike has one.

MR Apologies.

MM Can I just ask on the plastics division, seems to be a bit of a star performer in the second half of the year, and you've just ignored it in the presentation. That's the impression I got. What was the reason for that, and you're going into the current financial year, it looks as though it is strong. Is expectation for the plastics packaging better than it is for the corrugated, at least in the short-term?

MR There's no doubt a supercharger has been bolted onto the side of plastics. But, let's just remind ourselves what plastics is. They should be making plastic bags that go inside cardboard boxes for the transportation of liquids, rather than put the liquid in a bottle, a plastic bottle, which has a very poor footprint, so it's very expensive to distribute. This is back to SupplyRight. We should talk about an innovation. You've got to have the right supply chain. That means the right distribution costs, and we believe the transportation of liquid in corrugated will be a long-term growth industry. That's why we didn't dispose of the business, if we go back, when we talked about the strategy, and people talked; why have you still got plastic? It's the complementarity with the corrugated, the distribution of the liquids. And you're right; it has done very well, and I think the outlook for that business, tied in with corrugated, I have to say, is very attractive, particularly as a long-term transportation logistics cost, will only increase. We're actually delighted with it, and we have a very strong position in the marketplace. Very strong.

MN Would it be fair to say that expectation is that it might be better than the corrugated, because of the transfer across?

MR It's growing because corrugated is growing. What it's doing is taking a slightly... the restructuring, the product development, it's all a question of where they're coming from in relative performance, so we have seen a big pick up. I think it will move further forward. But, it does need corrugated. It's very similar to that. It's very complementary.

I'd just like to say then, thank you very much for your time. We really do appreciate it. And just to remind ourselves, we said four things. One is about the resilience of the business model, and I hope you see that. You've seen the results in the business, about what we've produced last year. It has been a transformational year for DS Smith, with the acquisition of SCA and disposal of Spicers, and our outlook for the coming year remains unchanged from where it's been previously. It is a robust outlook for further

progress within the company. Thank you very much for your time.

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