DS SMITH PLC – 2014/15 FULL YEAR RESULTS

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Speaker key

MR	Miles Roberts
AM	Adrian Marsh
JJ	Justin Jordan
AL	Alex Mees
HF	Hector Forsythe

MR Good morning, good morning indeed. We're absolutely delighted to be here to present our results, we're especially appreciative of you spending the time to come and listen to our story, to come and listen to the business that we're building, and the opportunities that was have in front of us. And I'm joined here today with Adrian, our CFO, Gareth, our chairman, as well, welcome Gareth.

And the agenda of today is I'll take you through the highlights of the 12 months to the end of April, Adrian will take you through the financial results, then afterwards we'll have a chance to discuss the background to the results, and how we see the future, and of course we have plenty of opportunities for questions.

A strong set of results. As I said, continuing the growth, and it's a strong result, despite the obvious FX headwinds. The most important thing behind the results is about how we continue to build the quality of the business. Building sustainability into our results. That sustainability and way of working that all of our stakeholders can start to rely on. And when you build this for all stakeholders, then you can build a long term return for shareholders.

So our key stakeholders, firstly, our customers, how do we really delight them consistently in every part of the world where we're operating for them, how to ensure that we can partner with them successfully, growing share, growing service, a growing relationship with our customer. And with our people, how can we grow with our people? Everybody who works in DS Smith. So we've built a high quality business.

We've also started to again reshape our business portfolio. We've come a long way over the last few years, and in the last year, and indeed as announced this morning, we've had a further expansion of our footprint, as well as disposing of some non-core assets. And with this momentum that's building, we've increased the margin target that we set out a few years ago by 100 basis points, looking for a top end of around 10%.

So just turning to the detail of last year, we've seen a volume growth 3.1%. We'll talk more about that later. Clearly well ahead of the market, let alone GDP. All regions are in growth. Return on sales, at 8.8%, has risen by 130 basis points compared to last year, and as I've said, there's 100 basis point improvement in our medium term target. The return on capital employed is now up to 14.6%, a 160 basis points improvement.

At constant exchange rates, our free cashflow was up 146%, that's driven the debt lower to our gearing now, we have net debt to EBITDA of 1.5

times. At constant currency, our earnings per share have risen by 24%. At actual currency, 14%, which has enabled another strong improvement in the dividend. There are the highlights, and Adrian will take you through more of the detail.

AM Thank you Miles, and good morning everyone. I'm delighted to be presenting our full year results today. By any measure, these are a good set of results, and even more so when you consider that they've been delivered against the backdrop of the systematic weakening of the euro, and the spectre of deflation becoming a reality in a few of our markets. These challenges have been met head on, and the strength of our business model has demonstrated our resilience. In order to sensibly explain our results, I will, as usual, be talking about the constant currency changes as I go through the presentation.

You are all familiar with our five financial key performance indicators, which are our medium term targets. I'm pleased to report that once again, we've delivered on all of these metrics this year. Volume growth has been comfortably ahead of our GDP plus one target, which we calculate to be 2.3%. Our volume is also well ahead of the corrugated market, which accorded growth of about 1.5%. Return on sales increased by 130 basis points to 8.8%, near the top of our target range. Miles will talk later about why we're now raising this target.

ROACE improved 160 basis points, reflecting the benefit of increased profitability, and also tight management of our capital. As a reminder, this is calculated on average capital employed at the end of every month, which to be clear means is not an end of year measure. Cash conversion has come in at 127% due to our strong cashflow, which has benefited from the improved working capital inflow.

As you may remember, when I was asked this time last year if there was still room to improve on working capital, and I explained that whilst our ratios were sector leading, there was still some way to go towards all-company best in class. We worked hard last year on further improvement initiatives, and we keep the same level of focus going forward. We've consistently delivered at above 120% cash conversion, and by now setting the target at 100% we've recognised the need for sustainability going forward.

The result of this cashflow benefit is seen in net debt, down to £651 million, resulting in a gearing of just below one and a half times, in conformity with our target of being at or under two times leverage. As a reminder, the Durapack acquisition, and now the Lantero announcement we made today, closed or will be closing after the year end, and will obviously have a small impact on next year's year end leverage. Since the year end we've also had the benefit of the proceeds of the StePac disposal.

Here are our financial headlines. Revenue is up 1%, and operating profit up 17%. I'll take you through briefly these key items in a moment. The result of this rise in operating profit is improvement in margin by another 130 basis points. Earnings per share is up 24%, which reflects a benefit of deleveraging and refinancing. Dividend per share is up 14% in line with the reported EPS growth, and which is where you can see the important of FX translation on our results. Return on average employed is also up, as I've described previously.

Now going through the impact in revenue, as there are some large moving parts here. The largest single effect is that of currency translation, which has taken £236 million of our reported revenue. The euro, of course, has had a huge effect, given the countries we do business in, and the way it's devalued over the last 12 months. As a reminder, substantially all of our exposure to foreign exchange is translational, and we have a very limited, if any, transactional exposure in any of our countries. This FX effect is based on the average rate for the year, recognising that the euro has weakened progressively through the year, albeit at a faster rate in the second half.

While you will all have your own view on the direction of exchange rates, it's worth noting that if rates remain at current levels this year, there will be another broadly similar impact in next year's reported figures from foreign exchange, as the full averaging effect flows through. The small effect from M&A is a net impact, as in the year we disposed of a foams business in Scandinavia, and also our Nantes paper mill, and at the same time acquired Kaplast in plastics, Italmaceri in recycling, and Andopack, our first corrugated venture in Spain.

From there you'll see that, on an underlying basis, revenues grew by 1%. Our 3.1% corrugated box volume delivered an uplift of £78 million, while sales prior to mix reduced by £32 million, reflecting the pass through on paper prices, which were marginally down, year on year. The other you'll see here is largely the impact of increased integration between our UK businesses.

Moving now to the operating profit bridge. Our growth has been driven by volumes and by synergies. FX is a big headwind as I've already discussed, and M&A has already been covered. Input costs have been favourable by £30 million, this is the benefit that is additional to the translation benefit on costs incurred in currencies other than sterling, as those translation benefits will be in the FX bar. In line with our business model, these costs have been reflected through in price, so the net effect is relatively small. The drivers of our profit growth, therefore, have been volumes and synergies.

We've had a similar amount of drop through on additional volume, as in previous reporting periods. And finally, I'm pleased to report, delivery of the final tranche of the SCA packaging synergies. This completes a three year programme as planned.

Margins have implemented across the group as a whole by 130 basis points, the largest single improvement has been in the UK, and that was largely a half won effect from the hidden synergy resulting from our FCA paper expertise being brought to bear on our Kemsley paper mill. This now means that all of our strategically located major mills operate to a similar high level of efficiency, notwithstanding there are still a few small mills in the estate which do not perform at the same level, and we continue to review these.

Looking across the business more generally, all have seen the benefit of operational gearing and of synergy delivery. It's no coincidence that the region with the highest volume growth, central Europe and Italy, shows the highest margin growth. This gives us great confidence in the potential future impact of our Duropack acquisition.

Cashflow has been strong. Looking at this year compared to the prior year for a moment, there's been a significant benefit from working capital, and as you can see in the revenue to working capital ratio of 2.7%, shown at the foot of the page. This has been achieved by tight management of debtors, as well as the usual disciplined approach to inventory and creditors. As you run down the page, tax and interest reduce materially. Interest has benefited, as I previously mentioned, from deleveraging and re-financing, whilst tax paid benefited from a one-off rebate received in half one, and greater focus on the profile of our payments on accounts.

The strong cashflow has helped us reduce our leverage to just below one and a half times. Taking our starting point last year, we have the substantial benefit of free cashflow. Cash exceptional costs broadly track the income statement charge, in the cost of a number of restructuring projects. The acquisition and disposal expenditure cost is the net of the acquisition of Andopack, Italmaceri and Kaplast, and the disposal of foams, including any debt acquired.

As I mentioned earlier, the Duropack acquisition, StePac disposal, and of course the Lantero acquisition all happened after the year end, and will take leverage closer to two times – well, it will be under two times still – by next year end.

Dividend is an important component of our returns to shareholders. We paid £94 million out for dividends in the year, and it will be over £100 million next year. We seek to match our income with our obligation, as you would expect, with approximately 70% of our debt denominated in euros. The cashflow is one place where we've seen a benefit to our financial statements due to the weak euro, and that's the majority of that £52 million benefit in the FX line. The result is net debt of 1.49 times EBITDA, below our median target of two times, giving us headroom to growth the business.

Here's the usual guidance slide, I'll not take you through each of the line items, as you can read the figures. The main point is this guidance includes Duropack, which joined the group on the 1st of June, and makes an assumption for Lantero which should come in at some point in the next quarter.

We talk about our business model being sustainable. Well, sustainable can mean a range of things. For me, it's about being able to deliver on our commitment to shareholders year in and year out. Miles will be talking more about the robustness of our business model in a minute, but to be clear, this, to me, is what gives me confidence that we can continue to deliver, despite the challenges of the markets we operate in.

The main measure of shareholders' return to the last five years is set out in the slide, and the growth rate delivered during Miles' time as chief executive described here, but made by all of his team. On that note, I would like to hand back to Miles, who's going to talk a little bit more about how we're implementing our strategy to become an even higher quality business.

MR Thank you, Adrian, for taking us through the very strong set of results. I just want to stand back a little bit and talk about what's happened last year, come on to how we see the future, and the real opportunities that

that holds for us. So you've heard us talk over many years about the sustainable model. We have four stakeholders. If we're going to deliver consistently to our shareholders, we have to deliver to all of our stakeholders. And starting with our customers…

Our objective of becoming the partner of choice, which we undoubtedly are becoming, allowing us to gain market share through the growth of the services and the support that we give them. As I said, we've gained share in every region, and we're seeing the volumes on an accelerating trend. The roll out of our impact and innovation centres across Europe, to support the solving of our customers' problems, that they're facing in increasingly challenging retail environment, is getting tremendous traction.

And with our employees, we keep on adding thousands of people to the company, and we're asking all of them to absolutely give it their best efforts, to not give up when it's difficult, to set high aspirational targets, and work with their colleagues towards that, so we're extremely clear of how the company should operate, how we should behave with each other, particularly as we expand our geographic footprint. So you may be a different nationality to one your colleagues. You could come from east Europe to west Europe, but inside the company, how we operate with each other, how we talk to each other, how we respect each other, the values in the company, are core parts of making up an effective organisation, and it's stronger than the sum of the parts.

And we monitor this in many ways. One is employee engagement. We're seeing further improvements there. A statistic that we publish externally, it's about health and safety; it's about respect for yourself, respect for your colleagues, respect for the product and the service. And again we've seen a very dramatic reduction in our health and safety statistics. We're now well into the top 15% of European companies in terms of accidents, and our momentum is absolutely tremendous. And as a sign of that engagement, we launched a save as you earn scheme for shares for employees, where every month you can buy shares in DS Smith, you have to put the money in yourself, and it's open to all employees. 53% of the employees in the UK took up the offer of every month to buy DS Smith shares. I think by any measure that's a sign of the confidence that our employees have in themselves.

And then with the sustainability, we have set a very clear target of reducing CO2, greenhouse emissions, landfill, and water usage, and again this year, reporting shows a very clear further improvement in our performance. So we believe that getting it right for all of these stakeholders would drive that shareholder return that Adrian's run you through, 34% EPS CAGR over the last four years.

But let's just reflect on the market on which we're operating, because this is where the opportunity comes from. And a lot has changed in the market, and it continues to change. The economic challenges that our customers face are increasing. Technology is moving all the time. The ability of shoppers to choose which product they're going to buy from which channel, and then how our customers respond to that. Changing demographics and urbanisation across Europe is driving different retail formats, and again requiring our customers to respond, instantly, to changes in the high street.

Now I'll show you here a graph, it's of the UK, and the market shares of various retail outlets, but just take that as a proxy for Europe. And we've seen here, back in 2013, 65% of shoppers chose the quite traditional format of a supermarket and superstores. Whereas against a generally flat market, that's set to decline to 53%, 65 to 53, down 12, which is a fifth. That's a 20% change in your retail format that you're selling your product through. And it's changing every day.

So this change is our opportunity. It's really not about tonnes of paper. It's about partnering with our customers so we can respond instantly to the requirements put on them. You can't have a product that's lasting for three, four, five years, because it's going to change as the consumer is changing. So it's about a relationship with the customer. And that's what we've been focusing on: how we help our customers grow their sales at the point of sale, how we reduce their total supply chain cost, and reduce risk, so they can deploy with confidence across a wide geographic footprint.

And for that they are choosing to consolidate their supply chain, because you can't partner with everybody. You can only have one partner. You can only work closely and intimately with one supplier. So as the consumers are changing their shopping habit, it is driving this consolidation of the supply chain. By you've got to have a mentality of working with them, and that's exactly what we're doing. And we don't think it's going to stop. We think it's going to become more challenging, which is our opportunity.

So now do we satisfy that demand? How do we satisfy that requirement for a partnering long term approach? There are three elements to it. One is about the design and the service and the relationship, the other is about our acquisition, our scale, and the last is about how we start to service them across an even wider geographic footprint. I'll spend the next few slides just talking about the whole area of the relationship with our customers. And this is showing the cycle we go through with our customers. And obviously manufacturing is the absolute core of how we think, that's where we come from. How do you manufacture? It's in our DNA, how you drive continuous improvement.

Adrian's taken you through an example of the UK, and how it improved margins. That's about continuous improvement by learning from each other. And we've learned a lot from the SCA acquisition, and we continue to learn more from each other.

So how to manufacture, at scale, having the facilities that allow for the efficiencies to be generated across Europe, and apply it uniformly across Europe. In addition, what's increasingly important is the insight into the shopper, and this is an area which we've been doing a lot of work on. Understanding the consumer trends that help our customers anticipate how people are going shop in the future. Get the packaging right. What's going to happen in a year's time, two years time, three years time? Helping them with this.

And many of our partnering arrangements are now far more about the long term consumer trends. And then how we convert that insight into the innovation that is the solution for the customer. Our 45 design and impact centres which we have built, and continue to build, across Europe, translate the insight into a solution, and then it's into design. How do we design a product that's going to work for them? And that's where our performance packaging comes in, that's where our optim solutions comes in. So we can assure our customers that they can trust us to have the long term insight, the innovation to separate them from their competitors, the ability to design efficiently, and then deploy at scale.

And here is one example. You may have seen it in the reception room. Ritter Sport –some of you may know it, some of you may not, but it's a very, very important brand, particularly in central Europe, around Germany. How do we help that customer grow sales, reduce costs, and manage their risk? If you look at the product, growing sales, they have to change from selling confectionary next to the till, where you're queuing, you see the product, to working in a discount format.

Well, they don't have that. They don't have the confectionary next to the tills. So how are they going to attract the consumer, the shopper, to their product, when they've lost one of their main points of sale? So therefore they need a display, they need to create their whole display. They need to have a display that pushes the product to the front, because you can't have the hanging – you can't have the pegs and hanging the product anymore, because it's too expensive to pack it in the store.

So it's got to display very well, because it has to push the product to the front. They need to be able to deploy that in whatever retail format, discount, convenience, supermarkets, superstores, so this is a modular design. And whether it's spring, summer, autumn or winter, people buy chocolate differently. So depending on the weather, you buy it differently. You want a different colour. So our expertise around digital printing, where we lead the world in this, to give them a product that they want, anywhere in Europe, with scale, that's suitable to the retail outlet.

And how is this translated into our sales? This is the proof of the pudding. We started off with the acquisition of SCA, you remember SCA had been losing about 3% volume for each year for the previous few years, but in the first period following the acquisition, we suddenly moved the FCA business into growth, and we grew by 0.6% two years ago. Last year, we grew our volumes by 2.2%, 1% ahead of the market. And this year, we've grown by 3.1%, 1.6% ahead of the market, double the average for the industry.

Of course, it was a 2.3 in the first half, so in the second half, if your maths is very good, you can see that we are getting well towards the 4% on average, and that momentum has absolutely continued.

So the second point is around our acquisition strategy, about how to support out company. And this is where we were in 2010, it's perhaps a little bit generous, because we've coloured in the whole of France, but we just had two plants, two plants in Italy, and two plants in Poland. We had a very, very strong position in the UK. And over the years, you see how we've now built a position with Lantero Carton now, into supplying 27 markets across Europe.

That's the most complete coverage of any company. This acquisition is a key part of our management competency, how to acquire, and how to dispose successfully, generating value for our customers, generating value for our shareholders. But we've taken the opportunity to also build group-wide functions to support and strengthen the continued expansion of the company. Because we think there is a lot of opportunity in our core business, our existing business, to drive further returns, better operational practice, better customer service, better product development.

And turning to the acquisitions and disposals in the last year, our customers have pulled us to these companies. We like to say we're the consolidator of choice. A lot of these are family owned companies. Some of them are owned by venture capital. So it shows you how we can work with a variety of owners, a variety of cultures. Consolidator of choice, driven by customer demand. With Duropack, the acquisition completed on the 1st of June, and I have to say, the response from all of our new colleagues is absolutely tremendous. Being part of a large organisation, learning and growing with each other, it's been absolutely tremendous.

And from our customers, very, very positive. Not only our existing customers, in enabling us to supply them the solutions they currently have across a wider geographic footprint, but from the customers of Duropack, who haven't had the opportunity to work with a company like DS Smith. And we will back this with the implementation of various innovation centres.

And we bought Andopack, six months ago in Spain, our first toehold, from a family company, and we've been absolutely delighted with the customer responses there. It's surpassed our expectations. So those two we feel very confident of where we are, very confident.

We've also disposed of some businesses, at good prices. They're non-core, and it allows us to focus more heavily on our core business. A smaller plastics disposal, after the year, but we do remain positive on the bag and box opportunities that are available to us. And the acquisition of Lantero Carton, completed very early this morning, very early… it's a long time in coming. It's a business that we know very well. It is subject to competition clearance, which we hope to get over the coming months, but it will enable us to build on a business which has an excellent platform, particularly in the SMCG sector.

And we respond to this from requests from our customers to come into the market, the fourth largest market in Europe, to give us the unique solutions that we give them elsewhere. Not only do we think we can grow this business quite strongly organically, but with 10% market share now, it's an excellent platform for further acquisition led growth. You can see the financial metrics - a post-synergy multiple of between five and six, on cost synergies, built on those platforms of functional expertise that we've developed over the last few years.

And then coming on to a little bit more about the future, because Europe is still a highly fragmented market. We believe there is still a lot of opportunity for us, in Europe. Further growth in market share, being seen as a consolidator of choice, but these solutions we're providing our customers, they are pulling us quite hard into some other markets. They want that same approach, that same value-adding partnering approach in other markets, where they face the same challenges.

I said that UK position on the retail environment is a proxy for elsewhere, and it absolutely is. One of the advantages that we have here is that the UK retail market is, you know, it's amongst one of the very best, in terms of its progressive nature in the world.

So how do we solve this? How do we satisfy our customers? Well, our approach is about partnering with the best. Licensing technology. Our performance packaging has gone down so well in Europe, it's seen as the approach of choice. So we've been asked to licence that outside of Europe, so they can have the same solution, because that's the one that they want.

So we're now licencing that, again, into the US. And that comes on top of the other intellectual property, that we licence it, around our packaging solutions. All backed by strong, specific customer demand. But to complement that, we've also acquired a consultancy business, it's a modest consultancy, but it gives us now positions, not only in Europe, but also in the US, and Asia, in which to service our customers in terms of the solutions. So we'll build further, we'll build further on that. And again, the response has been absolutely tremendous.

So this is our return on sales, over the years. And many of you who've been with us for a while, we started a while ago, about 4.7% ROS. We got to 7.2, but then we brought in SCA, that had a margin of 5.6, which doubled the size of the group, and that came in at 5.6%. We've driven the market, but not at the expense of asset turnover. It's easy to drive margins by hammering the balance sheet, but you see the asset turnover is a key part of how we work, driving out working capital, keeping the asset utilisation improving. So it's margins, value-added growth, not bought from the balance sheet.

And as I said, our medium term target was seven to nine, we've had to raise that by 100 basis points.

So in summary, I think everybody at DS Smith is pleased with the work that they've done, it's a strong set of results, we're building a sustainable performance, but the momentum continues. We're off to a good start to the year, and we remain very excited about the opportunities that reshaping our portfolios offers us. Thank you very much.

And Adrian and myself are here to answer any questions people may have.

JJ Hi, Justin Jordan at Jefferies. Can you just give us a quick sort of a geographical spin around the various operating review. I just particularly want to focus on Italy, where you've seen very strong volume growth, I'm just curious, could you give a bit more colour as to how you could deliver that much faster than market growth in that region. And equally, I suppose, in more challenging markets like the UK and western Europe, how you're performing in those markets.

MR If we go back to 2010, UK, a bit in France, and a little bit in Italy, and in Poland, but the main position was UK. Brought in SCA, and what we're seeing with the growth, we had quite a mature position in the UK, easily the market leader, good returns, but clearly when you're so ahead. So the growth has actually come from the new regions that we've gone into with SCA.

It's turning around the performance by using our products and our approach, and Italy is one of the best examples. The Italian market, it's about the solutions that we have, it's really as simple as that. It's around our approach to the customer in partnering, the relationships we've built, the impact and innovation centres, the Optim solutions, and now coming on with performance packaging. It's very value adding in a market that's quite challenging, but we've been absolutely delighted with the response, but it really is around the service and the customer response, and it's no different in eastern Europe. I mean, the growth has been absolutely tremendous. So you can really see it in its fullness in these markets that we've taken over, and I've no doubt you'll see that in Spain as well. No doubt.

JJ Just one follow up thing. So borrowing your own phrase, the consolidator of choice, you're becoming more and more short paper, because obviously what you're buying is box plants, and I'm trying to get on a pro forma basis, post this morning's M&A, you're probably about 60% or something?

MR Yes, we're slightly below that. And we said we wanted to get towards the 50%. And this is really an issue about the flexibility to supply our customers with the products and the solution that is right for them. Not trying to fill paper mills, and sell them something they don't particularly want. This is about having the flexibility to supply them. Now because we're so large we need some paper, so I don't think we'll be going below the 50%, and clearly our papers tend to be concentrated really around the spine of Europe, and less in the outer lying regions. And obviously we have to continue solving for that, but we're getting towards our 50% target.

JJ Just one final thing, I know you don't really talk about price, but obviously I know recently you've announced whatever at €50 a tonne - what gives you confidence that, having tried this earlier in the year, and been unsuccessful, that it will be successful now?

MR The demand. I mean, to be honest, it's just about us. We have certain capacity, our box plants are very busy, and if other people want the paper, frankly, they need to pay more because we need it. So on that basis, we're very busy. If other people are busy, then we'll see that price go through, but it's a response to where we are. So it's like an opportunity, an opportunity cost.

At the moment, I think we feel pretty strongly that it's going to go through. In six months time we'll see where we are, but it does seem to be going through.

AL Alex Mees here from JPM Cazenove. Three questions for me, please. The first one, just with regard to working capital, Adrian, that looks like an outstanding number. Is there any timing in this, or can we expect you to hold on to that working capital improvement into next year? Secondly, with regard to Lantero, is there anything you can share on the recent performance of the business in terms of growth and margins? And thirdly, one for Miles perhaps, at what point do you think the group will be ready to make some material acquisitions outside of Europe.

AM Yes, on working capital, Alex, as I said last year, there are a lot of initiatives that were kicked off. We now focus, every month, in our management reviews of every part of the business, through quite a detailed evaluation of where they were last month, where they are this month, actions that are being taken. We look at overdues. The main areas of focus are around receivables and then inventory. I believe what we've got we'll hold on to. It will require work to hold on to, but I think the way we're structured, and the way we're driven and the way our processes work, and our procedures operate, we'll hold on to that.

I think there's an opportunity still to look even closer at inventory. We're never happy, we're never satisfied, it's a big challenge for business, what can we do, how can we do it better, because the instinct is always to revert to old ways where you have a lot of stock, but we're a pan-European business, we're thinking about that, we're looking at the footprint, and how inventory operates across that. So we could see some opportunity as well, but in terms of holding on definitely, we've then got Duropack and, subject to the clearance, Lantero coming in, and we'll work with both of those businesses to adopt our way of thinking. But it is all about the detail.

MR And outside Europe, it's a question we ask ourselves. We have a strong customer pull, we'll be exploring that, and understand where it's going to take us. We're solving it in a particular way, which we think is right, who knows what the future brings. I think the customers have been surprised as well. Because people have talked about packaging as just a commodity business. It's a local business, isn't it, because there's nothing in it, it's just a local business, it's just a box.

But of course it isn't. It's about solution. To sell more. Reduce total cost at low risk. And when they see that, and the affect that it has on their European operation, I think they've been surprised, when they translate that into other markets, the improvement that could be possible. So excited, but I think we really do have to see just how well it goes, competitor response, etc. So we'll keep a very watching brief on this.

AL Lantero Trading.

MR Yes, Lantero Trading. As I say, we know their business very well, we've been able to have an exclusive, really good look at it. The trading is absolutely where we expected it to be. I think it's fair to say, after a number of years of really quite difficult economic backdrop, the last quarter generally we've seen a very slight sort of modest tick up in underlying activity, probably related to the QE. I don't know where it's going to go, we've been in a very difficult position in Europe for many years, so it's certainly not calling it's on its way up. I still think there are a lot of other issues to solve, but certainly the current trading has shown a modest tick up, absolutely where we expect it to be. No surprises.

HF Hector Forsythe of Stifel. A couple of financial questions first. Can you run through how the capex guidance works? Capex running ahead of depreciation. Can you break the capex into what you're spending and so on. And also break out the maintenance element from the growth element, if that's possible. And then on the exceptionals, you ran slightly ahead of the guidance on exceptionals last year, can you rattle through where that came from? And you've got another batch of 40 million of exceptionals pencilled in for this year – again, can you let us know a little bit more detail about that.

And also, importantly on that, is that a recurrent number? So it that going to be in future periods, or are we getting to the bottom of the pot?

AM In terms of capex, Hector, I think where we look at it, it's hard to sit here and be overly precise. I mean, we look at it in terms of around about a third of it is invested in pure type of growth initiatives, around about a third in elements that are to do with routine types of maintenance, and then around about a third of it is other types of maintenance, particularly around the areas of health and safety. And Miles described it earlier, the focus that we have on making sure that all of our factories are operating in the most effective way from an accident perspective, from a health and safety perspective, it's a key part of what we think adds to our business, and to some extent, differentiates ourselves for it.

When we make acquisitions, quite often there is capital to be spent bringing them to the standards that we've got, and then there's also expenditure in maintaining our existing estate at that standard. So if you think about it in those three broad slugs, you've probably reasonably close to how we split it out. But we can pick it up off-line specifically if you've got anything that you really want on capex.

In terms of exceptionals, roughly, we guided about 30 last year end, for restructuring and re-org. We're at about 40, but then we had the Nantes disposal into that, which had an impact, which we described. The restructuring was predominantly the UK and Germany. There's a lot that's gone on on asset footprint, we also talked about the previous year the reworking of the plastics footprint in Europe.

We've also had a level of exceptional this year which has appeared through our Ukrainian business, so there's about seven, I think, that's come through on that, and that just simply is the mechanics of how we account for that business, and the hyper-devaluate – I can't even think of the right word to describe it, but the massive devaluation in the Ukrainian currency. And then there's a small amount, I think we described at the half year, on a write off of fees associated with the FCA financing.

In terms of going forward, you've seen the guidance. You know, we don't have a crystal ball to sit here and say what is it into perpetuity, however it's really very clear we're an acquisitive business, we're growing our footprint, we're rationalising, and we're managing in the most efficient way we can do. And that, inevitably, certainly when you go through a series of acquisitions, there is an element required to organise the business in the most effective way. And you see, through the history of our results, the impact of getting to grips with the asset footprint.

MR Absolutely right, Adrian. We stop acquiring, then the restructuring is not needed, so the exceptionals go, it's as simple as that. And the other element, most of it's non-cash. Nantes is just non-cash. And capex absolutely will fall into line with depreciation, when we look slightly further out, and again it's partly a response to the acquisitions. All of these costs are built into the returns we expect to make from acquisitions.

So if we have to spend on capital, and that gets us into the capital base, and that's what we monitor against. But it's really a response to growing and developing the business.

HF Okay, thanks on those ones. Two extra questions then. On energy costs, good gains last year on the energy cost side, can you give us some guidance year over year into this year, where you think you're going to be for energy costs?

MR If you look at energy year on year, last year, for the reported year to the previous year, there's a gain of somewhere between 40 and 50 million. About a quarter of that came from FX, just simply because it was a translational benefit. About a quarter of it came from price, because we've had a lower energy cost, natural gas just came down in year. About a quarter of it came from investments that we've made in CHP, in our combined heat and power operation, so we've invested in that, that's part of our capital base, and that's delivered the benefits through the energy line. And about a quarter of it to do with, again, a continued focus on efficiency.

We have a group of people, a small group, based on the continent, and their sole role is driving our energy costs down through best practice, through managing our utilisation, and our operation. So we've had those benefits, I think they're probably well described there.

In terms of for this year, again, we don't have a huge crystal ball, and clearly prices haven't risen back again, so the pricing benefit that we received we would expect to hold. We have a hedging programme, as we did last year, so last year we didn't benefit from the absolute floors in the price, because we were hedged through the year, and it will be the same again this year.

I would still expect to see a level of incremental benefits going through energy efficiency projects, CHP benefits will largely be held, because that's the return on that capital invested. So last year's level, to this year, there might be a little bit on price still to come in, and there might be a little bit on energy efficiency still to come in, but I probably can't be more precise than that.

HF Thank you. And then the final question, in terms of the superb performance in terms of volumes, how does that break down between new customers and doing more for your existing customers?

MR We supply all of the major customers. So by implication, all of the growth comes from an existing customer portfolio. But are we replacing a product that's already there? Not in all situations. So you could have one customer, but it's not just cannibalising what's there and going head to head with competitors, it's about a different solution. So if you look at it from the point of view of has it come from a new product, and I mean a genuine new product, not just a kind of small change, then we have quite a high proportion.

So if we look at that Ritter Sport, the chocolate, it wasn't in that format before, but it's an existing customer. We did a lot of work for them, just straight shelf ready, but now they need a totally different solution. An existing customer, but it's expanding the perimeter of corrugated, that's where the value is. So you're not just trying to, you know, compete against somebody else, head to head on a product just on price. It's about a new solution. And if we look at that for the different retail formats, it's very strong. You saw that product, it's actually on the dolly, so you can wheel it in and out, that's been a very strong development.

If you look at the taking share from other formats, such as plastic, that's quite a strong performance as well, but in terms of actual new customers last year we were really working with our existing ones – obviously going forward, in a local market in south east Europe, and Spain, clearly we've got an opportunity, and that's what's driven a lot of the growth coming out of SCA - supplying our solutions and our approach into these new markets.

They're never had it before. Never had anybody coming along and saying, this is how we can work with you, hence you've had that growth. So that's how I would expect it to see, going forward. Product development, but new customers in those regions. It's a quite interesting sort of sales plan. It's an interesting piece of work.

I'm just conscious of everybody's time. Another question anybody? One more.

JA Thank you, James Armstrong, Vertical Research. Just a quick one. You said you were seeing organic volumes accelerate in the back half of last year. Is that continuing into this year, and are there any regions that are showing particular growth or slowdown?

MR You work out the maths and I think in the second half it gets about 4%. One month to another month, things can change because of the weather and all the rest of it. When you look over a quarter or six months, there's no doubt the second half was stronger than the first half. I've said there is a little benefit in some of the economies, from QE? So we saw momentum during the year. Where it goes in the future though, we still do remain cautious – Europe still has to resolve a number of issues which you read about every day in the press. So we still remain quite cautious on the market, but we obviously recognise that, on the back of a number of things, we have a very strong second half.

Great. Well look, again, I'm conscious of everybody's time. We're always very appreciative of the time that you spend with us. So with that I would just like to summarise that we're pleased with a strong set of results, we've raised the margin target on the back of the momentum, we've reshaped, and will continue to reshape, the business portfolio. And we've got off to a decent start in this year. So thank you very much everybody for your time. Thank you.