
D S Smith Plc



**Recycled packaging for FMCG
Investor seminar
10 March 2011**

Agenda for today

Miles Roberts	Summary of strategy
Jean-Marie Paultes	Benefits of the Otor acquisition
Steve Dryden	Procurement and working capital
Peter McGuinness	Recycling differentiates DS Smith
Gary Saunders	Creating an effective UK business
Miles Roberts	Conclusion
	Q&A

The topics today demonstrate the work we are doing to achieve our goals

Topics today	GDP+ growth	Reduced cyclical	Higher margins	ROCE above WACC
Otor integration	✓	✓	✓	✓
Working capital and procurement savings	—	—	✓	✓
Differentiation through recycling	✓	✓	✓	✓
Integrating the UK business	—	—	✓	✓

The key messages for today

Clear
strategy

DS Smith has a clear strategic direction

Delivery on
track

Our strategy is backed up by detailed plans to deliver, both financially and operationally

Acquisition
successful

We are demonstrating our skills in managing acquisitions

More to
come

DS Smith is at the start of its journey with much more to come

Miles Roberts
Group Chief Executive

SUMMARY OF STRATEGY

Our strategy – a reminder

The leading supplier of recycled packaging for consumer goods

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

An attractive market growing at GDP+

Organic growth

GDP+

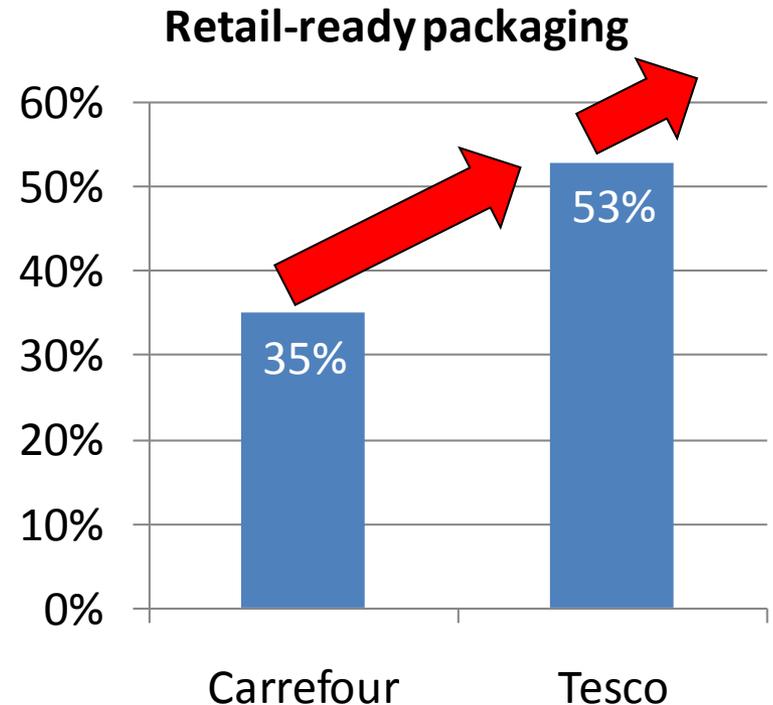
Good margins and returns

High value-added product

Sustained demand

Linked to FMCG consumption

Attractive acquisition opportunities



% use of retail-ready packaging on store shelves

Source: OC&C

Market growth for retail-ready packaging is driven by demand from retailers and FMCG companies

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



We have a strong customer base to grow from



Growing with our customers

Key



DS Smith corrugated packaging



Position in consumer goods
corrugated packaging



* Associate company

Differentiate through service, quality, innovation and environmental solutions

Service

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

Quality

The Cadbury logo is written in its signature purple script font.

Print colour consistent throughout Europe

Innovation

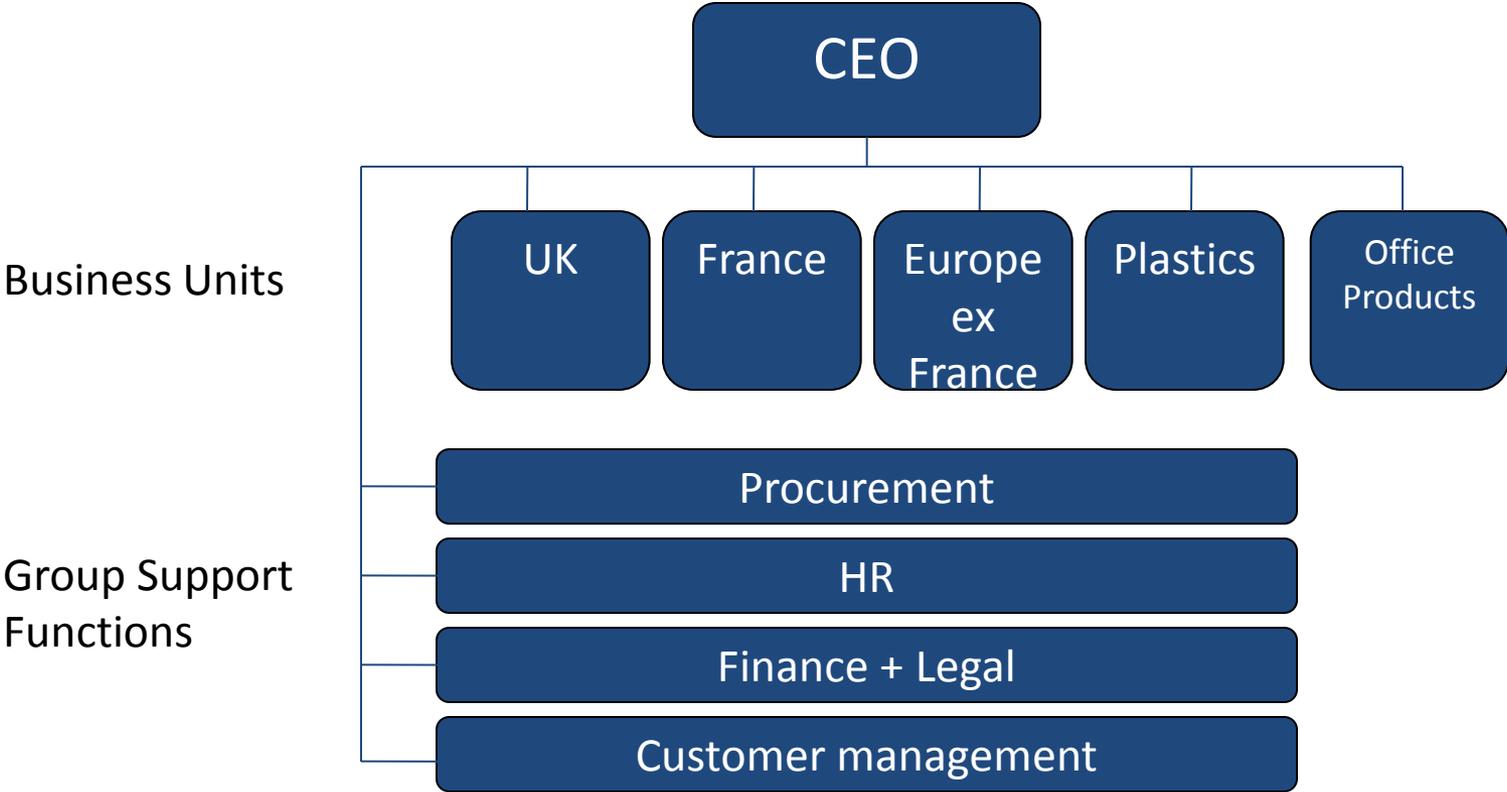
R-Flute[®]

Lighter, thinner, better printing, just as strong

Environment

Fully recycled: help customers meet their environmental goals

We are integrating our business to drive efficiency



Our actions will reduce cyclicality

Causes of cyclicality

Our actions

Paper cycle

Reduce non-integrated paper production

Packaging

Volumes

Growing demand from FMCG customers

Pricing

Shorter term contracts for faster cost recovery

Mix

Increase recycling business

We will deliver good organic growth and higher margins and returns

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

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

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

- Corrugated packaging volume growth 8%
- “The year has continued to progress in line with expectations for significant EPS growth, reflecting the continued benefit of our focus on service, quality and innovation to our customers. Notwithstanding further input cost increases which are expected in the fourth quarter of the year, we look forward to the remainder of the year with confidence”

Jean-Marie Paultes

Divisional Chief Executive DS Smith Packaging France

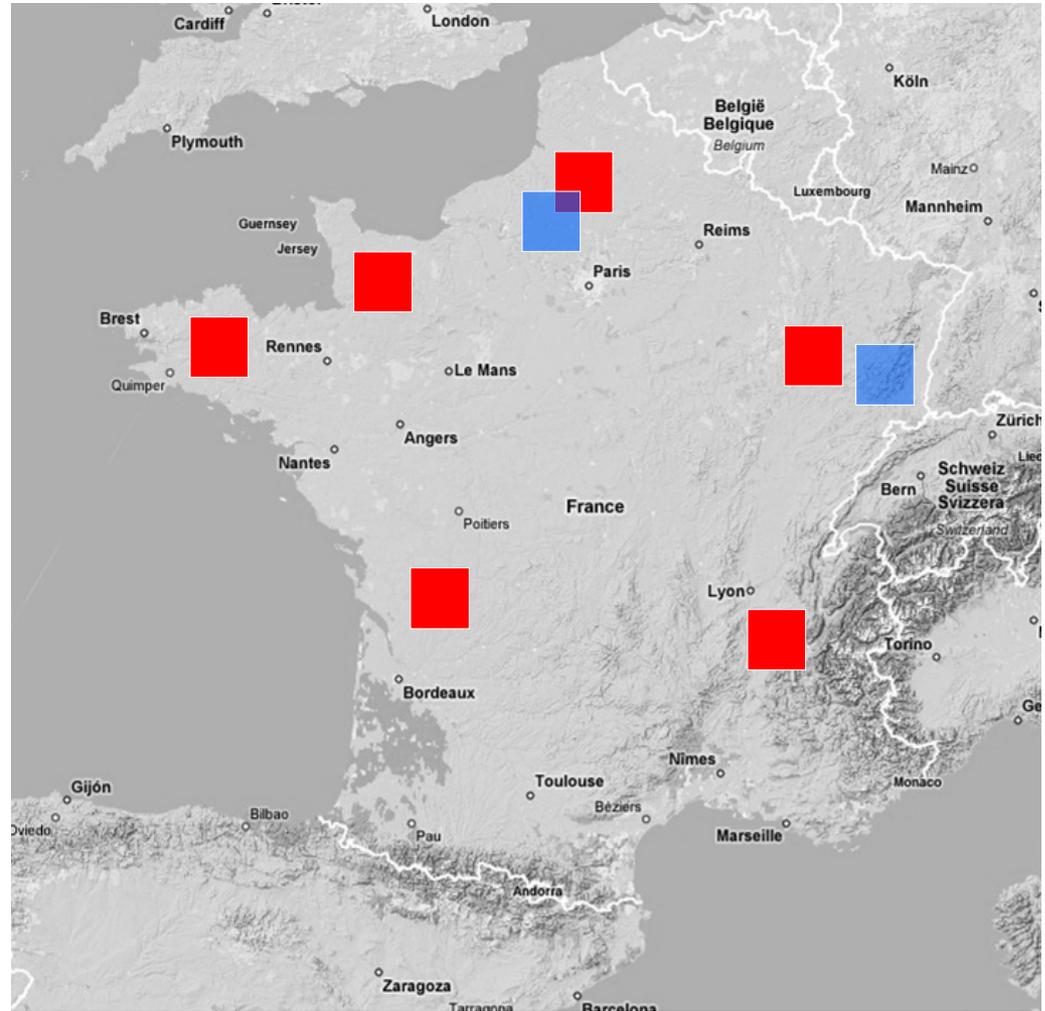
BENEFITS OF THE OTOR ACQUISITION

Themes for today

- Otor is a successful FMCG-focused packaging company with a blue-chip customer base and a significant position in innovation
- Positive customer reaction to the acquisition is coming through in additional sales
- Cost savings are being delivered to plan

Introducing DS Smith Packaging France

- Otor and DS Smith combined
- Complementary products
- #1 for FMCG customers



We have a strong combined customer base



Our innovation is supported by patents and licenses



- We are dedicated to innovation, for example
 - “Otor 8” for excellent strength and ease of packing
 - A unique range of 2 piece shelf ready packaging
- All backed up with patents and licenses – that we defend
 - 55 international patents
 - 10 licensees in the world

Driving value from the Otor acquisition

Introduction to Otor

Expanding our proposition to customers

Delivering cost savings

We are delivering more to our customers

Adding value
to our
customers'
supply chains

Security of
supply and of
quality

Anticipating
the needs of
the market

DS Smith Packaging
FRANCE



Customers are buying more from us

French customers
buying more from
DS Smith throughout
Europe

- Danone
- Lactalis
- Bonduelle
- Bongrain

Pan-European
customers buying more
from DS Smith in
France

- Kraft
- P&G
- Intersnack
- Masterfoods

Danone – French customer buying more

- Otor's #1 customer – but historically only in France
- 35 years partnership
- Danone Belgium now purchasing its Actimel trays from DS Smith Packaging France
- Increased our volume with Danone by c.10%
- Further opportunities in Europe



Kraft foods – cross divisional benefits

- Otor and DS Smith both had Kraft brands as key customers
 - “LU” biscuits for Otor, Cadbury for DS Smith
- Kraft decided to reduce its number of suppliers in Europe after the Cadbury acquisition
- The expanded DS Smith Packaging France received additional volume – double the original amount in France



Driving value from the Otor acquisition

Introduction to Otor

Expanding our proposition to customers

Delivering cost savings

The cost savings are being delivered

Cost	€m per annum	Timescale
Listing costs	1.0	By 30 April 2011
General and administration costs	5.0	By 30 April 2014
Paper purchasing	1.9	By 30 April 2011
Procurement of other materials	2.4	By 30 April 2011
Total	10.3	By 30 April 2014

Early wins in purchasing

- Benchmarking, rebates on volumes, discounts on payment terms

Actions are being taken to realise the longer-term savings

- Harmonisation of IT systems for better efficiency

The acquisition is delivering GDP+ growth

- We have identified a strong pipeline of opportunities with our customers
 - To date we have secured business equivalent to 4% of the Otor business we acquired
- Cost savings are clear and on-track
 - Outperformed original estimate, now €10.3m
- Customer reaction very positive

Steve Dryden
Group Finance Director

PROCUREMENT AND WORKING CAPITAL

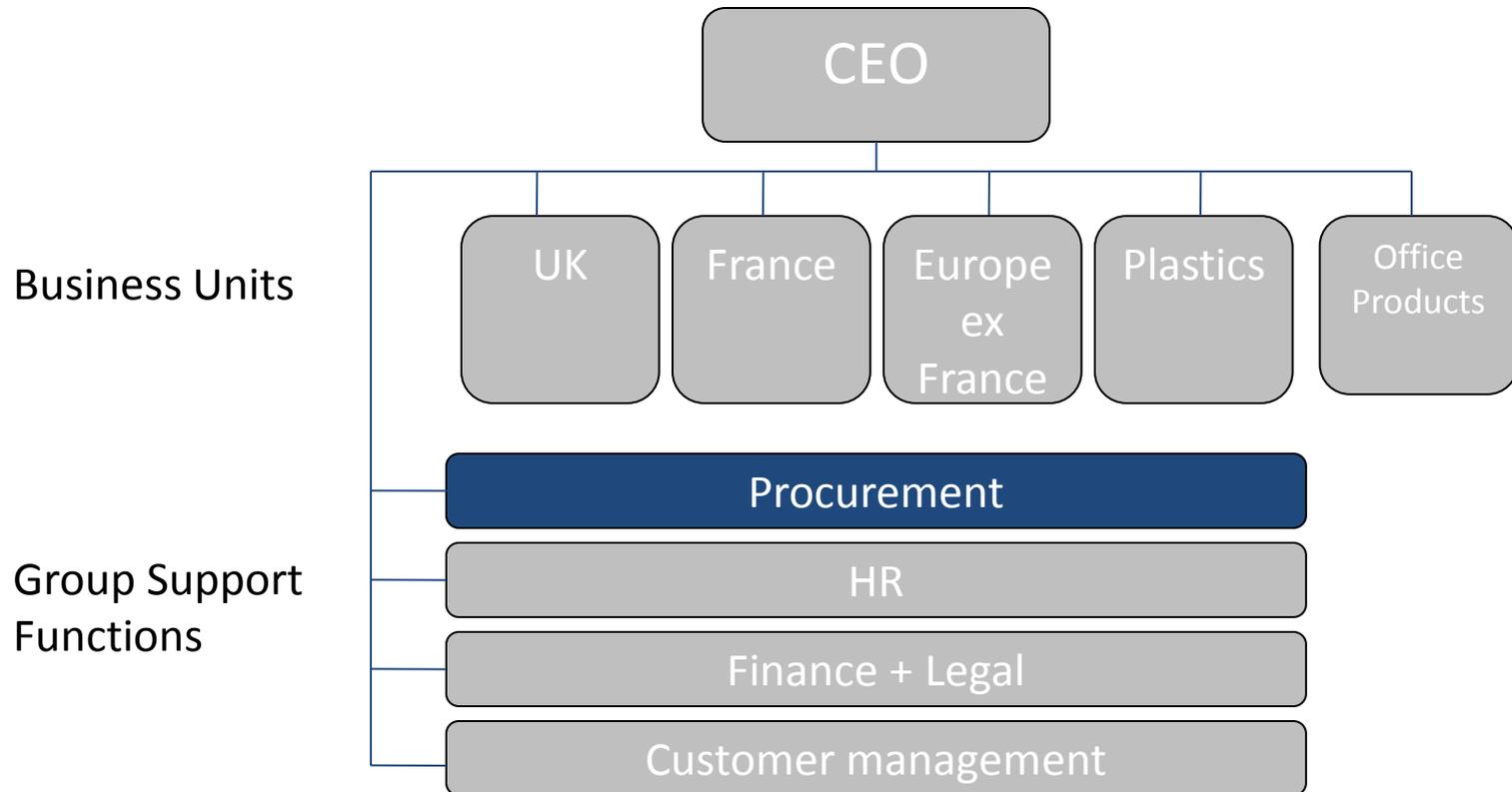
Actions on procurement and working capital will help us achieve our targets

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

All measures on a pre-exceptional items and pre-amortisation basis

[#]Before growth capital expenditure

Efficient procurement is integral to our business



We are changing our processes to procure better

Previous practice

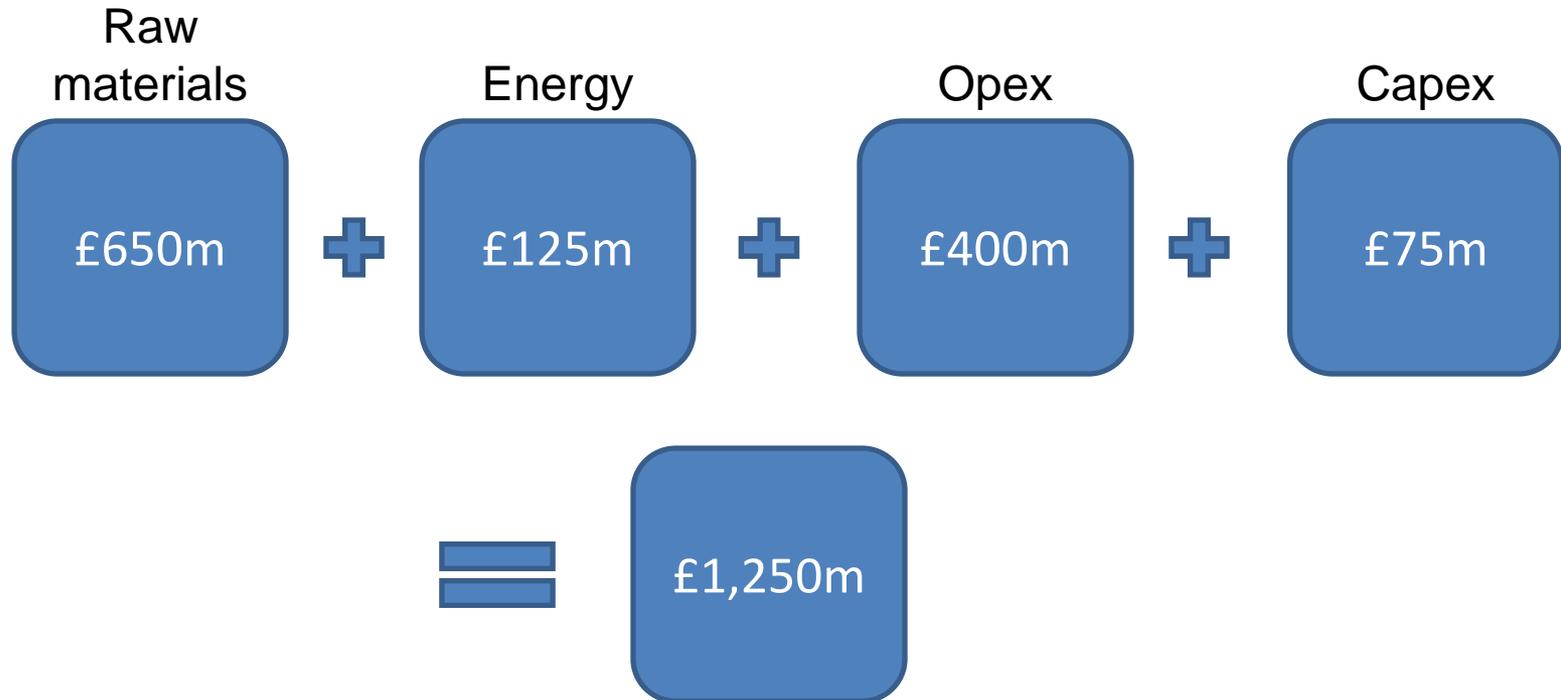
- Local decisions
- Not co-ordinated
- Not leveraging DS Smith's size and security with suppliers
- No value engineering on capex

New practice

- Group-wide collaboration
- Consolidated supply chain
- Current team strengthened
- Targets for savings and payables
- Integral to decision making processes

There is a significant opportunity in packaging procurement

Annual expenditure:



Target saving by April 2012 = £10m per annum

We are building a procurement discipline in the business

- An interim Chief Procurement Officer has been appointed
- New procurement discipline in the UK business – combined with the existing procurement team from Europe
- Professional procurement will deliver lower operating and capital costs and improve payment terms and working capital

We have identified many opportunities

- Paper materials management – using fewer or alternative grades
- Energy – comparing buying methods in UK and Continent
- Indirect costs
 - Group tenders for maintenance
 - Consignment stock for spares
 - Earlier engagement on capex
- Professional services – fresh look at car fleet, legal, HR, finance, insurance and recruitment

Some opportunities are already delivering

- Early wins
 - Savings by harmonising European paper rebates: £0.7m
 - 15% savings on capital projects reviewed to date: £0.6m
 - Fork lift trucks in the UK: £0.5m

We are tackling our working capital challenge

- Rising prices and raw material costs drive an increase in working capital
 - £100m revenue from pricing = c. £8m working capital increase
- We need to tackle working capital increases by reducing the underlying working capital

Reduce working capital – improve ROCE

- Current average working capital equivalent to c. 8% of revenue
- We will reduce working capital savings to 5% of revenue by the year ended April 2014

We have a detailed plan to achieve this reduction

	Inventories	Receivables	Payables
Target	£20m	£25m	£30m
Actions	Match to customer service	Excellent service = require payment on time	Cost-of-capital based decisions
	Forecasting accuracy	Receivables exposure	Never as expensive as you think
	Supply chain efficiency		Procurement team support

This will release capital that can be redeployed

- £30m achieved to date
- Capital can then be re-deployed
 - Organic investment in corrugated assets for retail-ready packaging
 - Capital available for acquisitions

An example: savings in fork-lift trucks leasing

- Fork-lift trucks leases – an early win
 - Over 500 specialist fork-lift trucks
 - Annual lease cost in the UK c. £6m p.a.
 - Contract now managed centrally
 - £1.2m working capital savings
 - ~ Extended payment terms
 - 3.5% lease cost reduction = £0.2m
 - Up to 10% reduction in operating costs = £0.3m

Our management understand the challenge

- Management focused on a cash generative business model
 - Not mutually exclusive to profit
- Drives ROACE for the business
- 3-year target with continuous improvement thereafter

Peter McGuinness
Managing Director DS Smith Recycling

RECYCLING DIFFERENTIATES DS SMITH

Introducing DS Smith Recycling

Who we are

- Collect 1.7mt of used paper and cardboard in the UK
- #1 UK market share
- c.500 vehicles
- 15 sites in the UK
- Call centre providing 24/7 service

Adding value to DS Smith

- Supports corrugated as an attractive packaging medium
- Differentiates DS Smith Packaging
- Scalable model to grow

DS Smith Recycling – why it supports the use of corrugated

History

- Packaging at back-of-store seen as waste
- Packaging was a logistical and an environmental problem
- Non-integrated packaging supply chain

Now

- DS Smith Recycling provides a logistics solution making corrugated a desirable packaging material
- Using corrugated improves their environmental rating
- Integrated closed-loop solution

DS Smith Recycling differentiators

- No landfill sites
- National clean-tech network
- Waste and recycling reverse logistics
- Waste composition analysis

Service and innovation key to our competitive advantage

Unique customer interaction model...



Back of Store Recycling



Reverse Logistics

Front of Store Recycling



Integrated Recycling & Waste Management



Carbon Reporting



Consumer Interaction/Community Recycling



... that makes it easy for retailers to deal with their corrugated packaging

Grocery retailers



High street retailers



Food/ Manufacturing



Wholesale & Distribution



Other High Fibre Sectors



Innovation differentiates us from our competition

Retail Ready Corrugated Solutions

- Waste Box - Waste containment & reverse logistics, delivering cash & carbon savings
- Supporting corrugated sales and strengthening environmental case for fibre

Carbon tool

- Accurate carbon measurement on a site by site basis specific to sector waste streams
- Tesco able to measure carbon saving swing in waste from +12k t/pa to -14k t/pa



We are winning with our customers and gaining greater profile

Front of Store Recycling

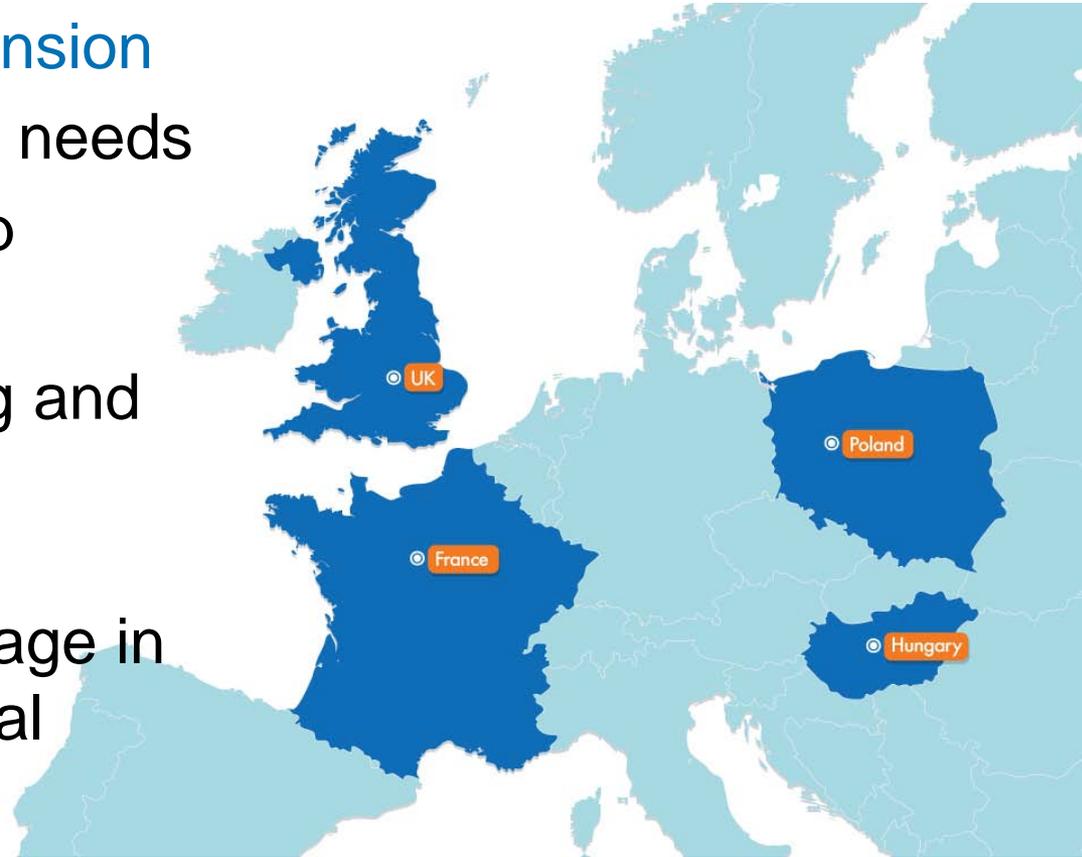
- Helping our customers to own their customers
- Increased brand awareness
- Increased tonnage
- Protecting the cardboard box
- Closed Loop Recycling



The model is scalable and complements our packaging business

Continental Europe Expansion

- Pro-active to customer needs
- Utilising existing Group infrastructure
- Closed Loop Recycling and Integrated Waste Management
- Establishing core tonnage in an emerging continental market
- Low packaging recovery rates, presents opportunities



The closed-loop solution differentiates DS Smith



A snap shot of shared customers



Recycling is key to DS Smith

Adding value to DS Smith

- Recycling supports the growth of corrugated as a packaging material
 - Helps to drive retail-ready packaging and substitution from other packaging materials
- Our 14 day loop is a differentiator for our packaging business
 - No other corrugated packaging manufacturer can offer the same
- It is a highly scalable model

DS Smith Recycling contributes to the Group achieving its targets

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Otor integration	✓	✓	✓	✓
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Integrating the UK business	-	-	✓	✓

- Growing with our customers
 - Aim to be operating in Hungary, Poland and France by the end of 2011/12
- Capital light business

Gary Saunders

Divisional Chief Executive DS Smith Packaging UK

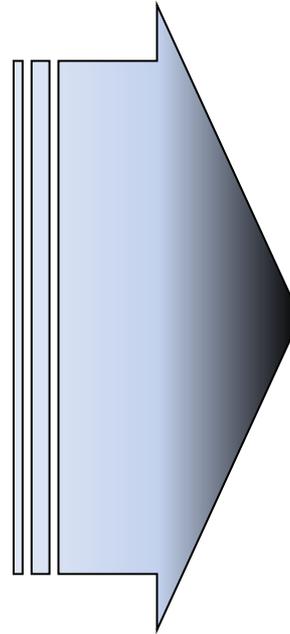
CREATING AN EFFECTIVE UK BUSINESS

DS Smith UK Paper and Packaging



Efficiency key to our strategy

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



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

All linked to clear KPIs

We are focused on becoming an effective organisation

- What we mean by efficiency
 - We are working on becoming an effective organisation
 - An organisation that delivers value to our customers and creates value for our shareholders
 - Think strategically, not just incremental improvement in performance

Our challenge and opportunity

- **Organisation**
 - 3 business silos
 - 3 unconnected IT platforms
 - 25 logistics networks

- **Cost Base**
 - Logistics spend £80m
 - Indirect labour £57m
 - Indirect costs £103m

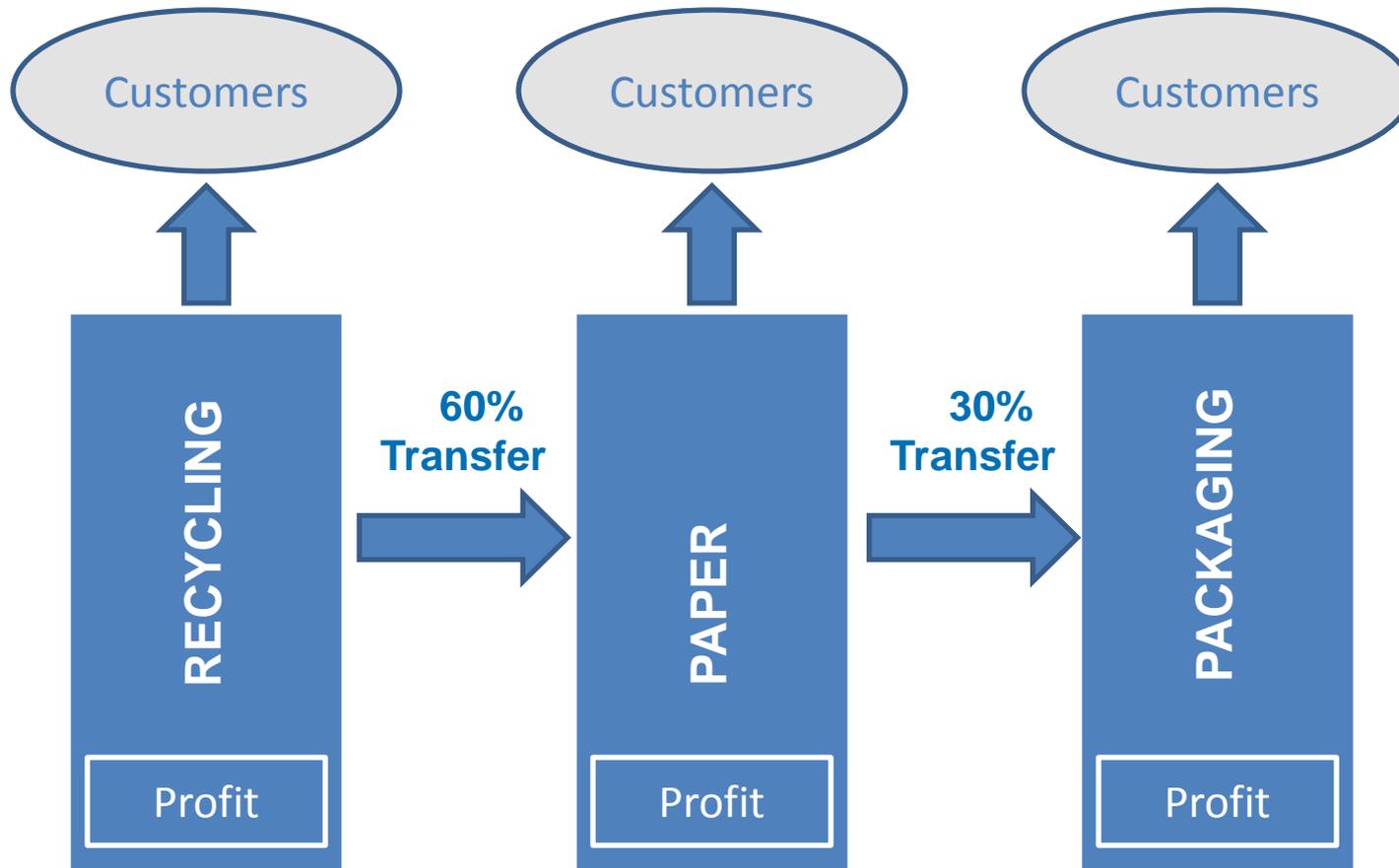
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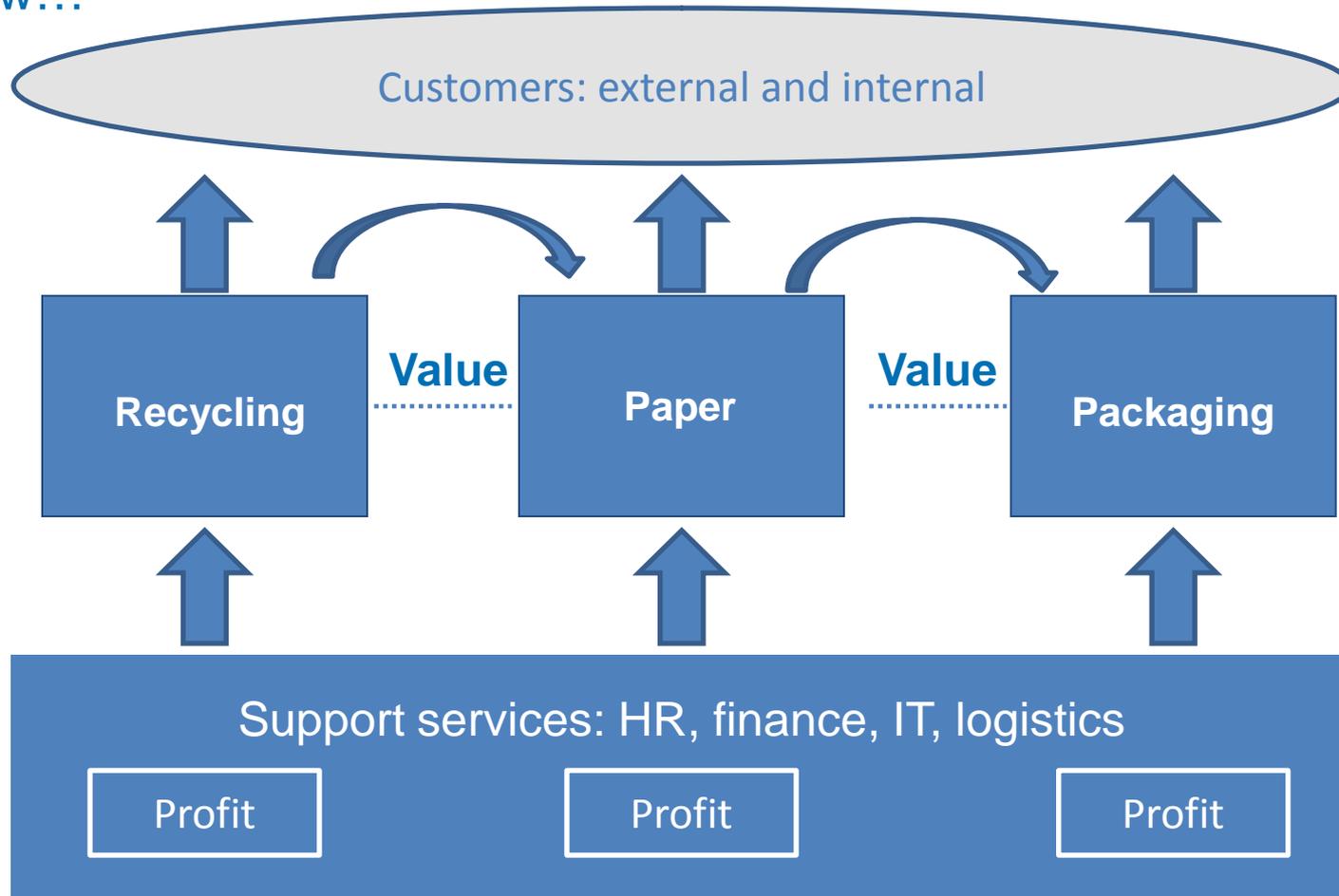
Moving from silo structure and behaviours...

Old...



... to an integrated business with optimum combined support functions

New...



Our challenge and opportunity

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 - 3 business silos
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- **Cost Base**
 - Logistics spend £80m
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The opportunity to make logistics more effective?

	Recycling	Paper	Packaging sites - large	Packaging sites - small
Sites	15	4	7	20
Tonnage	1.7m	1.1m	0.4m	0.3m
Logistics networks	1	1	7	16

The opportunity to make logistics more efficient has been identified

	Recycling	Paper	Packaging sites - large	Packaging sites - small
Sites	15	4	7	20
Tonnage	1.7m	1.1m	0.4m	0.3m
Logistics networks	1	1	7	16

- Replicating best practice = £1m saving
- Incremental efficiency

The opportunity to make logistics more efficient and effective is being evaluated

	Recycling	Paper	Packaging sites - large	Packaging sites - small
Sites	15	4	7	20
Tonnage	1.7m	1.1m	0.4m	0.3m
Logistics networks	1	1	7	16

- A co-ordinated logistics operation across the UK would be more effective still

Our challenge and opportunity

- **Organisation**
 - 3 business silos
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 - 25 logistics networks

- **Cost Base**
 - Logistics spend £80m
 - Indirect labour £57m
 - Indirect costs £103m

Internal invoicing – an example of how we will be working more effectively as one business

Current practice

One delivery of scrap paper from a DS Smith packaging site, collected by DS Smith Recycling, delivered to our paper mill = 3 data entries and 3 paper invoices

An effective operation

One data entry and one paperless invoice

1,000 deliveries per week

The cost savings are being clearly identified

- £10m out of structural costs – as announced in December 2010
- Implementation during FY 2011/12
- Confident of delivery

Miles Roberts

CONCLUSIONS

Demonstrating the steps we are taking towards our targets

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Summary

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

Recycled packaging for
consumer goods

QUESTIONS PLEASE