Company: DS Smith

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Miles Roberts: Welcome everybody, thank you very much for sparing the time to listen to our half year announcement. I'm joined by Steve, the Finance Director; and by Peter, our Chairman in the front row and also various members of the management team principally from the UK including our new Head of the UK Gary Saunders who joined us very recently.

Firstly I should just say Health & Safety is an extremely important part of the way we operate and we aren't expecting any fire alarms today, so the main exit is here. So if it goes off it's real and we'll all leave in an orderly fashion.

As I said when we met about six months ago when I first took over at DS Smith, working with the teams I felt that DS Smith had great potential. I knew it then and we're starting to see some of it today in the half year results in Otor and how that's performing but also in the strategy that we outlined going forward and it's all to achieve a group that is less cyclical, higher margin, higher return on capital and a growing business, one supplying our customers as they grow not only in our current markets. It has been a really exciting, expanding market going into Eastern Europe.

We then need to start with the overview and I said that'll be in three sections. We'll start with the results, Steve will then take us further into Otor and the outlook and then I'll come back and talk about the strategy and summarise.

Frankly in the first half we've had a pretty good half year. Our turnover is up, excluding Otor it's up 10.5%, growth up over 6%. The operating profit is up 19.3%, 10.8% excluding Otor. That return on capital, the principle measure for the company is up to 10.9%, 170 basis point improvement. Our free cash flow 121% improvement, 18p per share. EPS up 31.8% and on the back of that as a first move towards our dividend policy we've raised the dividend by 33%. Otor, Otor is an absolutely super business with a super management team and a tremendous customer base. The underlying trading is performing better than we expected. The synergies will be greater than we expected and they will be delivered earlier. We have completed our business strategy review which we will outline later on and say that current trading since the half year is progressing well, fully in line with our expectations and we're confident on the second half of the current year.

Steve.

Steve Dryden: Good morning all. As Miles said I'm Steve Dryden, I'm the Group Finance Director of DS Smith. There's five key themes that you'll see in terms of the results for the first half of the year. We've got growth, we've got cost recovery, the returns are better, cash is good and Otor is performing well. In terms of growth we've gained share across most of our markets such that we've grown our packaging volume by 6.2%. There has been a cost recovery, we've had some huge cost increases in the first half. We've recovered nearly 100% and I'll show you that later. In terms of returns we've improved our return on sales by 20 basis points to 5.3%, that's ok. Return on capital, we've improved that by 170 basis points to 10.9%. Free cash flow, we've more than doubled our free cash flow in the first half. Our free cash flow per share as Miles said is 18p. Lastly Otor has traded above our expectations, which is integrating very well into the overall DS Smith Group and we've raised the synergy target to €10.3 million.

So if we look at the results for the first six months revenue and profit was up 15% and 19% respectively and the next two slides really bridge that performance for you. Our adjusted earnings per share was up 31.8%. Free cash flow £75 million, 121% increase. Net debt has only increased by £106 million and in the context of that you should remember that in the first half we bought Otor for a net £150 million. Return on capital, yes, it's great to see it go up to 10.9% but our cost of capital is 11.8% and we are absolutely committed to exceeding that. Finally the dividend 2p, up 33% compared to the 1.5p for the interim dividend for last year.

This bridges the revenue for last year of £1 billion through to the revenue of the first half of £1.2 billion. Price recovery in the first half £76.4 million, organic volume growth is £42 million and if you take that, our office products is largely flat, that's obviously all in our packaging business and that's where the 6.2% volume growth comes from.

Acquisitions less disposals was £44.3 million and in there Otor has delivered £49 million worth of revenue in our first two months of ownership. Lastly foreign exchange translation pulled back the result by £7 million so we finished the first half with £1.2 billion of revenue.

So a similar format to revenue, this is our operating profit bridge. Again last year £50.7 million, this year £60.5 million. As for the last slide we raised our prices by £76 million and compared to the cost increases of £77 million this is an absolutely great result. We raised our prices quickly. Volume growth, the profit effect of that volume growth was £7.5 million. Acquisitions-disposals, that was a net £3.9 million. It's important to look behind that because you'll see in terms of Otor as the acquisition side delivered £4.3 million and that's an 8.8% return on sales. Foreign exchange pulled back the result slightly by £2 million. We finished the result £60.5 million. In a sense when you look at this you can see how important it is that we can actually get cost recovery and we can get cost recovery quickly. We feel that market leadership on service, quality, innovation, that means DS Smith is a price maker.

So this is our divisional performance for the first six months which obviously some of the gentlemen in the room from DS Smith absolutely helped deliver. You'll see in terms of the top left for UK Paper and Corrugated we grew our revenue 23%, our profits by 33%. Paper we raised our prices quickly to more than recover our costs. Sheet feeding, we recovered our costs again quickly but we also managed to gain share with excellent levels of service. On the top right in our Continental European Corrugated business, this includes the benefit of two months of Otor's results. We grew the volume but in terms of the base corrugated business we didn't recover the input costs quickly enough and hence the underlying profits here are below last year. We always obviously have the cost recovery programme to set out and cover those.

On Plastics we grew revenue and profits I guess modestly but it's quite interesting, we did some great work on consistently keeping the working capital down. We disposed of a small business that was quite asset intensive so when you actually look we've actually improved the return on capital by 490 basis points which is a great result.

Lastly in terms of Office Products or Spicers on the bottom left, revenue and profits broadly flat in constant currency. We continued to make good progress on the continent but the UK business remains challenging. Again good work on working capital in terms of sustainable reductions means that with level profits we've actually managed to improve the return on capital by 230 basis points.

I showed you the totals of the pricing and the cost recovery but it's ever so interesting to look at the detail behind, Waste Paper at £31 million, that's a 49% increase in costs. On Paper, to a lesser extent Polymer £39 million, again a 47% increase on costs, lastly Energy up £7 million and you can see there on the right hand side how we raised our prices across the group and nearly 100% recovered. Again the key to good cost recovery was service, quality and innovation.

So again here's the detail behind what is, I think, in the first half an excellent cash flow performance. EBITDA is up £8.9 million. Working capital, despite the revenue growth we achieved an inflow of £15.3 million. We are focusing on sustainably reducing our working capital. Free cash flow more than doubled to £75 million. We spent £196 million on the acquisition of Otor, that's less the disposal of a small packaging business in Turkey. Finally net debt to EBITDA, that's really how the banks judge our strength, that remained at 1.7 times, the same ratio as this time last year.

On pension we feel that we're taking actions that will reduce the risk that the pension scheme poses to the group. As you're aware there's two methods to value the pension scheme, there's IFRS 19, that's how we report on our accounts shown on the right there, gross deficit £200 million, after tax the deficit is about £143 million. The second method is the actuarial valuation. This is how the trustees assess the deficit when they discuss the level of cash payments required from the group as part of a recovery plan. So the latest actuarial valuation is now being finalised and the trustees have in principle decided to close the scheme to future accrual and move the inflation link from RPI to CPI. Together these should reduce the actuarial deficit and the accounting deficit by circa £80 million. We've also reached agreement with the trustees to repay the reduced actuarial deficit which is £178 million over 10 years, so this will involve a payment this year of £22 million and lower payments thereafter of £14.8 million rising by 2% per annum thereafter. The ongoing P&L impact will be cost neutral with a defined contribution scheme replacing the current defined benefit scheme. I'm sure you'll all agree with a pro forma net deficit of circa £85 million the actions we've taken here have significantly reduced the risk that the pension scheme poses to DS Smith.

As Miles mentioned Otor is delivering well. The performance in the first two months of our ownership is better than expected. I would particularly draw your attention to the 8.8% return on sales. What are we pleased about? The customer and the commercial reaction has been excellent. We've actually found some exciting revenue growth opportunities with ten new customers in six countries that DS Smith operates in today and it's integrating well into the overall DS Smith Group. Lastly we've raised the cost synergies by €1 million to €10.3 million.

So finally the outlook. Despite input costs which are continuing to increase trading in the second half today is progressing well. Otor is trading well with more cost synergies coming through earlier and therefore we look forward to the remainder of the year with confidence delivering in line with our expectations.

Miles Roberts: Thank you. So we've covered the half year results, Otor and the outlook. Now coming to the work that many people have been involved in, within DS Smith. I know I say about strategy, fancy thinking is 20% of it. It's the implementation and we could have written out the strategy and put it in an envelope and sent it to all our shareholders a few months ago. You've got to get people behind it to believe it, to know what they're trying to do, what their part is so they can deliver against it and in this presentation we're running through what we intend to do but we'll also be giving you the key metrics by which we expect to be judged over the coming years and the reason we can do that is because of the ownership that's within DS Smith to achieve this plan.

So the background. As I said when I started our clear vision about DS Smith is to provide more consistent growth, better margins with higher returns with less cyclicality. I want to deliver this not only for the group but for our shareholders and for our customers and employees as well.

So in summary we want DS Smith to be the leading supplier of recycled packaging for consumer goods. When I say leading I don't mean part of it, I mean leading the category. It's such an exciting, vibrant category with wonderful customers who own the category, the supplier of choice to be developing with our customers as they move into new markets. So we will build the packaging and the recycling business not only in our existing markets but into these new markets coming in to Central & Eastern Europe and we will reduce our paper capacity going forwards where it is not aligned to our packaging business. We'll streamline the group so we can come behind the end market, so the group is focused on delivering to those customers. When you have that alignment the different parts of divisions build on each other, so one division plus the next plus the next. It doesn't equal 3, it equals 5. That's the value of a group and that's what we're going to deliver. In that alignment you'll also see we'll be able to take out significant structural costs in the group as well as release working capital driving the returns to shareholders, but it's only possible if we engage all of our staff in delivering this company so we're focused on that as well.

You've got to start with the market. What's the market doing? The market is with you, you've got growth and opportunity. There it is. This is just one example, it is shelf-ready packaging for consumer goods. I think personally I get quite excited about these products, it makes it look great, it's on the shelves. When you're going home tonight just pop into your Tesco on your way home, there's bound to be one near you and look at how the products are presented. That's part of the selling proposition and that's what we're talking about.

So why does it work so well? In summary there are really three elements to it. Firstly for the retailers and then for our customers, the FMCG businesses. Putting it bluntly with the retailers it takes out a lot of costs. When you see the growth of the large retailers growing not only in our current markets but across Europe, they have to get more sales out of their stores. That means they've got to reload the shelves more quickly, so the large retailers are driving the use of this packaging. They've put that into the FMCG companies who are our companies [customers], so growing format, taking out costs from the retailer and of course it's fully recyclable. This cardboard is collected from the store, made into new paper and then made into new boxes. It hits all the environmental credentials that the FMCG companies and the major retailers need as well.

Lastly but by no means least it's part of the selling proposition. If you look here this is one example, this is crisps, you can see that it takes up a significant part of the product. In some other categories the packaging can be up to a third of the fascia. That means it's part of a selling proposition, so as a supplier you're related to the sale and the margin the FMCG company is making – that's where the value is. That's where the profit is for us.

So why is it growing? The market is growing steadily at GDP plus. Our volumes are exceeding GDP in Western Europe and in Eastern Europe. Why is that? The major retailers are growing, they're taking share. If you look at Tesco's last set of results the like for like in the UK was 1.5 but the actual was 8%. They're taking share. They've got a GDP plus growth not only because of the retailers but because of that environmental solution as well, so this packaging is growing with the retailers and it's taking share from other formats. There are good margins in here and there are good margins because of the added value that the product gives. It is part of the selling proposition and by the selling it has the advertising, it has the promotion, it has the colours, it has the design. That means differentiation, that means complexity and frankly that means margins for us because we're adding value.

To address the issue of cyclicality, as we're linked to the FMCG suppliers, the volumes have only been going up. Most Western European markets have been in some sort of recession but not corrugated packaging for FMCG companies, it has only been growing. Because people don't stop eating and drinking we don't get the variability in demand which is one of our principle issues is the cyclicality and there are attractive acquisition opportunities particularly in the more fragmented Eastern European markets.

On the left hand side or on the right hand side of this graph you can see where Carrefour is in their use of shelf ready packaging as a percentage of their total lines, catching up with Tesco at 53% and Tesco are growing as well, it's a key part of their strategy. So this market is growing steadily at GDP plus.

We're going to build on our customers' growth. These are some of our principle customers. So if you think Proctor & Gamble, if you think Reckitt Benckiser, if you think Lactalis, Danone, think DS Smith because we're with them all the way.

So building on those customer links into Central & Eastern Europe we do have a market there with the growing middle classes, more affluent population, affluence drives consumption. The retailers are growing there. Average compound growth rate for Tesco in Eastern Europe, it has been over 7%. Supplying more affluent markets, FMCG companies move in there to supply the market but also using the lower cost base. We're seeing significant growth opportunity and on the right hand side of the graph you can see the consumption of corrugated in Central & Eastern Europe, 104 million people waiting to be supplied with this type of format. 104 million people at less than 60% of the consumption in Western Europe with the growing retailers and the growing FMCG customers – that means sustained opportunity to grow and we want to be the leading player in that market.

So how are we going to deliver that market opportunity which I'm sure you'll all agree is very exciting? On the winning strategy, let's just look at the business today and DS Smith is in five principle businesses: recycling where we have a fleet of over 600 vehicles. They go and visit every single Tesco store, some of them daily to pick up the corrugated boards, visit Morrisons, Sainsbury, Next, ASDA – all the major retailers picking up the waste board and taking it to our mills. That's the recycling business and we show here we then have paper which is reducing packaging, paper but also other grades as well. We produce envelopes, bags, products for the building industry etc. Our corrugated packaging is the main part of the group, then our plastics and the product wholesaling. We divide each of those into those that reduce the cyclicality, those that improve the cost of capital and those that have synergy with the packaging business, so you build a value adding group. You can see from this the recycling gets a double tick in each column; paper, it's a well run business but the cyclicality is something that we just can't control. This is a history of the paper industry. You see going forwards that will not change and therefore it has a high cost of capital and it has some synergy with the packaging but many of its products don't where they're not aligned to it. On plastics packaging it does have synergy, it improves the cost of capital and its cyclicality is good. Office product wholesaling is a good business but it drives up our cost of capital and it has no synergies. So therefore we're going to grow the packaging business, we're going to grow the recycling business that supports the packaging. It supports it because our customers want to know, our customer, Danone, Unilever want to know that we own the source of the fibre and they also want to know that nothing that they produce will go to landfill. We give that guarantee to the retailer where we pick it up, nothing goes to landfill, a fully sustainable solution aligned with the packaging business and we're going to grow those. You can see the circle is a little bit larger than the earlier circle and we're seeing that we'll be reducing paper.

This is how we'll grow with our customers. It's a delight to work with the businesses throughout DS Smith but we have two really powerful positions in the UK and France today where we really do lead the market in corrugated packaging and it gives us such a wonderful position with our customers, many of them based in these countries and they're using their base in these countries to grow into Eastern Europe and we highlight here our positions in Eastern Europe today. We have a good position in Poland, Czech, Hungary and we own 49.6% of a business in Ukraine which is clearly the market leader in that country with over 30% market share. We're going to use those positions to support our growth.

How do we make sure we're paid for our services? Our customers are very, very demanding and they're demanding on service quality, innovation, environment. This is how we can differentiate ourselves. When we come on to service it is about order lead times. It's about thinking as our customers think, supplying the needs that they have on time, in full delivered. We are not there today but we will be there and that will drive service into our customers that they want and expect. In quality, the same quality whether you're in Russia, Ukraine, Poland, Czech, Hungary, Slovakia, Germany, France, UK, the name Cadbury can't have a different colour. You can't have a different typeface. It's got to be exactly the same and we will guarantee that to our customers.

On innovation this is such an exciting area. We put down here R-flute. It's a fluting that we have developed, nobody else has it. It offers a 20% reduction over the next nearest grade in terms of the amount of paper used for the same strength of box with a wonderful printface, a wonderful finish on which to print. That is exclusive to DS Smith.

Then the environment, our fully recycled offering. Again in the UK we are the only supplier who offers this and I'm going to talk a little bit more about it because it's so powerful. 14 days box to box. We pick up the box from the retailer that's being used. It goes to our paper mill, it's converted into paper. It then goes back to the box manufacturer, Proctors, Nestlé etc and then back to the retailer. 14 days, I think the best we do is about 12. It's absolutely unbeatable for those customers with nothing to landfill.

There will be focus on packaging but as I said we have plastics packaging which does have synergy with the corrugated business. A lot of the bags and taps fit inside the corrugated box. A great level of service and innovation coming through, defined niches, good return. We're happy with that business, it's going to continue growing. I think it'll stay at a modest level. On office product wholesaling there is no synergy with the rest of the group. We are and we will continue to strengthen the management team there and we are driving improvements in its profitability and we will maximise shareholder value in that investment.

So that's all about the top line and about the business mix which is all very important and actually very exciting. Let's just look at the ways of how we work and operate internally, how we can be more efficient. This is the old structure within the group and you'll see, it makes me look rather busy where I have a number of reports which isn't a problem in itself. The only issue is that each business operates completely independently of the other, so they have their own procurement, their own finance, their own HR, their own logistics, their own everything. Completely autonomous and the head office functions are exactly that. They are just head office functions. So we're now moving to a new business structure where we have across-group functions firstly on procurement. We have recruited an interim head of procurement. He has started, he is building that team and we are very excited about the opportunity. In HR we are building group-wide competencies which I'll talk more about later. On finance and legal Steve leads this and will be creating a group-wide finance function, and customer management to service those customers that we have and manage them on a Pan European basis the way they work to get more revenue synergies out of that basis, creating a European wide management function and that will give a more integrated group. It will improve our service, our speed to market and we will take 10 million of structural costs out of our structure and in addition to that we will achieve significant savings in procurement.

So let's come on to the alignment of our staff. It's a situation to work on with the group, it's a super group, that's where the potential comes from. A lot of skill, hard-working, dedicated employees. We have over 12,000 of them but we do have to align them with the group's objectives and on the alignment it's not just the easiest thing to help communication, effective two-way communication. It is about ensuring we have very clearly defined competencies group-wide for developing them and we are very advanced. A system of group-wide appraisal, less than 50% of our staff today have appraisals. In the future everybody will have an appraisal in a standard way, a chance to speak with their line manager I believe is a fundamental part of effective performance management. A talent management process so that when we grow and expand we're going to take the people from within DS Smith, we've got 12,000 of them so we're building on our existing competencies. Opinion surveys that measure this, we've undertaken our first one and the results are very exciting in terms of how we can approve that. We have already put in for the first time a remuneration system that's linked not just to profits but to a return on capital, you've got to be hitting both targets. We believe that this will start to align all of our employees with our shareholders' and our customers' interests as well.

All this sounds great but I stress we're building on what we have. We have a hard-working, dedicated set of employees and I think we can improve their engagement and alignment. On the management team we've made a number of changes. We have recruited a new head of the UK, he has started already. I introduced him earlier, his name is Gary Saunders. We have a new Head of France who ran the Otor business and all of our French businesses are going into that. We have a new Head of Central & Eastern Europe who has been appointed and we also have a new Head of Procurement, so four key management positions in place. We already have tremendous customer relationships, we want to grow with those customers built on the expertise that's already in the group so we believe we can effectively manage the risk of implementing our strategy.

I'm sure you're all interested in the financial profile, how it all looks. This is what we're ultimately here for. The first thing is this issue of cyclicality. We believe the forecasts that are out there for DS Smith, do you think we are going to make them or is something going to come along that's going to knock us off? The first thing, the cause of that cyclicality, the principle reason behind the company's performance over the last years has been the paper cycle and I've said we will exit 250,000 tonnes of non-integrated production. In packaging we think we can improve this. We will put more focus and more growth behind the FMCG businesses. Their volumes don't go down. That has been our experience, that's where we are today and that's our forecast. People still eat and drink. We're also changing the way we contract with those customers, moving from having longer term contracts to shorter term contracts so we can cope with movements in raw material costs. There will be a lag but if the contracts are shorter we'll have far greater visibility, the recovery of those margins. You've already seen that in the half year, the work that has gone on. We know this works because that's the way Otor works. It works for them and it works for us and we'll be improving the mix and growing the recycling business which has no cyclicality.

Coming on we've talked a lot about the return on capital which is our principle measure, how effective we are at using the capital that's entrusted to us. I believe again it's a fundamental competency every company has to use capital sparingly and efficiently. We will be improving working capital. Our turnover has gone up, more material has gone up. Our working capital came down in the half year and we think we can make further improvements there. We have over 200 million of stock and over 400 million of debtors. The modulus of our numbers are very high, that's getting a lot of focus and Steve has a few targets.

The capital will be invested strategically. They're easy words. What we mean here is we'll be putting capital not just for the payback but behind the businesses we really want to be in, invest capital behind strategic objectives and not just short term paybacks. They deliver sustainable shareholder value, growing shareholder value, not just a few quick wins by allocating capital to problems. It's a fundamental principle of driving long term shareholder value and we'll reduce the cost of capital by reducing the amount of paper and about growing the recycling and packaging businesses, both of which have cost of capital significant below the 11.8% for the group.

So how does it all look when you tie it together? Good organic growth, higher margins in returns. That is saying for the current business we should be getting like for like volume growth of 3%, we had over 6% in the half year for packaging. Our return on sales in the first half just over 5%. We think we can drive it consistently to between 6-8%. Our return on capital has made an improvement but to earn sustainably above our cost of capital each and every year between 12-15% adding shareholder value and driving down the cost of capital as we improve the mix of business. You've seen how we've managed capital in terms of the indebtedness on the group. You can be confident that these dividends will be paid and we'll maintain net debt to EBITDA below two times. We have done that already with the acquisition of Otor. About converting profit into cash excluding gross capital expenditure the conversion will be in excess of 120%. Consistent GDP plus growth, reduced cyclicality, higher margins and returns above our cost of capital. How do you see it in the dividend? Ultimately it's about delivering good earnings growth and our dividend policy says be progressive. To us that means it doesn't go down and we'll target an average dividend cover over the cycle of between two and two and a half times. The increase of 33% in the interim dividend is the first move towards that.

So in conclusion we're pleased with the half year results. Things have gone well for us. Our markets have grown. Our customers want us to work with them and we support them in that. Otor we're very pleased with, let's see where it can go in the future with our backing. Since year end trading has gone well, it's in line with our expectations and we have confidence about the full year. The review of strategy is completed and is owned by the management teams to communicate and owned in the company. We will be outlining the next stage of this strategy in more detail at our Capital Markets Day on 10th March which everybody is invited to.

So in summary I think this plan delivers consistent growth at GDP plus, lower cyclicality, higher returns, sustainably above the cost of capital and for us the future is recycled packaging for consumer goods. Thank you.

I'm now happy to take any questions with Steve on any subject you may have.

Will Wyman: Good morning, Will Wyman at Goldmans. Firstly on the 250,000 tonnes of capacity exits in paper. To what extent do you expect that to be disposals and to what extent could it be closures of capacity? Second also on disposals, should we expect the office products business to be disposal at some point? Is that plan A?

Miles Roberts: On the paper business we're working through that and I think the combination of us going through exactly how we do that etc, we'll come back and outline more about that but we're quite clear as to where we want to go but it's obviously difficult unless you've actually got a particular buyer who's actually there today to say definitively. Office products, it's the elephant in the room, isn't it? With office products we have a business there that we're going to improve the performance on but we will run it to maximise shareholder value. The principle focus of the group will be in recycled packaging for consumables and we'll become streamlined behind that, but today we are focused on getting the very best out of the office products business with the new management teams which we've put in place.

Will Wyman: Thanks. Can I ask another question just on cost recovery? You highlighted the difference between UK where you have very, very strong cost recovery and Europe. Is there any reason why there might have been slightly less price progression in Europe or is it simply yet to come through? Is it coming through next?

Miles Roberts: It's just coming through. We put a lot of focus in this area. Pricing has to be driven really from senior management etc and it's all coming through. We hope in the future it will be more in line with the change in raw material costs.

Will Wyman: Great, thanks.

Robert Owens: Thank you, Robert Owens, JP Morgan Cazenove. A couple of questions, the first on Otor and the additional synergies you're targeting there. Can you maybe provide a bit more colour on that?

Steve Dryden: If you remember back in July we said we hope to get £9.3 million of cost synergies, there's revenue synergies on top but 9.3 million of cost synergies. We've raised that to 10.3 million. I think in July in the questioning someone said "how much are you going to get this year?" We said about €1 million. I think we'll get about €1.5 million, maybe a little bit more this year. Where is it coming from? There are things that we've found that are new, basically running the transport systems more efficiently in terms of how we dispatch products out to our customers. We've found a little bit more in terms of on the buying side, not the paper side but just on buying a whole range of products just looking at what's the best place between DS Smith and Otor and Otor is good at some things and DS Smith is better at others and just by levelling those out.

Robert Owens: Thanks. Then just a follow-up on the Ukrainian associates. Do you have any update on when we might see that on the balance sheet, what we need to see happening there to recognise that? That would be great.

Steve Dryden: I will choose my words carefully because one or two of the lenders to our Ukrainian business are in the room today, welcome. It's a great business, 30% market share, 45 million people. It's profitable, generating cash, it's a good business, it just has a very poor financing structure. Local currency earnings and dollar debt is a classic, so we've breached covenants therefore we've fully impaired the asset. We are in negotiations with the banks for a new set of covenants. Once we've reached agreement on there and those negotiations are going well we would then be able to look at the carrying value of that asset and ultimately then it would come back onto our balance sheet. It's very much about making sure we reach agreement with our lenders before we could look to do that.

Robert Owens: Great, thank you.

Michael O'Brien: Good morning, Michael O'Brien, Collins Stewart. Two questions from me, just firstly on the structural cost savings. What's the timing of those in terms of falling into this year or next year?

Miles Roberts: The timing is going to be more next year and this is the thing that we'll outline more in our Capital Markets Day exactly how and when etc, but we know they're there.

Michael O'Brien: Secondly is it too early to give people a feel for just how big the benefits are in terms of both procurement and working capital reduction to come?

Miles Roberts: Again we're giving people very much a flavour of the things we're focusing on. We wouldn't put them there unless we felt that there would be some decent money to be had out of it. Again on Capital Markets Day we'll outline more about that. You've already seen a taster in the half year. We'll see where we get to and outline more of that next year.

Harry Philips: It's Harry Philips at Evolution, a couple of questions please. Again just coming back to the paper situation, is that solely a UK issue or are you looking at France as part of that process as well?

Miles Roberts: In summary there is an overcapacity of paper on the continent in Central and Western Europe. It's quite a fragmented industry, a lot of privately owned businesses in there and capacity exceeds demand and we've done a lot of work on this looking at the forecasts and we see that situation continuing. The group will not be investing in new capacity for the foreseeable future in Western & Central Europe. Our current position in Central & Western Europe is that if we look at say France we have very, very limited capacity there. In the UK the market is slightly different in that there is very little independent capacity and we will be retaining and therefore running properly and efficiently our large mill in Kemsley in Kent as there is no free capacity. So without that we will be significantly disadvantaged, so in France it's absolutely de minimis what we have. In the UK we will be really focusing behind Kemsley and aligning it with the packaging business.

Harry Philips: Then secondly in terms of Severnside and entering Europe, it would suggest that's got to be through an acquisition to give you a platform or do you ride on the back of the FMCG?

Miles Roberts: That's a really good question. Really, Head of Recycling is in the audience today, Peter McGuinness, we have a very unique position there in that virtually all of our people who are also in that business really have quite a different model. They both guarantee nothing to landfill, therefore really quite differently and the thing about the Severnside business and why it has 100% of Tesco's business is because it can give that guarantee. If there are businesses out there that offer that then we'll look and an acquisition will be interesting. I have to say I think our primary opportunity is organic. We've got the businesses, we've got the systems, we've got the people, we've got the marketplace, we've got the customers, the customer wants us. Let's see what we can do with that first because it really is quite unique and it's therefore really very exciting. We want to set out properly to begin with so we're looking at a number of options. I think that seems the major opportunity.

Harry Philips: Would it be logical to think that France would be a start point given the broader model you have there?

Miles Roberts: Yes. If you're confident with your model, you work with a number of customers, they all work at different speeds so various irons in the fire and that's certainly one that could be the first one, but we've had a good look at them all, talked to our customers, there are various things going on there. We're confident we will expand it. Exactly how it must be we'll be coming back on but France is certainly on the list.

Donal O'Neill: Donal O'Neill from NCB Stockbrokers. Just a couple of questions, the first one, you've said there's a lot of attractive opportunities in terms of growth in Eastern Europe, Central & Eastern Europe. Could you expand on exactly where those opportunities are and maybe what sort of scope you have or what sort of capacity you have to invest? How much you might think about to invest given the growth in free cash flow? Secondly maybe just in terms of the overall market, your outlook in terms of input costs and your ability to pass through pricing into H1 and H2 2011?

Steve Dryden: I'm very reluctant to give a number. Here is the dynamics: it is a fragmented market. I think it's something that we have competence in terms of the service, the quality of innovation that we can take out across Europe and I think the interesting thing is the FMCG customers from Western Europe are going out to Central & Eastern Europe and there's a clear demand there. We think DS Smith can identify opportunities and actually add real value in terms of obviously scale and buying but more importantly in terms of the commercial synergies, so if we can see attractive opportunities and that should show with the track record that we showed in terms of the ability to raise funds we did on Otor and the delivery on Otor, that was starting to demonstrate to you that we will be able to look at acquisition opportunities out there. We are a cash generative business model. You can see the scale at which we're paying down debt, we've got our own internally generated funds as well. Input costs continue to rise, waste paper costs. There's pressure on waste paper costs. Just to remind you all it is a global market. We have a choice in China whether we take out of North America or out of Western Europe, China in the developing world is continuing to grow faster than those two regions so waste paper costs are increasing. That's fine, that's a pressure we face. Obviously we've got to make sure that our business model as we've demonstrated we can recover those costs but also we can recover them quickly.

Ross Gilardi: Good morning, Ross Gilardi from Merrill Lynch. I just had a question on your return on capital employed objective, the 12-15%. Does that assume that Spicers remains in the portfolio. Might that goal change if it doesn't because while it may have a higher cost of capital it's also got a higher return on capital right now.

Miles Roberts: For the existing parts of the group, in different parts we obviously have slightly different dynamics in there whether it's return on sales and return on capital etc.

Ross Gilardi: Then just a follow-up, what you've announced on the pension today, does that increase your flexibility in what you might be able to do with the office products business because I was under the impression that there was an issue where you might have to make a cash injection into the pension if you were to sell it.

Steve Dryden: In terms of legislation there's obviously legislation says that if you dispose of a large part of the business you have to apportion the deficit into there, so frankly that falls away but equally we'd have a constructive discussion with the trustees that we have done at what's the best use of those funds, some of it going into paying down the debts a bit further, some of it being in reinvesting into acquisitions like Otor. I think that's something that's best judged at the time but certainly moving to closure removes that statutory Section 75 obligation. I think we still have obligations to the trustees and commitments in terms of discussing the best use of any proceeds should we ever decide to dispose of the business.

Ross Gilardi: Is spinning the business off even an option or is it too small?

Steve Dryden: I think we should focus on business improvements we've talked about, management team driving improvement and maximise value and not necessarily be thinking about sales at this point in time.

Ross Gilardi: Thank you.

Peter Bennett: Peter Bennett, JLC. This isn't a sort of numbers and quantitative thing and it may be a bit difficult to answer but if you could ad lib a little bit, bits of what I'm after is how you actually do it. First of all when you got there was there a big culture change necessary? Two, did you have to bring in a lot of outsiders for your top management changes. Three, a day in the life of say you, how much do you go down the managerial scale in personally getting to know various levels of management? It's a rather vague question but you can see what I'm getting at. How does it work because lots of people can make all these plans, I know it's worked because I've followed you in McBride's. It may be nice to know how actually you set about it. Thank you.

Miles Roberts: When I have the answer you'll be the first to know. With DS Smith, I knew it when I had my first sort of discussions a year ago with Peter, my chairman. The group has a lot of potential. There's no doubt it has some great market positions, it has a lot of very hard working and dedicated people The issue for DS Smith is about focus and what are you really here to do. What is the end market, how are we going to service that and all come behind it? You just have to go round and talk to people, go and talk to your customers. Go and talk to them. They will soon tell you. If you go to the lines and you're talking to the guys what are the issues you've got? This is what we mean by engagement, listening. Say to managers keep your mouth shut and keep your eyes and ears open and get out there, so I've been to 46 sites and in every one you hold a chat with people and where are things going? Frankly it just starts to come out. The beauty is there are a lot of hard working and skilled people in the company. It's a privilege to work with them. The issue for DS Smith is focus, getting everybody behind it, being very clear about what we're going to do and how we're going to do it. Sometimes you can be really quite delighted by the response and I think we're seeing some of that. I feel very strongly that there's plenty more to come.

Myles Allsop: Myles Allsop from UBS, just a few quick questions. With these targets for return on capital employed for EBIT, for sales you don't give us a time expectation. Is it feasible that you'll be within these ranges in the next 12 months? Are you talking 2-3 years to get that? That's the first question.

Miles Roberts: I think on a sustainable basis that people really think they're in there and that's not just short term of delivering this and getting recognition to that, I think we'll probably take the next two to three years to do both of those. It's interesting you can do the maths, you just add in Otor for the whole of the second half and see where we get to. The businesses are there, the targets are fully achievable. Let's see how fast we progress.

Myles Allsop: Just going back to that working capital, we're seeing a 15 million inflow in the first half. It sounds like you're expecting more of an inflow in the second half. How much more is there to jump at over the next two years? I guess this is a question for Steve.

Steve Dryden: That's my objectives with Miles and myself which have been set. The key thing is that we've just go to keep making sustainable improvements. To me the 200 million of inventory particularly when you saw the chart of recycling to paper to packaging, if we hold inventory that effectively we are managing for our internal customers and we've got to really go after areas like that. At the end of the day there's an overall target, effectively some of that is in the cash generation that we've got in there in terms of the operating cash generation there, ratio. So you'll see that come out but I don't really want to get into we'll deliver x by the end of this year.

Myles Allsop: So we should expect an inflow in the second half?

Steve Dryden: Yes.

Myles Allsop: On your management incentivisation you're saying that it's EBIT and return on capital employed as the targets. Are they the same targets as the 6-8% and 12-15%?

Miles Roberts: It depends where you are and some of them are considerably higher. We have to have incentivisation at the top there but it's got a bit higher as you would expect. Is it a target for a sector or for us, we're not here to crawl over the line and say hooray.

Myles Allsop: Is it a three year programme where you have a big kicker in terms of bonuses?

Miles Roberts: Absolutely.

Myles Allsop: Are they published, your targets?

Miles Roberts: They are for us. We don't publish them internally.

Myles Allsop: Ok. On the pension and the cash payments, you're saying 22 million this year and then 15 million increasing by 2%. Is that pre the service payment, so there's another 7 million on top of that?

Steve Dryden: Yes. If you think of the deficit in total we're paying 15.6, 8.1 million was service, 7.5 million was deficit reduction. Clearly some of the comments we made about being cost neutral, this is a risk reduction, not a cost saving exercise. It's risk reduction so effectively the service costs on the DB broadly becomes the service costs on the defined contribution scheme and then the cash payments, deficit reduction goes from 7.5 to 22 million this year but then 14.8 million, 2% and that will repay the deficit on a 10 year recovery plan.

Myles Allsop: Ok, so we should be looking after this year around 30 million, 23 million going forward.

Steve Dryden: No, 22 million this year deficit reduction.

Myles Allsop: Plus the 8 million service costs, so that's in total cash.

Steve Dryden: Yes. You should see that as being consistent last year, this year, year after and focus on the deficit reduction on that. That's what we want to do.

Myles Allsop: Perfect. On the dividend as well you're saying this is the first step. Are these steps going to be six monthly where we start seeing you get closer to your two to two and a half times cover or is it one thirds, two thirds you'd expect this year, 6p this year and maybe 7p next year and then finally up to 8p in three years' time? How quickly are you going to get back within that range for the dividend?

Miles Roberts: We set out the policy progressive, average between 2-2½. Our earnings are up 32% and we've increased the dividend 33%. The board will make the decision for the full year and subsequent years when it makes those decisions. We have a very clear policy as to where we want to get to and shareholders should see the increase as a first step towards that.

Myles Allsop: How long is medium term to get to?

Miles Roberts: The policy, we're talking over the next two years when we talk medium term, we're talking about the next three years, something like that.

Myles Allsop: Maybe one last question as well on the market itself. Obviously you've managed to push prices up to recover the costs. How much more to you expect box prices to move up over the next six months? Are we at the end of that cost recovery process? Also the other thing that's kind of niggling me in the back of my mind is the Saica machine is not that far around the corner. How concerned are you about that and how that impacts specifically the UK market?

Miles Roberts: We've seen the price of waste fibre double over the last year. This is our primary source of our raw material and it has doubled. We've seen oil, is it 91, 92 at the moment increase. We've seen worldwide demand for commodities increase and personally none of us have a crystal ball but it's not going to stop. It's going to carry on increasing and there will be an ever more ferocious marketplace for these sorts of things. That's a personal view. So do I think we've seen the last of box price increases, absolutely not. They may go down in the short term and then back up in a year or two, but over the next few years I think that the economies in general will see more inflation coming through on raw material costs. The issue for us, I don't want to sound glib about it but I'm less concerned about that. I'm more concerned about our service quality and innovation. How can we move customers into R-flute, you save 20%. You've got to start thinking about value engineering and how you can get the same solution for using less raw materials. How can you recycle more? At the moment the average box has been around eight times, but how can we make that nine? How can we start to improve our process to drive more recycling, more re-use and that's where the real value is. I'm concerned about, yes we've got a raw material but it's what do our customers think. How are we adding value to them, service, quality, innovation. If we lead that then we'll be absolutely fine and we've got some wonderful practice and that's actually the answer to your second question. If people want to put more into paper into oversupplied markets where there is huge cyclicality – that is their decision. We are very short in paper, very short.

Myles Allsop: In the UK you're long, that's the worry I suppose.

Miles Roberts: That's one market we're in if people want to build more capacity, it is an international market. There are some transport costs but for the group overall we are very short in paper. I think compared to some other people who supply in this market that is a bit of a unique position where typically other companies have much more paper and continue to invest in it, but that is not where we see shareholder value. It's as simple as that and over time we'll know which business model will work.

Sanjay Mistry: Sanjay Mistry from WestLB. I've just got a question regarding page 46 on this slide. It has current Capex of 70-75 million and previous of 55. I'm just wondering what the difference relates to?

Steve Dryden: 55 is the guidance we gave back in June pre-Otor. When we purchased Otor I think we had Capex, depreciation of about €15 million a year. We actually said at the time that we needed a little bit more investment. We saw €20-22 million for the first three years of ownership, we've factored that in to all our return models, so I'm just really reflecting in terms of the current guidance the acquisition of Otor. It will be slightly higher for the next three years and then will come back.

Sanjay Mistry: Alright, thanks.

Miles Roberts: I know everybody's time is short. There are no more questions. I'd just like to thank everybody for sparing the time to come and see us today and listen to our presentation. I hope you are as excited as we are about the future and we look forward to seeing you on the Capital Markets Day or failing that at the full year results later on in 2011. Thank you everybody.