



12 October 2006

## **DS SMITH PLC PRE-CLOSE TRADING UPDATE**

In accordance with its established practice, DS Smith Plc, the international packaging manufacturer and office products wholesaler, today issues the following trading update ahead of its interim results announcement for the half year to 31 October 2006, which will be made on 6 December 2006.

### **Group**

As previously indicated, profits in the first half of 2006/07 will be significantly lower than in the first half of 2005/06 due to both high input costs within Packaging and stronger competition in UK Office Products Wholesaling. The strategic and operational actions we are taking across the Group, combined with the better pricing environment in the paper and corrugated packaging market, will result in an improving trend in the second half of the financial year. The outlook for the full year remains unchanged from that stated in the September AGM trading update.

### **Paper and Corrugated Packaging**

Margins in both our UK and Continental European Paper and Corrugated Packaging segments have been squeezed in the first half of the financial year by increased input costs. The net cost of waste paper, the principal raw material for our UK Paper operations, continued to rise due to demand from Asia and a fall in the value of Paper Packaging Recovery Notes, which are currently trading at below £5/tonne compared with £14/tonne a year ago. The Group's underlying energy costs in the first half of 2006/07 are expected to be approximately £8 million higher year-on-year, principally due to higher gas prices and the expiry in October 2005 of the Group's favourable fixed price UK electricity contract. There is some easing in market energy prices but the benefits of this will be largely offset in the short-term by the effects of lagged energy price increases in the contracts for some of the Group's operations. The outlook for the Group's energy costs for the full year remains broadly unchanged.

Stronger demand, combined with substantial reductions in industry capacity for recycled corrugated case material (CCM), has resulted in an improving supply and demand balance and a firmer pricing environment in both CCM and corrugated boxes. In August, we successfully implemented another CCM price increase and in September implemented further increases in box prices in both the UK and continental Europe. The box price increase programme is ongoing.

In August, we announced another important strategic step towards raising the returns of the Group's Paper operations through the proposed closure of Taplow Mill and the sale of the Taplow site, which realised a substantial net cash benefit. The Mill will cease production by the end of October, further reducing the Group's reliance on commodity CCM.

## **Plastic Packaging**

In Plastic Packaging, the improving trend of results in the second half of 2005/06 has continued in the first half of 2006/07. Sales volumes have increased, particularly in the beverage crate business and results have benefited from the actions taken previously to lower costs and strengthen product development.

## **Office Products Wholesaling**

As previously indicated, Spicers' results in the first half of 2006/07 will be significantly lower than in the same period last year due to stronger competition and higher operating costs in the UK. An extensive programme is under way in Spicers UK to improve the sales mix on the back of raised service levels and to lower costs. We expect to see the initial benefits of this programme in the second half of the financial year. Spicers' continental European businesses continue to perform satisfactorily.

## **Enquiries**

### **DS Smith Plc**

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### **Financial Dynamics**

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Richard Mountain/Susanne Walker

A conference call for analysts and investors, hosted by Tony Thorne and Gavin Morris, will take place today (12 October) at 9.00am BST. The dial-in numbers are:

UK participants: 0845 634 0047

International participants: +44 20 7154 2638

Alternative back-up number: +353 1 436 4259

A recording of this conference call will be available by telephone from one hour after the call has ended until 17.00 BST on 19/10/06. The dial-in numbers for this recording are:

UK callers: 020 7769 6425

International callers: +44 20 7769 6425

Replay security code: 753312#

A recording will also be available through the Investor Relations section of our website:

[www.dssmith.uk.com](http://www.dssmith.uk.com) from 14.00 BST today.