



5 March 2008

## DS SMITH PLC INTERIM MANAGEMENT STATEMENT

DS Smith Plc, the international packaging manufacturer and office products wholesaler, today publishes its Interim Management Statement, in respect of the period since 1 November 2007.

### **DS Smith Group**

Trading in the third quarter of financial year 2007/08 has been in line with management's expectations at the time of the Group's interim results announcement in December. The Group has maintained its significant year-on-year progress, benefiting particularly from the recovery of higher input costs in Paper and Corrugated Packaging and the improved performance in Office Products Wholesaling.

Save for the effects of the acquisitions referred to below, there has been no significant change to the financial position of the Group since the publication of the results for the six months to 31 October 2007. The Group's balance sheet is strong.

### **Paper and Corrugated Packaging**

As previously reported, the rate of growth in demand for corrugated packaging in the European market has slowed since the summer of 2007. The industry supply and demand for recycled corrugated case material (CCM) is in reasonable balance and the pricing environment in both CCM and corrugated boxes has remained firm. Input costs of energy and waste paper, the principal raw material for recycled CCM, which are at historically high levels, have recently experienced further rises.

Our UK Paper and Corrugated Packaging segment continued to perform well while the Continental European Corrugated Packaging segment, which is a net buyer of CCM, has made good progress in recovering the input cost increases which have squeezed its margins.

As announced on 1 February, DS Smith has acquired from M-real Corporation the New Thames Paper Mill, which is located adjacent to the Group's prime UK paper mill at Kemsley, as well as the 50% balance of Grovehurst Energy Limited, the mills' energy and services supplier, not already owned by DS Smith. The transaction was completed on 29 February for a consideration of £60 million in cash. In addition, DS Smith incurred a net cash cost of £7 million from a one-off payment, net of tax, towards the costs of the transfer of the associated pension scheme to a third party.

The acquired facility currently produces fine uncoated paper and, using the latest paper-making technology, DS Smith intends to invest, over the next 12 months, a further circa £37 million in the modification of the acquired facility to enable it to produce high-quality lightweight recycled CCM with effect from January 2009. The total cost of the project is expected to be circa £104 million and will be funded from the Group's existing debt facilities. The acquisition and investment will materially strengthen the long-term competitiveness of

DS Smith's important UK Paper and Corrugated Packaging business and give the Group a significant capability in the growth segment of high-quality lightweight CCM. The project is expected to generate good financial returns in its first full year of operation (2009/10) and provide very good returns for shareholders.

On 4 March 2008, the Group acquired Multigraphics Holdings Ltd from funds managed by 3i and from the Multigraphics management team. Multigraphics specialises in the design and printing of retail and promotional display material, has annual revenue of circa £11 million and employs 137 people. Its gross assets at 29 February 2008 were £5.7 million. DS Smith's UK corrugated packaging business is a substantial supplier of high-quality printed display material. This acquisition further strengthens the Group's position in this fast-growing sector of the market.

### **Plastic Packaging**

We continued to grow revenue well in Plastic Packaging. The higher polymer costs have maintained the squeeze on margins; we continue to seek to mitigate the effect of these increased input costs through raising prices and introducing new products. The returnable transit packaging sector has made good progress but the liquid packaging and dispensing sector (LP&D) has been affected by competitive pressure in Europe; in LP&D our actions to lower costs and enhance the sales mix are continuing.

### **Office Products Wholesaling**

Spicers' improved results have been in line with our three-year plan to restore profits. Revenue advanced strongly in the UK and the business has continued to benefit from the actions taken by management. The continental European businesses maintained their good progress, particularly as a result of further strong growth in our development markets.

### **Group Outlook for financial year 2007/08**

As stated at the time of our Interim Results in December, the Board remains confident that the Group will make substantial progress this year.

The Group plans to announce its preliminary results for the financial year to 30 April 2008 on 26 June 2008.

### **Enquiries**

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