

17 February 2009

## DS SMITH PLC INTERIM MANAGEMENT STATEMENT

DS Smith Plc, the international packaging supplier and office products wholesaler, today publishes its Interim Management Statement in respect of the period since 1 November 2008.

### Overview

In the third quarter of financial year 2008/09, the Group's overall trading performance has been broadly in line with management's expectations as described at the time of the Half-Year Results in December. The fundamental issues are the continuing volatility and further weakening of demand in almost all our markets.

In December, we announced that we were implementing an action programme focused on cost reduction and cash generation. This programme, which was expected to have an annual cash benefit of £12 to 15 million, with an up-front cash cost of a similar amount, has been broadened. The programme will now deliver an annual cash benefit of circa £25 million, the majority of which will come through during financial year 2009/10. This extended programme will have an up-front cash cost in the first half of calendar year 2009 of circa £23 million, which will be recognised as an exceptional item.

The Group's cash generation has remained strong, assisted by further reductions in working capital. Given the current environment, we are monitoring closely credit risk across our customer base, within which no single customer represents more than 2% of the Company's revenue. At the end of first half 2008/09, we had net debt of £262 million, of which £216 million was held in euros as a hedge against the Group's euro denominated assets. Recent currency movements have resulted in an increase in the value of the Group's debt. Save for this effect of currency movements, 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 2008. At that time we advised that we had renewed the Group's borrowing facilities. The weighted average maturity of the Group's facilities is now four years and four months.

### Outlook

Looking forward, there is a greater uncertainty over the level of demand across our markets and ongoing concerns with regard to paper prices. We are taking further steps to underpin the Group's results and will continue our focus on cash generation. We are confident that the Group's strong market positions will enable it to maintain a robust performance through the remainder of the financial year.

### Operating Review - Packaging

#### *Paper and corrugated packaging market*

Provisional industry statistics indicate that European corrugated packaging (box) demand in calendar year 2008 was circa 3% lower than in 2007 and that in the fourth quarter it was down by over 5%, highlighting a slow-down which has continued in the early weeks of 2009.

This reduction in demand should be seen in the context that the largest annual fall in the last 20 years was circa 2% in the early 1990s. Demand for the fast-moving consumer goods (FMCG) sector has been stronger than the market as a whole, while the consumer durables and industrial sectors, in particular automotive and chemicals, have been much weaker. Corrugated case material (CCM) demand has reflected the decline in box demand; a consequence of this has been that European industry CCM stocks have remained high. Demand for high-quality lightweight CCM continues to be strong and limited by available supply.

The lower box demand and high industry CCM stocks have contributed to further reductions in CCM prices in continental Europe, which are now substantially lower than at their peak in late 2007. CCM prices in the UK, which had previously been supported by the weakness of sterling, have come down during the last three months. Box prices in the UK have remained firm to date, while on the continent they have softened, particularly where they are directly linked to the price of CCM.

#### *DS Smith - Paper and Corrugated Packaging*

Against the difficult market environment, the performance of the Group's Paper and Corrugated Packaging business has been reinforced by our strong UK market positions in waste paper collection, recycled paper and boxes, our focused continental European positions principally in box conversion, and our overall concentration in boxes for the FMCG sector of the market which accounts for circa 65% of our box sales.

#### *UK Paper and Corrugated Packaging*

Compared with the last financial year, results in this segment have been significantly affected by a combination of reduced sales volumes, in both boxes and paper, and lower CCM prices. We have taken further downtime in paper production to reduce stocks and in our box business we are adjusting production to the changing level of demand.

The recently acquired New Thames Mill at Kemsley has been successfully modified and started production of high-quality lightweight CCM on schedule, on 12 January. This is the only facility in the UK capable of supplying significant volume for this segment of the market, which we expect to continue to grow over the longer-term. It also strengthens further the Group's substantial recycling capability.

#### *Continental European Corrugated Packaging*

This segment, which is a net buyer of CCM, has continued to perform well despite the reduced demand; its reported results have additionally benefited from the strength of the euro. Although sales of heavy-duty boxes to the automotive and other industrial sectors were severely affected by lower demand, our businesses in France, Italy and Poland benefited from their focus on products for the FMCG sector.

#### *Plastic Packaging*

Demand is weakening across our markets. The liquid packaging and dispensing business has maintained its improved performance. The returnable transit packaging business continues to be particularly affected by sharply reduced sales to the automotive and construction sectors and the deferral of orders for beverage crates; the effect of this is being partly mitigated by polymer prices, which have fallen sharply.

## **Operating Review – Office Products Wholesaling**

The slow-down in the European market has continued, particularly affecting traditional office products. Spicers has maintained strong sales growth through further expansion in electronic office supplies, continued good performance in Germany and Italy, and a market share gain in France. Combined, these factors have more than offset the decline in traditional products. The UK business continues to be affected by pressure on margins as a result of its changing product mix and the highly competitive trading environment. Results for the continental businesses have benefited from the effects of currency translation.

## **Associate – Ukraine**

Our Ukrainian associate, Rubezhansk, is trading profitably (before interest expense and foreign exchange losses) and generating cash. This is despite the difficulties in the local economy. In December, we reported that Rubezhansk's results were being affected by an exchange loss on a US\$87 million loan, as a result of the devaluation of the Ukrainian Hryvnia against the US dollar. This loan was taken out in November 2007 to increase Rubezhansk's capacity and develop a capability to produce plasterboard liner. DS Smith's share of the effect of the exchange movement on the loan will be accounted for in the Group's Income Statement. Rubezhansk is currently reviewing, with their banks, the terms of this loan.

Although there is no recourse on the loan to DS Smith, the outcome of this review may affect the Group's Income Statement in one of two ways. If the terms of the loan are resolved satisfactorily prior to the publication of DS Smith's 2008/09 results, the Group would expect, based on current trends and foreign exchange rates, to report a loss of circa £4 million after the exchange loss. This would be DS Smith's share of Rubezhansk's total after tax loss.

If a satisfactory resolution is not completed by that time it will be necessary to make a judgement as regards the carrying value of this asset in the Group's Balance Sheet. This may result in a non-cash, exceptional charge of up to £33 million, being the full impairment of the value of the Group's investment in Rubezhansk. The net cash invested by DS Smith in Rubezhansk is £7 million, which is included in the above figure. If the issue of the loan is resolved satisfactorily at a later date, the Group would reconsider the carrying value of the asset. The Group remains positive about Rubezhansk's strong market position and capability.

The Group plans to announce its results for the year to 30 April 2009 on 25 June 2009.

## **Enquiries**

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A conference call for analysts and investors, hosted by Tony Thorne and Steve Dryden, will take place today, 17 February, at 9.00 am GMT. The dial-in numbers are:

UK participants: 020 8817 9301 or 0845 634 0041

International participants: +44 20 8817 9301 or +353 1 436 4265

A recording of this conference call will be available by telephone from two hours after the call has ended until 23.59 GMT on 24/2/09. The dial-in numbers for this recording are:  
UK callers: 020 7769 6425  
International callers: +44 20 7769 6425  
Replay security code: 1570265#

A recording of the call will also be available through the Investor Relations section of our website: [www.dssmith.uk.com](http://www.dssmith.uk.com) from 15.00 GMT today.