
DS SMITH INVESTMENT IN HIGH-QUALITY LIGHTWEIGHT CCM AT KEMSLEY

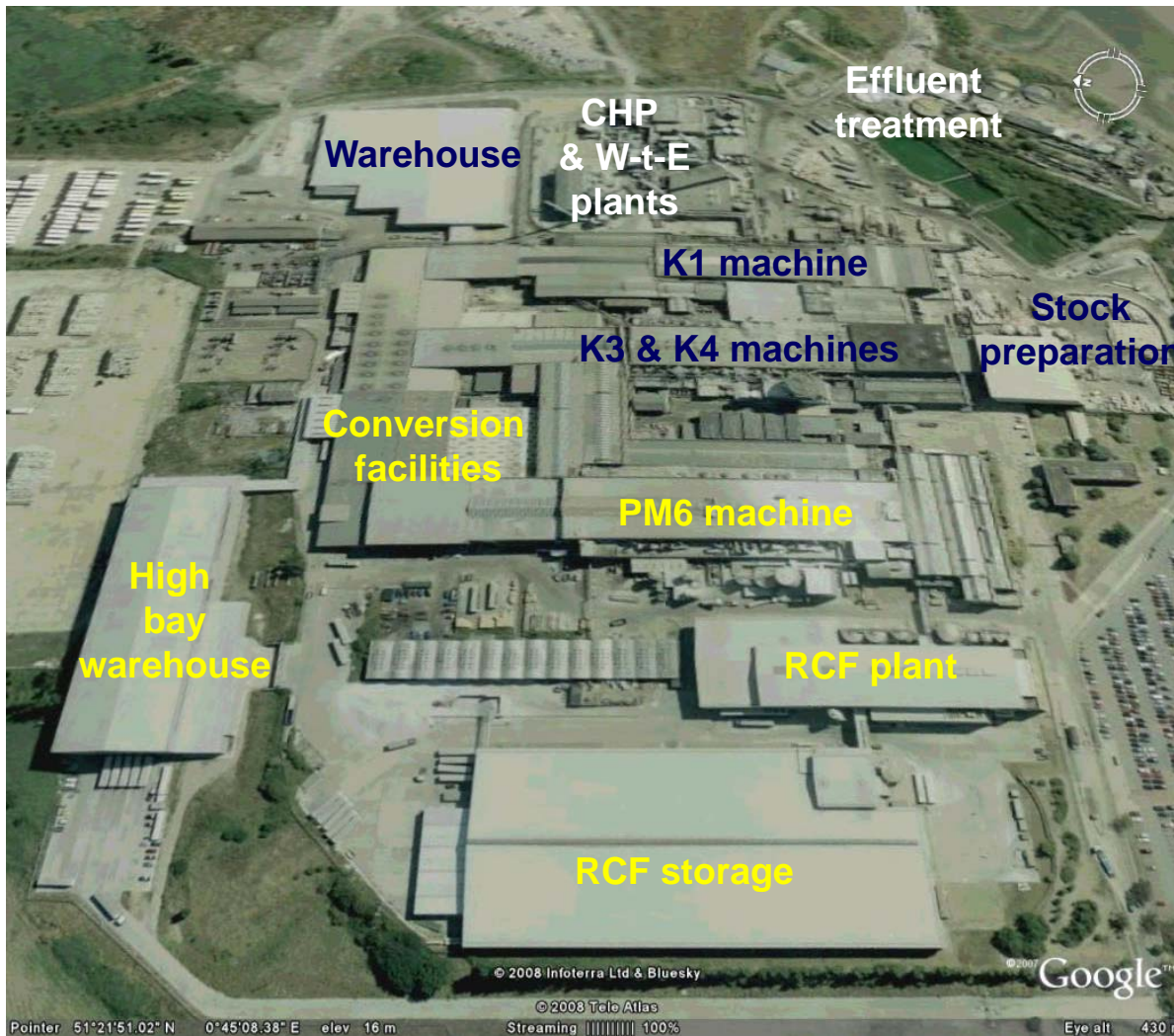


1 February 2008

Project headlines

- Acquisition from M-real of New Thames Paper Mill and the balance of Grovehurst Energy – adjacent to DS Smith's existing Kemsley Mill
- Investment to give DSS 260,000t p.a. production in the growth segment of high-quality lightweight recycled corrugated case material (CCM)
- Total project cost circa £104m – a low capital cost per tonne
- Strengthens DSS's long-term competitiveness in UK Paper and Corrugated Packaging
- Creates one of the most flexible and cost-competitive CCM mills in Europe
- Generates good financial returns in 2009/10 and thereafter

Kemsley Site



Grovehurst
Energy
facilities

St Regis,
Kemsley Mill
facilities

New Thames
Paper Mill
facilities

Lightweight CCM* - a growth segment

- Europe-wide trend towards lighter-weight boxes – particularly for FMCG
 - Driven by cost and environmental factors
 - High-performance lightweight CCM a key element in reducing box weight
- Growth of lightweight CCM limited by available supply
- European lightweight recycled CCM demand**
 - % of total CCM – 2007: c.7%; 2010: c.15%
 - Forecast growth 2007-2010: c.2m tonnes
- UK demand met largely by imports from continental Europe
- DS Smith's current position
 - Lightweight CCM production: very limited capacity; <50k tonnes p.a.
 - UK corrugated operations use 150,000 tonnes p.a. and increasing

* Lightweight CCM = testliner 100g/sq.m. or lighter; fluting 90g/sq.m. or lighter

** Source: DS Smith/PRISM consultants estimates

Investment in New Thames Paper Mill

- 2008: £37m expenditure, using latest technology, on:
 - Stock preparation – new high-specification plant for recycled fibre
 - Paper machine modifications:
 - ~ Replacement of press section
 - ~ Additional drying capacity
 - ~ Control system upgrades
 - Additional effluent treatment capacity
 - Improved reel handling and storage for CCM
- Low capital cost per tonne – benefits from existing site facilities

Combined Kemsley operations

Now

- M-real:**
- One paper machine – 230kt
 - Fine uncoated business and graphic paper
 - RCF (de-inking) plant – 110kt
 - Onsite warehousing facilities

- St Regis:**
- Three paper machines – 580kt
 - Products:
 - Lightweight CCM 50kt
 - CCM 350kt
 - Plasterboard liner (PBL) 180kt
 - Warehousing for 20kt of CCM / PBL

- Grovehurst Energy - Shared Services:**
- Combined heat and power (CHP) plant
 - Waste-to-energy (WtE) plant
 - Effluent treatment

Post-Investment

- St Regis:**
- Four paper machines - 840kt
 - Products:
 - Lightweight CCM 310kt
 - CCM 350kt
 - PBL 180kt
 - Grovehurst Energy including CHP and WtE plants
 - RCF plant – 110kt
 - Onsite storage for 35kt of finished product
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- Waste paper recycling +30%
 - Reduced cash costs
 - Increased European cost-competitiveness
 - Opportunities for further development

Expected financial benefits of the project

- 2008/09 – transitional period:
 - Fine paper supply and converting services to M-real
 - Small contribution to DSS's operating profit

- 2009/10 – first full year of operation
 - Enhanced earnings
 - Return on capital employed (ROCE) at DSS's cost of capital (c.12% before tax)
 - Positive cash flow

- 2010/11 onwards
 - Enhanced earnings
 - Average ROCE in excess of DSS's cost of capital
 - Important cash contribution

Summary

- Strengthens DSS in UK Paper and Corrugated Packaging
 - High-quality lightweight CCM to meet market and internal demand
 - Low capital cost per tonne
 - Reinforces flexible and highly-competitive CCM site

- Generates good financial returns from 2009/10 onwards
 - Enhances earnings
 - 2009/10 ROCE at cost of capital; long-term average ROCE in excess of cost of capital
 - Generates positive cash flow; important ongoing cash contribution

Appendix

New European CCM capacity

- Focused on high-quality lightweight recycled CCM
- DS Smith – UK
 - Start up January 2009
 - 260kt
- Others* – oriented towards eastern Europe
 - Start up from Q3 2009
 - 1,520kt located in Germany, Poland, Hungary
- Total new European CCM capacity when fully operational
 - 1.8m tonnes
 - 7% increase in overall CCM capacity
- Lightweight recycled CCM market growth by 2010: c.2m tonnes

* Source: public announcements and media reports

Commercial and transitional arrangements

- Fine paper supply contact
 - Provide M-real with fine paper until November 2008
 - M-real responsible for sales and marketing of fine paper

- RCF plant feedstock contract
 - Provide feedstock to M-real's French operation
 - From November 2008 for three years

- Fine paper converting
 - Provide services from the Kemsley site to M-real
 - From November 2008 for three years

Project timetable

- February 2008: commence installation of new stock preparation

- Autumn 2008
 - Cease production of fine paper
 - Commence modification of PM6

- January 2009: start-up PM6 producing CCM