



20 April 2005

DS SMITH PLC

PRE-CLOSE TRADING UPDATE AND EARLY ADOPTION OF FRS 17

DS Smith Plc (LSE:SMDS), the international packaging manufacturer and office products wholesaler, is releasing the following trading update prior to its year end on 30 April 2005.

Since our interim results in December, the Group's underlying trading has been in line with our expectations at that time. Following completion of the triennial valuation of the UK pension scheme, a number of changes have been made in relation to the scheme and the Board has decided to adopt FRS17 for the current financial year; the adoption of FRS 17 will result in profit before tax, amortisation of intangibles and exceptional items being approximately £5.5 million higher than previously expected.

Review of trading

In the second half of the year we have made progress in UK Corrugated Packaging due to improved results in our existing UK business and the benefits from the acquisition of Linpac Containers. Our continental European corrugated operations and the Spicers Office Products Wholesaling business have also continued to perform well. As indicated previously, the Group's overall result has been affected by highly competitive trading conditions and increased energy costs in Paper, a sharp rise in polymer costs in Plastic Packaging, together with a significant charge in respect of the UK pension scheme for the first time for many years.

Paper and Corrugated Packaging

Our UK Paper business has continued to experience a severe squeeze on its margins in corrugated case material (CCM). This has been driven by a combination of depressed prices resulting from excess CCM capacity in Europe, markedly higher energy costs and the rising cost of its feedstock, recovered paper. We increased CCM prices in mid March to recover some of the cost increases. Given the late stage in our financial year, this increase will not yield a significant benefit to the 2004/05 results. In March, we entered into a long-term agreement with BPB plc for the supply of plasterboard liner paper, consistent with our drive to increase sales of higher added-value products.

The UK Corrugated Packaging operations have maintained their progress and integration of the Linpac Containers business is advancing well; we remain confident of generating the expected synergies over the timescale indicated in December and, as previously indicated, we anticipate incurring exceptional restructuring charges of approximately £6 million in this financial year. In western continental Europe, trading conditions for the paper and corrugated operations remain challenging but our businesses in Poland and Turkey and our associate in the Ukraine have continued to make good progress.

Plastic Packaging

Results in Plastic Packaging have been adversely affected in the second half of the year by the sharp rise in polymer prices which are now some 35-40% higher than at the start of this financial year for our main polymer types. Although we have raised our selling prices several times during the year, it has not been possible to recover these cost increases in full. The cumulative effect of this under-recovery on the division's result for the year is expected to be approximately £2.5 million. The high polymer prices have also resulted in reduced demand from some customers deferring orders; this has mainly affected returnable transit packaging where sales have also been affected by a slowdown in new crate contracts after several years of strong growth. Liquid packaging and dispensing has performed steadily, benefiting especially from improved results in the tap business following last year's programme to strengthen sales and reduce costs.

Our actions have resulted in some improvement in the combined result of the three smaller speciality businesses. However, the Group has decided to take an exceptional impairment charge, in the current year, of approximately £5.8 million against the goodwill of the packaging management business, acquired in 1998; this business is trading at around breakeven and generating cash.

Office Products

Spicers has continued to perform in line with its objectives. The UK business has maintained its sales growth and good financial performance in the second half of the year, while the French business continues to perform well despite a challenging market environment. Spicers Germany is expected to be in profit for the current financial year. The Spanish business continues to grow well, and initial sales in Italy, following our start-up last November, remain encouraging. The John Dickinson manufacturing business continues to be affected by difficult trading conditions.

Refinancing

Following on from the \$200 million US private placement completed in August 2004, the Group has signed a new £250 million 5-year committed banking facility. This will replace existing shorter-dated and more expensive facilities, thereby extending the average maturity of the Group's debt to 6.9 years, and reducing its cost.

International Financial Reporting Standards (IFRS)

As stated previously, the Group's conversion programme to IFRS is progressing satisfactorily with no problematical issues identified to date. A reconciliation of the UK GAAP 2004/05 results to IFRS will be provided after the publication of the 2004/05 preliminary results.

Pension Scheme

Following the triennial valuation of DS Smith's UK defined benefit pension scheme, as at 5 April 2004, the Group has introduced a number of changes, which have been accepted by the scheme's Trustee Board and scheme members. From 1 May 2005 the scheme will be closed to new employees, who will be offered a new defined contribution scheme. The Group, as previously indicated, will raise its cash contributions to the defined benefit scheme from £10 million a year to £14 million a year. At the same time, scheme members will either increase

their contributions to the scheme, phased over two years, or retain their existing contribution level, while reducing the rate at which their pension benefits build up for future service.

DS Smith has previously reported under the SSAP 24 pensions accounting standard. Following the 2004 triennial valuation, and in anticipation of the introduction of IFRS for financial year 2005/06, DS Smith will adopt FRS 17 for the financial year 2004/05. The FRS 17 accounting treatment being adopted is consistent with that which the Group will adopt under IAS 19, in effect bringing forward the most material aspect of the introduction of IFRS for DS Smith and aiding comparison between financial years. The comparative FRS 17 figures for 2003/04, which will be used to restate last financial year's results, were detailed in Note 6 to the 2003/04 accounts.

Under FRS 17, the anticipated charge to the 2004/05 profit and loss account for the pension scheme is £10.5 million; the previously estimated charge under SSAP 24 was £16 million. The FRS 17 deficit on the UK defined benefit pension scheme as at 30 April 2004, of £78.1 million (£54.6 million after deferred tax), will be recognised as a liability in the opening Group balance sheet and the previous SSAP 24 pension prepayment, of £15.1 million (£10.6 million after deferred tax), will be written off. As a result, DS Smith Plc Group's consolidated shareholders' funds as at 30 April 2004 of £562.0 million will be reduced by £65.2 million. Further details of the effect of the adoption of FRS 17 are set out below in an appendix.

Outlook

In common with many other companies, we shall be entering 2005/06 with energy and raw material costs at a considerably higher level than at the outset of 2004/05. We are responding to this through further cost reduction and we are also looking to offset these additional costs through price increases. Despite these cost pressures, we expect the synergies arising from the Linpac Containers acquisition, and a further advance at Spicers, to enable us to make some underlying progress in the coming financial year. The 2005/06 result will also reflect the adoption of IFRS which will include the accounting changes relating to pensions referred to above.

DS Smith's Preliminary results for the year to 30 April 2005 will be announced on 30 June 2005.

Enquiries

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A conference call for analysts and investors, hosted by Tony Thorne and Gavin Morris, will take place today at 9.00am BST. The dial-in numbers are: UK participants - 0845 634 0047; International participants - +44 20 7154 2638. A recording of this conference call will be available for one week from approximately 1.00pm BST today. The dial-in numbers for the recording are: UK callers - 020 7769 6425; International callers - +44 20 7769 6425 (Security code 514719#)

Appendix

Effect of Adopting FRS 17 on the Profit and Loss Account

	Restated 2003/04 £m	Anticipated 2004/05 £m
Pension charge against operating profit:		
Paper and Corrugated Packaging	(9.1)	(8.3)
Plastic Packaging	(1.2)	(1.0)
Office Products Wholesaling	(2.0)	(1.8)
Office Products Manufacturing	(1.1)	(1.0)
	<u>(13.4)</u>	<u>(12.1)</u>
Other finance (cost)/income	(3.2)	1.6
Total FRS 17 charge	<u>(16.6)</u>	<u>(10.5)</u>

As previously reported, the Profit and Loss Account charges under SSAP 24 were:

2003/04: nil

2004/05: expected to be approximately £16 million

Effect of Adopting FRS 17 on the Group Balance Sheet

	£m
Consolidated shareholders' funds, 30 April 2004, as previously stated	562.0
Reversal of SSAP 24 prepayments and liabilities	
– write off balance sheet prepayment	(15.1)
– write back deferred tax credit associated with prepayment	4.5
Effect of adoption of FRS 17:	
– include net liabilities of pension scheme	(78.1)
– include deferred tax asset associated with pension scheme liabilities	23.5
Consolidated shareholders' funds, 30 April 2004, restated for FRS 17	<u>496.8</u>