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DS Smith Proposes Closure of its Sudbrook Paper Mill

As indicated at the Interim Results in December, a number of the Group's operations are under close scrutiny as a result of the difficult trading environment and high energy costs. DS Smith's UK Paper division, St Regis, has today announced the proposed closure of its Sudbrook Mill in Monmouthshire, which produces approximately 150,000 tonnes per annum of semi-chemical fluting paper, a speciality form of corrugated case material (CCM). It is proposed that the closure will be implemented by the end of May 2006.

Sudbrook Mill is the most energy-intensive production operation within the Group and its annual energy costs have approximately doubled over the last three years. St Regis has been unable to pass this increase on to its customers and the mill is now making annualised operating losses of approximately £3 million. The decision to propose the closure of the mill has also been made in the context of demand for the mill's speciality product continuing to fall as customers switch to alternative lower-cost types of paper.

Consultations have commenced with the mill's 135 employees and their representatives, with a view to reducing and mitigating the effects of the proposed closure. If the closure is confirmed following the consultation, every effort will be made to assist employees in finding alternative positions within the Group or with other employers in the area.

It is estimated that the proposed closure will result in an exceptional charge to the profit and loss account in the financial year 2005/06 of the order of £22 million; approximately one third will arise from redundancy costs and other cash costs, and the remainder will be the write down of assets. It is anticipated that the cash outflow, which will occur in the financial year 2006/07, will be largely offset by asset sales and the realisation of working capital.

The proposed closure of Sudbrook Mill is an important step towards raising the returns of the Group's UK Paper and Corrugated Packaging operations. Following the proposed closure of Sudbrook Mill, St Regis' principal mill at Kemsley will represent approximately 60% of the division's output of over 900,000 tonnes per annum; Kemsley Mill is ranked in the top quartile of European CCM mills in terms of cost competitiveness.

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NOTES TO EDITORS

St Regis Paper Company

DS Smith's UK Paper division, St Regis, currently has six mills and is the leading UK producer of recycled paper. 75% of its output is used in the construction of corrugated boxes and trays. The semi-chemical fluting produced at Sudbrook Mill is a speciality corrugated packaging paper; its raw material is a mixture of fibre obtained from recycled paper and wood pulp.