



1 February 2008

DS SMITH TO INVEST £104 MILLION IN HIGH-QUALITY LIGHTWEIGHT CORRUGATED CASE MATERIAL AT ITS PRIME UK PAPER MANUFACTURING FACILITY AT KEMSLEY

Summary

DS Smith, the international packaging manufacturer and office products wholesaler, announces that it is substantially strengthening the competitiveness of its UK Paper and Corrugated Packaging business through an investment to produce high-quality lightweight corrugated case material (CCM) at its prime UK paper mill at Kemsley in Kent. It has agreed with M-real Corporation the terms of the acquisition of the adjacent New Thames Paper Mill (NTPM) as well as the 50% balance of Grovehurst Energy Limited, the mills' energy and services supplier, not already owned by DS Smith. The consideration for the transaction is £60 million in cash. In addition, DS Smith will incur 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 Board expects that the acquisition and investment will:

- materially strengthen the long-term competitiveness of DS Smith's important UK Paper and Corrugated Packaging business:
 - provide DS Smith with 260,000 tonnes per annum of high-quality lightweight CCM to satisfy the Group's own growing demand and that of its customers; currently, DS Smith has very limited capacity to produce this product;
 - enable this new capacity to be added at a highly-competitive investment cost per tonne;
 - create one of Europe's most flexible and cost-competitive CCM manufacturing operations at DS Smith's already highly-competitive, well-invested prime mill at Kemsley;
- generate good financial returns in the project's first full year of operation (2009/10):
 - enhance earnings;
 - produce a return on capital employed equal to DS Smith's cost of capital and over the long-term produce returns in excess of the Group's cost of capital;
 - generate positive cash flow and make an important ongoing cash contribution.

Tony Thorne, Group Chief Executive of DS Smith Plc, said:

“This significant development will create, in a highly cost-effective way, one of the most flexible and cost-competitive CCM mills in Europe at our principal site at Kemsley. It will strengthen our important UK Paper and Corrugated Packaging business and give us a significant capability in the growth segment of high-quality lightweight CCM paper. We are confident it will provide very good returns for our shareholders.”

Enquiries

DS Smith Plc

020 7932 5000

Tony Thorne, Group Chief Executive
Gavin Morris, Group Finance Director
Peter Adbusson, Group Communications Manager

Financial Dynamics

020 7269 7140

Andrew Dowler

A conference call briefing for analysts and investors, hosted by Tony Thorne and Gavin Morris, will take place today, 1 February, at 9.00 GMT. The dial-in numbers are:

UK participants: 020 8817 9301

International participants: +44 20 8817 9301

Alternative back-up number: +353 1 436 4265

The presentation slides for this briefing will be posted on the Presentations page of the Investor Relations section of the Group's website www.dsmith.uk.com at 8.45 GMT.

A recording of this conference call will be available by telephone from two hours after the call has ended until 17.00 GMT on 8 February 2008. The dial-in numbers for this recording are:

UK callers: 020 7769 6425

International callers: +353 1 436 4267

Replay security code: 1155382#

A recording of the call will also be available through the Investor Relations section of our website: www.dssmith.uk.com from 14.00 GMT today.

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AT ITS PRIME UK PAPER MANUFACTURING FACILITY AT KEMSLEY**

The Project

DS Smith Plc has agreed with M-real Corporation and its subsidiary, M-real UK Holdings Limited (M-real), the terms of the acquisition of the whole of the issued share capital of M-real New Thames Limited and the balance of the shares in Grovehurst Energy Limited not already owned by DS Smith Plc. The facilities of M-real New Thames Limited include the New Thames Paper Mill (NTPM), together with the land and associated buildings, warehousing and infrastructure, and a recycled fibre (RCF) plant. NTPM and the RCF plant are located adjacent to DS Smith's existing St Regis paper mill on a combined site at Kemsley, near Sittingbourne, Kent. Grovehurst Energy Limited is also located on the Kemsley site and provides energy and other services to the entire site through a 50:50 joint venture between DS Smith Plc and M-real.

The consideration of £60 million on a debt free basis will be paid in cash on completion and funded through DS Smith's existing debt facilities. In addition, DS Smith will incur 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 value of the gross assets acquired as at 31 December 2007, as extracted from the management accounts, was £49.1 million. In the financial year to 31 December 2007, the profit attributable to the acquired assets, as extracted from the management accounts, was £0.9 million.

NTPM currently produces 230,000 tonnes per annum of fine uncoated business and graphic paper per annum. During the course of the next 12 months, using the latest paper-making technology, DS Smith intends to modify the NTPM paper machine (PM6) to enable it to produce approximately 260,000 tonnes per annum of high-quality lightweight recycled CCM and to install a new high-specification stock preparation plant to supply the feedstock required for this production. It is planned that NTPM will convert from production of fine uncoated paper in autumn 2008 and commence production of lightweight CCM in January 2009.

The total capital expenditure associated with the project, which will be funded from the Group's existing debt facilities, is expected to amount to approximately £37 million and will be incurred very largely in financial year 2008/09. It is envisaged that there will be opportunities to reduce costs on the Kemsley site which will result in potential restructuring charges of circa £5 million in total during 2008/09 and the two subsequent financial years. These charges will be more than offset by the income from the transitional supply arrangements agreed with M-real, which are detailed below

Background to and reasons for the project

High-quality lightweight paper - a growing segment of the CCM Market

This acquisition and investment project will enable DS Smith to establish a competitive position in high-quality recycled lightweight CCM (testliner of 100 grams per square metre or lighter and fluting of 90 grams per square metre or lighter), a differentiated and fast-growing segment of the overall CCM market.

The total demand for CCM in Europe is approximately 25 million tonnes and is estimated to have grown by circa 2.5% in 2007. Approximately 80% of the CCM used in Europe is made from recycled fibre. Taking into account recent economic forecasts, DS Smith estimates that annual growth in the European CCM market during 2008-2010 will be circa 2.0% per annum; within this, growth in western Europe is expected to be circa 1.5% per annum while growth in central and eastern Europe is expected to be 6-7% per annum. Based on this forecast, DS Smith estimates that there will be an increase in demand for recycled CCM of 1.5 million tonnes by 2010.

There is a trend across Europe towards the greater use of lighter-weight corrugated boxes, for cost and environmental reasons. The UK remains at the forefront of this trend, which is particularly significant in the important fast-moving consumer goods (FMCG) sector of the market. The availability of lightweight recycled CCM with good strength characteristics is a key element in enabling box manufacturers to produce packaging with high performance characteristics while reducing the weight of material used. Lightweight recycled CCM is estimated to account for circa 7% (circa 1.8m tonnes) of the total European CCM market currently and this share is expected to rise to circa 15% (circa 4 million tonnes) by 2010, representing a growth of circa 2 million tonnes.

Growth in the high-performance lightweight segment of the CCM market will continue to be limited by the available supply of lightweight paper as the majority of the existing CCM machines are unable to manufacture lightweight papers cost-effectively or to an acceptable quality.

Lightweight CCM accounts for approximately 25% (approximately 150,000 tonnes per annum) of the CCM usage of DS Smith's UK corrugated packaging operations. Total UK demand for lightweight recycled CCM is estimated to have been 400,000 tonnes in 2007 and is expected to grow to over 600,000 tonnes by 2010. At present, UK demand is very largely met by imports from continental Europe as total UK manufacturing of this product is less than 100,000 tonnes per annum and DS Smith has very limited capacity to produce lightweight CCM.

A number of European recycled CCM producers have announced their intentions to invest in new capacity, which will be capable of producing lightweight CCM. These machines, to be located in Germany, Poland and Hungary, are scheduled to start production from the third quarter of 2009. The new capacity, including DS Smith's investment at Kemsley, will produce circa 1.8 million tonnes per annum when it is fully operational, which will represent an overall increase in capacity of approximately 7%. It is expected that the production from the new machines will principally be targeted at satisfying the rapidly growing European demand for lightweight paper.

Investment strengthens DS Smith's competitiveness

The project is expected to strengthen the long-term competitiveness of DS Smith's important UK Paper and Corrugated Packaging business, which represented approximately 50% of the Group's operating profits and cash flow in financial year 2006/07.

In particular the project will:

- provide the Group with 260,000 tonnes per annum of high-quality lightweight recycled CCM product to satisfy DS Smith's own demand and that of its customers;
- enable this capacity to be added at an investment cost per tonne which is substantially lower than that of building a new machine, benefiting from the existing infrastructure on the site;
- increase the efficiency of DS Smith's prime paper mill at Kemsley which is already well-invested and in the top quartile of European cost-competitiveness. Kemsley will in future produce over 850,000 tonnes per annum, accounting for over 75% of the Group's UK paper output; it will be one of the two largest recycled CCM manufacturing sites in Europe and the foremost CCM mill in the UK;
- enable DS Smith to recycle, through its own mills, more of the waste paper collected by its Severnside Recycling business. Recycling on the Kemsley site will increase by over 30% to 1.2m tonnes per annum;
- create at Kemsley a CCM manufacturing site which will provide the flexibility for further operational improvement and development of DS Smith's paper manufacturing in the medium- and longer-term.

Financial benefits of the project

During the transitional period until Autumn 2008, while NTPM continues to produce fine paper by M-real under the commercial arrangements described below, the acquisition is expected to make a small contribution to the Group's operating profit. Once PM6 is producing lightweight CCM, its revenue, based on the current selling price of CCM, will be over £70 million per annum.

Good financial returns

The project is expected to generate good financial returns. In particular it is expected, in its first full year of operation (2009/10) to:

- enhance earnings;
- produce a return on capital employed equal to DS Smith's cost of capital (estimated to be circa 12% before tax) and over the long-term on average produce returns in excess of the Group's cost of capital;
- generate positive cash flow and make an important ongoing cash contribution.

DS Smith has a strong balance sheet. Throughout the period of investment in this project, the Group's borrowing level is expected to remain well within its existing facilities.

Commercial and other transitional arrangements

As part of the acquisition agreement, DS Smith has entered into certain commercial arrangements with M-real to enable M-real to continue its involvement in the supply of fine uncoated paper. DS Smith will provide to M-real, under a supply contract, fine paper produced on PM6 for a period until the end of November 2008. The sale and marketing of fine paper will be the

responsibility of M-real. Following the expiry of this supply arrangement, DS Smith will provide to M-real's French operation, for a period of three years, the feedstock produced by the RCF plant. DS Smith will also provide M-real with fine paper converting services on the Kemsley site for the same period.

Environmental benefits of the project

DS Smith makes a major contribution in the UK to conserving resources and reducing landfill waste through its businesses Severnside Recycling, which is the leading UK collector of waste paper for recycling, and St Regis Paper Company, which is the largest UK producer of recycled paper. As noted above, the project will further increase the proportion of the waste collected by Severnside Recycling that is recycled through the Group's own paper manufacturing facilities.

The Group continually seeks to increase the energy efficiency of its operations and is looking further to reduce its use of fossil fuels. The full ownership of Grovehurst Energy is expected to facilitate faster implementation of projects to improve energy efficiency, use alternative energy sources and enhance the site's existing combined heat and power and waste-to-energy facilities, thus further reducing the site's environmental impact.

Completion

Completion of the transaction is subject to obtaining German anti-trust approval and is expected to take place within 30 days.

Current trading

As stated at the time of the Group's interim results in December 2007, the Board remains confident that the Group will make substantial progress this financial year. DS Smith will be announcing its Quarter 3 interim management statement, in respect of the period from 1 November 2007, on 5 March 2008.

Note to Editors

On the Kemsley site, M-real's New Thames Paper Mill employs 282 people, Grovehurst Energy Limited employs 27 people and DS Smith's St Regis Paper business employs 270 people.