



5 September 2005

DS SMITH AGM TRADING UPDATE STATEMENT

DS Smith Plc, the international packaging manufacturer and office products wholesaler, is today advancing the release of the following statement that will be made at its Annual General Meeting on 7 September 2005.

In financial year 2004/05, DS Smith produced a commendable result despite further weakening in the paper market and sharply higher energy and polymer costs. We were pleased to report further progress in Corrugated Packaging, thanks both to higher profits in our existing business and to the substantial contribution from our first full year of ownership of the former Linpac Containers business. The Spicers Office Products business continued to advance, helped by moving into profit in Germany.

We stated at the time of our 2004/05 Preliminary Results in June that the trading environment was difficult and that energy and other input costs were at considerably higher levels than in 2004/05. Energy costs have continued to rise and we now anticipate that the increase in our energy and fuel costs for 2005/06 will be approximately twice the level of the minimum increase of £9 million we indicated in June. This increase is particularly affecting results in Paper and Corrugated Packaging, where approximately 90% of the Group's energy and fuel costs are incurred. In this segment, our continuing drive for operational improvement is expected to mitigate part of this further increase in energy costs.

In Paper and Corrugated Packaging, the lower box demand and European overcapacity in corrugated case materials (CCM) continues to put pressure on selling prices and margins throughout the supply chain. In our case we have the benefits from the integration of Linpac Containers. The restructuring of our enlarged Corrugated Packaging operations, begun in autumn 2004, continues and we remain confident of achieving the synergy benefits in the timescale previously indicated. Our UK Paper business has reduced its emphasis on CCM through growing sales of higher added-value plasterboard liner to an annual run-rate of over 130,000 tonnes. A number of our competitors have recently announced restructuring and capacity reduction plans to address the effects of the poor market conditions.

In Plastic Packaging, polymer prices have fallen back from their peak but they are still at higher levels than in recent years. They may start to increase again following the recent rise in oil prices but the outlook is uncertain. Our sales have been slow in the opening months of the year and competitive pressures have further lowered our margins. The division's profits, which were £6.6 million in the first half of 2004/05 fell to £3.3 million in the second half of 2004/05, principally as a result of the higher polymer costs. For 2005/06, full year profits are now expected to reflect this half-yearly run-rate. Our forward order book is strengthening, in part as a result of developing new products and new outlets, while the restructuring of our European liquid packaging and dispensing operations will reduce costs.

In Spicers' established UK and French businesses, the gradual improvement in our sales which began in 2004/05, has continued, although as previously indicated, prices remain under pressure, particularly in electronic office supplies. The developing businesses in continental Europe continue to make progress.

In July, we concluded the sale of the John Dickinson office products manufacturing business to Groupe Hamelin.

In summary, the extraordinary rise in energy costs is proving harder to mitigate than we anticipated in June, given the prevailing market conditions. This is despite the considerable benefits we are realising from our enlarged Corrugated Packaging operations. For the reasons identified above, we now anticipate that our result for the year to 30 April 2006 will be below our expectations at the time of the 2004/05 Preliminary Results in June. We are taking action to address this situation by further cost reduction and continued active management of prices, while maintaining our commitment to generating strong free cash flow.

DS Smith will publish information about the restatement of its results for financial year 2004/05, as prepared under International Financial Reporting Standards, on 13 October 2005. At the same time, a trading update will be provided, as is our normal practice, prior to the close of the first half of the financial year.

Enquiries

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A conference call for analysts and investors, hosted by Tony Thorne and Gavin Morris, will take place today at 8.30am BST. The dial-in numbers are:

UK participants - 0845 634 0047

International participants - +44 20 7154 2638

Alternative back-up number - +353 1 436 4259

A recording of this conference call will be available for one week from approximately 12.30pm BST today. The dial-in numbers for the recording are:

UK callers - 020 7769 6425

International callers - +44 20 7769 6425

Security code for the replay - 567361#