

BUSINESS REVIEW
DESCRIPTION OF THE GROUP

DS Smith – international packaging supplier and office products wholesaler

The Group’s activities of Packaging and Office Products Wholesaling are managed through a decentralised structure covering four segments:



PACKAGING

UK PAPER AND CORRUGATED

A leading position in the whole UK corrugated packaging supply chain.

This segment comprises three businesses: Severnside Recycling, which collects waste paper and other materials for recycling; St Regis, which processes the waste paper to produce recycled paper, the majority of which is corrugated case material (CCM) used in the manufacture of corrugated packaging; and DS Smith Packaging, which converts CCM into corrugated board and boxes. These three businesses operating in the corrugated packaging supply chain are heavily interdependent, although all three maintain open-market positions to ensure competitiveness.

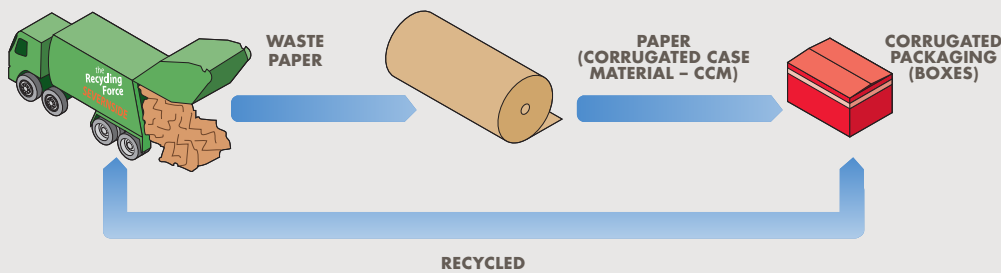
Severnside Recycling is the leading UK collector and merchant of waste paper, the principal raw material for producing recycled paper. In total, annually it sources 1.7 million tonnes of waste paper by means of collections through its 16 UK depots and open-market purchases from

supermarkets and third-party waste merchants. In addition, Severnside’s facilities management function provides general recycling and waste disposal services for customers in a number of sectors. Severnside’s main sources of waste paper include large supermarket groups and other retailers, other commercial and industrial organisations and local authorities. The largest single source of waste paper accounts for 16% of the total amount sourced. Severnside particularly concentrates on sourcing used corrugated packaging, referred to as old corrugated containers (OCC), which is the most suitable form of waste paper for producing recycled CCM. Severnside supplies all of the 1.2 million tonnes of waste paper required by the St Regis paper mills and it sells 0.5 million tonnes on the open market.

St Regis’ four paper mills produce approximately 1.0 million tonnes of 100% recycled paper. St Regis is the leading UK producer of CCM, which accounts for over 70% of the paper it produces, and is a leading European producer of plasterboard liner, which accounts for approximately 15% of its production; the remainder comprises other speciality paper grades. The Group’s Corrugated Packaging operations account for around 55% of St Regis’ CCM sales. St Regis’ external sales are made to around 340 customers; no single external customer accounts for more than 5% of the Group’s total UK Paper and Corrugated Packaging revenue.

DS Smith Packaging produces 1.1 billion square metres per annum of corrugated packaging at 31 factories located throughout the UK. It is the leading supplier of corrugated packaging to the UK market with a market share of around 25%. Approximately 65% of sales go into the fast-moving consumer goods (FMCG) sector, predominantly for food and beverages, with the remainder being principally for the consumer durables and industrial sectors. DS Smith Packaging supplies many of the leading FMCG companies; no individual customer accounts for more than 2% of the total UK Paper and Corrugated Packaging revenue.

THE CORRUGATED PACKAGING SUPPLY CHAIN



DS Smith – UK	Severnside Recycling	St Regis Paper	DS Smith Packaging
Annual volume ('000 tonnes)	Waste paper collected – 1,700	CCM – 750 Other speciality papers – 250	Boxes and board – 600
DS Smith – Continental Europe	–	DS Smith Kayzersberg – France and Turkey	DS Smith Kayzersberg – France, Italy, Poland, Turkey, Czech Republic and Slovakia
Annual volume ('000 tonnes)		Solid board and speciality papers – 220	Boxes and board – 400

DS Smith operates in all parts of the corrugated packaging supply chain – waste paper, paper and boxes – but the balance between these is different in the UK and continental Europe. In total, the Group is a net buyer of CCM, its box-making operations using more CCM than the Group produces.

In the UK, we collect more waste paper than we require for our paper mills and we produce more CCM than we consume in making boxes. In continental Europe we are predominantly a box manufacturer and a large net buyer of CCM.



CONTINENTAL EUROPEAN CORRUGATED

Strong positions in chosen national markets.

In continental Europe, DS Smith Kaysersberg produces 0.5 billion square metres per annum of corrugated packaging at 13 factories located in France, Italy, Poland, Turkey, Czech Republic and Slovakia. The bulk of its CCM requirements are sourced from third parties. It has estimated market shares of 6% in France, 3% in Italy, 8% in Poland and 4% in Turkey. The business has been growing strongly in Poland and the Czech Republic. DS Smith Kaysersberg produces 0.2 million tonnes of recycled paper (principally solid board for use in the manufacture of detergent boxes) at two mills in France and one mill in Turkey. DS Smith also owns 49.6% of the leading paper and corrugated packaging business in Ukraine; the results of this business are reported under associates.

The Group's continental corrugated packaging operations are particularly strong in heavy-duty and litho-laminated packaging. Approximately 45% of sales are to the FMCG sector and the remainder is to the consumer durables, industrial and other sectors. This segment has a large and diverse range of customers, none of which accounts individually for more than 6% of Continental European Corrugated Packaging's total revenue.



PLASTIC

Focused on two plastic packaging markets.

DS Smith Plastics holds a major European position in industrial returnable transit packaging (RTP) and is a leading worldwide supplier of liquid packaging and dispensing systems (LP&D).

The Group is a leading European supplier of RTP. Its extensive product range includes reusable containers, boxes and pallet systems, injection-moulded crates and semi-finished extruded sheet. These products are supplied to the automotive, beverage, pharmaceutical and other markets from ten locations in the UK, France, Belgium, Spain, Poland, Czech Republic and Slovakia.

In LP&D, it is ranked as number two globally in bag-in-box packaging systems and injection-moulded taps and dispensers, which are supplied worldwide to the soft drinks, wine, food and other industry sectors from eight locations in the UK, Germany, Bulgaria, the USA, Australia and New Zealand.

Additionally, the segment contains two small speciality businesses: Packaging Management, which provides logistics services, particularly for pallet and plastic layer pad pools; and a development business, StePac, which specialises in modified atmosphere packaging for preserving the quality of fresh fruit and vegetables in transit.

The division purchases a wide range of polymers and plastic films, principally polypropylene, high density polyethylene and polycarbonate. This segment has a widely spread customer base and no single customer accounts for more than 5% of DS Smith Plastics' total revenue.

OFFICE PRODUCTS WHOLESALE



The leading European office products wholesaler.

Spicers is the number one European wholesaler of office products; it has leading positions in each of the UK, Ireland, France and the Benelux region, and it is building its position in continental Europe with development businesses in Germany, Spain and Italy. Its network of distribution centres comprises: UK – 9; Ireland – 1; France – 6; Benelux – 1; Germany – 2; Spain – 2; and Italy – 1.

Spicers provides a wholesaling service to its customer base of office products dealers and resellers, who principally supply small and medium-sized offices. It supplies approximately 12,500 dealers throughout Europe and no single dealer customer accounts for more than 4% of Spicers' total revenue. Spicers' product range supplied across Europe of up to 22,000 product lines comprises its own 5-Star brand and other branded products of traditional stationery items, electronic office supplies, office furniture, janitorial supplies and office catering and vending provisions. Its range is communicated to its dealers and the offices they supply through printed catalogues and electronic systems; orders are now principally submitted to Spicers on-line or by other electronic means.

Spicers offers its dealer customers a same-day or an overnight, next-day delivery service; it also provides the dealers with marketing and promotional support. The business is highly transaction-intensive with approximately 700,000 line-items being processed weekly. The maintenance of reliable and efficient systems that are capable of handling the high volume of customer orders received daily, either on-line or by telephone, is a key feature of the business. Spicers' business model is explained further on page 21.