

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek immediately your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

If you sell or have sold or otherwise transferred all of your existing Ordinary Shares (other than ex-rights) in certificated form before 5 March 2004 (the **Ex-Rights Date**), you should send this document and any accompanying documents at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. However, this document and the accompanying documents should not be sent in, or into, the United States, Canada, Australia, Japan or the Republic of South Africa. Please refer to paragraph 7 of Part 2 of this document if you propose to send this document outside the United Kingdom. If you sell or have sold or otherwise transferred Ordinary Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by CRESTCo which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee. If you sell or have sold only part of your holding of existing Ordinary Shares, you are referred to the instructions regarding split applications in Part 2 of this document and in the Provisional Allotment Letter.

UBS is acting for DS Smith in connection with the Acquisition and no one else and will not be responsible to anyone other than DS Smith for providing the protections afforded to clients of UBS nor for providing advice in relation to the Acquisition.

Cazenove is acting exclusively for DS Smith and no one else in connection with the Acquisition and the Rights Issue and will not be responsible to anyone other than DS Smith for providing the protections afforded to clients of Cazenove nor for providing advice in relation to the Acquisition or the Rights Issue.

A copy of this document, which comprises a prospectus relating to DS Smith prepared in accordance with the Listing Rules made under section 74 of the Financial Services and Markets Act 2000, has been delivered for registration to the Registrar of Companies in England and Wales in accordance with section 83 of that Act.

Applications have been made to the UK Listing Authority and to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List and to be admitted to trading on the London Stock Exchange's market for listed securities. It is expected that admission of the New Ordinary Shares to the Official List and to trading on the London Stock Exchange's market for listed securities will become effective and that dealings will commence, nil paid, in the New Ordinary Shares at 8.00 am on 5 March 2004.

DS Smith Plc



(incorporated in England and Wales under the Companies Acts 1948 to 1980 with registered number 1377658)

Proposed acquisition of the LINPAC Containers Group

one for five Rights Issue of 64,540,651 New Ordinary Shares

at 112 pence per New Ordinary Share

Notice of Extraordinary General Meeting

Notice of an Extraordinary General Meeting of DS Smith Plc, to be held at 9.15 am on 22 March 2004 at UBS, 1 Finsbury Avenue, London EC2M 2PP, is set out at the end of this document. A Form of Proxy is enclosed for use by DS Smith Shareholders in connection with the meeting. To be valid, Forms of Proxy, completed in accordance with the instructions printed thereon, must be received at DS Smith's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible but in any event by no later than 9.15 am on 20 March 2004. Completion and return of the Form of Proxy will not preclude DS Smith Shareholders from attending and voting at the Extraordinary General Meeting, should they so wish.

The latest time and date for acceptance and payment in full is 11.00 am on 26 March 2004. The procedures for acceptance and payment are set out in Part 2 of this document and, for Qualifying non-CREST Shareholders only, in the accompanying Provisional Allotment Letter.

The distribution of this document and/or the accompanying Provisional Allotment Letter, and/or the transfer of Nil Paid Rights or Fully Paid Rights, through CREST or otherwise, in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction. **The attention of Overseas Shareholders and any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom is drawn to paragraph 7 of Part 2 of this document.**

Neither the Nil Paid Rights, the Fully Paid Rights, the New Ordinary Shares nor the Provisional Allotment Letters have been or will be registered under the US Securities Act or under the securities laws of any state of the United States nor will they qualify for distribution under any of the relevant securities laws of Canada, Japan or the Republic of South Africa and nor has any prospectus in relation to the New Ordinary Shares been lodged with or registered by the Australian Securities Commission. Accordingly, the Rights Issue is not being made in the United States unless an exemption from registration under the US Securities Act is available or (subject to certain exemptions) into Canada, Australia, Japan, or the Republic of South Africa. Shareholders and beneficial owners who believe that they hold on behalf of persons eligible under such an exemption should contact the Company Secretary of DS Smith (4-16 Artillery Row, London SW1P 1RZ) to determine whether and how such persons may participate. Neither this document nor the Provisional Allotment Letters may be distributed in or into the United States under any other circumstances.

Certain statements in this document relating to the Acquisition and the Rights Issue are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties and assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results to differ materially from those expressed in or implied by the forward looking statements. These include, among other factors: conditions in the markets, and market position, of DS Smith and LINPAC Containers, earnings, financial position, cash flows, return on capital and operating margins; anticipated investments and capital expenditures; the success of the Acquisition as planned by DS Smith, including anticipated synergies and cost savings; changing business or other market conditions; and general economic conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described herein. Forward looking statements contained in this document based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Subject to any requirement under the Listing Rules, none of DS Smith, UBS or Cazenove undertakes any obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise. You should not place undue reliance on forward looking statements, which speak only as of the date of this document.

Within the United States, any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than in considering an investment in the New Ordinary Shares offered hereby is prohibited. Each offeree of the New Ordinary Shares in the United States, by accepting delivery of this document, agrees to the foregoing. Notwithstanding the foregoing, any person (and any employee, representative, or other agent of such person) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax analyses that are provided to such person relating to such tax treatment and tax structure. For purposes of this paragraph, the tax treatment of this transaction is the purported or claimed US federal income tax treatment of this transaction and the tax structure of this transaction is any fact that may be relevant to understanding the purported or claimed US federal income tax treatment of this transaction.

THE SECURITIES OFFERED IN THIS DOCUMENT HAVE NOT BEEN REGISTERED WITH, RECOMMENDED BY, APPROVED OR DISAPPROVED BY ANY US FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED (“RSA 421-B”) WITH THE SECRETARY OF STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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AND JOINT SPONSOR**

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**UNDERWRITER, JOINT SPONSOR
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REGISTRARS

Lloyds TSB Registrars
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Worthing
West Sussex
BN99 6DA

Expected Timetable of Principal Events

Event	Time and Date
	Close of business on
Record Date for entitlements under the Rights Issue	1 March 2004
Despatch of Provisional Allotment Letters (to Qualifying non-CREST Shareholders only)	4 March 2004
Nil Paid Rights credited to stock accounts in CREST (Qualifying CREST Shareholders only)	8.00 am on 5 March 2004
Dealings in New Ordinary Shares, nil paid, commence on the London Stock Exchange	8.00 am on 5 March 2004
Ex Rights Date.....	5 March 2004
Latest time and date for receipt of Forms of Proxy	9.00 am on 20 March 2004
Extraordinary General Meeting to approve Acquisition	9.00 am on 22 March 2004
Completion of the Acquisition	22 March 2004
Latest recommended time and date for requesting withdrawal of Nil Paid Rights or Fully Paid Rights from CREST ¹	4.30 pm on 22 March 2004
Latest time and date for depositing renounced Provisional Allotment Letters, nil paid or fully paid, into CREST or for dematerialising Nil Paid Rights or Fully Paid Rights into a CREST stock account ²	3.00 pm on 23 March 2004
Latest time and date for splitting Provisional Allotment Letters, nil paid or fully paid	3.00 pm on 24 March 2004
Latest time and date for acceptance and payment in full and registration of renunciation	11.00 am on 26 March 2004
New Ordinary Shares credited to CREST stock accounts (Qualifying CREST Shareholders only)	8.00 am on 29 March 2004
Despatch of definitive share certificates for New Ordinary Shares in certificated form (Qualifying non-CREST Shareholders only)	by 2 April 2004

Notes:

The dates set out in the expected timetable of principal events above and mentioned through this document and in the Provisional Allotment Letter may be adjusted by DS Smith, in which event details of the new dates will be notified to the UK Listing Authority, the London Stock Exchange and, where appropriate, to DS Smith Shareholders.

References to times in this document are to London time unless otherwise stated.

If you have any queries on the procedure for acceptance and payment, you should contact Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX (Tel: 0870 600 0673).

1 i.e. if your Nil Paid Rights or Fully Paid Rights are in CREST and you wish to convert them into certificated form.

2 i.e. if your Nil Paid Rights or Fully Paid Rights are represented by a Provisional Allotment Letter and you wish to convert them into uncertificated form in CREST.

Part 1 – Letter from the Chairman of DS Smith

DS Smith Plc



4 March 2004

To the holders of Ordinary Shares and, for information only, to the holders of options under the DS Smith Share Option Schemes

Dear Shareholder

Proposed Acquisition of the LINPAC Containers Group

Rights Issue of 64,540,651 New Ordinary Shares at 112 pence per New Ordinary Share to raise £71 million

1. Introduction

Yesterday, the Board of DS Smith announced that it has agreed with LINPAC Group Holdings Limited the terms of the acquisition of the LINPAC Containers Group for £170 million in cash. The Acquisition is subject to the approval of DS Smith Shareholders.

Following the Acquisition, DS Smith will be the UK leader in corrugated packaging, in addition to its existing leading UK positions in corrugated case material paper (CCM) and the collection of recovered paper. The Board expects to derive the following key benefits from the Acquisition:

- a broader customer base and a major presence in the large and more resilient, fast-moving consumer goods (FMCG) segment of the corrugated packaging market;
- strengthening of DS Smith's position as a major European buyer and seller of CCM resulting in a better market mix and a reduction in the effect of the paper cycle on the Group;
- total synergies of £14.5 million in the second full financial year of ownership resulting from cost reduction, better capacity utilisation and improved paper margins; and
- substantial earnings enhancement and a return on the investment in the LINPAC Containers Group above DS Smith's weighted average cost of capital, in the second full financial year of ownership.

The Acquisition is being funded through DS Smith's existing debt facilities and a new loan facility from The Royal Bank of Scotland plc. This new debt will be reduced using the proceeds of a fully underwritten Rights Issue which has also been announced yesterday and which will raise £71 million (net of expenses).

In view of its size, the Acquisition requires the approval of DS Smith Shareholders at an extraordinary general meeting to be held on 22 March 2004 but is not conditional on the Rights Issue. The Rights Issue is not conditional on completion of the Acquisition and does not require approval from DS Smith Shareholders.

The purpose of this document is to provide DS Smith Shareholders with details of the Acquisition and the Rights Issue, to explain why the Board considers the Acquisition to be in the best interests of DS Smith Shareholders as a whole, and to seek your approval for the Acquisition at the EGM. A notice convening the EGM is set out at the end of this document.

2. Background to the Acquisition

Strategy

DS Smith's strategy remains the achievement of operational improvement and the development of its two principal activities, Packaging and Office Products Wholesaling. In Paper and Corrugated Packaging, the largest segment within Packaging, the focus is on developing the Group's strong European regional positions including its existing key UK position. In the second Packaging segment, Plastic Packaging, the Group is growing in the two focused markets of liquid packaging and dispensing and industrial returnable transit

Part 1 – Letter from the Chairman of DS Smith

packaging. The Company's goal in Office Products is to rebuild profits in the UK while rolling out the business model in continental Europe.

The Group is implementing its strategy through organic development and acquisitions; in the last two and a half years the Group has invested approximately £80 million in acquisitions.

DS Smith's Paper and Corrugated Packaging Business

The Group produces 1.1 billion square metres per annum of corrugated packaging at 25 factories in the UK and 12 factories in continental Europe. It has a leading position in UK corrugated packaging, a strong established position in France and developing positions in the higher growth markets of Eastern Europe and Italy. It manufactures 1.2 million tonnes of paper per annum at six mills in the UK and three mills in continental Europe; of this, 1.1 million tonnes is made from recycled recovered paper. Approximately 0.9 million tonnes of the paper produced is CCM which is used for manufacturing corrugated board and is sold both to DS Smith's corrugated packaging manufacturing operations and to third parties on the open market. DS Smith is the leading UK producer of CCM and the leading UK collector and merchant of recovered paper.

In UK Corrugated Packaging, DS Smith has strengthened its position in recent years through increased operational efficiency and focusing on higher margin segments. DS Smith's share of the UK corrugated packaging market is estimated to be approximately 13 per cent. Approximately 60 per cent. of DS Smith's corrugated packaging sales are for the FMCG sector with the remainder being for the consumer durables and industrial sectors. In 2001, the Group acquired and successfully integrated a number of corrugated plants which had previously been owned by Danisco Pack Limited, enabling it to gain both a substantial presence in the growing lightweight speciality sheetboard segment and to strengthen its network of sheet plants that convert corrugated board into boxes. These operations were combined with existing Group businesses and the intended synergies were captured within the planned timescale, resulting in returns on the investment well in excess of the Group's cost of capital.

The UK Corrugated Packaging Market

The Group estimates the UK market for Corrugated Packaging to be £1.8 billion or 4.8 billion square metres of corrugated board per annum. The trend in demand is influenced by overall economic activity and manufacturing output; compound annual growth between 1996 and 2002 was 2.1 per cent., although in the economic downturn between 2000 and 2002 it was -0.7 per cent. (source: European Federation of Corrugated Board Manufacturers). Price erosion has been a feature of the market due to the purchasing power of retailers and direct customers.

Within the total market, the growth rates of the different segments have varied considerably. Corrugated packaging usage in parts of the industrial manufacturing segment has declined as a result of the transfer of manufacturing from the UK to lower cost countries, while usage for FMCG, which accounts for approximately 50 per cent. of the corrugated market, has been relatively strong due to the continuing growth of this sector of the economy. Other growth segments have been the home delivery of products, particularly from internet purchases, the substitution of wood by corrugated packaging and the increased use of lightweight (microflute) board which can be used as both transit and display packaging.

3. Information on the LIMPAC Containers Group

The LIMPAC Containers Group is the leading UK independent manufacturer of corrugated packaging and has an estimated market share of approximately 11 per cent. It has no paper manufacturing capacity. In the year ended 31 December 2003, the LIMPAC Containers Group's continuing operations had sales of £164 million, almost entirely to UK customers. 94 per cent. of the LIMPAC Containers Group's total continuing revenue for the year ended 31 December 2003 was generated by corrugated packaging with the remainder being accounted for by its two smaller businesses: LIMPAC Sacks, which is a leading UK supplier of paper sacks, and Raleigh, a leading manufacturer of dies for cutting boxes out of corrugated board and polymer plates, used in the production of printed packaging. The majority of Raleigh's output is for in-house use.

LIMPAC Containers began trading as a supplier of corrugated packaging in 1959 from a site in Louth, Lincolnshire and has developed into a national player, largely through organic expansion. The corrugated packaging operations employ approximately 1,320 people, convert approximately 265,000 tonnes of paper per annum and produce approximately 550 million square metres of corrugated packaging per annum from eight factories:

- six conventional plants which produce corrugated board and convert it into boxes (Louth, Featherstone, Devizes, Glasgow, Rawcliffe and Erith);

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- one sheet feeder plant at Louth which manufactures corrugated board to sell to independent sheet plants; and
- one sheet plant which converts board into boxes at Louth.

The LINPAC Containers Group's box making facilities are well-invested; the Louth plant was built on a green field site in 1995 at a cost of approximately £30 million and is one of the most advanced box making plants in the UK. The LINPAC Containers Group's sales are particularly focused on packaging for FMCG products such as beverages, foodstuffs, cosmetics and pet food. Major FMCG manufacturers account for over 85 per cent. of turnover and the top ten customers in aggregate represent about 30 per cent. of sales. No individual customer represents more than 5 per cent. of sales.

The LINPAC Containers Group currently participates in a European strategic sales alliance, The Packaging Network (TPN), with two leading corrugated packaging companies, THIMM Verpackung in Germany and SAICA in Spain. Through this alliance each partner currently supplies the corrugated packaging requirements of the multi-national customers located in their respective geographic territories.

LINPAC Containers is owned by LINPAC Group Holdings Limited which was acquired by Montagu Private Equity in August 2003.

4. Financial Information on the LINPAC Containers Group

Summary financial information for the continuing operations of the LINPAC Containers Group for the three years ended 31 December 2003, which has been extracted without adjustment from the accountants' report set out in Part 4 of this document, is set out below. Shareholders should read this document as a whole and not rely solely on the summarised financial information set out below or any references in Part 1 of this document to pro forma financial information.

	Year ended 31 December (£m)		
	2001	2002	2003
Turnover	167.9	163.2	164.0
EBITDA	13.9	15.2	21.9
Operating profit	5.4	6.8	13.4
Net assets	52.1*	49.9*	38.4

* Includes discontinued operations.

5. Reasons for the Acquisition

The Board of DS Smith believes that the Acquisition is an exceptional opportunity to consolidate DS Smith's position by creating the leading corrugated packaging company in the UK. This belief is supported by DS Smith's knowledge of the LINPAC Containers Group, gained through the companies' important trading relationship over more than 30 years. The Board believes that the key benefits of the Acquisition are:

Improved market position

The Acquisition will broaden DS Smith's customer base and the markets it serves. The LINPAC Containers Group has high quality customers including a number of major FMCG companies, to which it is sole or joint supplier. The Enlarged Group will have a greater participation in the important FMCG segment, which has been more resilient than other areas of packaging. The Enlarged Group will also continue to supply the higher added value market segments.

Strengthened paper position

The Acquisition will strengthen the Group's position as a major buyer and seller of CCM. The Enlarged Group's European operations, excluding Turkey, will purchase from DS Smith's own paper mills and third parties approximately 940,000 tonnes of CCM per annum compared with approximately 675,000 tonnes per annum previously. DS Smith will continue to sell approximately 910,000 tonnes of CCM per annum to the corrugated operations of DS Smith, the LINPAC Containers Group and open market customers. This strengthened position will result in a better market mix and a reduction in the effect of the paper cycle on the Group.

Part 1 – Letter from the Chairman of DS Smith

Increased manufacturing competitiveness

Combining and consolidating DS Smith's and the LINPAC Containers Group's corrugated packaging operations will enable the Enlarged Group to be highly competitive, through increased efficiency and a lower cost base. The geographic locations of the LINPAC Containers Group's and DS Smith's manufacturing sites complement each other well, which will enable the Enlarged Group to derive benefit from the integration. The LINPAC Containers Group's plants are well-invested, efficient and customer-responsive and it has pioneered 24 hours a day, seven days per week working within the UK corrugated packaging industry.

Experienced management team

The LINPAC Containers Group has high quality staff and an experienced management team who will contribute to the further success of the Enlarged Group. The Board's current intention is that the management of the LINPAC Containers Group's and DS Smith's UK corrugated operations will be merged to form a strong team to implement the integration of the businesses and to take the combined UK corrugated packaging operations forward.

The Board believes that the Acquisition will deliver substantial value for DS Smith Shareholders.

6. Operational Synergies and Financial Effects of the Acquisition

DS Smith intends to integrate the LINPAC Containers Group's operations and facilities with its existing operations, generating significant commercial and operational synergies.

The Board estimates that the total pre-tax synergies from the Acquisition will be £14.5 million per annum (before integration costs as detailed below) with £8 million being achieved within the first full financial year following the Acquisition. All synergies are expected to be reflected in the cash flow. These synergies will arise from:

- cost reduction through rationalisation of facilities and the elimination of duplicate head office functions;
- better capacity utilisation in both corrugated packaging and paper; and
- improved paper margins from a better market mix as a result of the strengthening of DS Smith's position as a major buyer and seller of CCM.

The estimated integration and rationalisation costs of £10 million (of which approximately £2 million will be non-cash) will be incurred predominantly between Completion and the end of the first full financial year. In addition, there will be an investment in capital expenditure of approximately £7 million and in working capital of approximately £2 million incurred predominantly between Completion and the end of the first full financial year.

The Board believes that the Acquisition, after taking into account the Rights Issue and including the synergies referred to above, will be earnings enhancing in the first full financial year of ownership and substantially earnings enhancing in the second full financial year of ownership (but before taking into account the goodwill amortisation and the integration costs referred to above). The Acquisition is expected to achieve a return in excess of the Group's weighted average cost of capital in the second full financial year.

Upon completion of the Acquisition and the Rights Issue, DS Smith will have pro forma net borrowings of approximately £315.3 million as set out in the Pro Forma Statement of Net Assets in Part 5 of this document, which shareholders should read in full.

7. Principal Terms and Conditions of the Acquisition

Under the Acquisition Agreement, DS Smith has agreed to purchase the entire issued share capital of LINPAC Containers for a consideration of £170 million in cash. As at 31 December 2003 LINPAC Containers had pro forma net cash of £3.5 million (as set out in note 2 to the Pro Forma Statement of Net Assets in Part 5 of this document). Payment will be made upon Completion to LINPAC Group Holdings Limited, owner of all of LINPAC Containers' share capital.

The Acquisition Agreement is conditional on the passing of the Resolution at the EGM but not on completion of the Rights Issue, nor on clearance by the competition authorities. The Board believes that there are no substantive competition issues that will have a negative impact on the transaction.

Part 1 – Letter from the Chairman of DS Smith

The Acquisition Agreement contains warranties provided by the Seller to DS Smith relating to the business of the LINPAC Containers Group. Details of the Acquisition Agreement are set out in paragraph 9(c) of Part 7.

8. Financing the Acquisition

The Acquisition will be fully financed through a combination of drawings under DS Smith's existing loan facilities and a new loan facility of £140 million from The Royal Bank of Scotland plc. The new loan facility is described in paragraph 9(d) of Part 7.

The Company intends to apply the proceeds of the Rights Issue to paying down debt. The loan facilities available to the Group will be reduced accordingly.

9. Summary of the Rights Issue

DS Smith is proposing to raise approximately £71 million (net of expenses) by the issue of 64,540,651 New Ordinary Shares at a price of 112 pence per New Ordinary Share. The Issue Price represents a discount of 38.8 per cent. to the closing middle market price of 183 pence (ex dividend) per Ordinary Share on 2 March 2004, the last business day prior to the date of announcement of the Rights Issue. The issue is being made by way of a Rights Issue to Qualifying Shareholders on the basis of:

1 New Ordinary Share for every 5 existing Ordinary Shares

held on the Record Date.

The New Ordinary Shares will, when issued and fully paid, rank equally in all respects with the existing issued Ordinary Shares, including the right to receive all dividends or distributions made, paid or declared after the date of this document. The New Ordinary Shares will not rank for the interim dividend of 2.8 pence per Ordinary Share in respect of the six months ending 31 October 2003 announced on 10 December 2003 and payable on 9 March 2004 to shareholders on the register at the close of business on 6 February 2004. Further details of the Rights Issue appear in Part 2 of this document and the accompanying Provisional Allotment Letter. Details of the rights attaching to Ordinary Shares appear in the Company's articles of association, a description of which appears in Part 7 of this document. Entitlements to New Ordinary Shares will be rounded down to the nearest whole number and the aggregated fractions will not be allotted to DS Smith Shareholders but will be sold for the benefit of the Company.

The Rights Issue is conditional upon:

- Admission taking place not later than 8.30 am on 5 March 2004 or on such other later time and/or date as DS Smith and Cazenove may agree; and
- the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) before commencement of dealings in the New Ordinary Shares, nil paid.

The Rights Issue is not conditional on the Acquisition being completed and does not require approval from DS Smith Shareholders. If Completion does not take place, the Directors' current intention is that the net proceeds of the Rights Issue will be used to pay down existing debt.

The Rights Issue has been fully underwritten by Cazenove.

The terms and conditions of the Rights Issue are set out in Part 2 of this document.

10. Current Trading and Prospects

Current trading of DS Smith

The Group produced a robust result in the first half of the financial year to 30 April 2004 despite margins in the paper business being significantly affected by the cyclical downturn in the paper market. The Group's focus on raising operational performance was reflected in further profit improvements in Corrugated Packaging and at Spicers.

Since the interim results, sales volumes have been generally satisfactory but pricing has remained under pressure. Paper margins have continued to be squeezed, being additionally affected by increased energy and starch prices. Recovered paper prices in the UK are now rising, following recent price increases on the continent. Responding to these cost pressures, the Group has announced a paper price increase effective from the end of March, although the benefits of this will not fully offset these higher costs during the balance of this financial year. The Board anticipates delivering results for the full year to 30 April 2004 for DS Smith's

Part 1 – Letter from the Chairman of DS Smith

existing businesses broadly in line with its current expectations, which are consistent with the statement made at the time of the interim results announcement in December 2003 and set out in Part 3 of this document.

As previously indicated the Board is reviewing the funding arrangements of its existing UK pension scheme and now expects to incur a charge to the profit and loss account from financial year 2004/05.

Current trading of the LINPAC Containers Group

The LINPAC Containers Group traded strongly in the closing period of its financial year to 31 December 2003. This trend has continued in the early weeks of this year and results have been in line with the expectations of LINPAC Containers' management and the assumptions made by the Board in its assessment of the Acquisition. The Board is confident about the prospects for the LINPAC Containers Group in its current financial year.

Prospects for the Enlarged Group

The Acquisition will generate significant opportunities for synergies and the Board is confident about the prospects for the Enlarged Group.

11. Dividends

As stated in the 2003 Annual Report, the Board attaches considerable importance to the Group's capacity to pay its shareholders a reliable and significant dividend consistent with its objective of sustaining around two times dividend cover over the course of the business cycle. DS Smith intends to adjust ordinary dividend payments to take account of the bonus element of the Rights Issue.

12. DS Smith Share Option Schemes

Outstanding options granted under the DS Smith Share Option Schemes will be adjusted to take account of the Rights Issue, as provided for in the relevant scheme rules. Any such adjustments will be subject to confirmation by the Company's auditors that the adjustments are, in their opinion, fair and reasonable. Where the relevant DS Smith Share Option Scheme has been approved by the UK Inland Revenue or the Irish Revenue Commissioners, such adjustments will also be subject to their prior approval. Optionholders do not have a right to participate in the Rights Issue under the DS Smith Share Option Schemes unless they have validly exercised their options before the Record Date.

Details of the number of shares under option through the DS Smith Share Option Schemes are set out in Part 7 of this document.

The Company will write to participants in the DS Smith Share Option Schemes separately about any adjustments to their options under those schemes.

13. Employees

The existing rights of employees of the LINPAC Containers Group will be fully safeguarded.

14. Taxation

Information about United Kingdom taxation and the Rights Issue is set out in Part 6 of this document. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your own independent professional adviser without delay.

15. Extraordinary General Meeting

You will find set out at the end of this document a notice convening an EGM to be held at 9.15 am on 22 March 2004 at UBS, 1 Finsbury Avenue, London EC2M 2PP for the purpose of considering and, if thought fit, passing the Resolution.

16. Actions to be Taken

In relation to the EGM

You will find enclosed with this document a Form of Proxy to be used in connection with the EGM or at any adjournment thereof. The Form of Proxy is reply paid for use in the United Kingdom only. You are requested to complete and return the Form of Proxy in accordance with the instructions thereon and return it to the Company's registrars, Lloyds TSB Registrars, at The Causeway, Worthing, West Sussex BN99 6DA, so as to arrive as soon as possible and in any event no later than 9.15 am on 20 March 2004. The completion and

Part 1 – Letter from the Chairman of DS Smith

return of a Form of Proxy will not preclude you from attending and voting at the EGM in person if you so wish.

In relation to the Rights Issue

If you are a Qualifying non-CREST Shareholder (other than certain Overseas Shareholders) you have been sent a Provisional Allotment Letter setting out your entitlements to New Ordinary Shares and containing instructions on how to take up those entitlements under the Rights Issue.

If you are a Qualifying CREST Shareholder no Provisional Allotment Letter is enclosed. Your CREST stock account will be credited with your entitlement to Nil Paid Rights.

If you sell or have sold or otherwise transferred all of your existing Ordinary Shares (other than ex-rights) in certificated form before the Ex-Rights Date, you should send this document and any accompanying documents at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. However, this document and the accompanying documents should not be sent in or into the United States, Canada, Australia, Japan or the Republic of South Africa. Please refer to paragraph 7 of Part 2 of this document if you propose to send this document outside the United Kingdom. If you sell or have sold or otherwise transferred Ordinary Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by CRESTCo which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee. If you sell or have sold only part of your holding of existing Ordinary Shares, you are referred to the instructions regarding split applications in Part 2 of this document and in the Provisional Allotment Letter.

The procedure for acceptance and payment depends on whether, at the time at which acceptance and payment is made, the Nil Paid Rights are in certificated form (that is, are represented by a Provisional Allotment Letter) or are in uncertificated form (that is, are in CREST). The procedure for acceptance and payment is set out in Part 2 of this document. Details also appear in the Provisional Allotment Letters sent to Qualifying non-CREST Shareholders.

The latest time for acceptance under the Rights Issue will be 11.00 am on 26 March 2004. Qualifying non-CREST Shareholders must return the Provisional Allotment Letter and cheque to Lloyds TSB Registrars to arrive as soon as possible and in any event before 11.00 am on 26 March 2004. Qualifying CREST Shareholders should refer to paragraph 4 of Part 2 which sets out procedure for taking up rights.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with the Rights Issue.

17. Overseas Shareholders

The attention of DS Smith Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, and any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom is drawn to the information which appears in the paragraph entitled “Overseas Shareholders” in paragraph 7 of Part 2 of this document.

18. Directors’ Intentions

The Directors intend to take up their rights in full in relation to the Rights Issue.

19. Recommendation

The Board has received financial advice from UBS in relation to the Acquisition. In providing advice to the Board, UBS has placed reliance upon the Board’s commercial assessment of the Acquisition.

The Board considers that the Acquisition is in the best interests of DS Smith Shareholders as a whole. Accordingly, the Board unanimously recommends that DS Smith Shareholders vote in favour of the Resolution to be proposed at the EGM as they intend to do in respect of their own beneficial shareholdings which, in aggregate, amount to 507,000 Ordinary Shares representing 0.16 per cent. of the entire issued ordinary share capital of DS Smith.

Yours sincerely,

Antony Hichens

Part 2 – Terms and Conditions of the Rights Issue

1. Terms and conditions of the Rights Issue

64,540,651 New Ordinary Shares will be offered by way of rights to Qualifying Shareholders on the following basis and otherwise on the terms and conditions set out in this document (and in the case of Qualifying non-CREST Shareholders, the Provisional Allotment Letter):

**1 New Ordinary Share at 112 pence per New Ordinary Share
for every 5 existing Ordinary Shares**

held and registered in their name at the close of business on 1 March 2004 and so in proportion for any other number of Ordinary Shares then held.

The New Ordinary Shares will, when issued and fully paid, rank equally in all respects with the existing issued Ordinary Shares, including the right to receive all dividends or distributions made, paid or declared after the date of this document, save that the New Ordinary Shares will not rank for the interim dividend of 2.8 pence per Ordinary Share in respect of the six months ended 31 October 2003 announced on 10 December 2003 and payable on 9 March 2004.

Holdings of Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Entitlements to New Ordinary Shares will be rounded down and the aggregated fractions will not be allotted to DS Smith Shareholders but will if possible, be sold in the market for the benefit of the Company.

The attention of Overseas Shareholders and any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom is drawn to paragraph 7 of this Part 2.

Applications have been made to the United Kingdom Listing Authority and to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that Admission will become effective on 5 March 2004 and that dealings in the New Ordinary Shares will commence, nil paid, at 8.00 am on that date.

The Rights Issue is conditional upon:

- (i) Admission becoming effective by not later than 8.30 am on 5 March 2004 (or such later time and date as Cazenove and DS Smith may agree); and
- (ii) the Underwriting Agreement otherwise having become unconditional in all respects prior to commencement of dealings in the New Ordinary Shares, nil paid.

The existing Ordinary Shares are already admitted to CREST. Applications have been made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST. CRESTCo requires DS Smith to confirm to it that the New Ordinary Shares have been admitted to the Official List before CRESTCo will admit any security to CREST. As soon as practicable after Admission, DS Smith will confirm this to CRESTCo.

It is expected that:

- (a) Admission of the New Ordinary Shares will become effective and that dealings on the London Stock Exchange in the New Ordinary Shares, nil paid, will commence at 8.00 am on 5 March 2004;
- (b) Lloyds TSB Registrars will instruct CRESTCo to credit the appropriate stock accounts of Qualifying CREST Shareholders with such shareholders' entitlements to Nil Paid Rights, on 5 March 2004; and
- (c) the Nil Paid Rights and the Fully Paid Rights will be enabled for settlement by CRESTCo on 5 March 2004, as soon as practicable after DS Smith has confirmed to CRESTCo that all the conditions for admission of such rights to CREST have been satisfied.

Part 2 – Terms and Conditions of the Rights Issue

Cazenove has agreed to underwrite the Rights Issue in accordance with the terms and subject to the conditions in the Underwriting Agreement. The Underwriting Agreement is conditional on certain matters being satisfied or not breached prior to the commencement of dealings in the New Ordinary Shares, nil paid and, if these conditions are not satisfied, the Rights Issue will not proceed. Cazenove may arrange sub-underwriting for some, all or none of the New Ordinary Shares. The Company is mindful of the Competition Commission's recommendations with regard to competitive tendering of sub-underwriting commissions. After careful consideration of the benefits to the Company, the Board having taken advice, concluded that such a process would be unlikely to result in any significant benefit to the Company and would therefore not have been appropriate in connection with the Rights Issue. A summary of certain terms and conditions of the Underwriting Agreement is set out in paragraph 9(a) of Part 7 of this document.

All documents and cheques posted to or by Qualifying Shareholders and/or their transferees or renounees (or their agents, as appropriate) will be posted at their own risk.

2. Action to be taken

The action to be taken in respect of New Ordinary Shares depends on whether, at the relevant time, the Nil Paid Rights or Fully Paid Rights in respect of which action is to be taken are in certificated form (that is, are represented by Provisional Allotment Letters) or are in uncertificated form (that is, are in CREST).

If you are a Qualifying non-CREST Shareholder and have received a Provisional Allotment Letter please refer to paragraph 3 and paragraphs 5 to 9 of this Part 2.

If you hold your Ordinary Shares in CREST, please refer to paragraphs 4 to 9 of this Part 2 and to the CREST Manual for further information on the CREST procedures referred to below.

CREST sponsored members should refer to their CREST sponsors, as only their CREST sponsors will be able to take the necessary actions specified below to take up the entitlements or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of CREST sponsored members.

3. Action to be taken in relation to Nil Paid Rights represented by Provisional Allotment Letters

(a) General

Each Provisional Allotment Letter will set out:

- (i) the holding of existing Ordinary Shares on which the Qualifying non-CREST Shareholder's entitlement to New Ordinary Shares has been based;
- (ii) the number of New Ordinary Shares which have been provisionally allotted to the Qualifying non-CREST Shareholder;
- (iii) the procedures to be followed if the Qualifying non-CREST Shareholder wishes to dispose of all or part of his entitlement or to convert all or part of his entitlement into uncertificated form; and
- (iv) instructions regarding acceptance and payment, consolidation, splitting and registration of renunciation.

The latest time and date for acceptance and payment in full will be 11.00 am on 26 March 2004.

(b) Procedure for acceptance and payment

- (i) Qualifying non-CREST Shareholders who wish to accept in full

Holders of Provisional Allotment Letters who wish to take up all of their entitlement must return the Provisional Allotment Letter, together with a cheque or other remittance, made payable to "Lloyds TSB Bank plc – DS Smith Plc Rights Issue" and crossed "A/C payee only", for the full amount payable on acceptance, in accordance with the instructions printed on the Provisional Allotment Letter, by hand or by post, to Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX, so as to arrive as soon as possible and in any event so as to be received by not later than 11.00 am on 26 March 2004. A reply-paid envelope is enclosed. If you post your Provisional Allotment Letter within the United Kingdom by first class post, it is recommended that you allow at least four days for delivery.

Part 2 – Terms and Conditions of the Rights Issue

(ii) Qualifying non-CREST Shareholders who wish to accept in part

Holders of Provisional Allotment Letters who wish to take up some but not all of their rights and wish to sell some or all of those which they do not want to take up, should first apply for split Provisional Allotment Letters by completing Form X on page 4 of the Provisional Allotment Letter and return it to Lloyds TSB Registrars, by 3.00 pm on 24 March 2004, the last date and time for splitting Nil Paid Rights, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights to be comprised in each split Provisional Allotment Letter. They should then deliver the split Provisional Allotment Letter representing the New Ordinary Shares they wish to accept together with a cheque for the appropriate amount, payable to “Lloyds TSB Bank plc – DS Smith Plc Rights Issue” and crossed “A/C payee only” by 11.00 am on 26 March 2004, the last date and time for acceptance. Holders of Provisional Allotment Letters who wish to take up some of their rights (but not sell the remainder), should also follow the procedure to apply for split Provisional Allotment Letters in accordance with this paragraph and return the Provisional Allotment Letter (with Form X on page 4 completed) with a cheque, together with a covering letter indicating the number of Nil Paid Rights to be taken up, in accordance with the provisions set out in paragraph 2 on page 3 of the Provisional Allotment Letter.

(iii) Company’s discretion as to validity of acceptances

If payment is not received in full by 11.00 am on 26 March 2004, the provisional allotment will be deemed to have been declined and will lapse. However, the Company may, but shall not be so obliged, treat as valid applications in respect of which remittances are received prior to 11.00 am on 26 March 2004 from an authorised person (as defined in section 31(2) FSMA) specifying the number of New Ordinary Shares to be acquired and an undertaking by that person to lodge the relevant Provisional Allotment Letter duly completed in due course.

DS Smith may also (in its sole discretion) treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

(iv) Payments

All payments must be in pounds sterling and cheques or banker’s drafts should be made payable to “Lloyds TSB Bank plc – DS Smith Plc Rights Issue” and crossed “A/C payee only”. Cheques or banker’s drafts must be drawn on a bank or building society or branch of a bank or building society in the United Kingdom or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker’s drafts to be cleared through the facilities provided by any of those companies and must bear the appropriate sort code in the top right hand corner. Cheques drawn on most major high street banks and building societies in the United Kingdom will be satisfactory. All documents and cheques sent through the post will be sent at the risk of the drawer. Cheques or banker’s drafts will be presented for payment upon receipt. DS Smith reserves the right to instruct Lloyds TSB Registrars to seek special clearance of cheques and banker’s drafts to allow DS Smith to obtain value for remittances at the earliest opportunity. No interest will be allowed on payments made before they are due and any interest on such payments will accrue to the benefit of the Company. It is a term of the Rights Issue that cheques shall be honoured on first presentation and if any cheque or other remittance is presented for payment but not honoured by 11.00 am on 26 March 2004 any acceptance in respect of New Ordinary Shares to which such cheque or other remittance relates may be treated by the Company as invalid.

(c) *Money Laundering Regulations*

If the value of your application exceeds €15,000 (the approximate equivalent of £10,000) (or is one of a series of linked applications, the aggregate value of which exceeds that amount) and either you do not pay by a cheque drawn on an account in your own name and/or the account from which payment is to be made is not held within an institution that is authorised in the United Kingdom by the Financial Services Authority under FSMA or by the Building Societies Commission under the Building Societies Act 1986 or that is an EU authorised credit institution, as defined in the First Banking Directive (77/780/EEC) as referred to in the verification of identity requirements of the Money Laundering Regulations 1993 or, as applicable, the Money Laundering Regulations 2003, (the “**Money Laundering Regulations**”), the Money Laundering Regulations will apply. Lloyds TSB Registrars is entitled to require, at its absolute discretion, verification of identity from any person lodging a Provisional Allotment Letter (the applicant) including, without limitation, any person who appears to Lloyds TSB Registrars to be acting on behalf of some other person. Submission of a Provisional Allotment Letter will constitute a warranty that the Money Laundering Regulations will not be

Part 2 – Terms and Conditions of the Rights Issue

breached by the acceptance of the remittance and an undertaking by the applicant to provide promptly to Lloyds TSB Registrars such information as may be specified by Lloyds TSB Registrars as being required for the purpose of the Money Laundering Regulations. If Lloyds TSB Registrars, having (where time allows) consulted with Cazenove and having taken into account its comments and requests has by 11.00 am on 26 March 2004 determined pursuant to procedures maintained by it under the Money Laundering Regulations that evidence as to identity satisfactory to it has not been received in respect of any New Ordinary Shares which would otherwise be treated as taken up in accordance with the procedure for acceptance and payment set out in this document, Lloyds TSB Registrars may retain the relevant Provisional Allotment Letter and/or cheque, banker's draft or other remittance relating to it and/or not enter the New Ordinary Shares to which it relates on the register of members or issue any share certificate in respect of them. If Lloyds TSB Registrars does not have a reasonable expectation that such evidence is likely to be forthcoming within a reasonable period of time, then the acceptance will not be valid but will be without prejudice to the right of DS Smith to take proceedings to recover any loss suffered by it as a result of the failure of the applicant to provide satisfactory evidence. In that case, the application monies (without interest) will be returned to the bank or building society account from which payment was made.

The following guidance is provided in order to reduce the likelihood of difficulties, delays and potential rejection of an application (but does not limit the right of Lloyds TSB Registrars to require verification of identity as stated above).

- (i) Applicants are urged if possible to make their payment by their own cheque. If this is not practicable and an applicant uses a cheque drawn by a building society or other third party or a banker's draft, the applicant should:
 - (a) write the applicant's name and address on the back of the building society cheque, banker's draft or other third party cheque and, in the case of an individual, record his date of birth against his name; and
 - (b) if a building society cheque or banker's draft is used, ask the building society or bank to print on the cheque the full name and account number of the person whose building society or bank account is being debited or to write those details on the back of the cheque and add their stamp.
- (ii) If the cheque is drawn by a third party other than in accordance with paragraph (c)(i) above, both the applicant and the third party should ensure that one of the following documents is enclosed with the Provisional Allotment Letter: evidence of their respective names and addresses from an appropriate third party, for example recent original bills from a gas, electricity or telephone company; or a bank statement, in each case bearing the applicant's or the third party's name and address. Originals of such documents are required. Original documents will be returned by post at the applicant's own risk.
- (iii) If an application is delivered by hand, the applicant should ensure that he has with him evidence of identity bearing his photograph, for example, a valid full passport.

If you are making an application as agent for one or more persons and you are not a United Kingdom or EU regulated person or institution (e.g. a United Kingdom financial institution), irrespective of the value of the application, Lloyds TSB Registrars is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is being made. Applicants making an application as agent should specify on the Provisional Allotment Letter if they are a United Kingdom or EU regulated person or institution.

(d) *Dealings in Nil Paid Rights*

Dealings on the London Stock Exchange in the Nil Paid Rights are expected to commence at 8.00 am on 5 March 2004. A transfer of Nil Paid Rights can be made by renunciation of the Provisional Allotment Letter in accordance with the instructions printed on it and delivery of the letter to the transferee.

(e) *Dealings in Fully Paid Rights*

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document and (in the case of Qualifying non-CREST Shareholders) the Provisional Allotment Letter, the Fully Paid Rights may be transferred by renunciation of the relevant fully paid Provisional Allotment Letter and lodging it, by hand or by post, with Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX, by not later than 11.00 am on 26 March 2004, and delivery of the letter from Lloyds TSB

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Registrars to the transferee. However, fully paid Provisional Allotment Letters will not be returned to shareholders unless their return is requested by ticking Box 4 on page 1 of the Provisional Allotment Letter.

After 26 March 2004 the New Ordinary Shares will be in registered form and transferable in the usual way (see paragraph 3(i) of this Part 2).

(f) *Renunciation and splitting of Provisional Allotment Letters*

Qualifying non-CREST Shareholders who wish to transfer all the Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a Provisional Allotment Letter may (save as required by the laws of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the Provisional Allotment Letter and passing the entire letter to their stockbroker or bank or other appropriate financial adviser or to the transferee. Once a Provisional Allotment Letter has been renounced, it will become a negotiable instrument in bearer form. The latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid, is 11.00 am on 26 March 2004.

If a holder of a Provisional Allotment Letter wishes to have only some of the New Ordinary Shares registered in his name and to transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, he may have the Provisional Allotment Letter split, for which purpose he must complete and sign Form X on the Provisional Allotment Letter. The Provisional Allotment Letter must then be sent to Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX to arrive not later than 3.00 pm on 24 March 2004 whether nil paid or fully paid, to be cancelled and exchanged for the split Provisional Allotment Letters required. The number of split letters required and the number of Nil Paid Rights or (as appropriate) Fully Paid Rights to be comprised in each split letter should be stated in an accompanying letter. Form X on split Provisional Allotment Letters will be marked “Original Duly Renounced” before issue.

DS Smith reserves the right to refuse to register any renunciation in favour of any person in respect of which DS Smith believes such renunciation may violate applicable legal or regulatory requirements including (without limitation) any renunciation in the name of any person with an address outside the United Kingdom.

(g) *Registration in names of persons other than Qualifying Shareholders originally entitled*

In order to register Nil Paid Rights or Fully Paid Rights in certificated form in the name of someone other than the Qualifying Shareholders originally entitled, the renounee or his agent(s) must complete Form Y (unless the renounee is a CREST member who wishes to hold such shares in uncertificated form, in which case Form X and the CREST Deposit Form must be completed – see paragraph 3(h) of this Part 2) on the Provisional Allotment Letter and send the entire Provisional Allotment Letter by hand or by post to Lloyds TSB Registrars, Princess House, 1 Suffolk Lane, London EC4R 0AX to arrive not later than 11.00 am on 26 March 2004.

(h) *Deposit of Nil Paid Rights or Fully Paid Rights into CREST*

The Nil Paid Rights or Fully Paid Rights represented by a Provisional Allotment Letter may be converted into uncertificated form, that is, deposited into CREST (whether such conversion arises as a result of a renunciation of those rights or otherwise). Subject as provided in the next following paragraph, normal CREST procedures apply in relation to any such conversion. You are recommended to refer to the CREST Manual for details of such procedures.

The procedure for depositing the Nil Paid Rights or Fully Paid Rights represented by a Provisional Allotment Letter into CREST, whether such rights are to be converted into uncertificated form in the name(s) of the persons whose name(s) and address appear on page 1 of the Provisional Allotment Letter or in the name of a person or persons to whom the Provisional Allotment Letter has been renounced, is as follows. Form X and the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter) will need to be completed and the Provisional Allotment Letter deposited with the CCSS; in addition, the normal CREST Stock Deposit procedures will need to be carried out, except that: (a) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS; and (b) only the whole of the Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be deposited into CREST. If you wish to deposit some only of the Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter into CREST, you must first apply for split Provisional Allotment Letters. If the rights represented by more than one Provisional Allotment Letter are to be deposited, the CREST Deposit Form on each Provisional Allotment Letter must be completed and deposited. The Consolidation Listing Form (on page 4 of the Provisional Allotment Letter) must not be used.

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A holder of the Nil Paid Rights represented by a Provisional Allotment Letter who is proposing to convert those rights into uncertificated form (whether following a renunciation of such rights or otherwise) is recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 am on 26 March 2004. In particular, having regard to processing times in CREST and on the part of Lloyds TSB Registrars, the latest time for depositing a renounced Provisional Allotment Letter, with the CREST Deposit Form on page 4 of the Provisional Allotment Letter duly completed, with the CCSS (in order to enable the person acquiring the Nil Paid Rights in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 am on 26 March 2004) is 3.00 pm on 23 March 2004.

(i) *Issue of New Ordinary Shares in definitive form*

Definitive share certificates are expected to be despatched by post by 2 April 2004 to accepting Qualifying non-CREST shareholders or their renounees at their registered address unless lodging agent details have been completed on page 4 of the Provisional Allotment Letter. After despatch of definitive share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever. Pending despatch of definitive share certificates, instruments of transfer may be certified by Lloyds TSB Registrars against the register.

4. Action to be taken in relation to Nil Paid Rights and Fully Paid Rights in CREST

(a) *General*

Subject as provided in paragraph 7 of this Part 2 in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder is expected to receive a credit to his stock account in CREST of his entitlement to Nil Paid Rights on 5 March 2004. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the existing Ordinary Shares held on the Record Date by the Qualifying CREST Shareholder in respect of which the Nil Paid Rights are provisionally allotted.

The Nil Paid Rights will constitute a separate security and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If for any reason stock accounts of Qualifying CREST Shareholders cannot be credited by, or the Nil Paid Rights cannot be enabled by, 11.00 am on 5 March 2004, Provisional Allotment Letters shall, unless Cazenove agrees otherwise, be sent out in substitution for the Nil Paid Rights which have not been so credited or enabled and the expected timetable as set out in this document may, with the consent of Cazenove, be adjusted as appropriate. References to dates and times in this document should be read as subject to any such adjustment. DS Smith will make an appropriate announcement to a Regulatory Information Service approved by the UK Listing Authority giving details of the revised dates.

CREST members who wish to take up their entitlements in respect of, or otherwise to transfer, Nil Paid Rights or Fully Paid Rights held by them in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to take up your entitlement as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights.

(b) *Procedure for acceptance and payment*

(i) Many-to-Many instructions

CREST members who wish to take up all or some of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) a Many-To-Many (MTM) instruction to CRESTCo which, on its settlement, will have the following effect:

- (A) the crediting of a stock account of Lloyds TSB Registrars under the participant ID and member account ID specified in sub-paragraph 4(b)(ii) below, with the number of Nil Paid Rights to be taken up;
- (B) the creation of a settlement bank payment obligation (as this term is defined in the CREST Manual), in accordance with the CREST RTGS payment mechanism (as this term is defined in the CREST Manual), in favour of the RTGS settlement bank of Lloyds TSB Registrars in sterling in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in sub-paragraph (a) above; and

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- (C) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the CREST member is entitled on taking up his Nil Paid Rights referred to in sub-paragraph (a) above.

(ii) Contents of Many-to-Many instructions

The MTM instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- the number of Nil Paid Rights to which the acceptance relates;
- the participant ID of the accepting CREST member;
- the member account ID of the accepting CREST member from which the Nil Paid Rights are to be debited;
- the participant ID of Lloyds TSB Registrars, in its capacity as a CREST receiving agent. This is 2RA68;
- the member account ID of Lloyds TSB Registrars, in its capacity as a CREST receiving agent. This is RA806101;
- the number of Fully Paid Rights that the CREST member is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;
- the amount payable by means of the CREST settlement bank payment obligation on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights referred to in paragraph 4(b)(i) above;
- the intended settlement date. This must be on or before 26 March 2004;
- the nil paid ISIN number. This is allocated by the London Stock Exchange and can be found by viewing the relevant Corporate Action details in CREST;
- the fully paid ISIN number. This is allocated by the London Stock Exchange and can be found by viewing the relevant Corporate Action details in CREST; and
- the Corporate Action Number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST.

(iii) Valid acceptance

Nil Paid Rights will be validly taken up where an MTM instruction complying with each of the requirements as to authentication and contents set out in sub-paragraph (ii) of this paragraph 4(b) above is made and either:

- (A) the MTM instruction settles by not later than 11.00 am on 26 March 2004; or
- (B) (aa) the MTM instruction is received by CRESTCo by not later than 11.00 am on 26 March 2004; and
- (bb) the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock member account of the accepting CREST member specified in the MTM instruction at 11.00 am on 26 March 2004.

An MTM instruction will be treated as having been received by CRESTCo for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at CRESTCo of the network provider used by the CREST member (or by the CREST sponsored member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM instruction by the Network Providers' Communications Host.

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(iv) Representations, warranties and undertakings of CREST members

A CREST member or CREST sponsored member who validly takes up his rights in accordance with this paragraph 4(b) of Part 2 represents, warrants and undertakes to DS Smith that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement at 11.00 am on 26 March 2004 and remains capable of settlement at all times after that until 2.00 pm on 26 March 2004 (or until such later time and date as DS Smith may determine). In particular, the CREST member or CREST sponsored member represents, warrants and undertakes that at 11.00 am on 26 March 2004 and at all times thereafter until 2.00 pm on 26 March 2004 (or until such later time and date as DS Smith may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt.

(v) CREST procedures and timings

CREST members and CREST sponsors (on behalf of CREST sponsored members) should note that CRESTCo does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 11.00 am on 26 March 2004. In this connection CREST members and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vi) CREST member's undertaking to pay

A CREST member or CREST sponsored member, who makes a valid acceptance in accordance with the procedures set out in paragraph 4(b) of this Part 2: (a) undertakes to pay to DS Smith, or procure the payment to DS Smith of, the amount payable in sterling on acceptance in accordance with the above procedures or in such other manner as DS Smith may require (it being acknowledged that, where payment is made by means of the RTGS payment mechanism (as defined in the CREST Manual), the creation of an RTGS settlement bank payment obligation in sterling in favour of Lloyds TSB Registrars' RTGS settlement bank in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CREST member (or CREST sponsored member) to pay to DS Smith the amount payable on acceptance); and (b) requests that the Fully Paid Rights, and/or New Ordinary Shares, to which he will become entitled be issued to him on the terms set out in this document and subject to the memorandum and articles of association of DS Smith.

(vii) Company's discretion as to rejection and validity of acceptances

The Company may:

- (A) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in this paragraph 4(b) of Part 2. Where an acceptance is made as described in this paragraph 4(b) of Part 2 which is otherwise valid, and the MTM instruction concerned fails to settle by 2.00 pm on 26 March 2004 (or by such later time and date as DS Smith has determined), DS Smith shall be entitled to assume, for the purposes of its right to reject an acceptance contained in paragraph 4(b) of this Part 2, that there has been a breach of the representations, warranties and undertakings set out or referred to in this paragraph 4(b) of this Part 2;
- (B) treat as valid (and binding on the CREST member or CREST sponsored member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this paragraph 4(b) of this Part 2;
- (C) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as DS Smith may determine;
- (D) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid acceptance if, at the time at which Lloyds TSB Registrars receives a properly

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authenticated dematerialised instruction giving details of the first instruction, either DS Smith or Lloyds TSB Registrars has received actual notice from CRESTCo of any of the matters specified in Regulation 35(5)(a) in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and

- (E) accept an alternative instruction or notification from a CREST member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification, if, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to take up all or part of his Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by Lloyds TSB Registrars in connection with CREST.

(c) *Money Laundering Regulations*

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a United Kingdom or EU regulated person or institution (e.g. a United Kingdom financial institution), then, irrespective of the value of the application, Lloyds TSB Registrars is entitled to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact Lloyds TSB Registrars before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to Lloyds TSB Registrars any information Lloyds TSB Registrars may specify as being required for the purposes of the Money Laundering Regulations. If Lloyds TSB Registrars, having (where time allows) consulted with Cazenove and having taken into account their comments and requests, has by 11.00 am on 26 March 2004, determined pursuant to procedures maintained by it under the Money Laundering Regulations that evidence as to identity satisfactory to it has not been received in respect of any New Ordinary Shares which would otherwise be treated as taken up in accordance with the procedure for acceptance and payment set out in this document, Lloyds TSB Registrars may take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. If Lloyds TSB Registrars does not have a reasonable expectation that such evidence is likely to be forthcoming within a reasonable period of time, then Lloyds TSB Registrars will not permit the MTM instruction concerned to proceed to settlement but without prejudice to the right of DS Smith to take proceedings to recover any loss suffered by it as a result of failure by the applicant to provide satisfactory evidence.

(d) *Transfers of Nil Paid Rights*

Dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence at 8.00 am on 5 March 2004. A transfer of Nil Paid Rights can be made by means of CREST in the same manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST after the close of CREST business on 26 March 2004.

(e) *Transfers of Fully Paid Rights*

After acceptance of the provisional allotment and payment in full in accordance with the provisions of this document, and (where appropriate) the Provisional Allotment Letter, the Fully Paid Rights may be transferred by means of CREST in the same manner as any other security that is admitted to CREST. The last date for settlement of any transfer of Fully Paid Rights in CREST will be 26 March 2004. The Fully Paid Rights are expected to be disabled in CREST after the close of CREST business on 26 March 2004.

After 26 March 2004, the New Ordinary Shares will be registered in the name(s) of the person(s) entitled to them in DS Smith's register of members and will be transferable in the usual way (see paragraph 4(g) of this Part 2).

(f) *Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST*

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

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The recommended latest time for receipt by CRESTCo of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights from CREST is 4.30 pm on 22 March 2004, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 am on 26 March 2004.

(g) *Issue of New Ordinary Shares in CREST*

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 26 March 2004 (the latest date for settlement of transfers of Fully Paid Rights in CREST). New Ordinary Shares (in definitive form) will be issued in uncertificated form to those persons registered as holding Fully Paid Rights in CREST at the close of business on that date. Lloyds TSB Registrars will instruct CRESTCo to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with the entitlements to New Ordinary Shares with effect from the next business day (expected to be 29 March 2004).

(h) *Right to allot / issue in certificated form*

Despite any other provision of this document, DS Smith reserves the right to allot and to issue any Nil Paid Rights, Fully Paid Rights or New Ordinary Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or on any part of CREST) or on the part of the facilities and/or systems operated by Lloyds TSB Registrars in connection with CREST.

5. Procedure in respect of Rights not taken up (whether certificated or in CREST)

If an entitlement to New Ordinary Shares is not validly taken up in accordance with the procedure laid down for acceptance and payment, then that provisional allotment will be deemed to have been declined and will lapse. Cazenove will, as agent for DS Smith, endeavour to procure, for all (or as many as reasonably practicable) of those New Ordinary Shares not taken up, subscribers from whom an amount can be obtained per share which is in excess of the total of the Issue Price and the expenses of procuring the relevant subscribers (including any value added tax), such subscribers to be found by not later than 5.30 pm on the second dealing day after 26 March 2004.

Notwithstanding the above, Cazenove is not obliged to endeavour to procure any such subscribers if at any time after 11.00 am on 26 March 2004 it is of the opinion that it is unlikely that any such subscribers can be so procured at such a price by 5.30 pm on the second dealing day after 26 March 2004. If and to the extent that subscribers cannot be procured on the basis outlined above, Cazenove shall procure subscribers or itself subscribe at the Issue Price for the New Ordinary Shares not taken up in accordance with the terms of the Underwriting Agreement.

Any premium over the aggregate of the Issue Price and the expenses of procuring subscribers (including any related value added tax) shall be paid (subject as provided in this paragraph 5):

- (i) where the Nil Paid Rights were, at the time they lapsed, represented by a Provisional Allotment Letter, to the person whose name and address appeared on page 1 of the Provisional Allotment Letter; and
- (ii) where the Nil Paid Rights were, at the time they lapsed, in uncertificated form, to the person registered as the holder of those Nil Paid Rights at the time of their disablement in CREST.

New Ordinary Shares for which subscribers are procured on this basis will be allotted to the subscribers and any aggregate premium (being the amount paid by the subscribers after deducting the Issue Price and the expenses of procuring the subscribers including any value added tax) will be paid (without interest) to those persons entitled (as referred to above) pro rata to the relevant lapsed provisional allotments save that, if the net proceeds due to any person do not exceed £3, the proceeds may be retained by the Company for the benefit of shareholders generally. Holdings of Ordinary Shares in certificated and uncertificated form will be treated as being held by different persons for these purposes.

Any transactions undertaken pursuant to paragraph 5 of this Part 2 shall be deemed to have been undertaken at the request of the persons entitled to the lapsed provisional allotments and none of DS Smith, Cazenove or any other person procuring the subscribers shall be responsible for any loss or damage (whether actual or alleged) arising from the terms of or timing of the subscription or the decision not to procure subscribers on the basis described above. Cheques for the amount due will be sent, at the risk of the person(s) entitled, to their registered addresses (the registered address of the first named in the case of joint holders), provided that, where

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any entitlement concerned was held in CREST the amount due will, unless DS Smith (in its absolute discretion) otherwise determines, be satisfied by DS Smith procuring the creation of a settlement bank payment in favour of the relevant CREST member's (or CREST sponsored member's) RTGS settlement bank in respect of the cash amount concerned in accordance with the RTGS payment mechanism.

6. Taxation

Information on taxation in the United Kingdom with regard to the Rights Issue is set out in Part 6 of this document. Shareholders who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate professional adviser immediately.

7. Overseas Shareholders

(a) General

The offer of New Ordinary Shares to persons resident in, or who are citizens of, countries other than the United Kingdom may be affected by the law of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

Receipt of this document and/or a Provisional Allotment Letter or the crediting of Nil Paid Rights to a stock account in CREST will not constitute an offer in those jurisdictions in which it would be illegal to make an offer. No person receiving a copy of this document and/or a Provisional Allotment Letter and/or receiving a credit of Nil Paid Rights to a stock account in CREST in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him unless it would be legal to do so in the relevant jurisdiction. Save as set out below, no person in any territory other than the United Kingdom should use the Provisional Allotment Letter or deal with Nil Paid Rights or Fully Paid Rights in CREST unless in the relevant territory such an invitation or offer could lawfully be made to him and the Provisional Allotment Letter, Nil Paid Rights or Fully Paid Rights in CREST could lawfully be dealt with without contravention of any registration or other legal requirements.

Persons (including, without limitation, custodians, nominees and trustees) receiving a copy of this document and/or a Provisional Allotment Letter or whose stock account in CREST is credited with Nil Paid Rights or Fully Paid Rights should not, in connection with the Rights Issue, distribute or send the same, or transfer Nil Paid Rights or Fully Paid Rights to any person in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a Provisional Allotment Letter or credit of Nil Paid Rights or Fully Paid Rights in CREST is received by any person in any such territory, or by their agent or nominee, he must not seek to take up the rights represented thereby or renounce the Provisional Allotment Letter except under an express written agreement between him and DS Smith. Any person who does forward this document or a Provisional Allotment Letter into any jurisdiction other than the United Kingdom (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 7.

Subject to paragraphs 7(c) and (d) of this Part 2, any person (including, without limitation, custodians, nominees and trustees) outside the United Kingdom wishing to take up his rights under the Rights Issue must satisfy himself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. **The comments set out in this paragraph 7 of Part 2 are intended as a general guide only and any Qualifying Shareholder who is in doubt as to his position should consult his professional adviser without delay.**

The Company may treat as invalid any acceptance or purported acceptance of the offer of New Ordinary Shares which appears to DS Smith or its agents to have been executed, effected or despatched in a manner which may involve a breach of the laws of any jurisdiction or if it believes or its agents believe that the same may violate applicable legal or regulatory requirements or if, in the case of a Provisional Allotment Letter, it provides an address for delivery of share certificates for New Ordinary Shares or in the case of a credit of New Ordinary Shares in CREST to a CREST member or CREST sponsored member whose registered address would be in the United States, Canada, Japan, Australia or the Republic of South Africa or any other jurisdiction outside the United Kingdom in which it would be unlawful to deliver such share certificates. The attention of Qualifying Shareholders with registered addresses in such jurisdictions or who are citizens or residents in such jurisdictions is drawn to paragraphs 7(b) and (c) of this Part 2 below.

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Despite any other provision of this document or the Provisional Allotment Letter, DS Smith reserves the right to permit any Qualifying Shareholder to take up his rights if DS Smith in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question.

Those DS Smith Shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 3 (Qualifying non-CREST Shareholders) and 4 (Qualifying CREST Shareholders) of this Part 2 above.

The provisions of paragraph 5 of this Part 2 will apply generally to Overseas Shareholders who are unable to take up New Ordinary Shares provisionally allotted to them.

Specific restrictions relating to certain jurisdictions are set out below.

(b) *United States of America*

None of the Nil Paid Rights, the Provisional Allotment Letters or the New Ordinary Shares have been or will be registered under the US Securities Act, or under the securities laws of any state of the United States. Accordingly, the Nil Paid Rights, the Provisional Allotment Letters and the New Ordinary Shares may not be offered, sold, renounced or transferred directly or indirectly in or into the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable state securities laws.

Accordingly, no prospectus or Provisional Allotment Letter in relation to the New Ordinary Shares will be sent to, and no Nil Paid Rights will be credited to a stock account in CREST of, any Qualifying Shareholder with a registered address in the United States unless such shareholder satisfies the Company that a relevant exemption is available. The Nil Paid Rights and the New Ordinary Shares are not being offered by the Company in the United States: (i) except to qualified institutional buyers as defined in Rule 144A under the US Securities Act (“QIBs”) in transactions that are exempt from the registration requirements of the US Securities Act; and (ii) to certain persons in transactions pursuant to Regulation S under the US Securities Act (“Eligible US Holders”).

Shareholders and beneficial owners that are in the United States and are Eligible US Holders should contact the Company Secretary at DS Smith (4-16 Artillery Row, London SW1P 1RZ United Kingdom Tel +44 20 7932 5000) to determine whether and how such persons may participate in the Rights Issue.

By completing and delivering a Provisional Allotment Letter or sending an MTM instruction to CRESTCo, each applicant (other than an Eligible US Holder) warrants that he or she is not located in the United States when executing the Provisional Allotment Letter or sending such MTM instruction, is not executing the Provisional Allotment Letter or sending such MTM Instruction on a non-discretionary basis on behalf of a person located in the United States at the time the instruction to accept was given, and is not taking up the rights or acquiring New Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution of any such Nil Paid Rights or New Ordinary Shares directly or indirectly in or into the United States. The Nil Paid Rights may only be resold or otherwise transferred in an “offshore transaction” as defined in Regulation S under the US Securities Act.

The Company reserves the right to treat as invalid any Provisional Allotment Letter or MTM instruction that appears to the Company to have been executed in or dispatched or sent from the United States, or that provides an address outside the United Kingdom for the receipt of share certificates.

The provisions set out in paragraph 5 of this Part 2 will apply to the rights of Qualifying Shareholders with registered addresses in the United States unless they take up their Nil Paid Rights pursuant to a relevant exemption having satisfied the Company that they are an Eligible US Holder that is acquiring the New Ordinary Shares pursuant to an exemption from the registration requirements of the US Securities Act.

(c) *Canada, Australia, Japan and the Republic of South Africa*

Due to restrictions under the securities laws of Canada, Australia, Japan and the Republic of South Africa, no Provisional Allotment Letter in relation to the New Ordinary Shares will be sent to, and no Nil Paid Rights will be credited to a stock account in CREST of, Qualifying Shareholders with registered addresses in, and the New Ordinary Shares may not be transferred or sold to or renounced or delivered in, any of those countries. Accordingly, no offer of New Ordinary Shares is being made by virtue of this document into Canada, Australia, Japan and the Republic of South Africa.

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If a Qualifying Shareholder with a registered address in, or resident in any of Canada, Australia, Japan or the Republic of South Africa can demonstrate to the satisfaction of the Company and Cazenove that receipt, or acceptance, of the offer in such jurisdiction will not breach local securities law then the Company in its absolute discretion may either arrange for him to be sent a Provisional Allotment Letter or if he is a Qualifying non-CREST Shareholder or, if he is a Qualifying CREST Shareholder, arrange for Nil Paid Rights to be credited to the relevant CREST stock account.

The provisions set out in paragraph 5 of this Part 2 will apply to the rights of Qualifying Shareholders with registered addresses in Canada, Australia, Japan and the Republic of South Africa that are not taken up.

(d) *Overseas territories other than the United States, Canada, Australia, Japan and the Republic of South Africa*

Prospectuses and Provisional Allotment Letters will be sent to Qualifying non-CREST Shareholders other than those Qualifying non-CREST Shareholders who have registered addresses in the United States, Canada, Australia, Japan or the Republic of South Africa and Nil Paid Rights will be credited to the CREST stock accounts of Qualifying CREST Shareholders other than those Qualifying Shareholders who have registered addresses in the United States, Canada, Australia, Japan or the Republic of South Africa. Such Qualifying Shareholders may, subject to the laws of their relevant jurisdiction, accept the Rights Issue in accordance with the instructions set out in this document and, in the case of Qualifying non-CREST Shareholders only, the Provisional Allotment Letter. In cases where non United Kingdom Shareholders do not take up Nil Paid Rights provisionally allotted to them, the provisions of paragraph 5 of this Part 2 will apply.

Persons resident in, or who are citizens of countries other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

If you are in any doubt as to your eligibility to accept the offer of New Ordinary Shares, you should contact your professional adviser immediately.

8. Times and Dates

The Company shall in its discretion and after consultation with its financial and legal advisers (and with the agreement of Cazenove) be entitled to amend the dates that Provisional Allotment Letters are despatched or dealings in Nil Paid Rights commence and amend or extend the latest date for acceptance under the Rights Issue and all related dates set out in this document and in such circumstances shall notify the UK Listing Authority, a Regulatory Information Service approved by the UK Listing Authority and, if appropriate, DS Smith Shareholders.

9. Governing Law

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letter shall be governed by, and construed in accordance with, the laws of England.

Part 3 – Unaudited Interim Results of the DS Smith Group for the six months ended 31 October 2003

Set out below is the full text from the unaudited, consolidated interim results of DS Smith for the six months ended 31 October 2003.

“HIGHLIGHTS

Financial

- Turnover: £744.7m (first half 2002/03: £741.1m)
- Profit before tax and amortisation of intangibles: £39.3m (£44.8m)
- Return on average capital employed: 11.0% (12.7%)
- Earnings per share before amortisation of intangibles: 8.8p (10.1p)
- Cash inflow before dividends and acquisitions: £17.0m (inflow of £18.3m)
- Gearing: 44.2% (47.5%)
- Results after amortisation of intangibles: profit before tax £38.0m (£43.9m); earnings per share 8.4p (9.8p)

Operations

- A robust performance given the cyclical downturn in the paper market
- Further progress in Corrugated Packaging
- Spicers' profit improvement continues

OVERVIEW

Market conditions remained difficult in the first half and, as expected, margins in our Paper business were significantly affected by the continuing cyclical downturn in the paper market. We produced a robust result across the Group and our focus on raising operational performance was reflected in further profit improvements in Corrugated Packaging and at Spicers.

Group turnover for the half year to 31 October 2003 was slightly ahead at £744.7 million (first half 2002/03: £741.1 million). Operating profit before amortisation of intangibles was £43.5 million (£48.6 million) and the operating margin was 5.8% (6.6%). Return on average capital employed for the six months was 11.0% (12.7%).

Profit before tax and amortisation of intangibles was £39.3 million (£44.8 million) and earnings per share before amortisation of intangibles were 8.8 pence (10.1 pence).

There was a cash inflow before dividends and acquisitions of £17.0 million (£18.3 million). Net borrowings were £215.8 million at the end of first half 2003/04 (£217.9 million) resulting in lower gearing of 44.2% (47.5%). Interest cover before amortisation of intangibles remained strong at 8.1 times.

INTERIM DIVIDEND

The Board announces an unchanged interim dividend of 2.8 pence per share which will be paid on 9 March 2004 to ordinary shareholders on the register at the close of business on 6 February 2004.

OPERATING REVIEW

Packaging

Total sales were £484.0 million (£475.2 million) and operating profit before amortisation of intangibles was £35.2 million (£39.2 million). Operating margin was 7.3% (8.2%) and return on average capital employed was 10.7% (12.6%).

Paper and Corrugated Packaging

Sales in the Paper and Corrugated Packaging segment were £376.4 million (£377.2 million). Operating profit before amortisation of intangibles was £27.7 million (£31.6 million) with lower profits in Paper being partly offset by higher profits in Corrugated Packaging. Operating margin was 7.4% (8.4%) while return on average capital employed was 10.7% (12.6%).

Paper

During the first half of the financial year there was pressure on the price of corrugated case materials (CCM) in both our UK and French paper operations. Margins were further squeezed by the fluctuating cost of our principal raw material, recovered paper and, specific to the UK, lower demand for Packaging Recovery Notes (PRNs). Government recycling targets have a large influence on demand for PRNs and the recently announced future targets are expected to lead to some firming of the market during 2004.

Our UK paper business, St Regis, increased its production volumes through raised efficiency, which enabled it to maintain its substantial share of the domestic market and increase its exports, assisted by the euro strengthening against sterling. Towards the end of the first half we experienced increased energy and starch prices, and further adverse movements in recovered paper prices. These factors combined are contributing to continuing uncertainty in the outlook for CCM margins in the second half of the year.

A new warehouse at Kemsley mill, which will reduce the use of third party warehousing, has been commissioned. The Severnside collection and recycling operation continued to develop its collection infrastructure with the acquisition of a depot in Hull in May 2003.

Corrugated Packaging

Weak economic conditions, particularly in manufacturing, resulted in overall demand for corrugated board in our major markets remaining soft, with demand falling in the first nine months of calendar year 2003 by 1.2% in the UK and 1.6% in Europe as a whole*. Demand growth was stronger in Italy, Poland and Turkey.

Despite some price pressure, profit in our Corrugated Packaging operations continued to advance through targeting higher added value or growing market segments and through cost control.

In the UK, our sheet feeding operations suffered from heavy price pressure, although our recently acquired speciality sheet feeding plant performed well. Results from the conventional corrugated plants were mixed but the speciality, heavy duty and sheet plant segments made encouraging progress. A small acquisition of the northern UK corrugated businesses of Macfarlane Group Plc was completed on 3 November.

The French corrugated operations performed well through developing their business in higher added value products and good cost management. The Italian business maintained its growth, supported by the recent investment in its new lightweight corrugated factory, while in Poland, our developing positions in speciality products contributed to higher sales and profits. The Turkish business has made significant progress towards profitability through increased sales and cost reduction.

Plastic Packaging

DS Smith Plastics' turnover increased by 10% to £107.6 million. Operating profit before amortisation of intangibles was marginally lower at £7.5 million (£7.6 million) and operating margin was 7.0% (7.8%). Return on average capital employed was 10.5% (12.5%).

We made sales and profit progress in our two principal business sectors, liquid packaging and dispensing and returnable transit packaging, but the division's overall performance was held back by the results at two small operations. The first of these, our specialist coating business, suffered a reduction in exports to Asia and the Middle East during the first half of the financial year; these sales have begun to recover in recent months. The second is a new business, StePac, in which we have been investing and which specialises in modified atmosphere packaging for preserving the quality of fresh fruit and vegetables in transit.

In liquid packaging and dispensing, sales growth was maintained and profits were slightly ahead. There was some softening of markets due to economic conditions, which particularly affected sales of higher margin products including detergent taps in the USA.

Sales and profits in industrial returnable transit packaging advanced well assisted by continued growth and good cost management in extruded products. The injection moulded crate business benefited from strong demand from the brewing sector, driven by product innovation and new environmental regulations in Germany.

* Source: European Federation of Corrugated Board Manufacturers

Office Products

Total Office Products sales were £260.7 million (£265.9 million) while operating profit before amortisation of intangibles was £8.3 million (£9.4 million). Operating margin was 3.2% (3.5%) and return on average capital employed was 12.6% (12.8%).

The office products market across Europe remains weak due to the effects of the economic slow-down on office activity; sales volumes continue to fall and customers are buying lower specification products than previously.

Office Products Wholesaling

Spicers' sales increased slightly to £244.4 million (£243.0 million) and operating profit before amortisation of intangibles advanced from £6.8 million to £7.2 million. Operating margin moved ahead from 2.8% to 2.9% and return on average capital employed progressed from 10.6% to 12.2%.

This result was achieved through the programme of operational initiatives commenced in early 2002. In the UK, Spicers continued to make progress through sales initiatives, further reductions in operating costs and maintaining high service levels. The French business, which was affected by the more recent downturn in its market, has cut costs and increased sales activity to stimulate demand. In Germany, customer confidence in our service capability is resulting in a good rate of sales growth although results have been affected by a limited number of bad debts; the business is making encouraging progress towards profitability. The Spanish operation, launched in April 2002, is achieving sales growth ahead of expectations. Preparation continues for entering the Italian market during 2004/05.

Office Products Manufacturing

John Dickinson's sales were £24.4 million (£32.2 million) and operating profit was £1.1 million (£2.6 million); the previous year's result included sales of £4.4 million and operating profit of £0.5 million from the Spicer Hallfield business which was sold in February 2003. Operating margin was 4.5% (8.1%) and return on average capital employed was 15.1% (28.1%).

Trading conditions were difficult in both branded products and envelopes with the latter business being additionally affected by continued intense competition from continental Europe. This is being addressed through sales and marketing initiatives and further cost reduction in both business areas.

BOARD APPOINTMENTS

With effect from 9 December 2003, the Board has been further strengthened by the appointment of two additional Directors.

Jean-Paul Loison is appointed as an Executive Director of the Company and brings to the Board his extensive international expertise in the packaging industry. Jean-Paul, aged 61, is currently Divisional Chief Executive of the Kaysersberg Packaging division of DS Smith Plc with responsibility for the Group's continental European Paper and Corrugated Packaging operations. He joined Kaysersberg Packaging S.A. in 1970 and held various senior management positions before becoming Divisional Chief Executive in 1993 following its acquisition by DS Smith in the previous year.

Christopher J Bunker is appointed as a Non-executive Director of the Company. Christopher, aged 56, is currently Finance Director of the Water Division of RWE AG and was previously Group Finance Director of Thames Water Plc. Prior to that he was Group Finance Director of Tarmac Plc, Commercial Director of GKN Aerospace and Defence and Finance Director of Westland Group Plc. He is currently a Non-executive Director of John Mowlem Plc. Christopher's breadth of financial experience in public companies will be a valuable addition to the Board.

OUTLOOK

Although sales volumes are increasing in some areas of the Group, pricing remains under pressure. We are working on further ways to enhance our market positions and drive efficiencies. For the full year we anticipate delivering results broadly in line with expectations.

Part 3 – Unaudited Interim Results of the DS Smith Group for the six months ended 31 October 2003

GROUP PROFIT AND LOSS ACCOUNT

	Note	Half year to 31 October 2003 (unaudited) £m	Half year to 31 October 2002 (unaudited) £m	Year to 30 April 2003 £m
Turnover	2	744.7	741.1	1,479.0
Operating profit				
Before exceptional items and amortisation of intangibles	2	43.5	48.6	88.0
Amortisation of intangibles		(1.5)	(1.1)	(2.6)
Group operating profit		42.0	47.5	85.4
Share of profits of associated undertakings				
Before amortisation of intangibles		1.3	1.6	2.6
Amortisation of intangibles		0.2	0.2	0.4
		1.5	1.8	3.0
Total operating profit		43.5	49.3	88.4
Exceptional loss on sale of businesses		—	—	(8.5)
Profit on ordinary activities before interest		43.5	49.3	79.9
Net interest payable and other similar items		(5.5)	(5.4)	(10.9)
Profit on ordinary activities before taxation				
Before exceptional items and amortisation of intangibles		39.3	44.8	79.7
Exceptional loss on sale of businesses	3	—	—	(8.5)
Amortisation of intangibles		(1.3)	(0.9)	(2.2)
		38.0	43.9	69.0
Tax on profit on ordinary activities	4	(10.6)	(12.1)	(21.6)
Profit on ordinary activities after taxation		27.4	31.8	47.4
Minority interests – equity		(0.4)	(0.4)	(0.3)
Profit for the financial period		27.0	31.4	47.1
Dividends		(9.0)	(9.0)	(28.2)
Retained profit for the financial period		18.0	22.4	18.9
Earnings per share:				
Basic	5	8.4p	9.8p	14.7p
Diluted	5	8.4p	9.8p	14.6p
Adjusted	5	8.8p	10.1p	18.0p
Dividends per share		2.8p	2.8p	8.8p

The Group's results shown above are derived from continuing operations. There were no material acquisitions or discontinued operations in the previous year or the current half year.

Part 3 – Unaudited Interim Results of the DS Smith Group for the six months ended 31 October 2003**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	Half year to 31 October 2003 (unaudited) £m	Half year to 31 October 2002 (unaudited) £m	Year to 30 April 2003 £m
Profit for the financial period	27.0	31.4	47.1
Exchange differences on foreign currency net investments	(4.9)	(2.5)	7.3
Total recognised gains and losses relating to the financial period	22.1	28.9	54.4

GROUP RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Half year to 31 October 2003 (unaudited) £m	Half year to 31 October 2002 (unaudited) £m	Year to 30 April 2003 £m
Profit for the financial period	27.0	31.4	47.1
Dividends	(9.0)	(9.0)	(28.2)
Retained profit for the financial period	18.0	22.4	18.9
Exchange differences on foreign currency net investments	(4.9)	(2.5)	7.3
Goodwill previously written off	—	—	7.4
New share capital issued	1.7	—	0.4
Increase in shareholders' funds	14.8	19.9	34.0
Opening shareholders' funds	472.9	438.9	438.9
Closing shareholders' funds	487.7	458.8	472.9

The difference between reported and historical cost profits for the periods reported above is not material.

Part 3 – Unaudited Interim Results of the DS Smith Group for the six months ended 31 October 2003

GROUP BALANCE SHEET

	As at 31 October 2003 (unaudited) £m	As at 31 October 2002 (unaudited) £m	As at 30 April 2003 £m
Fixed assets			
Intangible assets	51.7	47.5	49.0
Tangible assets	541.9	546.7	560.9
Investments	29.5	28.5	29.0
	<u>623.1</u>	<u>622.7</u>	<u>638.9</u>
Current assets			
Stocks	145.2	148.5	155.2
Debtors	346.3	336.3	334.3
Short term investments	25.2	11.7	26.7
Cash at bank and in hand	52.2	45.8	27.7
	<u>568.9</u>	<u>542.3</u>	<u>543.9</u>
Creditors: amounts falling due within one year			
Trade and other creditors	(313.9)	(336.1)	(355.9)
Borrowings	(24.3)	(24.0)	(142.7)
	<u>230.7</u>	<u>182.2</u>	<u>45.3</u>
Net current assets			
	<u>230.7</u>	<u>182.2</u>	<u>45.3</u>
Total assets less current liabilities	853.8	804.9	684.2
Creditors: amounts falling due after more than one year			
Borrowings	(268.9)	(251.4)	(114.0)
Other	(4.4)	(1.9)	(2.7)
Provisions for liabilities and charges	(87.0)	(86.0)	(87.9)
	<u>493.5</u>	<u>465.6</u>	<u>479.6</u>
Minority interests – equity	(5.8)	(6.8)	(6.7)
	<u>487.7</u>	<u>458.8</u>	<u>472.9</u>
Net assets	<u>487.7</u>	<u>458.8</u>	<u>472.9</u>
Capital and reserves			
Called up share capital	32.3	32.1	32.2
Share premium account	190.5	188.7	188.9
Revaluation reserve	8.8	8.9	8.8
Profit and loss account	256.1	229.1	243.0
	<u>487.7</u>	<u>458.8</u>	<u>472.9</u>
Shareholders' funds – equity	<u>487.7</u>	<u>458.8</u>	<u>472.9</u>
Gearing (net debt expressed as a percentage of shareholders' funds)	<u>44.2%</u>	<u>47.5%</u>	<u>42.8%</u>

GROUP CASH FLOW STATEMENT

	<i>Note</i>	Half year to 31 October 2003 (unaudited) £m	Half year to 31 October 2002 (unaudited) £m	Year to 30 April 2003 £m
Net cash inflow from operating activities	6	59.7	64.7	142.0
Returns on investments and servicing of finance		(5.6)	(5.6)	(7.5)
Taxation		(11.5)	(7.2)	(15.1)
Capital expenditure and investments				
Purchase of tangible fixed assets		(27.5)	(34.2)	(63.4)
Sale of tangible fixed assets		1.5	1.4	4.2
Purchase of holding company shares		(1.0)	(0.9)	(0.8)
Purchase of fixed asset investments		—	(0.1)	(0.1)
Sale of fixed asset investments		1.4	0.2	0.6
Net cash outflow from capital expenditure and investments		(25.6)	(33.6)	(59.5)
Cash inflow before dividends and acquisitions		17.0	18.3	59.9
Acquisitions and disposals		(14.8)	(17.3)	(16.1)
Equity dividends paid		(19.2)	(19.1)	(28.2)
Net cash (outflow)/inflow before use of liquid resources and financing		(17.0)	(18.1)	15.6
Management of liquid resources		0.2	4.6	(8.4)
Issue of ordinary shares		1.7	—	0.3
Financing – net increase/(decrease) in debt		74.6	44.0	(29.9)
Increase/(decrease) in cash in the period		59.5	30.5	(22.4)
Reconciliation of net cash flow to movement in net debt				
Increase/(decrease) in cash in the period		59.5	30.5	(22.4)
(Increase)/decrease in debt financing		(74.6)	(44.0)	29.9
(Decrease)/increase in liquid resources		(0.2)	(4.6)	8.4
Increase in net debt resulting from cash flows		(15.3)	(18.1)	15.9
Net debt acquired with subsidiary undertakings		—	(2.0)	(2.0)
Exchange differences		1.8	(1.9)	(20.3)
Increase in net debt in the period		(13.5)	(22.0)	(6.4)
Opening net debt		(202.3)	(195.9)	(195.9)
Closing net debt		(215.8)	(217.9)	(202.3)

NOTES TO THE ACCOUNTS

1. Basis of preparation

The interim financial information, which is unaudited, has been prepared using the same policies as those adopted in the accounts for the financial year ended 30 April 2003. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain an adverse statement under section 237(2) or (3) of the Companies Act 1985.

2. Analysis of Group turnover, profit and capital employed

		Half year to 31 October 2003 (unaudited) £m	Half year to 31 October 2002 (unaudited) £m	Year to 30 April 2003 £m
Turnover				
Packaging:	Paper & Corrugated Packaging	376.4	377.2	747.0
	Plastic Packaging	107.6	98.0	195.0
		<u>484.0</u>	<u>475.2</u>	<u>942.0</u>
Office Products:	Wholesaling	244.4	243.0	495.6
	Manufacturing	24.4	32.2	59.7
	Intra-segment sales	(8.1)	(9.3)	(18.3)
		<u>260.7</u>	<u>265.9</u>	<u>537.0</u>
		<u>744.7</u>	<u>741.1</u>	<u>1,479.0</u>
By origin:	United Kingdom	415.6	440.2	865.5
	Rest of World	329.1	300.9	613.5
		<u>744.7</u>	<u>741.1</u>	<u>1,479.0</u>
Operating profit (see a) below)				
Packaging:	Paper & Corrugated Packaging	27.7	31.6	53.1
	Plastic Packaging	7.5	7.6	14.7
		<u>35.2</u>	<u>39.2</u>	<u>67.8</u>
Office Products:	Wholesaling	7.2	6.8	16.2
	Manufacturing	1.1	2.6	4.0
		<u>8.3</u>	<u>9.4</u>	<u>20.2</u>
		<u>43.5</u>	<u>48.6</u>	<u>88.0</u>
By origin:	United Kingdom	27.6	33.9	59.7
	Rest of World	15.9	14.7	28.3
		<u>43.5</u>	<u>48.6</u>	<u>88.0</u>
Capital employed (see b) below)				
Packaging:	Paper & Corrugated Packaging	507.5	495.4	500.6
	Plastic Packaging	139.3	128.0	136.0
		<u>646.8</u>	<u>623.4</u>	<u>636.6</u>
Office Products:	Wholesaling	118.3	123.7	122.3
	Manufacturing	14.1	18.8	13.8
		<u>132.4</u>	<u>142.5</u>	<u>136.1</u>
		<u>779.2</u>	<u>765.9</u>	<u>772.7</u>
By origin:	United Kingdom	485.3	478.1	456.9
	Rest of World	293.9	287.8	315.8
		<u>779.2</u>	<u>765.9</u>	<u>772.7</u>

2. Analysis of Group turnover, profit and capital employed (continued)

		Half year to 31 October 2003 (unaudited)	Half year to 31 October 2002 (unaudited)	Year to 30 April 2003
Return on Sales Packaging:	Paper & Corrugated Packaging	7.4%	8.4%	7.1%
	Plastic Packaging	7.0%	7.8%	7.5%
		7.3%	8.2%	7.2%
Office Products:	Wholesaling	2.9%	2.8%	3.3%
	Manufacturing	4.5%	8.1%	6.7%
		3.2%	3.5%	3.8%
		5.8%	6.6%	5.9%
By origin:	United Kingdom	6.6%	7.7%	6.9%
	Rest of World	4.8%	4.9%	4.6%
		5.8%	6.6%	5.9%
Return on average capital employed (see c) below)				
Packaging:	Paper & Corrugated Packaging	10.7%	12.6%	10.6%
	Plastic Packaging	10.5%	12.5%	11.5%
		10.7%	12.6%	10.7%
Office Products:	Wholesaling	12.2%	10.6%	12.7%
	Manufacturing	15.1%	28.1%	23.1%
		12.6%	12.8%	14.0%
		11.0%	12.7%	11.3%
By origin:	United Kingdom	11.4%	14.0%	12.4%
	Rest of World	10.3%	10.4%	9.7%
		11.0%	12.7%	11.3%

- a) Operating profit is stated before exceptional items and amortisation of intangibles.
- b) Capital employed excludes fixed asset investments, net borrowings, deferred consideration due in respect of acquisitions, corporation tax, dividends payable and minority interests.
- c) Return on average capital employed for the half year is calculated as twice the operating profit divided by the average capital employed including the intangible assets on the balance sheet.

3. Exceptional items

The loss on sale of businesses last year included £7.4m of goodwill previously written off to reserves.

4. Taxation

Tax on profits before exceptional items and amortisation of intangibles has been charged at an effective rate of 27.0% (half year to 31 October 2002: 27.0%; year to 30 April 2003: 27.1%), being the expected full year effective rate.

The tax charge for the period consists of UK taxation of £4.2m (half year to 31 October 2002: £5.8m; year to 30 April 2003: £9.0m) and overseas taxation of £6.4m (half year to 31 October 2002: £6.3m; year to 30 April 2003: £12.6m).

5. Earnings per share

The basic earnings per share have been calculated on the profit for the period of £27.0m (half year to 31 October 2002: £31.4m; year to 30 April 2003: £47.1m) and on 321.1m (half year to 31 October 2002: 320.3m; year to 30 April 2003: 320.3m) ordinary shares, being the weighted average in issue and fully paid during the period.

The adjusted earnings per share excludes the effect of exceptional items and amortisation of intangibles and has been calculated on the adjusted profit for the period of £28.3m (half year to 31 October 2002: £32.3m; year to 30 April 2003: £57.8m).

6. Reconciliation of operating profit to net cash inflow from operating activities

	Half year to 31 October 2003 (unaudited) £m	Half year to 31 October 2002 (unaudited) £m	Year to 30 April 2003 £m
Operating profit before exceptional items and amortisation of intangibles	43.5	48.6	88.0
Depreciation	31.7	30.8	62.2
Profit on sale of tangible fixed assets	(0.3)	—	(0.4)
Working capital	(14.8)	(11.8)	(6.0)
Increase/(decrease) in provisions	(0.3)	(3.2)	(3.3)
Other non cash operating items	(0.1)	0.3	1.5
Net cash inflow from operating activities	59.7	64.7	142.0

7. Analysis of net debt (unaudited)

	At 30 April 2003 £m	Acquired £m	Cash flow £m	Exchange differences £m	At 31 October 2003 £m
Cash at bank and in hand	27.7	—	26.0	(1.5)	52.2
Overdrafts	(39.8)	—	33.5	0.1	(6.2)
	(12.1)	—	59.5	(1.4)	46.0
Debt due after one year	(110.1)	—	(160.0)	4.2	(265.9)
Debt due within one year	(101.9)	—	84.9	0.2	(16.8)
Finance leases	(4.9)	—	0.5	0.1	(4.3)
	(216.9)	—	(74.6)	4.5	(287.0)
Short term investments	26.7	—	(0.2)	(1.3)	25.2
Total	(202.3)	—	(15.3)	1.8	(215.8)

Part 4 – Financial Information on the LINPAC Containers Group



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4 March 2004

Dear Sirs

LINPAC Containers Group

Introduction

We report on the combined financial information (the “Combined Financial Information”) set out below. This Combined Financial Information has been prepared for inclusion in the prospectus dated 4 March 2004 (the “Prospectus”) relating to the proposed acquisition by DS Smith Plc (the “Company”) of LINPAC Containers Limited and its subsidiary Shorepac Limited (the “LINPAC Containers Group”).

Basis of preparation

The Combined Financial Information set out below is based on previously unpublished standard accounting forms used in the preparation of the audited consolidated LINPAC Group Holdings Limited (“LINPAC Group Holdings”) financial statements for the three years ended 31 December 2003 and has been prepared on the basis set out in note 1.

Responsibility

The standard accounting forms are the responsibility of the directors of the LINPAC Containers Group, who approved their issue.

The directors of the Company are responsible for the contents of the Prospectus in which this report is included.

It is our responsibility to compile the Combined Financial Information set out in our report from the audited standard accounting forms, to form an opinion on the Combined Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the Combined Financial Information. The evidence included that previously obtained by the auditor relating to the audit of the financial statements and standard accounting forms underlying the Combined Financial Information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the Combined Financial Information and whether the accounting policies are appropriate to the circumstances of the LINPAC Containers Group, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Combined Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Combined Financial Information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the LINPAC Containers Group as at the dates stated and of its profits, cash flows and total recognised gains and losses for the years then ended.

Part 4 – Financial Information on the LINPAC Containers Group

COMBINED PROFIT AND LOSS ACCOUNTS

	Notes	Year ended 31 December		
		2001 £'000	2002 £'000	2003 £'000
Turnover	3			
– Continuing operations		167,853	163,247	164,001
– Discontinued operations		10,461	10,928	2,155
		<u>178,314</u>	<u>174,175</u>	<u>166,156</u>
Cost of sales		(144,137)	(137,422)	(123,921)
Gross profit		<u>34,177</u>	<u>36,753</u>	<u>42,235</u>
Net operating expenses	4	(28,335)	(29,340)	(28,577)
– Continuing operations		5,448	6,840	13,394
– Discontinued operations		394	573	264
Group operating profit		<u>5,842</u>	<u>7,413</u>	<u>13,658</u>
Share of operating loss of associate company		(56)	(40)	—
Total operating profit	5	<u>5,786</u>	<u>7,373</u>	<u>13,658</u>
Profit on disposal of properties	6	—	—	2,309
Profit on sale of Portugal – discontinued operations	6	—	—	7,500
Net interest receivable	9	964	1,149	2,204
Profit on ordinary activities before taxation		<u>6,750</u>	<u>8,522</u>	<u>25,671</u>
Tax on profit on ordinary activities	10	(2,031)	(2,629)	(4,898)
Profit on ordinary activities after taxation		<u>4,719</u>	<u>5,893</u>	<u>20,773</u>
Minority interest		—	(7)	(17)
Profit for the financial year after minority interest	22	<u>4,719</u>	<u>5,886</u>	<u>20,756</u>

COMBINED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	Year ended 31 December		
		2001 £'000	2002 £'000	2003 £'000
Profit for the financial year		4,719	5,886	20,756
Exchange adjustments offset in reserves	21	(274)	314	200
Total recognised gains for the year		<u>4,445</u>	<u>6,200</u>	<u>20,956</u>

Note: The historical capital structure of the LINPAC Containers Group may not reflect its future capital structure. Therefore, future interest, taxation and dividends may differ from those incurred historically.

Part 4 – Financial Information on the LINPAC Containers Group

COMBINED BALANCE SHEETS

	Notes	As at 31 December		
		2001 £'000	2002 £'000	2003 £'000
Fixed assets				
Intangible assets	11	—	478	453
Tangible assets	12	51,161	47,289	38,638
		<u>51,161</u>	<u>47,767</u>	<u>39,091</u>
Investment in associated company	13	1,014	1,003	—
		<u>52,175</u>	<u>48,770</u>	<u>39,091</u>
Current assets				
Stock	14	7,124	6,938	5,495
Debtors	15	33,443	32,777	28,459
Cash at bank and in hand		1,145	6,112	7,498
		<u>41,712</u>	<u>45,827</u>	<u>41,452</u>
Creditors – Amounts falling due within one year	16	(35,712)	(38,675)	(36,782)
Net current assets		<u>6,000</u>	<u>7,152</u>	<u>4,670</u>
Total assets less current liabilities		<u>58,175</u>	<u>55,922</u>	<u>43,761</u>
Creditors – Amounts falling due after more than one year	17	(67)	(598)	(950)
Provisions for liabilities and charges	19	(6,006)	(5,310)	(4,277)
Minority interest		—	(122)	(139)
Net assets		<u>52,102</u>	<u>49,892</u>	<u>38,395</u>
Invested capital	21	<u>52,102</u>	<u>49,892</u>	<u>38,395</u>

Part 4 – Financial Information on the LINPAC Containers Group

COMBINED CASH FLOW STATEMENTS

	Year ended 31 December		
	2001 £'000	2002 £'000	2003 £'000
Net cash inflow from operating activities	20,563	21,401	21,679
Returns on investments and servicing of finance			
Interest received	1,088	1,095	2,060
Interest paid	(90)	(44)	—
Finance lease interest paid	(45)	(18)	(3)
Net cash inflow from returns on investments and servicing of finance	953	1,033	2,057
Taxation	(3,221)	(2,933)	(3,549)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(6,046)	(5,511)	(3,973)
Sale of tangible fixed assets	95	437	3,122
Net cash (outflow) for capital expenditure and financial investment	(5,951)	(5,074)	(851)
Acquisitions and disposals			
Purchase of subsidiary undertakings			
– consideration paid	—	(734)	—
– cash acquired	—	382	—
– legal costs	—	(30)	—
Disposal of subsidiary undertakings			
– consideration received	—	—	13,506
– financial liabilities disposed	—	—	1,650
– legal costs	—	—	(40)
Net cash inflow/(outflow) for acquisitions and disposals	—	(382)	15,116
Equity dividends paid to shareholders	(18,421)	—	(1,251)
Net cash inflow/(outflow) before use of liquid resources and financing	(6,077)	14,045	33,201
Financing			
Capital element of finance lease payments	(539)	(579)	(98)
Advances to group companies	(13,579)	(7,173)	(29,436)
Increase/(decrease) in net cash	(20,195)	6,293	3,667
Reconciliation to net cash/(debt)			
Net cash at beginning of period	17,514	(3,290)	3,409
Increase/(decrease) in net cash	(20,195)	6,293	3,667
Repayment of finance leases	539	579	98
Translation difference	17	(162)	(96)
New finance leases	(1,165)	(11)	—
Net cash/(debt) at end of year	(3,290)	3,409	7,078
Reconciliation of operating profit to operating cash flows			
Operating profit	5,786	7,373	13,658
Share of loss of associated company	56	40	—
Depreciation charges	9,517	9,332	8,566
Amortisation of goodwill	35	46	25
Profit on disposal of tangible fixed assets	(92)	(17)	(348)
Increase/(decrease) in SSAP24 provision	194	201	(501)
Decrease in stocks	261	251	804
Decrease in debtors	4,396	1,298	1,608
Increase/ (decrease) in creditors	(16)	2,574	(2,724)
Increase in group balances	426	303	591
Net cash inflow from operating activities	20,563	21,401	21,679

Part 4 – Financial Information on the LINPAC Containers Group

Combined Cash Flow Statements continued

Analysis of changes in net funds

	At 1 January 2001 £'000	Cashflows £'000	Exchange movement £'000	Other movement £'000	At 31 December 2001 £'000
2001					
Cash	20,219	(19,074)	—	—	1,145
Overdraft	(2,665)	(1,121)	17	—	(3,769)
Finance leases	(40)	539	—	(1,165)	(666)
	<u>17,514</u>	<u>(19,656)</u>	<u>17</u>	<u>(1,165)</u>	<u>(3,290)</u>
	At 1 January 2002 £'000	Cashflows £'000	Exchange movement £'000	Other movement £'000	At 31 December 2002 £'000
2002					
Cash	1,145	4,967	—	—	6,112
Overdraft	(3,769)	1,326	(162)	—	(2,605)
Finance leases	(666)	579	—	(11)	(98)
	<u>(3,290)</u>	<u>6,872</u>	<u>(162)</u>	<u>(11)</u>	<u>3,409</u>
	At 1 January 2003 £'000	Cashflows £'000	Exchange movement £'000	Other movement £'000	At 31 December 2003 £'000
2003					
Cash	6,112	1,386	—	—	7,498
Overdraft	(2,605)	2,281	96	—	(420)
Finance leases	(98)	98	—	—	—
	<u>3,409</u>	<u>3,765</u>	<u>96</u>	<u>—</u>	<u>7,078</u>

Part 4 – Financial Information on the LINPAC Containers Group

1. Basis of preparation of the Combined Financial Information

This Combined Financial Information presents the financial record of the LINPAC Containers Group for the three years ended 31 December 2003. The following are the principal subsidiary undertakings and associated undertakings that have been included in the Combined Financial Information.

Company	Country of Nature of business	Effective interest in Ordinary Share Capital 31 December			
		incorporation	2001	2002	2003
LINPAC Containers Limited	– Corrugated packaging – Foams production	UK	100% note 1	100% note 1	100% note 1
LINPAC Finance Limited (formerly Raleigh Limited)	Stereo manufacture	UK	note 2	note 2	note 2
PorLINPAC Embalagens Lda	Paper conversion	Portugal	100%	100%	—
Fabriaca Marihense de Cartonagem Lda	Paper conversion	Portugal	25%	25%	—
Shorepac Limited t/a Eastern Box	Paper conversion	UK	—	86%	86%

Notes

- (1) *The Combined Financial Information has been prepared to exclude the financial record of the Moulded Foams division of LINPAC Containers Limited. The Moulded Foams division formed part of the activities of LINPAC Containers Limited throughout 2002 and 2003, but was managed separately and does not form part of the business to be acquired. The trading activities and trading assets and liabilities of the Moulded Foams division were transferred to The Caldicot Works Limited on 24 February 2004.*
- (2) *The Combined Financial Information includes the trading activities and trading assets and liabilities of LINPAC Finance Limited (formerly Raleigh Limited) which are managed by the LINPAC Containers Group's management and were transferred to LINPAC Containers Limited on 24 February 2004.*

2. Accounting policies

Accounting convention

The Combined Financial Information has been prepared under the historical cost convention, and prepared in accordance with applicable accounting standards in the United Kingdom which have been applied on a consistent basis.

The principal accounting policies are:

(a) Basis of Accounting

The combined financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards using the following accounting policies.

(b) Goodwill

With effect from 1 January 1998 goodwill arising on the purchase of subsidiary and associated undertakings, representing the excess of the purchase consideration over the fair value of net assets acquired, is capitalised and amortised over the shorter of its estimated useful economic life and 20 years. Previously such goodwill was written off on acquisition against reserves; there has been no reinstatement of goodwill written off in prior years.

(c) Turnover

Turnover represents the invoiced amount for sales of goods and services excluding value added tax and other sales taxes. Turnover is recognised when goods are despatched and is stated net of the provision set up for expected returned goods.

(d) Leased assets

Where assets are financed by leasing agreements which give rights approximating to ownership, "finance leases", the assets are treated as if they had been purchased outright and the corresponding leasing commitments are included in creditors. Such lease payments are treated as consisting of capital and interest elements and this interest is charged in the profit and loss account on a straight-line basis.

Part 4 – Financial Information on the LINPAC Containers Group

All other leases are “operating leases” and the annual rentals are charged in the profit and loss account as incurred.

(e) *Tangible fixed assets and depreciation*

Fixed assets are stated at cost less depreciation. No depreciation is provided on freehold land. Depreciation is calculated to write off the cost of tangible fixed assets over their expected useful lives. The annual depreciation rates, in equal instalments, are as follows:

Freehold buildings	– 20 years
Leasehold property	– the lower of remaining period of the lease and 20 years
Major plant and machinery	– 10 years
Other plant and machinery	– 5-10 years
Motor vehicles	– 3-4 years

Fixed assets in the course of construction are disclosed as capital work in progress. They are not depreciated until they are brought into use by the business at which point they are reclassified to the appropriate asset category and depreciated in line with the accounting policy above.

(f) *Associated undertakings*

In the LINPAC Containers Group’s balance sheet, material investments in associated companies are stated at the LINPAC Containers Group’s share of net assets together with the goodwill on acquisitions arising since 1 January 1998, less amortisation thereof.

(g) *Stock*

Stock is valued at the lower of cost and estimated net realisable value on a first in first out basis. Cost includes all direct expenditure and an appropriate proportion of overheads.

(h) *Deferred taxation*

As required by FRS 19, deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. Deferred tax assets are recognised to the extent that they are “more likely than not” to be recovered. Deferred tax assets and liabilities recognised have not been discounted.

(i) *Foreign currencies*

Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date. The exchange gains or losses arising on transactions during the year are taken to the profit and loss account. Exchange differences arising on the translation of the opening net assets of overseas subsidiaries and of loans financing overseas assets are taken directly to reserves. The average exchange rate for the year is used to translate results denominated in foreign currencies.

(j) *Pension costs*

LINPAC Group Holdings operates a defined benefit scheme for its monthly paid UK staff. Payments are made to the scheme in accordance with the recommendations of the independent actuary, based on actuarial valuations, prepared using the Projected Unit Method, and carried out every three years with interim reviews where necessary. Pension costs are charged to the profit and loss account in accordance with the advice of the actuary so as to spread the cost of pensions over the employees’ working lives; variations from the regular cost are spread over the average remaining working lives of the current members of the scheme. This scheme is closed to new entrants.

The LINPAC Containers Group operates a defined contribution scheme for both its hourly paid UK employees and for salaried UK employees. Employers’ contributions are charged to the profit and loss account in the period to which they relate.

Part 4 – Financial Information on the LINPAC Containers Group

3. Turnover and operating profit

Turnover and operating profit arise from the one activity of manufacturing packaging products.

Turnover is analysed by geographical destination:

	2001 £000	2002 £000	2003 £000
UK	166,508	162,159	162,343
Other EU countries	11,806	12,016	3,813
	<u>178,314</u>	<u>174,175</u>	<u>166,156</u>

Turnover analysed by geographical origin:

	2001 £000	2002 £000	2003 £000
UK	167,853	163,247	164,001
Other EU countries	10,461	10,928	2,155
	<u>178,314</u>	<u>174,175</u>	<u>166,156</u>

Operating profit analysed by geographical origin:

	2001 £000	2002 £000	2003 £000
UK	5,448	6,840	13,394
Other EU countries	338	533	264
	<u>5,786</u>	<u>7,373</u>	<u>13,658</u>

Net assets analysed by geographical origin:

	2001 £000	2002 £000	2003 £000
UK	51,411	49,023	38,395
Other EU countries	691	869	—
	<u>52,102</u>	<u>49,892</u>	<u>38,395</u>

Discontinued operations relate to the LINPAC Containers Group's Portuguese operations which were sold on 28 February 2003.

Part 4 – Financial Information on the LINPAC Containers Group

4. Cost of sales and operating expenses

	Year ended 31 December		
	2001 £000	2002 £000	2003 £000
Cost of sales			
– Continuing operations	135,962	128,970	122,301
– Discontinued operations	8,175	8,452	1,620
	<u>144,137</u>	<u>137,422</u>	<u>123,921</u>
Administrative expenses			
– Continuing operations	10,835	9,749	9,806
– Discontinued operations	984	1,014	164
Distribution and selling costs			
– Continuing operations	15,321	17,388	18,167
– Discontinued operations	908	889	107
LINPAC Group Holdings management charges			
– Continuing operations	287	300	333
	<u>28,335</u>	<u>29,340</u>	<u>28,577</u>

5. Operating profit

This is stated after charging/(crediting):

	2001 £000	2002 £000	2003 £000
LINPAC Group Holdings management charges	287	300	333
Depreciation			
– continued	8,455	8,385	8,445
– discontinued	1,062	947	121
Amortisation			
– continued	—	11	25
– discontinued	35	35	—
(Profit) on disposal of tangible fixed assets	(92)	(17)	(348)
Operating lease rentals – land and buildings	74	75	165
Operating lease rentals – plant	858	1,959	2,079
Auditors' remuneration			
– audit services	52	55	55
– other services	74	145	51

The earnings before interest, tax, depreciation, amortisation and exceptional items (“EBITDA”) for continuing operations was £21,864,000 (2002: £15,236,000; 2001: £13,903,000).

6. Exceptional Items

Profit on disposal of subsidiary operations of £7,500,000 arose in respect of the disposal of the LINPAC Containers Group's Portuguese subsidiary and associate company for total consideration of £13,506,000. Profit on disposal is stated after charging £781,000 of goodwill previously written off against reserves.

Profit on disposal of fixed assets relates to two properties disposed of during the year ended 31 December 2003. The properties, with a net book value of £176,000, were sold for consideration of £2,485,000, of which £650,000 remained outstanding within the funding balance with LINPAC Group Holdings at 31 December 2003.

Part 4 – Financial Information on the LINPAC Containers Group

7. Employees and directors

The average monthly number of employees during the year was:

	2001	2002	2003
UK	1,339	1,371	1,332
Overseas	147	145	24
	<u>1,486</u>	<u>1,516</u>	<u>1,356</u>

Staff costs consist of:

	2001 £000	2002 £000	2003 £000
Wages and salaries	31,540	32,424	31,998
Social security costs	3,035	3,067	3,220
Other pension costs (note 8)	1,125	1,264	1,104
	<u>35,700</u>	<u>36,755</u>	<u>36,322</u>

The remuneration of each of the directors of LINPAC Containers Limited was:

	2001 Total £000	2002 Total £000	2003 Total £000
Aggregate emoluments	675	676	725
LINPAC Containers Group pension contribution to the defined contribution scheme	14	14	11

At 31 December 2003, the number of directors accruing benefits under a defined benefit pension scheme to which the LINPAC Containers Group was contributing was 4 (2002: 4; 2001: 6).

The pension contribution to the defined contribution scheme is paid by the LINPAC Containers Group.

Emoluments paid in relation to the highest paid director were:

	2001 Total £000	2002 Total £000	2003 Total £000
Aggregate emoluments	175	203	257
LINPAC Containers Group pension contribution to the defined contribution scheme	4	4	4

On completion of the acquisition of LINPAC Group Holdings by Montagu Private Equity during 2003, certain of the directors also became entitled to shares and loan notes in LINPAC Group Holdings. No cost in relation to these entitlements has been recharged to the LINPAC Containers Group.

8. Pension schemes

Pension costs charged to the profit and loss account for the year were:

	2001 £000	2002 £000	2003 £000
Defined benefit scheme (below)	938	895	545
Defined contribution schemes	187	369	559
	<u>1,125</u>	<u>1,264</u>	<u>1,104</u>

LINPAC Containers Limited is a subsidiary of LINPAC Group Holdings Limited which operates for its monthly paid UK staff a defined benefit pension scheme, providing benefits based on final pensionable salary.

Part 4 – Financial Information on the LINPAC Containers Group

The scheme is contributory and is contracted out of the State Earnings Related Pension Scheme. The assets are held in a separate trustee administered fund.

The contributions paid by the LINPAC Containers Group are accounted for as if the schemes were defined contribution schemes, as the LINPAC Containers Group is unable to identify its share of the underlying assets and liabilities of the schemes. The charge to the Profit and Loss account is then adjusted based on a SSAP24 allocation recharged from LINPAC Group Holdings. The funds are valued every three years by a professional qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates.

The total pensions cost to the LINPAC Containers Group in the year are set out above. Contributions are based on pension costs across LINPAC Group Holdings.

The movement in the SSAP 24 provision during the year was:

	2001 £000	2002 £000	2003 £000
At 1 January	967	1,161	1,362
Provided/(released) during the year included in defined benefit scheme costs above	194	201	(501)
At 31 December	1,161	1,362	861

9. Net interest receivable

	2001 £000	2002 £000	2003 £000
Interest payable			
Bank loans and overdrafts	(61)	(103)	(9)
Finance leases	(45)	(18)	(3)
Other interest payable	—	—	(23)
	(106)	(121)	(35)
Interest receivable			
Bank deposits	340	369	365
Invested capital	730	901	1,874
	1,070	1,270	2,239
Net interest receivable	964	1,149	2,204

Invested capital has been stated net of surplus funds generated by the LINPAC Containers Group and loaned to LINPAC Group Holdings. These balances are interest bearing.

10. Taxation

Taxation based on the profit for each year

	2001 £000	2002 £000	2003 £000
Corporation tax – current year	3,122	3,567	5,531
– prior years	(150)	(10)	(101)
Group relief	(102)	(16)	—
Overseas tax	(47)	(3)	—
	2,823	3,538	5,430
Deferred tax (see note 19)	(792)	(909)	(532)
	2,031	2,629	4,898

Part 4 – Financial Information on the LINPAC Containers Group

The overseas tax all relates to discontinued operations. There is no tax arising on the loss from associate companies or exceptional items.

The tax charge for the year is different to the standard rate of taxation in the UK of 30%. The differences are explained below:

	2001 £000	2002 £000	2003 £000
Profit on ordinary activities before taxation	6,750	8,522	25,671
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	2,025	2,557	7,701
Effects of:			
Expenses not deductible for tax purposes	194	148	306
Timing differences	792	909	532
Profit on sale of subsidiary and properties not subject to taxation	—	—	(2,946)
Profit not subject to UK taxation	(38)	(66)	(62)
Adjustments in respect of prior years	(150)	(10)	(101)
Actual current tax charge	2,823	3,538	5,430

11. Intangible assets

	Purchased goodwill £000	Goodwill on consolidation £000	Total £000
Cost			
At 1 January 2001 and 31 December 2001	—	—	—
Additions	14	475	489
At 31 December 2002 and 31 December 2003	14	475	489
Amortisation			
At 1 January 2001 and 31 December 2001	—	—	—
Charge for the year	1	10	11
Amortisation at 31 December 2002	1	10	11
Charge for the year	1	24	25
Amortisation at 31 December 2003	2	34	36
NBV at 31 December 2003	12	441	453
NBV at 31 December 2002	13	465	478
NBV at 31 December 2001	—	—	—

Goodwill arose on the acquisition of Shorepac Limited on 1 August 2002 and is being amortised over 20 years as in the opinion of the directors, this is the useful economic life of the asset. Details of the acquisition are set out in note 24.

12. Tangible fixed assets

	Land and buildings		Plant & vehicles £000	Capital work in progress £000	Total £000
	Freehold £000	Long Leasehold £000			
Cost at 1 January 2001	24,116	2,545	108,553	249	135,463
Additions	67	—	7,283	437	7,787
Disposals	—	—	(1,392)	—	(1,392)
Exchange movements	(46)	—	(182)	—	(228)
At 31 December 2001	24,137	2,545	114,262	686	141,630
Additions	87	—	5,108	—	5,195
Acquisition of subsidiary	—	13	356	—	369
Transfer of assets under construction	—	—	686	(686)	—
Disposals	(294)	—	(713)	—	(1,007)
Exchange movements	(40)	—	(159)	—	(199)
At 31 December 2002	23,890	2,558	119,540	—	145,988
Additions	49	—	3,998	1,007	5,054
LINPAC Group Holdings transfers (see note 23)	—	178	—	—	178
Disposal of subsidiary	(1,751)	—	(9,762)	—	(11,513)
Disposals	(421)	—	(4,787)	—	(5,208)
Exchange movements	89	—	455	—	544
At 31 December 2003	21,856	2,736	109,444	1,007	135,043
Depreciation at 1 January 2001	11,058	1,325	70,106	—	82,489
Charge for the year	634	127	8,756	—	9,517
Disposals	—	—	(1,392)	—	(1,392)
Exchange movements	(14)	—	(131)	—	(145)
At 31 December 2001	11,678	1,452	77,339	—	90,469
Charge for the year	931	163	8,238	—	9,332
Disposals	—	—	(587)	—	(587)
Exchange movements	(96)	—	(419)	—	(515)
At 31 December 2002	12,513	1,615	84,571	—	98,699
LINPAC Group Holdings transfers (see note 23)	—	28	—	—	28
Disposal of subsidiary	(1,000)	—	(5,431)	—	(6,431)
Charge for the year	818	163	7,585	—	8,566
Disposals	(335)	—	(4,500)	—	(4,835)
Exchange movements	37	—	341	—	378
At 31 December 2003	12,033	1,806	82,566	—	96,405
NBV at 31 December 2003	9,823	930	26,878	1,007	38,638
NBV at 31 December 2002	11,377	943	34,969	—	47,289
NBV at 31 December 2001	12,459	1,093	36,923	686	51,161

Land included in freehold property and not subject to depreciation was £2,374,000 (2002 £2,453,000; 2001 £2,166,000).

Leased assets. The net book amount of tangible fixed assets held by the LINPAC Containers Group under finance leases was £4,000 (2002 £1,010,000; 2001 £1,034,000); the depreciation charge on these assets was £15,000 (2002 £200,000; 2001 £267,000).

Part 4 – Financial Information on the LINPAC Containers Group

13. Investment in Associated Company

	2001 £000	2002 £000	2003 £000
Associated company	1,014	1,003	—

Associated company:

The investment in associated company comprised:

	Goodwill £000	Net assets brought forward £000	Total £000
At 1 January 2001	183	1,004	1,187
Exchange movement	—	(82)	(82)
Amortisation provided	(35)	—	(35)
Share of retained loss	—	(56)	(56)
At 31 December 2001	148	866	1,014
Exchange movement	—	64	64
Amortisation provided	(35)	—	(35)
Share of retained loss	—	(40)	(40)
At 31 December 2002	113	890	1,003
Disposal	(113)	(890)	(1,003)
At 31 December 2003	—	—	—

14. Stocks

	2001 £000	2002 £000	2003 £000
Raw materials and consumables	4,405	4,379	3,460
Work in progress	382	427	308
Finished goods and goods for resale	2,337	2,132	1,727
	7,124	6,938	5,495

15. Debtors

	2001 £000	2002 £000	2003 £000
Trade debtors	29,515	30,170	26,057
Amounts owed by LINPAC Group Holdings companies	821	769	538
Amounts owed by associated company	462	760	—
Corporation tax recoverable	180	93	10
Prepayments and accrued income	2,465	985	1,854
	33,443	32,777	28,459

Part 4 – Financial Information on the LINPAC Containers Group

16. Creditors – amounts falling due within one year

	2001 £000	2002 £000	2003 £000
Finance leases	599	90	—
Bank overdraft	3,769	2,605	420
Trade creditors	23,766	24,624	22,556
Amounts owed to LINPAC Group Holdings companies	116	173	185
Social security and other taxes	1,479	1,558	1,605
Proposed dividend	—	1,251	3,936
Corporation tax	3,179	3,725	5,600
Accruals	2,804	4,649	2,480
	<u>35,712</u>	<u>38,675</u>	<u>36,782</u>

17. Creditors – amounts falling due after one year

	2001 £000	2002 £000	2003 £000
Finance leases	67	8	—
Trade creditors	—	170	530
Deferred consideration on acquisition of subsidiary (see note 24)	—	420	420
	<u>67</u>	<u>598</u>	<u>950</u>
The finance leases are repayable as follows:			
Due within one year	599	90	—
Due in one to five years	67	8	—
	<u>666</u>	<u>98</u>	<u>—</u>

18. Financial instruments

The disclosures given below are considered representative of the LINPAC Containers Group's position throughout the past three years.

Financial risk

The approach to financial risk is to minimise the level of risk to which the LINPAC Containers Group is exposed whilst maintaining the level of flexibility required to respond to the commercial need of the business. The main areas of financial risk are currency risk and interest risk.

Currency risk

The LINPAC Containers Group has limited international operations, hence the exposure to movements in foreign exchange rates is small. The foreign exchange risk is managed at the LINPAC Group Holdings level but the LINPAC Containers Group is exposed to the currency risk.

Interest rate risk

The interest rate risk is managed at the LINPAC Group Holdings level but the LINPAC Containers Group is exposed to the interest rate risk.

Funding risk

All funds are provided through the LINPAC Group Holdings set-off facility and funding risk has been considered at the LINPAC Group Holdings level.

Short term debtors and creditors

Short term debtors and creditors are excluded from all of the following disclosures, other than the currency risk disclosure. They are not considered significant to the risk profile of the entity.

Part 4 – Financial Information on the LIMPAC Containers Group

a) *Interest rate risk – financial assets and liabilities*

The LIMPAC Containers Group's cash in hand and overdraft balances are part of the LIMPAC Group Holdings set-off facility and earn/bear interest at the bank base rate plus 1%. The LIMPAC Containers Group's funding balance also earns interest at the bank base rate plus 1%. The floating rate assets and liabilities are set out below. The information relating to the weighted average interest rate of the finance leases was not available, as it relates to a business that has now been sold.

Financial assets

	2001 £000	2002 £000	2003 £000
Cash			
– Sterling	692	5,174	6,886
– Euro	144	549	331
– US Dollar	309	389	281
	<u>1,145</u>	<u>6,112</u>	<u>7,498</u>
Group loan – Sterling	19,958	28,217	58,515
	<u>21,103</u>	<u>34,329</u>	<u>66,013</u>

Financial liabilities

	2001 £000	2002 £000	2003 £000
Overdraft			
– Sterling	(1,714)	(2,264)	(420)
– Euro	(173)	(341)	—
– Portuguese Escudo	(1,882)	—	—
	<u>(3,769)</u>	<u>(2,605)</u>	<u>(420)</u>

b) *Maturity of financial liabilities*

All of the LIMPAC Containers Group's borrowings are repayable on demand. The maturity profile of the finance leases is set out in note 17.

c) *Borrowing facilities*

The overdraft facility is part of the LIMPAC Group Holdings off-set facility which has a limit of £50 million at 31 December 2003. At 31 December 2003 the gross overdraft of the LIMPAC Group Holdings included in this arrangement was £28.4 million, which was more than off-set by the positive cash balances of the subsidiaries in the arrangement.

d) *Currency exposures*

The currency exposure of the LIMPAC Containers Group's net cash is set out below. The exposure comprises cash not denominated in the functional currency of the LIMPAC Containers Group and does not include balances between companies within the LIMPAC Containers Group.

	2001 £000	2002 £000	2003 £000
Euro	(28)	208	331
US Dollar	309	389	281
		—	—

Information on the currency exposure on the LIMPAC Containers Group's other monetary assets and liabilities is not available.

Part 4 – Financial Information on the LINPAC Containers Group

e) *Fair value of assets and liabilities*

There are no material differences between the book value and fair value of the LINPAC Containers Group's assets and liabilities.

f) *Hedges*

The LINPAC Containers Group does not hedge the translation exposure on earnings, commodity prices or interest rates. At 31 December 2003 the LINPAC Containers Group does not have any overseas operations.

g) *Financial instruments held for trading purposes*

The LINPAC Containers Group does not trade in financial instruments.

19. Provisions for liabilities and charges

	2001 £000	2002 £000	2003 £000
Deferred taxation:			
Accelerated capital allowances	5,193	4,357	3,675
Pension scheme	(348)	(409)	(259)
	<u>4,845</u>	<u>3,948</u>	<u>3,416</u>
Other provisions:			
Pension scheme (see note 8)	1,161	1,362	861
	<u>6,006</u>	<u>5,310</u>	<u>4,277</u>

The movement in the deferred tax liability in each year is as follows:

	2001 £000	2002 £000	2003 £000
At 1 January	5,637	4,845	3,948
Release to the profit and loss	(792)	(909)	(532)
Acquisition of subsidiary	—	12	—
At 31 December	<u>4,845</u>	<u>3,948</u>	<u>3,416</u>

There are no further deferred tax liabilities other than those provided above.

The pension scheme liability reflects the LINPAC Containers Group's share of the LINPAC Group Holdings defined benefits scheme's SSAP24 deficit. Contributions are being made to the scheme as advised by the actuary.

20. Share capital

	Number 2001	Value 2001 £000	Number 2002	Value 2002 £000	Number 2003	Value 2003 £000
Authorised, issued and fully paid: Ordinary shares of £1 each	<u>179,998</u>	<u>180</u>	<u>179,998</u>	<u>180</u>	<u>179,998</u>	<u>180</u>

Part 4 – Financial Information on the LINPAC Containers Group

21. Invested Capital

	LINPAC Containers Group Share capital	Profit and loss account £000	LINPAC Group Holdings funding £000	Total £000
At 1 January 2001	180	68,606	(6,129)	62,657
Profit for the year	—	4,719	—	4,719
Dividends	—	(1,421)	—	(1,421)
Exchange movements	—	(274)	—	(274)
Movement in LINPAC Group Holdings funding	—	—	(13,579)	(13,579)
At 31 December 2001	180	71,630	(19,708)	52,102
Profit for the year	—	5,886	—	5,886
Dividends	—	(1,251)	—	(1,251)
Exchange movements	—	314	—	314
Movement in LINPAC Group Holdings funding	—	—	(7,159)	(7,159)
At 31 December 2002	180	76,579	(26,867)	49,892
Profit for the year	—	20,756	—	20,756
Dividends	—	(3,936)	—	(3,936)
Goodwill previously written off to reserves	—	781	—	781
Exchange movements	—	200	—	200
Movement in LINPAC Group Holdings funding	—	—	(29,298)	(29,298)
At 31 December 2003	180	94,380	(56,165)	38,395

The accumulated amount of goodwill written off to reserves on the acquisition of the subsidiary business at 31 December 2003 amounts to £97,000 (2002: £878,000; 2001: £878,000).

22. Reconciliation of movements in Invested Capital

	2001 £000	2002 £000	2003 £000
Profit for the year after minority interest	4,719	5,886	20,756
Dividends	(1,421)	(1,251)	(3,936)
Other recognised gains and losses	(274)	314	981
Movement in LINPAC Group Holdings funding	(13,579)	(7,159)	(29,298)
Net (reduction) in invested capital	(10,555)	(2,210)	(11,497)
Opening invested capital	62,657	52,102	49,892
Closing invested capital	52,102	49,892	38,395

Part 4 – Financial Information on the LINPAC Containers Group

23. Related party transactions

The LINPAC Containers Group has taken advantage of the exemption under FRS8 “Related party transactions” in relation to transactions with entities that are part of the LINPAC Containers Group.

The transactions on an arms length basis with other companies in LINPAC Group Holdings were as follows:

Sales to LINPAC Group Holdings companies

	2001 £000	Year end balance	2002 £000	Year end balance	2003 £000	Year end balance
Salter Paper Group Limited	1,461	240	1,213	276	989	101
LINPAC Plastics Limited	1,071	320	842	235	986	292
LINPAC Automotive Limited	70	—	475	181	720	46
LINPAC Mouldings Limited	455	261	672	(141)	120	(70)

Purchases from LINPAC Group Holdings companies

	2001 £000	2002 £000	2003 £000
LINPAC Mouldings Limited	44	133	6

Asset transfers

In 2003, leasehold land and buildings with a book value of £150,000 was transferred at that value to LINPAC Containers Group from LINPAC Mouldings Limited.

Loan balance with LINPAC Group Holdings

The LINPAC Containers Group has a loan to LINPAC Group Holdings which earns interest at the bank base rate plus 1%. The balance outstanding at 31 December 2003 is £52,408,000 (2002: £22,431,000; 2001: £19,958,000). These balances represent interest bearing advances to LINPAC Group Holdings. The funding balance in note 21 also reflects consolidation adjustments required in the preparation of this financial information.

24. Acquisitions

On 1 August 2002, the LINPAC Containers Group acquired 86% of the share capital of Shorepac Limited for total consideration of £1,184,000. Net assets on acquisition comprised £709,000 and no fair value adjustments were required. Goodwill arose on consolidation of £475,000.

The consideration consists of £30,000 legal costs, £734,000 cash and £420,000 deferred consideration.

Shorepac Limited has not been presented as an acquired operation under FRS3 in view of its immateriality to the LINPAC Containers Group.

25. Capital commitments

	2001 £000	2002 £000	2003 £000
Contracted but not provided for	1,186	1,073	1,622

Part 4 – Financial Information on the LINPAC Containers Group

26. Guarantees and other financial commitments

At 31 December, the LINPAC Containers Group had commitments under operating leases as set out below:

	Land & buildings £000	Other £000	Total £000
2001			
Within one year	31	812	843
In one to five years	—	921	921
After five years	28	—	28
	<u>59</u>	<u>1,733</u>	<u>1,792</u>
2002			
Within one year	15	458	473
In one to five years	33	1,058	1,091
After five years	118	—	118
	<u>166</u>	<u>1,516</u>	<u>1,682</u>
2003			
Within one year	15	1,176	1,191
In one to five years	33	1,670	1,703
After five years	118	—	118
	<u>166</u>	<u>2,846</u>	<u>3,012</u>

Under a letter of set-off, cross guarantees for bank overdrafts exist between LINPAC Containers Limited and its ultimate holding company and UK fellow subsidiary companies. At 31 December 2003 LINPAC Containers Limited's maximum liability in respect of overdrafts included in this arrangement amounted to £nil (2002: £1,803,000; 2001: £nil).

LINPAC Containers Limited is a guarantor in respect of bank loans drawn by its holding company, LINPAC Group Holdings Limited. As at 31 December 2003, the amount drawn under these loans was £589,400,000 (2002: £80,701,000; 2001: £102,277,000).

PricewaterhouseCoopers LLP

Part 5 – Pro Forma Statement of Net Assets of the Enlarged Group

The following unaudited pro forma statement of net assets of the Enlarged Group has been prepared to demonstrate the effect of the Acquisition on the net assets of DS Smith, as if the Acquisition had taken place on 31 October 2003. It is based on the published interim consolidated balance sheet of DS Smith as at 31 October 2003 and the combined balance sheet of the LINPAC Containers Group at 31 December 2003 as set out in the accountants' report in Part 4 of this document, adjusted only to reflect the effect of transactions set out in the notes below. The pro forma statement of net assets is prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Enlarged Group.

	At 31 Oct 2003 DS Smith £m	At 31 Dec 2003 the LINPAC Containers Group £m	Adjustments Adjustments for acquisition £m	Pro forma net assets of Enlarged Group £m
Fixed assets				
Intangible assets (note 1)	51.7	0.5	135.6	187.8
Tangible assets	541.9	38.6	—	580.5
Investments	29.5	—	—	29.5
	<u>623.1</u>	<u>39.1</u>	<u>135.6</u>	<u>797.8</u>
Current assets				
Stocks	145.2	5.5	—	150.7
Debtors: falling due within one year	346.3	28.5	—	374.8
Short term investments	25.2	—	—	25.2
Cash at bank and in hand (note 2)	52.2	7.5	(4.0)	55.7
	<u>568.9</u>	<u>41.5</u>	<u>(4.0)</u>	<u>606.4</u>
Creditors: amounts due within one year				
Trade and other creditors (note 3)	(313.9)	(36.4)	9.5	(340.8)
Borrowings (note 2)	(24.3)	(0.4)	0.4	(24.3)
Net current assets/(liabilities)	<u>230.7</u>	<u>4.7</u>	<u>5.9</u>	<u>241.3</u>
Total assets less current liabilities	853.8	43.8	141.5	1,039.1
Creditors: amounts due after more than one year				
Borrowings (note 4)	(268.9)	—	(103.0)	(371.9)
Other	(4.4)	(1.0)	—	(5.4)
Provisions for liabilities and charges	(87.0)	(4.3)	—	(91.3)
	<u>493.5</u>	<u>38.5</u>	<u>38.5</u>	<u>570.5</u>
Minority interests – equity	(5.8)	(0.1)	—	(5.9)
Net assets	<u>487.7</u>	<u>38.4</u>	<u>38.5</u>	<u>564.6</u>
Net borrowings	<u>(215.8)</u>	<u>7.1</u>	<u>(106.6)</u>	<u>(315.3)</u>

Notes:

1. The following adjustments have been made to reflect the acquisition of the issued share capital of LINPAC Containers Limited:

	£m	£m
Cost of acquisition	170.0	
Acquisition expenses	4.0	
	<u>174.0</u>	
Financed by:		
Existing facilities (repayable in more than one year)	34.0	
Acquisition Loan (repayable in more than one year)	140.0	
	<u>174.0</u>	
Total cost of acquisition		174.0
Net assets acquired		(38.4)
		<u>135.6</u>

Part 5 – Pro Forma Statement of Net Assets of the Enlarged Group

2. The adjustment to cash of £4.0 million reflects the payment of £3.6 million to LINPAC Group Holdings Limited and the transfer of £0.4 million from borrowings included in amounts due within one year. This has the effect of reducing the pro forma cash balance of the LINPAC Containers Group to £3.5 million.
3. The adjustment to trade and other creditors of £9.5 million is the settlement of the dividend relating to the year ended 31 December 2003 of £3.9 million by LINPAC Containers Limited together with the receipt of group relief from LINPAC Group Holdings Limited for the tax liability of LINPAC Containers Limited in respect of the year ended 31 December 2003 of £5.6 million.
4. The adjustment to borrowings due after more than one year reflects the following:
- | | |
|---|----------|
| Acquisition Loan | £million |
| Financing of Acquisition from internal resources | (140.0) |
| Repayment of debt from net proceeds of Rights Issue | (34.0) |
| | 71.0 |
| | <hr/> |
| | (103.0) |
| | <hr/> |
5. No adjustments have been made to take account of the trading or changes in the financial position of DS Smith after 31 October 2003 or of the LINPAC Containers Group after 31 December 2003.

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4 March 2004

Dear Sirs

DS Smith Plc

We report on the pro forma financial information set out in Part 5 of the Class 1 circular and prospectus dated 4 March 2004 (the “**Prospectus**”), which has been prepared, for illustrative purposes only, to demonstrate the effect of the acquisition on the net assets of DS Smith Plc as if the acquisition had taken place on 31 October 2003. It is based on the published interim consolidated balance sheet of DS Smith as at 31 October 2003 and the combined balance sheet of LINPAC Containers Limited and its subsidiary Shorepac Limited at 31 December 2003 as set out in the accountants’ report in Part 4 of the Prospectus, adjusted only to reflect the effect of transactions set out in the notes to the pro forma statement.

Responsibilities

It is the responsibility solely of the Directors of DS Smith Plc to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board of the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors of DS Smith Plc.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.



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Part 5 – Pro Forma Statement of Net Assets of the Enlarged Group

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of DS Smith Plc; and
- the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

KPMG Audit Plc

Part 6 – Taxation

United Kingdom Taxation

The following paragraphs are intended as a general guide only to the position under current United Kingdom tax law and Inland Revenue practice as at the date of this document. They relate only to certain limited aspects of the United Kingdom taxation treatment of the holders of New Ordinary Shares and apply only to DS Smith Shareholders who own their Ordinary Shares beneficially as an investment and who are resident or ordinarily resident in the United Kingdom (except where the position of an overseas resident shareholder is expressly referred to). Any person who is in any doubt about his own tax position, or is subject to taxation in a jurisdiction other than the United Kingdom, should consult an appropriate independent professional adviser.

Capital gains tax

For the purposes of United Kingdom taxation of capital gains (CGT), the issue of the New Ordinary Shares will be regarded as a reorganisation of the share capital of DS Smith.

Accordingly, you will not be treated as making a disposal of all or part of your holding of existing Ordinary Shares by reason of taking up all or part of your rights to New Ordinary Shares. No liability to CGT in respect of the issue of the New Ordinary Shares should arise to the extent that you take up your entitlement to New Ordinary Shares.

Your New Ordinary Shares will be treated as the same asset as, and as having been acquired at the same time as, your existing holding of DS Smith Shares. The subscription money for your New Ordinary Shares will be added to the base cost of your existing holding of DS Smith Shares.

In the case of a DS Smith Shareholder within the charge to corporation tax, indexation allowance will apply to the amount paid for the New Ordinary Shares only from, generally, the date the money for the New Ordinary Shares is paid.

In the case of other DS Smith Shareholders, indexation allowance will not be given for any month after April 1998. Accordingly, if you are such a shareholder, indexation allowance on your original holding of DS Smith Shares will be given for months up to April 1998 but not after that, and indexation allowance will not be given in respect of amounts paid for the New Ordinary Shares. Instead, indexation allowance has been replaced by a taper relief which will reduce the amount of any chargeable gain realised on a subsequent disposal of your shareholding according to how long the shares have been held since 6 April 1998 or since the shares were acquired, whichever is the later.

If you dispose of some of the New Ordinary Shares allotted to you, or your rights to subscribe for them, or if you allow, or are deemed to have allowed, your rights to lapse and receive a cash payment in respect of them you may, depending on your circumstances, incur a liability to CGT.

If you dispose of all or part of your rights to subscribe for New Ordinary Shares or allow or are deemed to allow them to lapse in return for a cash payment and the proceeds resulting from the disposal or lapse of rights are “small” as compared to the value of the Ordinary Shares in respect of which the rights arose, you will not normally be treated as making a disposal for CGT purposes. No liability to CGT will then arise on the disposal or lapse of the rights, but the cash amount received will be deducted from the base cost for CGT purposes of your existing holding of Ordinary Shares for the purposes of computing any chargeable gain or allowable loss on a subsequent disposal of your Ordinary Shares. The Inland Revenue currently regard a receipt as “small” if its amount or value is 5 per cent. or less of the value of the Ordinary Shares in respect of which the entitlement to the receipt arose, or if its amount or value is £3,000 or less, regardless of whether or not it is more than 5 per cent. of the value of the Ordinary Shares in respect of which the rights arose.

A DS Smith Shareholder not resident in the United Kingdom for tax purposes but who carries on a trade, profession or vocation in the United Kingdom through a branch or an agency to which the New Ordinary Shares are attributable may be subject to CGT on a disposal of such shares.

Individuals who are temporarily overseas resident may, in certain circumstances, be subject to tax in respect of gains realised whilst they are not resident in the United Kingdom.

Taxation of Dividends

The Company will not be required to withhold tax at source when paying a dividend.

A DS Smith Shareholder who is an individual resident for tax purposes in the United Kingdom and who receives a dividend from DS Smith will be entitled to a tax credit equal to one-ninth of the dividend. The individual will be taxable on the total of the dividend and the related tax credit (the **gross dividend**), which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the gross dividend, except to the extent (if any) that the gross dividend falls above the threshold for the higher rate of income tax, in which case the individual will (to that extent) pay tax on the gross dividend calculated as 32.5 per cent. of the gross dividend less the related tax credit. So, for example, a dividend of £80 will carry a tax credit of £8.89, and the income tax payable by an individual liable to income tax at the higher rate on the dividend would be 32.5 per cent. of £88.89, namely £28.89, less the tax credit of £8.89, leaving a net tax charge of £20.

United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by DS Smith although charities will be entitled to limited compensation in lieu of repayment of tax credits for dividends paid before 6 April 2004.

Tax credits on dividends paid by DS Smith in respect of shares held in PEPs or ISAs will be repayable for dividends paid before 6 April 2004.

United Kingdom resident corporate shareholders will generally not be subject to corporation tax on dividends paid by DS Smith. Those shareholders will not be able to claim repayment of tax credits attaching to dividends.

An individual shareholder who is a Commonwealth citizen, a national of a European Economic Area State, a resident of the Isle of Man or the Channel Islands, or who falls into certain other categories and who otherwise has a liability to United Kingdom income tax, is entitled to a tax credit as if he or she were resident for tax purposes in the United Kingdom, which he or she may set off against this or her total United Kingdom income tax liability. In general, the right of other holders of Ordinary Shares who are not resident in the United Kingdom for tax purposes to claim tax credits attaching to dividend payments will depend upon the terms of any applicable double tax treaty which exists between the jurisdiction in which they are resident and the United Kingdom. In most cases, under the terms of the relevant treaty, the amount of such tax credit that can be paid to such DS Smith Shareholders who are not resident in the United Kingdom for tax purposes will be nil. A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under local law. A shareholder who is not resident in the United Kingdom should consult his own tax adviser concerning his tax liabilities on dividends received from DS Smith.

Stamp duty and stamp duty reserve tax (SDRT)

No stamp duty or SDRT will be payable on the issue of Provisional Allotment Letters or the crediting of Nil Paid Rights to accounts in CREST. Where New Ordinary Shares represented by such documents or rights are registered in the name of the shareholder entitled to such shares or New Ordinary Shares are credited in uncertificated form to CREST accounts, no liability to stamp duty or SDRT will arise.

The purchaser of rights to New Ordinary Shares represented by Provisional Allotment Letters (whether nil paid or fully paid) or Nil Paid Rights or Fully Paid Rights held in CREST on or before the latest time for registration of renunciation will not generally be liable to pay stamp duty, but the purchaser will normally be liable to pay SDRT at the rate of 0.5 per cent. of the actual consideration paid. Where such a purchase is effected through a stockbroker or other financial intermediary that person will normally account for the SDRT and will indicate that this has been done in any contract note issued to a purchaser. In other cases, the purchaser of the rights to the New Ordinary Shares represented by Provisional Allotment Letters or Nil Paid Rights or Fully Paid Rights is liable to pay the SDRT and must account for it to the Inland Revenue. SDRT arising on the transfer of Nil Paid Rights or Fully Paid Rights held in CREST will be collected and accounted for to the Inland Revenue by CRESTCo.

No stamp duty or SDRT will be payable on the renunciation of Provisional Allotment Letters or Nil Paid Rights, whether by the original holders or their renounees.

Any dealings in New Ordinary Shares after the latest time for registration of renunciation of Provisional Allotment Letters fully paid will be subject to stamp duty or SDRT in the normal way. The transfer on sale of

Part 6 – Taxation

New Ordinary Shares will be liable to ad valorem stamp duty, generally at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the consideration paid. Stamp duty is normally paid by the purchaser or transferee of the New Ordinary Shares. An agreement to transfer such shares will normally give rise to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration paid for such shares, but such liability will be cancelled, or any SDRT paid refunded, if the agreement is completed by a duly stamped transfer within six years of either the agreement or (if the agreement is conditional) the date when the agreement became unconditional. SDRT is normally the liability of the purchaser or transferee of the New Ordinary Shares.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of shares into the system, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of consideration given. Transfers of shares within CREST are generally liable to SDRT (at a rate of 0.5 per cent. of the consideration paid) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to the Inland Revenue by CRESTCo.

Where Provisional Allotment Letters or New Ordinary Shares are issued or transferred: (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services; or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at a higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Provisional Allotment Letters or New Ordinary Shares.

The above statements are intended only as a general guide to the current stamp duty and SDRT position. Transfers to certain categories of person are not liable to stamp duty or SDRT.

Part 7 – Additional Information

1. Responsibility

The Directors, whose names are set out in paragraph 5.1 of this Part 7, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Share Capital

2.1 The Rights Issue will result in the issue of 64,540,651 New Ordinary Shares of 10 pence each, leading to an increase in DS Smith's issued share capital of £6,454,065. The following table shows the authorised and issued and fully paid share capital of DS Smith: (i) as at 2 March 2004 (the latest practicable date prior to the publication of this document); and (ii) as it will be immediately following the Rights Issue (assuming full take-up of all the New Ordinary Shares being offered under the Rights Issue):

	Authorised Number	£	Issued and fully paid Number	£
(i) Before the Rights Issue				
Ordinary Shares	410,000,000	41,000,000	322,703,258	32,270,325.80
(ii) After the Rights Issue				
Ordinary Shares	410,000,000	41,000,000	387,243,909	38,724,390.90

The "After the Rights Issue" figures assume that no further shares are issued by DS Smith (other than New Ordinary Shares) and no options are exercised under the DS Smith Share Option Schemes after 2 March 2004.

- 2.2 By an ordinary resolution of the Company passed on 3 September 2003 the Directors were authorised, pursuant to section 80 of the Act and in accordance with article 6 of the Company's articles of association to allot relevant securities (as defined in section 80(2) of the Act) up to a maximum nominal amount of £9,014,373, such authority to expire on 2 September 2008.
- 2.3 By a special resolution of the Company passed on 3 September 2003 the Directors were empowered to allot equity securities (as defined in section 94(2) of the Act) and in accordance with article 7 of the Company's articles of association for cash as if section 89(1) of the Act did not apply, such power to expire on 2 September 2008 and being limited to the allotment of equity securities: (i) up to an aggregate nominal amount of £1,609,709; or (ii) in connection with a rights issue.
- 2.4 The allotment of the New Ordinary Shares will be made by a resolution of the Board or a duly authorised committee.
- 2.5 The provisions of Section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company. Such provisions have been disapplied so as to allow the Rights Issue to take place. Entitlements to New Ordinary Shares will be rounded down and the aggregated fractions will not be allotted to DS Smith Shareholders but will be sold for the benefit of the Company.
- 2.6 Save as disclosed in paragraph 2.10 below, neither DS Smith nor any of its subsidiaries has granted any options over its share or loan capital which remain outstanding or has agreed, conditionally or unconditionally, to grant any such options.
- 2.7 The Ordinary Shares currently in issue are, and the New Ordinary Shares will be, in registered form and capable of being held in uncertificated form in CREST.

Part 7 – Additional Information

- 2.8 The New Ordinary Shares to be issued in consequence of the Rights Issue will be credited as fully paid and will rank equally in all respects with the existing issued Ordinary Shares, including the right to receive all dividends or distributions made, paid or declared after the date of this document. The New Ordinary Shares will not rank for the interim dividend of 2.8 pence per Ordinary Share in respect of the six months ending 31 October 2003 announced on 10 December 2003 and payable on 9 March 2004.
- 2.9 Other than in consequence of the Rights Issue, none of the New Ordinary Shares will be marketed or made available to the public in whole or in part in conjunction with the application for listing of those securities.
- 2.10 As at 2 March 2004 (the latest practicable date prior to the publication of this document) the following share options, granted to certain Directors and employees of the DS Smith Group under the DS Smith Share Option Schemes, were outstanding:

	Date options granted	Subscription price per share (pence)	No of persons holding options	Exercisable from	Expiry date	Number of Ordinary Shares under option
David S. Smith (Holdings) PLC 1992 Executive Share Option Scheme	04 Aug 1994	272.08	17	04 Aug 1997	03 Aug 2004	580,000
	31 Aug 1995	298.75	9	31 Aug 1998	30 Aug 2005	389,256
	15 Feb 1996	289.50	13	15 Feb 1999	14 Feb 2006	231,300
	09 Oct 1996	327.50	10	09 Oct 1999	08 Oct 2006	200,000
	30 Jul 1997	176.67	34	30 Jul 2000	29 Jul 2007	791,606
	30 Jul 1997	181.34	7	30 Jul 2000	29 Jul 2007	254,200
	31 Jul 1998	183.67	10	31 Jul 2001	30 Jul 2008	411,100
	31 Jul 1998	200.93	6	31 Jul 2001	30 Jul 2008	210,950
	30 Jul 1999	178.67	23	30 Jul 2002	29 Jul 2009	564,000
David S. Smith (Holdings) PLC 1999 Executive Share Option Scheme	05 Oct 1999	165.80	2	05 Oct 2002	04 Oct 2009	94,920
	31 Jul 2000	166.33	18	31 Jul 2003	30 Jul 2010	516,950
	31 Jul 2000	170.90	7	31 Jul 2003	30 Jul 2010	298,750
	02 Mar 2001	150.00	2	02 Mar 2004	01 Mar 2011	490,000
	27 Jul 2001	149.00	25	27 Jul 2004	26 Jul 2011	1,273,400
	26 Jul 2002	145.00	29	26 Jul 2005	25 Jul 2012	1,225,650
	26 Jul 2002	162.00	6	26 Jul 2005	25 Jul 2012	273,800
	26 Jul 2002	163.00	1	26 Jul 2005	25 Jul 2012	56,300
	18 Dec 2002	153.00	1	18 Dec 2005	17 Dec 2012	150,300
	31 Jul 2003	160.00	39	31 Jul 2006	30 Jul 2013	1,583,300
31 Jul 2003	159.00	6	31 Jul 2006	30 Jul 2013	293,100	
David S. Smith (Holdings) PLC 1999 International Sharesave Scheme	01 Jan 2000	148.10	751	01 Jan 2005	30 June 2005	2,515,668
	01 Jan 2000	172.00	76	01 Jan 2005	30 June 2005	85,399

- 2.11 The closing middle market quotations for an Ordinary Share as derived from the Official List on the first dealing day in each of the six months immediately prior to the date of this document, on 2 March 2004 (the last dealing day before the announcement of the Rights Issue) and on 3 March 2004 (the last dealing day before the date of this document) were as follows:

Date	Mid market quotation (pence)
1 October 2003	165.00
3 November 2003	165.25
1 December 2003	161.00
2 January 2004	161.25
2 February 2004	172.00
1 March 2004	181.00*
2 March 2004	183.00*
3 March 2004	191.00*

* *ex-dividend*

3. Rights attaching to the Ordinary Shares

DS Smith's articles of association contain provisions relating to the Ordinary Shares to the following effect:

(a) *Dividends*

The Company's shareholders may declare dividends by passing an ordinary resolution, provided that no dividend shall exceed the amount recommended by the Board. Dividends may be declared or paid in any currency.

Subject to any priority, preference or special rights attached to any shares, all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid. All dividends shall be apportioned and paid proportionately according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

No dividend shall be paid otherwise than in accordance with the provision of the Company's articles of association.

Any dividend which has not been claimed for 12 years after it was declared shall be forfeited and will belong to the Company.

(b) *Voting rights*

On a show of hands every shareholder who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative shall have one vote and, on a poll, every shareholder present in person or by proxy has one vote in respect of every share held by him. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

(c) *Distribution of assets on liquidation*

On liquidation, the liquidator may, with the sanction of an extraordinary resolution of the Company or other sanction required by the Company's articles of association, divide amongst the shareholders *in specie* or in kind the whole, or any part, of the assets of the Company and may, for such purpose, set such value as he deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders.

(d) *Transfer of shares*

A shareholder may transfer all or any of his uncertificated shares and the Company shall register the transfer of any uncertificated shares in accordance with any applicable statutory provision. The Board may, in its absolute discretion and without giving any reason for its decision, refuse to register any transfer of an uncertificated share where permitted by any applicable statutory provision. If the Board refuses to register a transfer of an uncertificated share it shall, within two months of the date on which the transfer instruction relating to such a transfer was received by the Company, send to the transferee notice of the refusal.

A shareholder may transfer all or any of his certificated shares by an instrument of transfer in any usual form, or in such other form as the Board may approve. The instrument of transfer shall be signed by, or on behalf of, the transferor and, except in the case of a fully paid share, by, or on behalf of, the transferee. The Board may, in its absolute discretion and without giving any reason for it, refuse to register any transfer of any certificated share which is not fully paid up (but not so as to prevent dealings in listed shares from taking place on an open and proper basis) or any certificated share on which the Company has a lien. The Board may also refuse to register any instrument of transfer of a certificated share:

- which is in favour of more than four transferees; or
- unless it is lodged at the registered office, or such other place as the Board may decide, for registration, accompanied by the share certificate for the shares to be transferred (except where the shares are registered in the name of a market nominee and no certificate has been issued for them) and such other evidence as the Board may reasonably require to prove title of the intending transferor. If the Board refuses to register a transfer of a certificated share it shall, within two months after the date on which the instrument of transfer was lodged, send to the transferee notice of the refusal.

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(e) *Changes in share capital*

The Company may by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate and divide all or part of its share capital into shares of a larger amount;
- (iii) sub-divide all or part of its share capital into shares of a smaller amount; and
- (iv) cancel any shares which have not, at the date of the ordinary resolution, been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled.

The Company may by special resolution:

- (i) purchase its own shares; and
- (ii) reduce its share capital and any capital redemption reserve or share premium account.

(f) *Variation of rights*

Whenever the share capital of the Company is divided into different classes of shares (which it is not as at the date of this document), all or any of the rights for the time being attached to any class of shares may be varied, either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At any separate general meeting, the necessary quorum is two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question (but at any adjourned meeting, any person holding shares of the class or his proxy is a quorum).

(g) *Lien and forfeiture*

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all amounts payable (whether or not due) in respect of that share. The Board may either generally or in any particular case declare any shares to be wholly or in part exempt from such lien. The Company may sell any share on which it has a lien, in such manner as the Board may decide, if the sum payable is due and is not paid within 14 days after notice has been sent to the shareholder or the person entitled by transmission to the share. Subject to the terms of allotment, the Board may from time to time make calls on the shareholders in respect of any moneys unpaid on their shares. If a payment is not made when due, the Board may give not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued. If that notice is not complied with, any share in respect of which it was given may, at any time before the payment required by the notice has been made, be forfeited by a resolution of the Board. The forfeiture shall include all unpaid dividends or other moneys payable in respect of the forfeited shares.

(h) *Untraced shareholders*

The Company shall be entitled to sell, in such manner as the Board may decide and at the best price it considers reasonably obtainable at that time, the shares of a shareholder or the shares to which a person is entitled by transmission provided that:

- (i) during a period of 12 years at least three cash dividends have become payable in respect of the share to be sold and have been sent by the Company in accordance with the Company's articles of association;
- (ii) during that period of 12 years no cash dividend payable in respect of the share has been claimed, no cheque, warrant, order or other payment for a dividend has been cashed, no dividend sent by means of a funds transfer system has been paid and no communication has been received by the Company from the shareholder or the person entitled by transmission to the share;
- (iii) on or after the expiry of that period of 12 years the Company has published advertisements both in a national newspaper and in a newspaper circulating in the area in which the last known address of the shareholder or person entitled by transmission to the share or the address at which notices may be given in accordance with the Company's articles of association is located, in each case giving notice of its intention to sell the share; and

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- (iv) during the period of three months following the publication of those advertisements and after that period until the exercise of the power to sell the share, the Company has not received any communication from the shareholder or the person entitled by transmission to the share.

The Company shall be obliged to account to the person entitled to the shares at the date of sale for an amount equal to the net proceeds and shall be deemed to be his debtor.

(i) *Uncertificated Shares*

In relation to any uncertificated share, the Company may utilise the relevant system in which it is held to the fullest extent available from time to time in the exercise of any of its powers or functions under any applicable statutory provision or the articles of association or otherwise in effecting any action. Any provision in the articles of association in relation to uncertificated shares which is inconsistent with any applicable statutory provision shall not apply. The Company may, by notice in writing to the holder of an uncertificated share, require the holder to change the form of that share to certificated form within such period as may be specified in the notice. For the purpose of effecting any action by the Company, the Directors may determine that holdings of the same shareholder in uncertificated form and in certificated form shall be treated as separate holdings.

(j) *Shareholders resident abroad*

A shareholder whose registered address is outside the United Kingdom shall not be entitled to receive any notice from the Company unless he gives to the Company an address in the United Kingdom for service of notice.

5. Directors of DS Smith

5.1 The Directors of DS Smith and their functions are as follows:

Director	Position
Antony Peverell Hichens	<i>Chairman</i>
Anthony David Thorne	<i>Group Chief Executive</i>
Gavin Mathew Morris	<i>Group Finance Director</i>
Jean-Paul Loison	<i>Executive Director</i>
Robert Geoffrey Beeston	<i>Non-Executive Director</i>
Christopher Jonathan Bunker	<i>Non-Executive Director</i>
Peter Michael Johnson	<i>Non-Executive Director</i>
Richard Egerton Christopher Marton	<i>Non-Executive Director</i>
Daniel Robert Piette	<i>Non-Executive Director</i>

The business address of each of the Directors is 4-16 Artillery Row, London SW1P 1RZ.

5.2 The brief biographical details of the Directors are as follows:

Antony Hichens (Age 67)

Chairman

Appointed to the Board on 29 June 1999 as a non-Executive Director and became Chairman of the Board on 8 September 1999. He is Chairman of the Nomination Committee and a member of the Audit Committee. He is also a Member of the Takeover Panel, Deputy Chairman of Candover Investments PLC, a Director of WaterRower (UK) Limited and a non-Executive Director of The JP Morgan Fleming Income and Capital Investment Trust plc. Previously, he held the positions of a Managing Director and Chief Financial Officer of Consolidated Gold Fields, Chairman of Caradon plc and Chairman of Lasmo plc.

Tony Thorne (Age 53)

Group Chief Executive

Appointed to the Board on 1 January 2001 as Chief Operating Officer and became Group Chief Executive on 5 December 2001. He is a member of the General Purposes and Nomination Committees. He was previously President of SCA Packaging's Corrugated Business Division. He has also held senior management positions in Shell.

Gavin Morris (Age 50)

Group Finance Director

Appointed to the Board on 5 November 2002 as Group Finance Director and is a member of the General Purposes Committee. He was previously Chief Financial Officer of Citex Group and prior to that held Chief Financial Officer positions at Philips Lighting Holding BV, Ionica Group plc, Alfred McAlpine Plc and Norcross Plc.

Jean-Paul Loison (Age 61)

Executive Director

Appointed to the Board on 9 December 2003 as an Executive Director and is a member of the General Purposes Committee. He is Divisional Chief Executive of the Kaysersberg Packaging division of DS Smith with responsibility for the Group's continental European Paper and Corrugated Packaging operations. He joined Kaysersberg Packaging S.A.S. in 1970 and held various senior management positions before becoming Divisional Chief Executive in 1993.

Bob Beeston (Age 62)

Non-Executive Director

Appointed to the Board on 5 December 2000 as a non-Executive Director. He is Chairman of the Remuneration Committee, a member of the Nomination and Audit Committees and is the Senior Independent Director. He is Chairman of Cookson Group plc and was previously Chief Executive of FKI plc.

Christopher Bunker (Age 57)

Non-Executive Director

Appointed to the Board on 9 December 2003 as a non-Executive Director and is a member of the Audit and Remuneration Committees. He is Finance Director of the Water Division of RWE AG and was previously Group Finance Director of Thames Water Plc. Prior to that he was Group Finance Director of Tarmac Plc, Commercial Director of GKN Aerospace and Defence and Finance Director of Westland Group Plc. He is a non-Executive Director of John Mowlem Plc and of Travis Perkins plc.

Peter Johnson (Age 56)

Non-Executive Director

Appointed to the Board on 8 December 1999 as a non-Executive Director and is Chairman of the Audit Committee and a member of the Remuneration Committee. He is Chief Executive of George Wimpey Plc and a Member of the Council for Industry and Higher Education and was previously Chief Executive of The Rugby Group PLC.

Richard Marton (Age 63)

Non-Executive Director

Appointed to the Board on 13 March 2000 as a non-Executive Director and is a member of the Remuneration and Audit Committees. He was previously Chief Executive and then non-Executive Director of Britax International plc.

Daniel Piette (Age 58)

Non-Executive Director

Appointed to the Board on 1 October 1993 as a non-Executive Director and is a member of the Remuneration Committee. He is Group Executive Vice-President and a member of the Executive Committee of LVMH Corporation, Chairman and Chief Executive Officer of LV Capital and President of L Capital.

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5.3 The following table sets out the names of all companies and partnerships outside the DS Smith Group of which a Director is or has been a director or partner at any time in the previous five years (excluding subsidiaries of any company of which the Director in question is also a director).

Director	Current directorships and partnerships	Previous directorships and partnerships
Antony Hichens	Candover Investments Plc The JP Morgan Fleming Income and Capital Investment Trust plc The Takeover Panel WaterRower (UK) Limited 7-10 Warwick Square Freehold Ltd	Courtaulds Textiles Plc Henderson Greenfriar Investment Company Ltd LASMO Plc London Insurance Market Investment Trust Plc
Tony Thorne		Spicer Hallfield Ltd SCA Holding Ltd
Gavin Morris		Spicer Hallfield Ltd Alfred McAlpine plc Micadant plc Ionica Group plc
Bob Beeston	Cookson Group plc	Arjo Wiggins Appleton p.l.c. FKI plc
Christopher Bunker	A1 Auto Cosmetics Ltd ISIS Insurance Co Ltd John Mowlem & Co Plc St James Group Ltd Thames Water Plc Travis Perkins plc	Baltimore Technologies Plc The Markfield Group Ltd Markfield (Pension Trustees) Ltd Tarmac Group Ltd
Peter Johnson	George Wimpey PLC Member of the Council for Industry and Higher Education	Construction Products Association Ltd National Council of Building Material Producers The Rugby Group PLC The Rugby Group Benevolent Fund Ltd
Richard Marton	The Paul Bevan Cancer Foundation Ltd	Britax International plc Paragold Ltd Partco Group Ltd
Daniel Piette	L Capital Management S.A.S. LV Capital S.A. Flavius Investissements S.A. Berluti S.A. Fininfo S.A. Péchel Industries S.A.S. SFMI-Micromania S.A. Sté Civile Petronella ICARE EURL Project Sloane Limited Step Two S.A. Antichi Pellettieri S.p.A. Gant Holding AB Inter Parfums Inc. Advanced Aesthetics Institute Inc.	UFIPRESS S.A. Sofidiv S.A. Louis Vuitton S.A. Regina Rubens Holding S.A. AMEC S.A.S. Apache S.A. Fininfo S.A. Desfossés International S.A. Cryo Interactive Entertainment S.A. Thomas Pink Limited Prost Development NV Gant AB Energy Brands Inc.
Jean-Paul Loison	None	None

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5.4 As at 2 March 2004 (the latest practicable date prior to the publication of this document) the interests of the Directors in the share capital of the Company (all of which are beneficial unless otherwise stated), which:

- (a) have been notified to the Company pursuant to section 324 or section 328 of the Act; or
- (b) are required pursuant to section 325 of the Act to be entered in the register referred to in section 325 of the Act; or
- (c) are interests of a connected person (within the meaning of section 346 of the Act) of a Director which would, if the connected person were a Director, be required to be disclosed under (a) or (b) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director,

were as follows:

(i) *Ordinary Shares*

Name of Director	Number of Ordinary Shares beneficially held before the Rights Issue	Percentage of issued share capital	Number of Ordinary Shares beneficially held after the Rights Issue	Percentage of issued share capital
Antony Hichens	385,000	0.12	462,000	0.12
Tony Thorne	47,000	0.01	56,400	0.01
Bob Beeston	25,000	0.008	30,000	0.008
Peter Johnson	25,000	0.008	30,000	0.008
Richard Marton	25,000	0.008	30,000	0.008

Any Ordinary Shares required to fulfil entitlements under the Executive Share Option Schemes and the Restricted Share Plan may be provided by the David S. Smith General Employee Benefit Trust (the **Trust**). As beneficiaries under the Trust, the Executive Directors are deemed to be interested in the shares held by the Trust which, as at 2 March 2004, amounted to 1,599,242 Ordinary Shares (being 0.50 per cent. of the issued share capital). Following the Rights Issue, and on the basis that the Trust takes up its full entitlement under the Rights Issue, the Directors will be deemed to be interested in 1,919,090 Ordinary Shares as potential beneficiaries under the Trust (which will be 0.50 per cent. of the issued share capital).

(ii) *Options over Ordinary Shares*

The following options over Ordinary Shares have been granted to the Directors under the Executive Share Option Schemes:

Name of Director	Number of Ordinary Shares under option	Exercise price (pence)	Dates from which exercisable	Expiry date
Tony Thorne	400,000	150.00	02 Mar 2004	01 Mar 2011
	201,300	149.00	27 Jul 2004	26 Jul 2011
	227,550	145.00	26 Jul 2005	25 Jul 2012
	225,000	160.00	31 Jul 2006	30 Jul 2013
Gavin Morris	150,300	153.00	18 Dec 2005	17 Dec 2012
	143,750	160.00	31 Jul 2006	30 Jul 2013
Jean-Paul Loison	80,000	272.09	04 Aug 1997	03 Aug 2004
	82,700	181.34	30 Jul 2000	29 Jul 2007
	53,350	200.93	31 Jul 2001	30 Jul 2008
	8,900	178.67	30 Jul 2002	29 Jul 2009
	87,691	165.80	05 Oct 2002	04 Oct 2009
	87,500	170.90	31 Jul 2003	30 Jul 2010
	116,450	149.00	29 Jul 2004	26 Jul 2011
	120,650	162.00	26 Jul 2005	25 Jul 2012
113,550	159.00	31 Jul 2006	30 Jul 2013	

All of the above options were granted for nil consideration.

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The following options over Ordinary Shares have been granted to the Directors under the Restricted Share Plan:

Executive Directors	Number of Ordinary Shares under option	Exercisable from	Expiry date
Tony Thorne	7,224	01 Aug 2004	31 Jul 2008
	67,289	01 Aug 2006	31 Jul 2010
Gavin Morris	26,456	01 Aug 2006	31 Jul 2010
Jean-Paul Loison	17,352	01 Aug 2003	31 Jul 2007
	17,944	01 Aug 2004	31 Jul 2008
	19,872	01 Aug 2005	31 Jul 2009
	39,703	01 Aug 2006	31 Jul 2010

The exercise price is £1 in total, the grant being given in relation to the deferred bonus for the financial years 1999/00, 2000/01, 2001/02 and 2002/03 under the Restricted Share Plan.

- 5.5 Save as disclosed above, none of the Directors, nor any person connected with them (within the meaning of section 346 of the Act) has any interest in the share capital of DS Smith or of any of its subsidiary or associated undertakings.
- 5.6 There are no outstanding loans granted by DS Smith or any member of the DS Smith Group to any of the Directors nor has any guarantee been provided by DS Smith or any member of the DS Smith Group for the benefit of any of the Directors.
- 5.7 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the DS Smith Group and which was effected by any member of the DS Smith Group during the current or immediately preceding financial year of the Group or which was effected during any earlier financial year and which remains in any respect outstanding or unperformed.
- 5.8 At the date of this document, save as set out below at paragraph 5.9, no Director has:
- (a) any unspent convictions in relation to indictable offences;
 - (b) at any time been bankrupt or a party to a deed of arrangement or any form of voluntary arrangement;
 - (c) been a director with an executive function of a company which has been placed in receivership, compulsory liquidation, creditors voluntary liquidation or administration or entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors whilst he was a director of that company or within 12 months preceding any such event;
 - (d) been a partner in a partnership which has been placed in compulsory liquidation or administration or entered into any partnership voluntary arrangement whilst he was a partner of such partnership or within 12 months preceding such events;
 - (e) any asset which has been placed in receivership or been a partner of a partnership whose assets have been placed in receivership whilst he was a partner of such partnership or within 12 months preceding such event; or
 - (f) been subject to any public criticism by any statutory or regulatory authority or designated professional body nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of any affairs of a company.
- 5.9 On 14 April 1998, Gavin Morris joined Ionica Group plc as part of a new management team and became a director of Ionica Group plc and Ionica plc (Ionica Group plc's principal subsidiary). He resigned as a director of Ionica plc on 4 December 1998 following Ionica plc being placed into administration on 29 October 1998. He remained a director of Ionica Group plc until his resignation on 2 November 1999. The estimated costs of the deficiency to creditors of Ionica plc in the directors' statement of affairs as at 29 October 1998 was £321,064,000.

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On 20 December 2000 a deed of release was entered into between Ionica plc and the joint administrators of Ionica plc on behalf of all creditors of Ionica plc and Micadant (as Ionica Group plc has subsequently been re-named), whereby all claims against Micadant and its directors and Ionica plc's directors were waived or released.

As at 30 June 2002 the shortfall to creditors under a scheme of arrangement of Ionica plc (approved by the High Court in London on 28 November 2000) was approximately £355 million.

6. Directors' Service Contracts

- 6.1 The aggregate of the remuneration paid and pension contributions or benefits in kind granted by DS Smith Plc or any of its subsidiaries to all the Directors who served during all or part of the financial year ended 30 April 2003 was £1,930,000.
- 6.2 The details of the Directors' appointment letters or service contracts, all of which are between each individual Director and DS Smith, which are available for inspection, are as follows:

Executive Directors

Tony Thorne

Mr Thorne entered into a service contract with the Company on 28 February 2001. He has a basic annual salary of £400,000. The contract is terminable by either party on 12 months' prior written notice. If the Company terminates the contract with immediate effect in breach of the notice provisions, it must make a payment equal to 12 months' basic salary plus an equal payment in respect of the loss of Mr Thorne's contractual benefits.

Gavin Morris

Mr Morris entered into a service contract with the Company on 5 November 2002. He has a basic annual salary of £238,000. The contract is terminable by either party on 12 months' prior written notice. If the Company terminates the contract with immediate effect in breach of the notice provisions it must make a payment equal to 12 months' basic salary plus an equal payment in respect of the loss of Mr. Morris's contractual benefits.

Jean-Paul Loison

Mr Loison entered into a service contract with the Company on 9 December 2003. He has a basic annual salary of £5,000. This is in addition to his employment contract with Kaysersberg Packaging SAS, dated 22 March 1994, with a basic annual salary of €344,000 (£228,571 at an exchange rate of €1 = £1.505 at 2 March 2004). The contract with the Company is terminable by the Company giving 12 months' notice or by Mr Loison giving six months' notice. The contract with Kaysersberg Packaging SAS is also terminable by that company giving 12 months' notice or by Mr Loison giving six months' notice.

Executive directors receive certain other benefits as follows: (i) Mr Thorne receives unapproved life cover, permanent health insurance, private medical cover, the provision of a company car and a driver and free fuel; (ii) Mr Morris receives unapproved life cover, permanent health insurance, private medical cover and a car allowance; and (iii) Mr Loison receives from Kaysersberg Packaging SAS life cover, car allowance, free fuel, private medical cover and his utility and telephone bills are also paid for by Kaysersberg. Mr. Thorne and Mr. Morris participate in a contributory defined benefit scheme with death in service cover, provided by the Company. As Mr. Thorne and Mr. Morris are subject to the Inland Revenue "earnings cap", the Company has given a promise to provide the balance of Mr. Thorne's pension through a non-tax approved unfunded arrangement. Mr. Morris receives an additional non-pensionable payment of £40,000 per annum.

Non-Executive Directors

Antony Hichens

Mr Hichens was appointed for a second term of office as non-Executive Chairman by a letter from the Company dated 3 September 2002. His letter of appointment provides for his appointment to continue until further notice, subject to review by the Board no later than 30 September 2005. His appointment may be terminated immediately by the Company if he is not re-elected at any general meeting of the shareholders; or on him giving the Company not less than six months' notice; or on the Company giving

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not less than 12 months' notice. If his appointment is terminated by the Company without notice, the Company has agreed to make a payment equivalent to his annual fee in lieu of notice. He receives an annual fee of £150,000.

Robert Beeston

Mr Beeston was originally appointed on 5 December 2000 as a non-Executive Director and was appointed for a further term expiring on 4 December 2006 by a letter from the Company dated 9 December 2003. He receives an annual fee of £45,500.

Christopher Bunker

Mr Bunker was appointed as a non-Executive Director by a letter from the Company dated 9 December 2003 for a period of three years to 8 December 2006. He receives an annual fee of £35,500.

Peter Johnson

Mr Johnson was originally appointed on 8 December 1999 as a non-Executive Director and was appointed for a further term expiring on 7 December 2005 by a letter from the Company dated 9 December 2003. He receives an annual fee of £43,000.

Richard Marton

Mr Marton was appointed as a non-Executive Director for a second term by a letter from the Company dated 9 December 2003 for a period of three years to 12 March 2006. He receives an annual fee of £35,500.

Daniel Piette

Mr Piette was appointed as a non-Executive Director for a further term by a letter from the Company dated 9 December 2003 for a 12 month rolling term. He receives an annual fee of £40,000.

The appointment of any of the non-Executive Directors, other than the Chairman as described above, may be terminated:

- (a) immediately if they are not re-elected to the Board at any general meeting in accordance with the Company's articles of association except that if this occurs in connection with a third party obtaining control of the Company then the notice in accordance with the provision of paragraph (c) below shall apply; or
- (b) by the relevant non-Executive Director giving the Company not less than three months' prior written notice of such termination; or
- (c) by resolution of a meeting of the Board (which shall include a majority of the non-Executive Directors, other than the relevant non-Executive Director, voting in favour) giving not less than six months' prior written notice of such termination.

6.3 The total emoluments receivable by the Directors will not be varied in consequence of the Acquisition.

7. Substantial shareholdings

As at 2 March 2004 (the latest practicable date prior to the publication of this document), insofar as is known to DS Smith, the following person(s) were, directly or indirectly, interested in 3 per cent. or more of the existing issued share capital of DS Smith:

Shareholder	Number of Ordinary Shares	Per cent. of issued share capital	Number of* Ordinary Shares following the Rights Issue	Per cent.* of issued share capital following the Rights Issue
Deutsche Bank AG	51,720,575	16.03	62,064,690	16.03
Henderson Global Investors Ltd	32,084,140	9.94	38,500,968	9.94
Standard Life Investments Ltd	16,167,084	5.01	19,400,500	5.01
Newton Management Ltd	12,914,161	4.00	15,496,993	4.00
Morley Fund Management Ltd	9,851,220	3.05	11,821,464	3.05

* Assuming full take up of entitlements under the Rights Issue.

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Save as disclosed in this paragraph, DS Smith is not aware of any person who at 2 March 2004 (being the latest practicable date prior to the publication of this document), directly or indirectly, has an interest in DS Smith Shares which represents 3 per cent. or more of its issued share capital. DS Smith is not aware of any persons who, as at 2 March 2004 (being the latest practicable date prior to the publication of this document), directly or indirectly, jointly or severally, exercise or could exercise control over DS Smith.

8. Principal subsidiary undertakings of DS Smith

DS Smith Plc is the parent company of the DS Smith Group. Details of the Company's principal subsidiary undertakings are set out below. Save as indicated with an asterisk, the capital is directly owned by DS Smith Plc.

Company	Registered office	Per cent. owned	Description of share classes held	Main activity
St Regis Paper Company Ltd	4-16 Artillery Row, London SW1P 1RZ	100	Ordinary shares	Manufacture of paper
DS Smith (UK) Ltd	4-16 Artillery Row, London SW1P 1RZ	100	Ordinary shares	Manufacture of plastic and corrugated packaging
Kaysersberg Packaging SAS	BP 1, 68320 Kunheim, France	100 *	Ordinary shares	Manufacture of corrugated packaging and paper
DS Smith Packaging Poland SA	ul. Malikow 150, Kielce 25-639, Poland	98 *	Ordinary shares	Manufacture of corrugated packaging and paper
Toscana Ondulati SpA	Capannori (Lu) Via del Fanuccio, 126 Cap, 55014 Fraz. Marlia, Italy	65 *	Ordinary shares	Manufacture of corrugated packaging and paper
Çopikas AS	Istiklal Caddesi Merkez Han No 347/ 4, Beyoglu-Istanbul, Turkey	100 *	Ordinary shares	Manufacture of corrugated packaging
Cartón Plástico s.a.	ctra. Madrid- Barcelona, Km. 28.300, Polig Ind, Fagober, Naves 6 y 7, 28802 Alcala de Henares, Madrid, Spain	100 *	Ordinary shares	Plastic packaging
DW Plastics NV	Nijverheidsstraat 26, 3740 Bilzen Belgium	100 *	Ordinary shares	Plastic packaging
Ducaplast SAS	Zone d'entreprises de la Kruysstraete, B P 39, F-59470 Wormhout, France	100 *	Ordinary shares	Plastic packaging
Demes Logistics GmbH & Co KG	Boschstrasse 27, D- 48703, Stadtlohn, Germany	100 *	Ordinary shares	Returnable packaging service provider
David S Smith America Inc	c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 USA	100 *	Common stock	Plastic packaging

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Company	Registered office	Per cent. owned	Description of share classes held	Main activity
DSS Rapak Inc	c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 USA	100 *	Common stock	Plastic packaging
Rapak Asia Pacific (Aust) Pty Ltd	c/o AEP Industries (Aus) Pty Ltd, 149 Orchard Road, PO Box 474, Chester Hill, New South Wales 2162, Australia	100*	Ordinary Shares	Plastic packaging
StePac L.A. Ltd	Tefen Industrial Park, Building No. 12, Post Box 73, Tefen, Western Galilee, 24959 Israel	55*	Ordinary Shares	Plastic packaging
Zewathener GmbH & Co KG	Dortmunder Strasse 6, Schwetzingen, 67823 Germany	100*	Ordinary Shares	Plastic packaging
A.A. Griggs Co. Ltd	4-16 Artillery Row, London SW1P 1RZ	100*	Ordinary Shares	Haulage provider
Spicers Ltd	4-16 Artillery Row, London SW1P 1RZ	100*	Ordinary Shares	Wholesaler of office products
Spicers (Ireland) Ltd	Broomhill Business Park, Broomhill Road, Tallaght, Dublin 24, Ireland	100*	Ordinary Shares	Wholesaler of office products
Spicers France SA	Ilot T, Immeuble le Gauguin, 47 Allee des Impressionnistes, ZA Paris Nord 2, VILLEPINTE 93420, France	100*	Ordinary Shares	Wholesaler of office products
John Dickinson Stationery Ltd	4-16 Artillery Row, London SW1P 1RZ	100	Ordinary Shares	Manufacturer of stationery products
John Dickinson Stationery (Ireland) Ltd	Units 12 & 13, Oak Road Business Park, Nangor Road, DUBLIN 12, Ireland	100*	Ordinary Shares	Manufacturer of stationery products

9. Material Contracts of DS Smith

As at the date of this document, the following are: (i) the material contracts entered into by any member of the DS Smith Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document; and (ii) the contracts entered into by any member of the DS Smith Group at any time which contain obligations or entitlements which are, or may be, material to the DS Smith Group:

(a) Underwriting Agreement

On 3 March 2004 DS Smith and Cazenove entered into the Underwriting Agreement pursuant to which Cazenove has agreed, subject to certain conditions, to underwrite the New Ordinary Shares to be issued pursuant to the Rights Issue. Cazenove will first endeavour to procure subscribers for the New Ordinary Shares not taken up under the Rights Issue at a premium to the Issue Price and Cazenove's expenses in procuring such subscribers, failing which, Cazenove has agreed to subscribe (or procure subscribers) for any such shares at the Issue Price. In consideration of such underwriting, DS Smith has agreed to pay Cazenove a commission of 1.375 per cent. of the total value of the New Ordinary Shares at the Issue Price for the first 30 days of Cazenove's commitment and, thereafter, 0.125 per cent. of the total value of

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the New Ordinary Shares at the Issue Price for each week or residual part thereof, together with a further commission of 0.375 per cent of the total value of the New Ordinary Shares at the Issue Price if Cazenove's obligations under the Underwriting Agreement become unconditional in all respects. Out of such commissions, Cazenove will pay sub-underwriting commissions (to the extent that sub-underwriters are or have been procured). The Underwriting Agreement contains standard warranties and indemnities for underwriting agreements of this nature given by DS Smith to Cazenove. The Underwriting Agreement is conditional on, amongst other things, the admission by the UK Listing Authority of the New Ordinary Shares to the Official List and by the London Stock Exchange to trading on its market for listed securities becoming effective by no later than 8.30 am (or such later time as the parties may agree) on 5 March 2004.

(b) Sponsorship Agreement

On 3 March 2004 DS Smith and UBS entered into a sponsorship agreement pursuant to which UBS has agreed to act as Joint Sponsor (as defined therein) in respect of the application for Admission. There are no fees payable under the Sponsorship Agreement, other than UBS's reasonable out of pocket expenses. The sponsorship agreement contains standard warranties and indemnities for sponsorship agreements of this nature given by DS Smith to UBS.

(c) Acquisition Agreement

On 2 March 2004 DS Smith entered into a share sale and purchase agreement with the Seller to purchase the entire issued share capital of LINPAC Containers Limited. The consideration for the sale of the shares in LINPAC Containers Limited (the **Shares**) is £170,000,000 payable in cash on Completion.

The agreement to sell and purchase the Shares is conditional on the passing at a general meeting of DS Smith of an ordinary resolution to approve the acquisition of the Shares. This condition may not be waived by either party. DS Smith has agreed to use all reasonable endeavours to ensure that the condition is satisfied, and to continue to recommend the transaction. If the condition is not satisfied on or before 30 April 2004 then the obligations of the parties to sell and purchase the Shares lapse.

Completion of the sale and purchase is to occur on the date that the condition is fulfilled. Between signing and Completion the Seller has undertaken to procure that the LINPAC Containers Group carries on its business as a going concern in the ordinary and usual course. The Seller has also given certain specific undertakings in relation to the operation of the business of the LINPAC Containers Group between signing and Completion including not to pay dividends, not to borrow money or incur capital expenditure above certain agreed limits, not to make material changes in the terms and conditions of employment of its directors and employees and not to commence litigation other than the collection of trade debts in the ordinary course of business.

DS Smith has also agreed to pay an amount equivalent to interest on the consideration from and including 1 March 2004 up to and including 19 March 2004 at a rate of 6.43 per cent. per annum and thereafter, up to and including the date of Completion, at a rate of 8 per cent. per annum. This interest will only be payable if Completion occurs.

The Seller has agreed to procure the repayment on Completion of all indebtedness (other than trade creditors and a permitted overdraft) owed, and the release of all security granted, by the LINPAC Containers Group under the Deutsche Bank and Lloyds Bank facilities of the Seller and otherwise within seven business days of becoming aware, or receiving notice, of any such indebtedness. The Seller has also agreed to procure the repayment at completion of all indebtedness owed by its group to the LINPAC Containers Group.

The Seller has covenanted with DS Smith that since 31 December 2003, the business of the LINPAC Containers Group has been carried on in the ordinary course and no payment of any kind has been made or agreed to be made by the LINPAC Containers Group to any member of the Seller's group other than payments in respect of certain agreed transactions, payments on arm's length terms for services or goods purchased in the ordinary course of trading and payment of a dividend of £57,337,000 partly in cash and partly by set-off against all indebtedness at that time owed by the Seller's group to the LINPAC Containers Group.

The Seller has agreed to indemnify DS Smith against certain environmental liabilities incurred by it and the LINPAC Containers Group arising from any contamination which may be present at the factory at

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Erith, Kent at Completion. This property is being retained by the Seller's group. Notice of claims under this indemnity must be given to the Seller prior to the date five years after the date of Completion.

The Seller has given standard warranties in respect of its ownership of the Shares and its capacity and authority to enter into the agreement. The Seller has also given limited warranties relating to the business of the LINPAC Containers Group including as to ownership of assets, compliance with law, licences and consents, litigation, insolvency, accuracy of the statutory accounts for the year ended 31 December 2003, the position since 31 December 2003, material contracts, employees, pensions, tax and real estate.

The liability of the Seller under the warranties is limited to (other than claims under the tax warranty) claims for which notice is given to the Seller by no later than the earlier of three months after signing of the audited accounts of the LINPAC Containers Group for the 2004/2005 financial year and 31 October 2005. Claims in respect of the tax warranty must be notified to the Seller within two years after the date of Completion. The Seller is not liable for single warranty claims which do not exceed £100,000 and any warranty claims unless the aggregate of all warranty claims exceeds £4,000,000. The maximum liability of the Seller under the Acquisition Agreement other than in certain circumstances, but including the environmental indemnity referred to above, is not to exceed £170,000,000. The Seller's liabilities are not secured.

The Seller has agreed to give a protective covenant that it and its group will not, for two years from Completion, be involved in a business in the United Kingdom which is the same or of a similar type to the business of the LINPAC Containers Group or likely to be in competition with the LINPAC Containers Group. The Seller has also undertaken that it and its group will not, for one year from Completion, induce or attempt to induce any senior employee of the LINPAC Containers Group to leave the employment of the LINPAC Containers Group.

DS Smith has agreed that, as soon as reasonably practicable after Completion and in any event within 12 months of Completion, it and its group and the LINPAC Containers Group will not adopt, use or carry on business under a name incorporating the word "LINPAC", "LIN" or a confusingly similar word.

DS Smith has agreed that, following a nine month period from Completion during which the LINPAC Containers Group will be permitted to continue to participate in the Seller's defined benefit pension scheme, it will accept (either into a newly created pension scheme or into a specially created sub-section of its existing scheme) all those active, deferred pensioner and pensioner members of the scheme who are, or were, in the employment of the LINPAC Containers Group. An appropriate share of the fund of the Seller's scheme will be transferred to fund this past service obligation, and the Seller has agreed to underwrite the liability of the trustees of its scheme to make this payment, and also to pay the difference between that payment, and the value of the liabilities acquired and computed on an FRS17 basis, if and to the extent that such difference exceeds one million pounds.

(d) LINPAC Containers Acquisition Facility Agreement

In connection with the Acquisition, DS Smith entered into a £140,000,000 term loan facility agreement dated 2 March 2004 with The Royal Bank of Scotland plc (the **Bank**) as agent for National Westminster Bank Plc as lender (the **Facility Agreement**).

The facility available under the Facility Agreement is an 18 month term loan facility of £140,000,000 which may be drawn in the first three months after the date of the Facility Agreement.

Front end fee is payable on the amount of the facility in stages. The rate of interest is LIBOR (as defined in the Facility Agreement) plus a margin of 0.85 per cent. per annum for the first six months after the date of drawdown of the facility, increasing to 1.1 per cent. per annum for the subsequent six months and 1.35 per cent. per annum thereafter.

Pursuant to the Facility Agreement, DS Smith is required to make a mandatory prepayment of the net proceeds received from any equity and/or capital market issue by it or guaranteed by it. In the event of a change of control of DS Smith, it is required to enter into negotiations with the Bank to agree terms and conditions upon which the facility can be continued. If no such agreement can be reached between the parties within 30 days of the change of control, the Bank's commitment may be cancelled and all outstanding amounts would become due and payable.

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The Facility Agreement contains customary covenants, representations and events of default including restrictions on disposals, acquisitions (other than the Acquisition), subsidiary indebtedness and creation of security. The Facility Agreement stipulates that DS Smith must maintain a minimum level of consolidated net assets, not exceed a maximum level of consolidated net borrowings with reference to the EBITDA of the DS Smith Group and a minimum interest cover ratio.

(e) Banking facilities

(i) Revolving Credit Facilities

On 2 September 2002 DS Smith entered into a £75,000,000 five year revolving credit facility with The Royal Bank of Scotland plc acting as agent for National Westminster Bank Plc.

In March and April 2003 DS Smith entered into revolving credit facilities of up to five years of up to £215,000,000 with Allied Irish Banks p.l.c., Banca Popolare di Lodi S.c.a.r.l., London Branch, BNP Paribas, Credit Lyonnais, Danske Bank A/S, London Branch, JP Morgan Chase Bank, Lloyds TSB Bank Plc, The Governor and Company of the Bank of Ireland, and WestLB AG, London Branch.

All the revolving credit facilities bear interest at margins of between 0.65 per cent. and 0.90 per cent. over LIBOR. The loan agreements, which include minimum level of consolidated net assets, a maximum level of consolidated net borrowings with reference to the EBITDA of the DS Smith Group, and minimum interest cover ratio covenants, a negative pledge and other limitations on disposals of assets, are consistent in all material terms for these facilities. The facilities are unsecured and rank at least *pari passu* with DS Smith's present and future unsecured obligations.

(ii) Loan Agreement

In October 2001 Toscana Ondulati S.p.A. entered into a loan agreement with Mediocredito Toscano S.p.A. and Banca Toscana S.p.A. for €16,526,621 maturing in July 2016 with an interest rate of EURIBOR plus 0.7 per cent. The loan is secured over land in Marlia and Lari in Italy owned by Toscana Ondulati S.p.A.

(f) Purchase agreement

On 13 June 2002 DS Smith International Limited entered into an agreement with SCA Packaging Deutschland Aktiengesellschaft & Co KG, SCA-Verpackungswerke, Paku Pack Papier und Kunststoff Verpackungen Gesellschaft mit beschränkter Haftung, Mr Helmut Kiefer, Mr Friedrich Schmidt and Mr Hans-Dieter Knapp for the acquisition of Zewathaner Gesellschaft mit beschränkter Haftung Verpackungen for a total consideration of €24,649,503. €5,400,000 has been retained in an escrow account, for two years from the date of the completion of the sale, to meet any warranty claims arising during such period under the agreement. Subject to meeting any such claims, the funds will then be transferred to the vendors. The founders of the company continued to provide their services for a year from completion of the purchase but they have now left the company.

(g) Private Placement

On 14 November 2002 DS Smith issued US\$105,000,000 6.24 per cent. series A senior notes due 14 November 2012 and £25,000,000 6.85 per cent. series B senior notes due 14 November 2012 by way of a private placement.

DS Smith entered into a swap transaction on 14 November 2002 with The Royal Bank of Scotland plc under which it made payment of US\$80 million in return for an equivalent amount denominated in euros. The swap counterparty also agreed to pay fixed rate dollar interest of 6.24 per cent. per annum in exchange for floating euro rate interest at rates linked to EURIBOR. The proceeds of the swap, €81.6 million, or £57.0 million at rates ruling on 30 April 2003, are shown as bank loans due after five years. In addition, in another swap The Royal Bank of Scotland plc also agreed to pay fixed rate dollar interest of 6.24 per cent. on a principal amount of US\$25 million in exchange for floating dollar interest linked to dollar LIBOR and by a swap transaction dated 14 November 2002 Bayerische Landesbank also agreed to pay fixed rate sterling interest of 6.85 per cent. on a principal of £25 million in exchange for floating sterling interest linked to sterling LIBOR.

10. Material Contracts of the LINPAC Containers Group

As at the date of this document, there are no material contracts (other than contracts entered into in the ordinary course of business) which have been entered into by any member of the LINPAC Containers Group within the two years immediately preceding the date of this document and no other contracts (other than contracts entered into in the ordinary course of business) entered into by any member of the LINPAC Containers Group at any time which contain any obligation or entitlements which are material to the LINPAC Containers Group.

11. Litigation

Other than as set out below, neither DS Smith nor any member of the DS Smith Group is, or has been, engaged in any legal or arbitration proceedings nor, so far as DS Smith is aware, are any such proceedings pending or threatened by or against DS Smith or any member of the DS Smith Group, which may have or have had during the period of 12 months immediately preceding the date of this document, a significant effect on the financial position of the DS Smith Group.

Scholle Industries Pty Ltd, an Australian company, has made a claim against parties including the Company's subsidiary DS Smith (UK) Ltd (DSSUK), alleging that DSSUK manufactured and/or designed defective wine taps which were supplied to the plaintiff between June 2001 and January 2002. The total amount claimed in the proceedings is A\$12,224,876. Proceedings in respect of the claim were issued in the Supreme Court of South Australia on 25 February 2004. The Company does not believe that the claim alleged will have a significant effect upon the financial position of the Company or the DS Smith Group as a whole.

Neither LINPAC Containers nor any member of the LINPAC Containers Group is or has been engaged in any legal or arbitration proceedings nor, so far as DS Smith is aware, are any such proceedings pending or threatened by or against LINPAC Containers or any member of the LINPAC Containers Group, which may have or have had during the period of 12 months immediately preceding the date of this document, a significant effect on the financial position of the LINPAC Containers Group.

12. Working capital

DS Smith is of the opinion that:

- (a) on the basis that the Acquisition proceeds, taking into account the net proceeds of the Rights Issue and the debt facilities available to it, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this document; and
- (b) on the basis that the Acquisition does not proceed, taking into account the net proceeds of the Rights Issue and the debt facilities available to it, the DS Smith Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

13. General

13.1 UBS has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.

13.2 Cazenove has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.

13.3 KPMG Audit Plc has given and has not withdrawn its written consent to the inclusion in Part 5 of this document of its report and the references thereto and to its name in the form and context in which they appear and has authorised the contents of its report for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

13.4 PricewaterhouseCoopers LLP has given and has not withdrawn its written consent to the inclusion in Part 4 of this document of its report and the references thereto and to its name in the form and context in which they appear and has authorised the contents of its report for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

13.5 DS Smith's registrars and receiving agents are Lloyds TSB Registrars, 3rd Floor, Princess House, 1 Suffolk Lane, London, EC4R 0AN.

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- 13.6 DS Smith's audited consolidated financial statements for the three financial years ended 30 April 2003, upon which unqualified reports have been given, were audited by KPMG Audit Plc, Chartered Accountants and Registered Auditor, of 8 Salisbury Square, London EC4Y 8BB.
- 13.7 There has been no significant change in the financial or trading position of the DS Smith Group since 31 October 2003, being the date to which DS Smith's unaudited interim financial statements were prepared.
- 13.8 There has been no significant change in the financial or trading position of the LINPAC Containers Group since 31 December 2003 being the end of the financial period for which the accountants' report set out in Part 4 of this document has been prepared.
- 13.9 The total expenses payable by DS Smith in connection with the Rights Issue are expected to amount to approximately £1.3 million, excluding VAT. The total amount payable to financial intermediaries pursuant to the Rights Issue is £1.3 million.
- 13.10 The existing Ordinary Shares are listed on the Official List of the UK Listing Authority and traded on the market for listed securities of the London Stock Exchange. Application has been made for the New Ordinary Shares to be so listed and traded.
- 13.11 An employee of Cazenove holds 2,525 Ordinary Shares.
- 13.12 The Issue Price represents a premium of 102 pence to the nominal value of an Ordinary Share.
- 13.13 The Company is registered in England and Wales and its registered office is at 4-16 Artillery Row, London, SW1P 1RZ.

14. Documents available for inspection

Copies of the following documents may be inspected at the offices of Allen & Overy, One New Change, London EC4M 9QQ and the registered office of DS Smith, 4-16 Artillery Row, London, SW1P 1RZ during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for as long as the offer remains open for acceptance:

- (a) the memorandum and articles of association of DS Smith;
- (b) the Directors' appointment letters and service contracts referred to in paragraph 6.2 of this Part 7;
- (c) the material contracts referred to in paragraph 9 of this Part 7;
- (d) the consent letters referred to in paragraph 13 of this Part 7;
- (e) the letter from PricewaterhouseCoopers LLP set out in Part 4 regarding financial information on the LINPAC Containers Group;
- (f) the letter from KPMG Audit Plc set out in Part 5 regarding the proforma statement of net assets of the Enlarged Group;
- (g) the audited consolidated financial statements of the DS Smith Group for the two financial years ended 30 April 2003 and the unaudited interim financial statements of the DS Smith Group for the six months ended 31 October 2003; and
- (h) the audited consolidated financial statements of LINPAC Containers Limited for the two financial years ended 31 December 2003.

Part 8 – Definitions

In this document the following expressions have the following meanings unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended).
“Acquisition”	the proposed acquisition of the entire issued share capital of LINPAC Containers on the terms and subject to the conditions set out in the Acquisition Agreement.
“Acquisition Agreement”	the sale and purchase agreement dated 2 March 2004 between the Seller and DS Smith described in paragraph 9 of Part 7.
“Admission”	The admission of the New Ordinary Shares, nil paid: (i) to the Official List; and (ii) to trading on the London Stock Exchange’s market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards.
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” dated April 2002 containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s market for listed securities.
“business day”	a day (excluding Saturdays and Sundays or public holidays in England and Wales) on which banks generally are open for business in London for the transaction of normal banking business.
“certificated or in certificated form”	where a share or other security is not in uncertificated form.
“Cazenove”	Cazenove & Co. Ltd.
“Completion”	the completion of the Acquisition.
“CREST”	The relevant system, as defined in the CREST Regulations (in respect of which CRESTCo. is operator as defined in the CREST Regulations).
“CRESTCo”	CrestCo Limited, the operator of CREST.
“CREST Manual”	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by CRESTCo on 15 July 1996 and as amended since).
“CREST member”	a person who has been admitted to CRESTCo as a system-member (as defined in the CREST Regulations).
“CREST participant”	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations).
“CREST Regulations”	the Uncertified Securities Regulations 2001 (SI 2001/3755), as amended.
“CREST sponsor”	a CREST participant admitted to CREST as a CREST sponsor.
“CREST sponsored member”	a CREST member admitted to CREST as a sponsored member.
“Directors” or “Board”	the Directors of DS Smith whose names appear in paragraph 5.1 of Part 7 of this document.

Part 8 – Definitions

“DS Smith” or the “Company”	DS Smith Plc.
“DS Smith Group” or “Group”	DS Smith and its subsidiaries and subsidiary undertakings (other than the LINPAC Containers Group).
“DS Smith’s Registrar” or the “Registrars”	Lloyds TSB Registrars.
“DS Smith Shareholder”	a holder of Ordinary Shares.
“DS Smith Share Option Schemes”	the Executive Share Option Schemes and the SAYE.
“EBITDA”	earnings before interest, tax, depreciation and amortisation.
“EGM”	the extraordinary general meeting of DS Smith to be held on 22 March 2004.
“Enlarged Group”	the DS Smith Group and the LINPAC Containers Group.
“Ex-Rights Date”	the date the Ordinary Shares trade ex-rights.
“Executive Share Option Schemes”	the David S. Smith (Holdings) PLC 1992 Executive Share Option Scheme and the David S. Smith (Holdings) PLC 1999 Executive Share Option Scheme.
“FSMA”	the Financial Services and Markets Act 2000.
“Fully Paid Rights”	rights to acquire the New Ordinary Shares, fully paid.
“GAAP”	UK generally accepted accounting principles.
“Issue Price”	112 pence per New Ordinary Share.
“LINPAC Containers”	LINPAC Containers Limited.
“LINPAC Containers Group”	LINPAC Containers and its subsidiaries and subsidiary undertakings.
“Listing Rules”	the Listing Rules made under section 74 of the Financial Services and Markets Act 2000.
“London Stock Exchange”	London Stock Exchange plc.
“member account ID”	the identification code or number attached to any member account in CREST.
“New Ordinary Shares”	the new Ordinary Shares to be allotted and issued pursuant to the Rights Issue.
“Nil Paid Rights”	rights to acquire the New Ordinary Shares, nil paid.
“Official List”	the Daily Official List of the UK Listing Authority.
“Ordinary Shares”	ordinary shares of 10 pence each in the capital of DS Smith.
“Overseas Shareholders”	Qualifying Shareholders with registered addresses outside the United Kingdom or who are citizens or residents of countries outside the United Kingdom.
“participant ID”	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant.
“Provisional Allotment Letters”	the renounceable provisional allotment letters expected to be sent to Qualifying non-CREST Shareholders (other than certain Overseas Shareholders) in respect of the New Ordinary Shares to be provisionally allotted to them pursuant to the Rights Issue.

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“Qualifying CREST Shareholders”	Qualifying Shareholders holding Ordinary Shares in uncertificated form.
“Qualifying non-CREST Shareholders”	Qualifying Shareholders holding Ordinary Shares in certificated form.
“Qualifying Shareholders”	holders of Ordinary Shares on the register of members of DS Smith at the Record Date.
“Record Date”	close of business on 1 March 2004.
“Resolution”	the ordinary resolution to be proposed at the EGM, notice of which is set out at the end of this document.
“Restricted Share Plan”	the DS Smith Restricted Share Plan.
“Rights Issue”	The proposed issue by way of rights of New Ordinary Shares to Qualifying Shareholders on the basis described in this document and, in the case of Qualifying non-CREST Shareholders, in the Provisional Allotment Letters.
“SAYE”	David S. Smith (Holdings) PLC 1999 International Sharesave Scheme.
“Seller”	LINPAC Group Holdings Limited.
“stock account”	An account within a member account in CREST to which a holding of a particular share or other security in CREST is credited.
“UBS”	UBS Limited.
“UK Listing Authority”	the Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the Financial Services and Markets Act 2000.
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST.
“Underwriting Agreement”	the underwriting agreement dated 3 March 2004 between DS Smith and Cazenove relating to the Rights Issue described in paragraph 9.1(a) of Part 7.
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland.
“US”, “USA” or “United States”	The United States of America, its territories and possessions, any state of the United States and the District of Columbia.
“US Securities Act”	The United States Securities Act of 1933, as amended.

For the purposes of this document, “subsidiary”, “subsidiary undertaking” and “parent undertaking” shall, unless the context otherwise requires, have the respective meanings given to them by the Act.

Terms defined in the CREST Manual, shall unless the context otherwise requires, bear the same meanings where used herein.

DS SMITH PLC

(Registered in England and Wales under the Companies Acts 1948 to 1980 with registered number 1377658)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of DS Smith Plc (the **Company**) will be held at 9.15 am on 22 March 2004 at UBS, 1 Finsbury Avenue, London EC2M 2PP for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

THAT the proposed purchase by the Company, or one of its wholly owned subsidiaries, of the entire issued share capital of LINPAC Containers Limited as described in the Prospectus dated 4 March 2004 be and is hereby approved and that the Directors be and are hereby authorised to take all such steps as may be necessary or appropriate in relation thereto including, without limitation, to cause the Acquisition Agreement, as defined in the Prospectus, and all matters provided therein or related thereto to be completed and, at their discretion, to amend, waive, vary and/or extend any of the terms of the Acquisition Agreement and/or any document referred to therein and/or connected with it in whatever way they may consider to be necessary and/or desirable in connection with it provided that these are not material in relation to the Acquisition Agreement as a whole.

By order of the Board

Carolyn Cattermole
Secretary

4 March 2004

Registered Office:
4-16 Artillery Row
London SW1P 1RZ

Notes:

- (i) Only those shareholders registered in the register of members of the Company as at 5 pm on 1 March 2004 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their names at that time.*
- (ii) A shareholder entitled to attend and vote at the Meeting is entitled to appoint one or more Proxies to attend and, on a poll, to vote instead of him. A Proxy need not be a shareholder of the Company.*
- (iii) A Form of Proxy is enclosed. To be effective it must reach the Registrars at the address shown on the Form not later than 48 hours before the time of the Meeting. Completion and return of the Form will not, however, prevent a shareholder from attending and voting at the Meeting.*

