

# Smurfit Kappa Group

September 2009



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## Key points | 2009 Quarter two & First Half

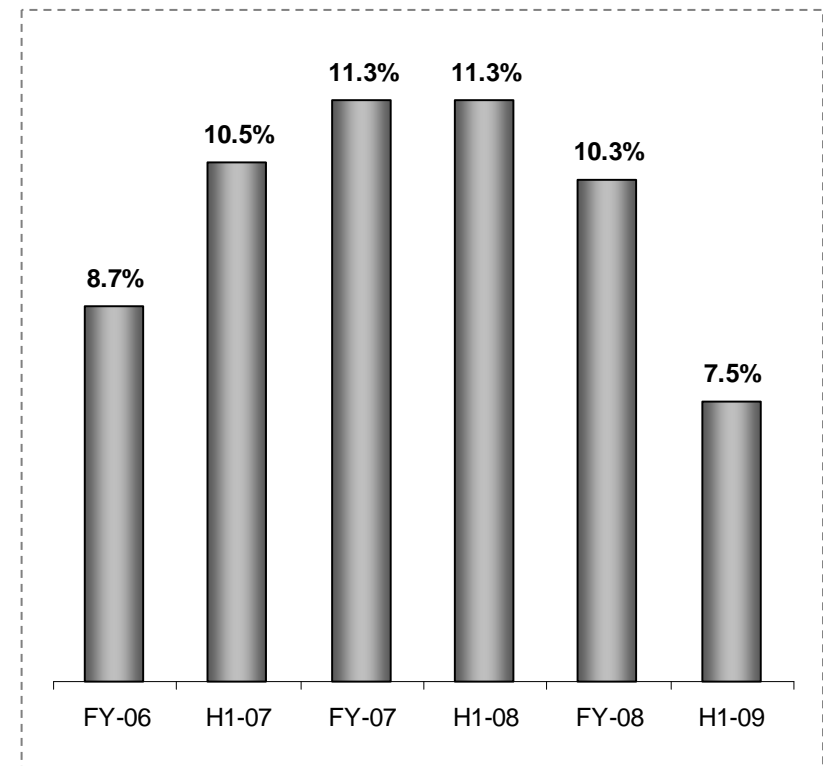
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- Resilient integrated model | Delivering 12.1% EBITDA margins in H1
- Superior EBITDA margins of 12.3% in Q2 | Continuing benefits of cost take-out actions
- Ongoing cash flow management | Net debt reduced by €120m in last 12 months
- Amendments to Senior Credit Facility significantly strengthen financing position
- Continued focus on service differentiation, operating performance, cash flow generation & net debt reduction
- Containerboard price increases going through in September

# Maximising returns

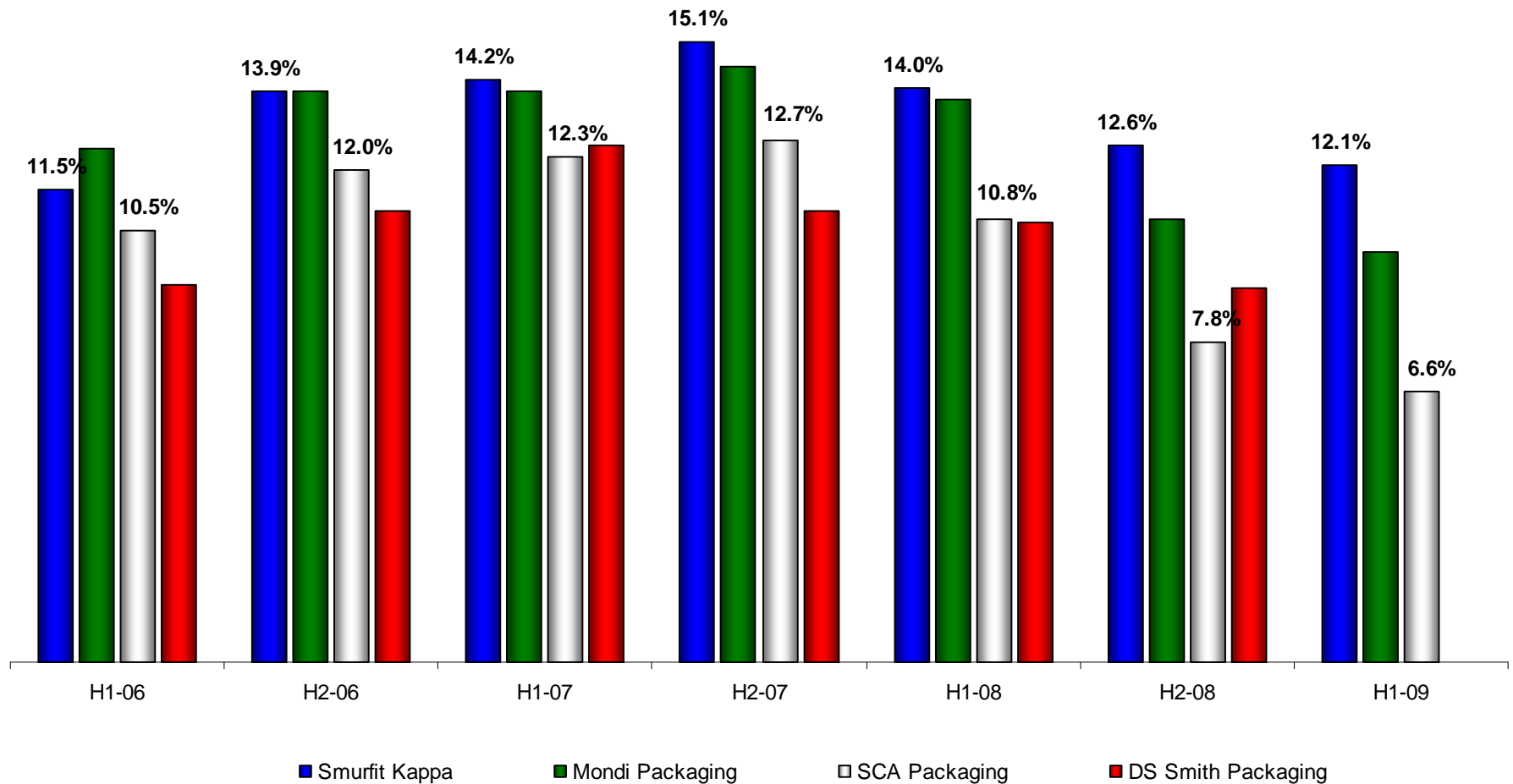
- Resilient operating margins
- Ongoing focus on cash generation
- Track record of value creation through acquisitions/mergers
- Well managed capital structure
- Objective to return or exceed our cost of capital through the cycle

## SKG ROCE Evolution



Source: company (Return On Capital Employed on LTM basis)

# Delivering Industry-leading EBITDA margins



Source: company reports

## Financial highlights | 2009 H1

		H1 2009	H1 2008	Variance
Revenue	(€m)	3,002	3,678	(18%)
Pre-Exceptional EBITDA	(€m)	363	514	(29%)
<i>EBITDA margin</i>		12.1%	14.6%	-
Free cash flow	(€m)	18	77	(77%)
Net debt	(€m)	3,164	3,285	(4%)
<i>Net debt/EBITDA (LTM)</i>		4.0x	3.1x	-
ROCE		7.5%	11.3%	

# Resilient operating performance in a challenging environment



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# Operating performance drivers

- Market facing company
  - Leading positions in Europe & Latin America
  - Competing on the basis of customer service not price
- Relentless focus on cost reduction
  - €180m synergies '06 – '08
  - €250m cost take-out objective '08 – '10
- Ongoing rationalisation of less-efficient capacity
  - 8 paper mills and 23 box plants closed since '06
  - Further initiatives announced in 2009
- Proactively adapt production to sustainable level of demand
  - Maximise integration levels through the downcycle
  - Ongoing downtime to maintain low Working Capital

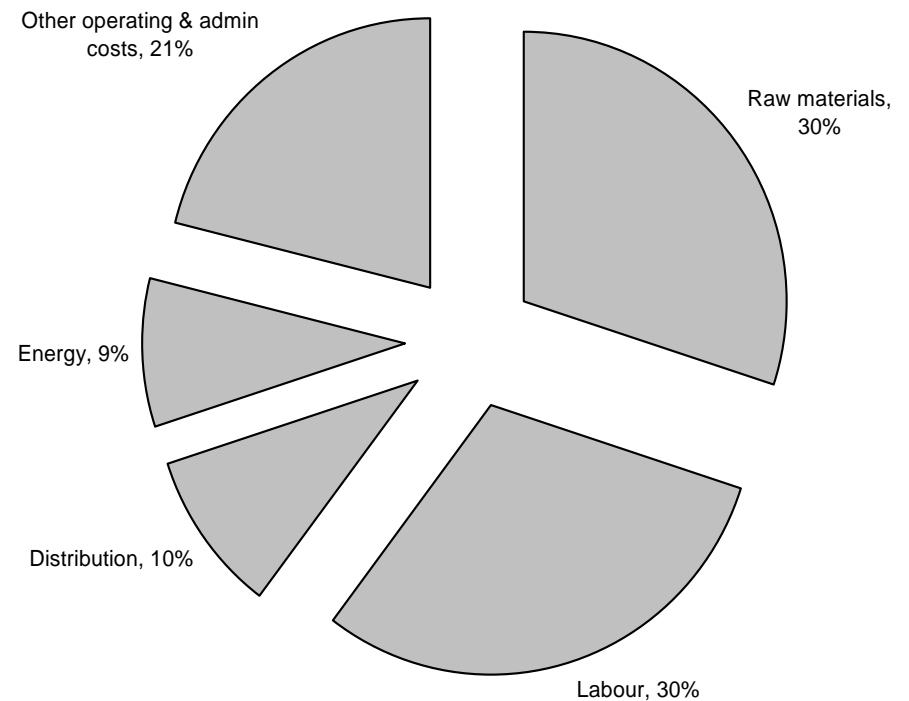


# Control costs efficiently

<i>Key cost movements (H1'09 vs H1'08)</i>	<b>Actual</b>	<b>Underlying</b>
<i>Recovered Paper</i>	(46%)	(43%)
<i>Wood</i>	(15%)	(6%)
<b>Total Raw Materials</b>	<b>(29%)</b>	<b>(17%)</b>
Labour	(6%)	(6%)
Distribution	(14%)	(2%)
Energy	(14%)	(3%)

\* Underlying neutralises the impact of lower volumes

## SKG Cash Costs Breakdown (H1'09)



# Maximising cash flow generation for continued net debt reduction



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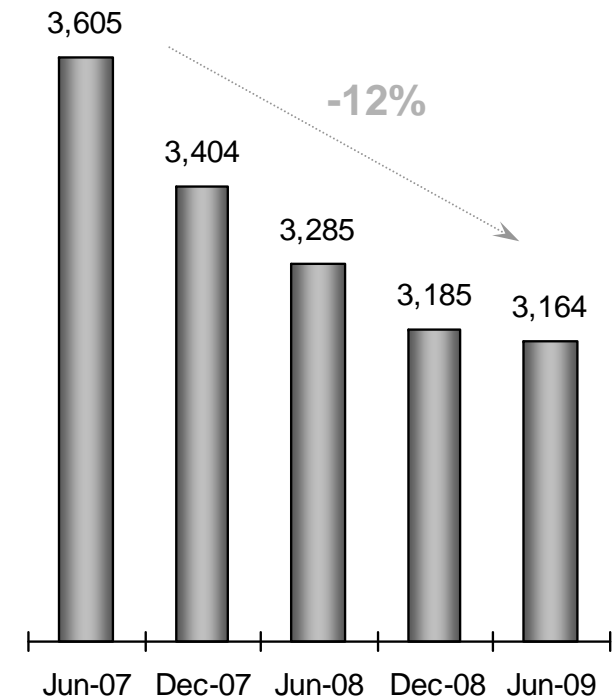
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## Ongoing cash flow management

- Low Working Capital / Sales ratio
- Reducing capex towards 60% of depreciation
- €43m debt buy-back at 76% of par in H1 '09
- Increased cost take-out target to €130m in '09

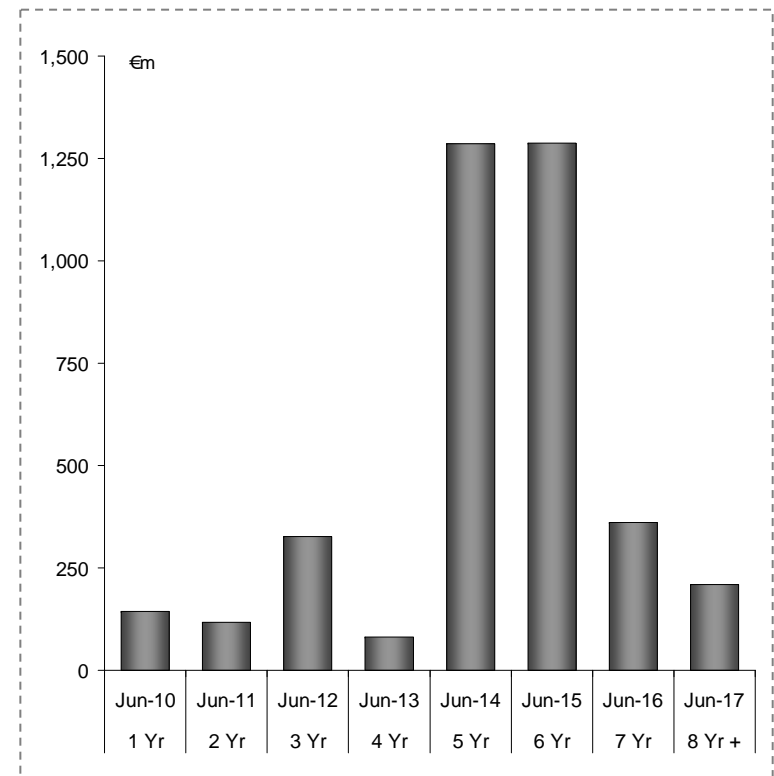
SKG net debt reduction (€m)



# Bank Amendment significantly increasing financial flexibility

- Longer-term debt profile
  - Next material maturity Dec-2013
- Flexibility to raise up to €1.0bn in bonds to extend 2013/14 bank debt maturities
- Significant available liquidity
  - €650m cash
  - €525m undrawn credit facilities
- Materially increased covenant headroom
- Relatively low average cost of financing
  - Interest cost pre-amendment = 5.1%
  - Expected post amendment ~6.2%

## No material near-term debt maturities



Source : company

# Outlook



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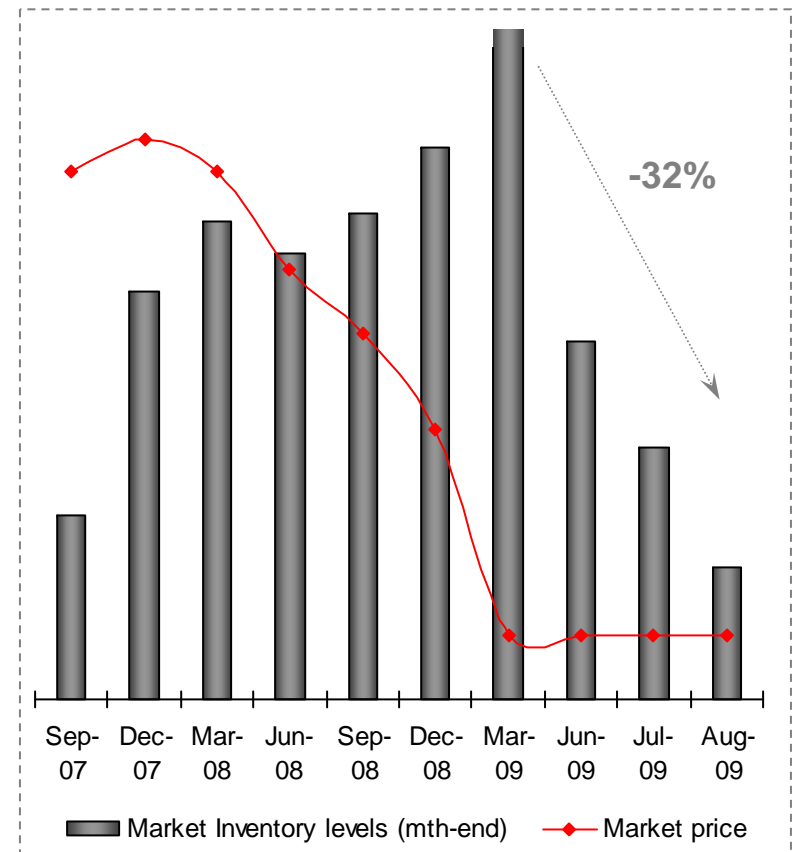
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# European Industry outlook

- Significant Industry supply actions in H1 09:
  - Closures announced = 1.6mT (8% FY capacity)
  - Widespread downtime ~0.8mT (8% H1 capacity)
  
- Inventory levels across the market reduced by 32% from Mar-09 to Aug-09
  
- Containerboard prices at uneconomic levels
  - Stable since Mar-09, at level below the previous trough
  - Significant percentage of capacity “cash negative”
  
- Increasing recovered paper prices
  - ~€30/tonne increase from January to August '09
  
- **SKG lead €60/T price increase applicable Sept 1**
- **€50 hike already reflected in indices for September**
- **Further €60/T announced for Oct 1**

European Containerboard Market  
Recycled liner inventories & prices evolution



Source: Groupement Ondule, RISI

## Price increase announcements overview (Europe)

<i>Price increase announcement</i>	<b>Recycled containerboard</b>	<b>Kraftliner Brown</b>	<b>Kraftliner White-Top</b>
SKG	€60/T + €60/T	€60/T	€60/T
SCA	€100/T	€60/T	€60/T
Mondi	-	-	€50/T
DS Smith	€60/T	-	-
Hamburger	€100/T	-	-
Europac	€100/T	€60/T	-
Peterson	€80/T	€60/T	€60/T
Klabin	-	€60/T	€60/T
Large German independent (recycled)	“we have been in touch with our customers regarding September increases. Our aim is minimum Euro 100/tonne.”		

Source: RISI, 21 Sept 2009

## Outlook | H2 2009

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- Demand expected to remain stable at current levels
  - New capacity entering the market. SKG to continue to actively manage its system.
- Increasing raw material costs pressure
  - Especially for recovered fibre
- Containerboard price increase to have limited impact on SKG '09 earnings
  - Usual time lag to pass pricing through to the end market
- SKG to continue focus on operating efficiency
  - Promote differentiated service and unique market coverage
  - Maximise cost take-out actions to maintain industry-leading EBITDA margin
- SKG to focus on free cash flow generation for continued net debt reduction

# Questions & Answers



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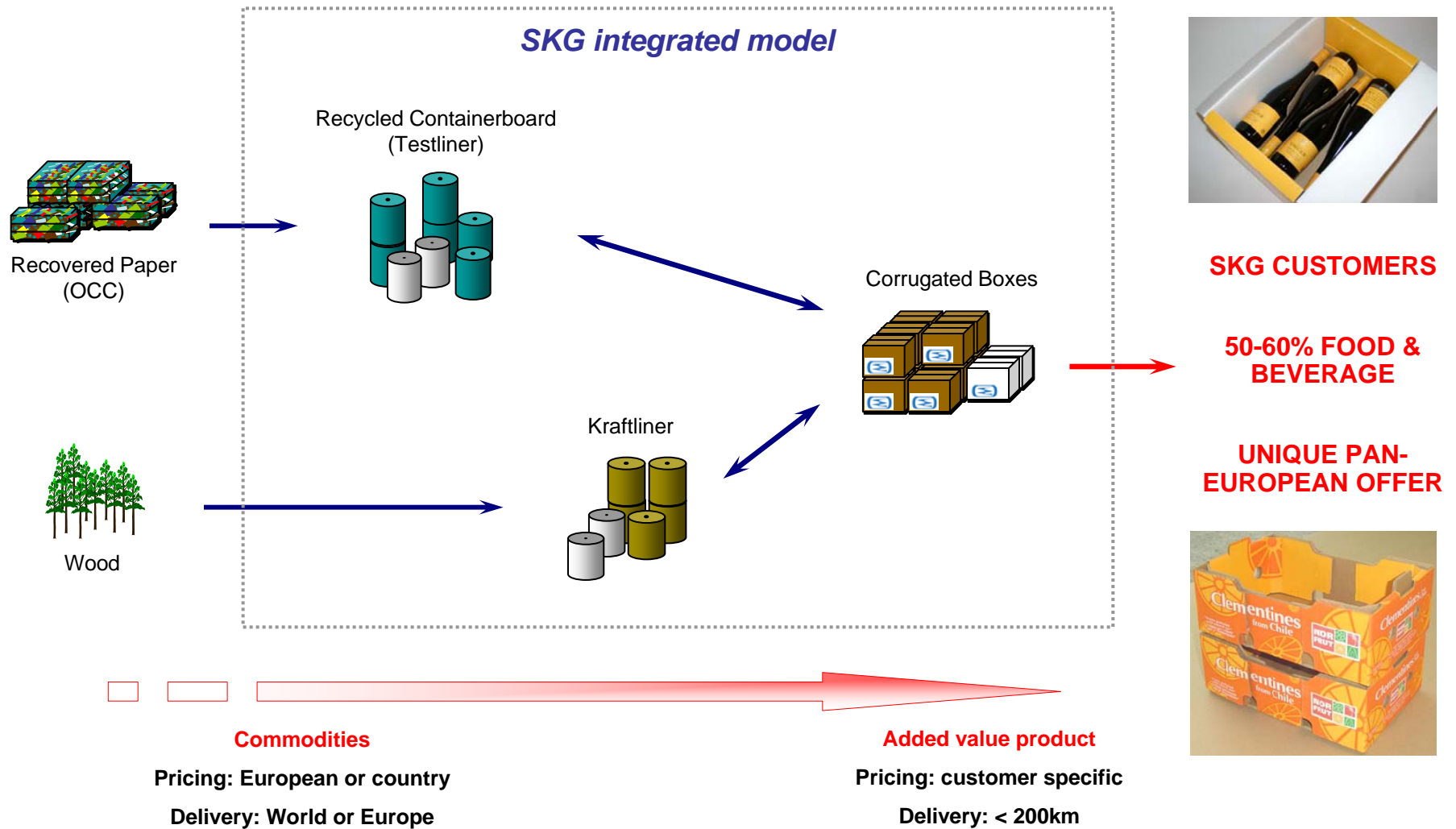
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# Operating in a Growth Industry



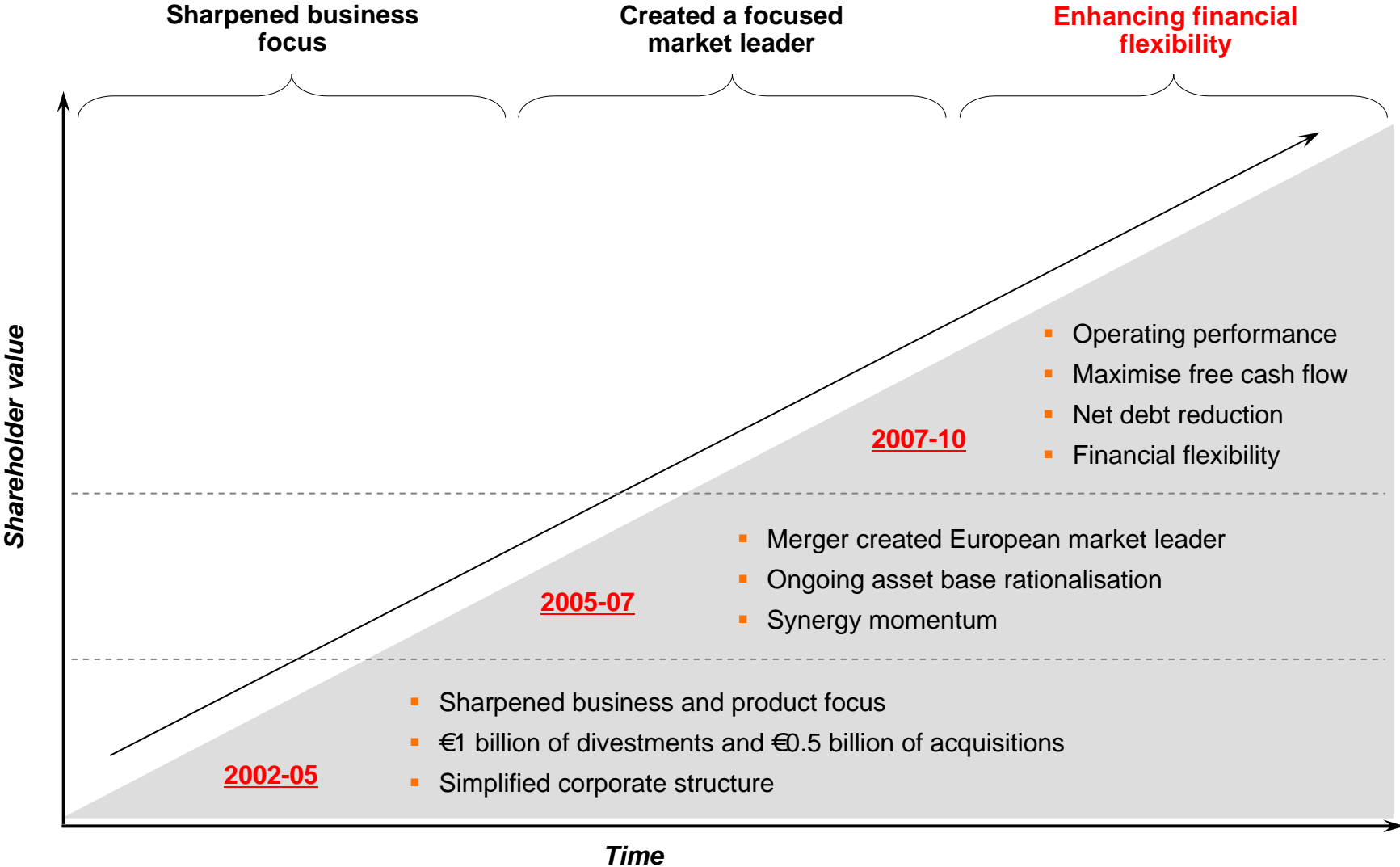
## Focus on what we do best

Region	Grade	Capacity (m tonnes)	% of relevant market	Est. market position
Europe	Kraftliner	1.6	34%	No 1
	Recycled containerboard	3.0	19%	No 1
	Corrugated	4.5	20%	No 1
	Solid board / solid board packaging	1.0 / 0.4	-	No 1
	Sack paper / sacks	0.1 / 0.1	-	No 3
Latin America	Containerboard	0.7	Mex 10% - Ven 64%	No 3
	Corrugated	0.8	Mex 12% - Ven 70%	No 1
World	Containerboard (a)	5.4	6%	No 3
	Corrugated	5.3	7%	No 1

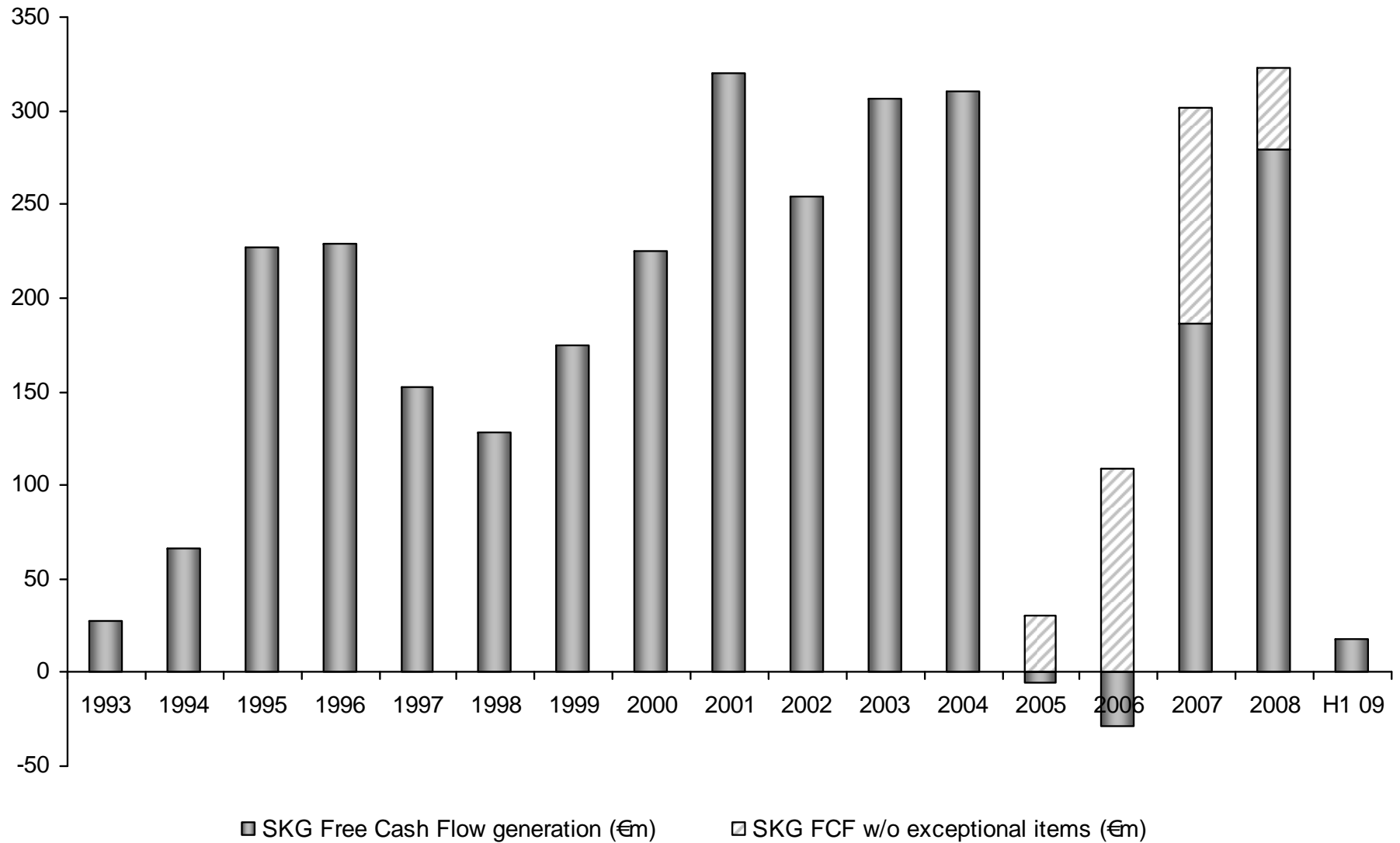
Source: Company estimates  
(a) Including Semi-Chemical

**Over 80% of SKG business in containerboard and corrugated**

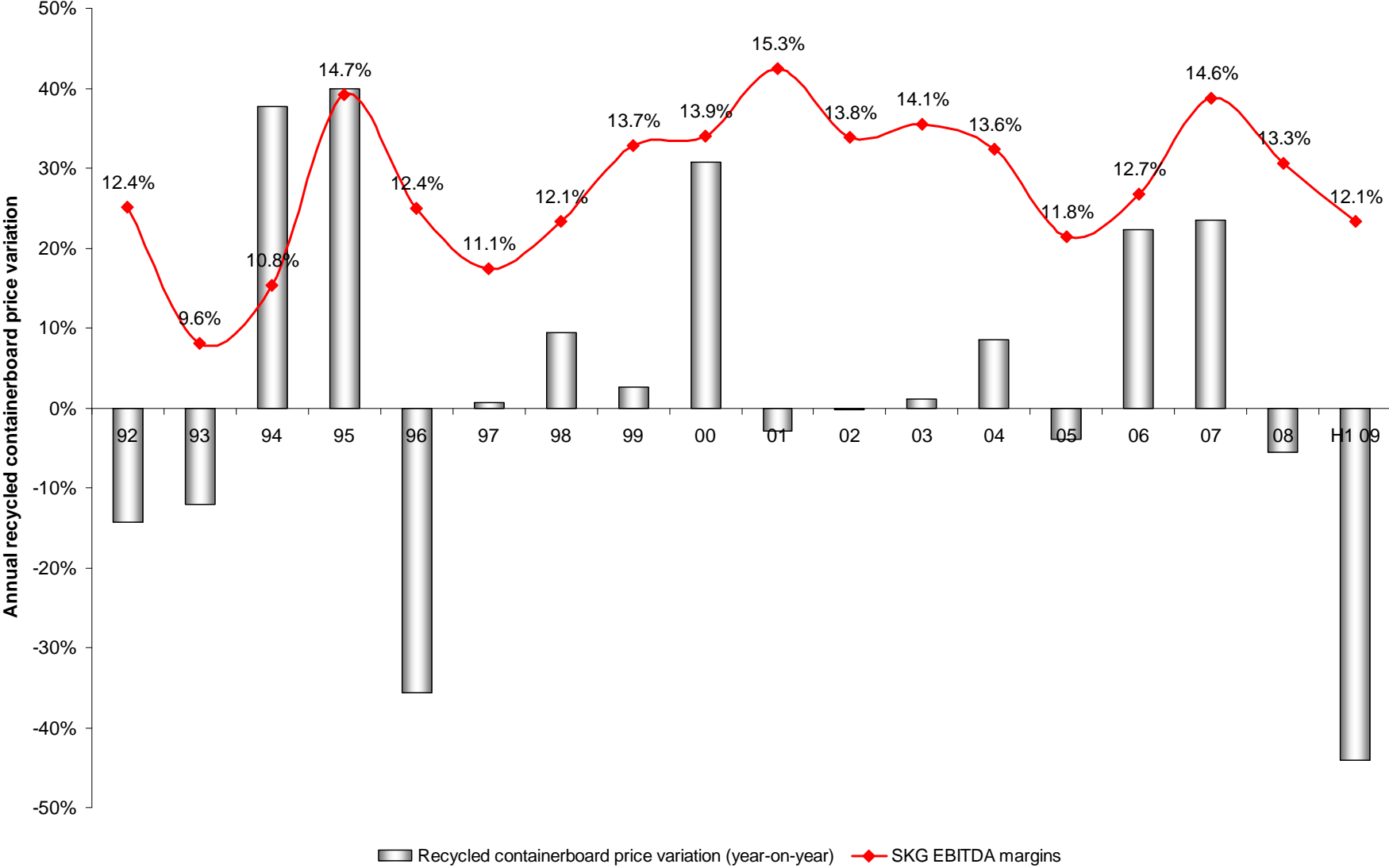
# Positioned for performance



# Proven ability to generate cash flow through the industry cycle



# Resilient EBITDA margins through the Industry cycle



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