

Europe: Containerboard Market Outlook

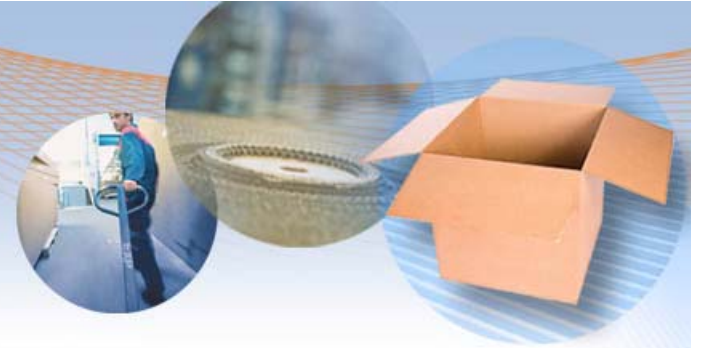
RISI 13th International Containerboard Conference
Chicago, 13 November 2008

Tony Smurfit, President and COO, Smurfit Kappa Group



 **Smurfit Kappa Group**

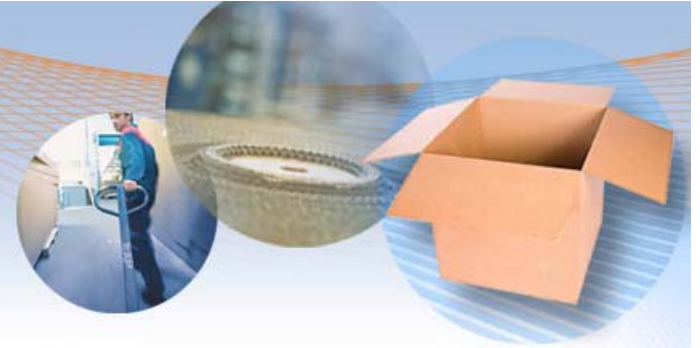
Agenda



- Rapidly evolving industry environment
- Medium-term industry outlook
- Smurfit Kappa: market leader in corrugated
- Concluding remarks

2007 | Strong markets

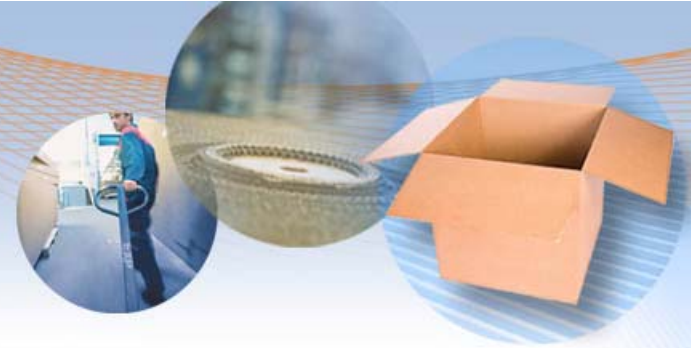
- Delivering economic returns for ALL stakeholders



- Positive supply/demand balance
 - 10% of European capacity closed between 2005 and 2006
 - Demand growth > 2%
- Increasing input costs
 - OCC : driven by sustained Chinese demand
 - Energy : driven by higher oil prices
- Strong containerboard pricing momentum and increased margins
- Box margins under pressure, as recovery of higher containerboard prices takes up to 6 months

Supply/demand in balance : positive market for containerboard

2008 | Sharp drop

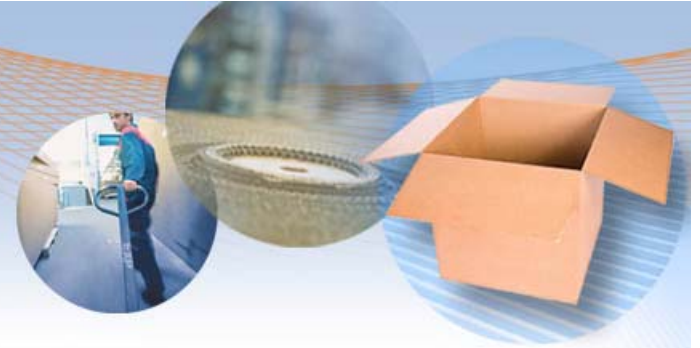


- Slowing demand
- Further input cost increases, especially for energy
- Inventory overhang despite ongoing downtime
- Sharp fall of containerboard prices led to margin compression
- Box prices holding-up, but under increasing pressure

Decisive Action:

Higher cost capacity closures and/or delay start-up of new paper machines

2009 | Expected to remain tough



- Demand expected to remain slow
- Significant new capacity to come on-stream
- Expected continued pressure on pricing
- Sustained margin compression for containerboard
- Market oriented integration a key advantage in a challenging market

Further high cost capacity closures
Accelerating market-related downtime

Medium-term industry outlook threatened by new capacity

people

innovative

market leader

latin america

integrated

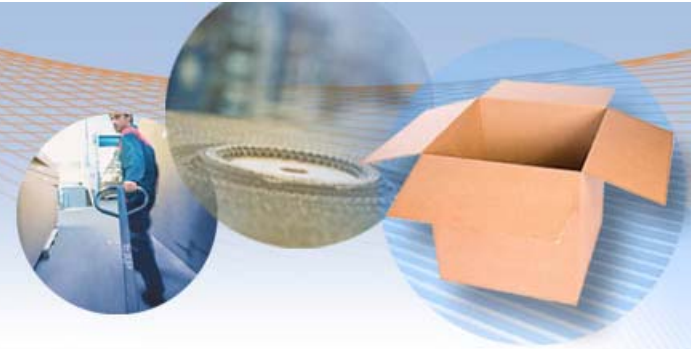
europe

growth

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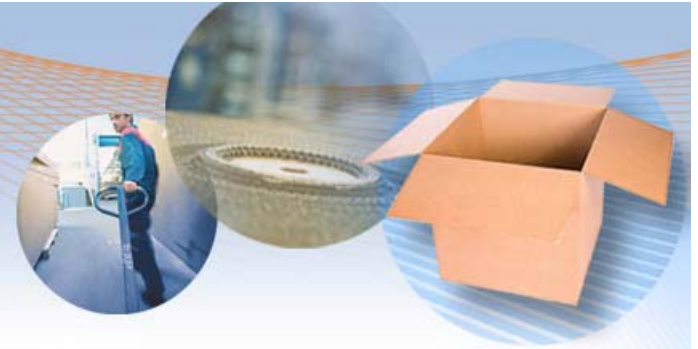
Industry Challenges

- The same old story...



- Too many capacity expansion decisions taken in isolation and at the same time
- Capacity expansion decisions based on unrealistic rate of return:
 - High price levels => good theoretical returns
 - Optimistic demand growth forecasts => new capacity supposed to be filled by incremental demand
- True cost of marginal tonnage?
- Financing for new capacity secured too easily :
 - Need to look at the totality of the projects and their combined impact on supply/demand balance
- Grants from the EU : a key negative to the industry
 - Business & jobs delocalisation

Industry Challenges in 2009/10?



- Current capacity expansion decisions were taken in 2006/07, when :
 - Forecasted demand growth of 3% p.a. for 2008/09 \Leftrightarrow 2 paper machines
 - Peak pricing \Rightarrow attractive expected returns

- New capacity will hit the market in 2009/2010
 - Expected demand growth did not materialise
 - Expected pricing levels will not be experienced
 - Expected returns will not be delivered

- Majority of the new capacity will not be integrated
 - Likely to generate volume-driven strategies

How can the overhang be solved?



- Accelerating downtime
- Closure of higher cost capacity
- Financial difficulties for high cost producers
- Positive macro factors

Smurfit Kappa : market leader in corrugated

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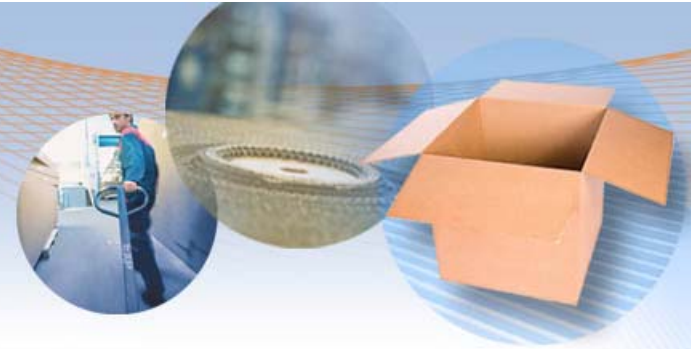
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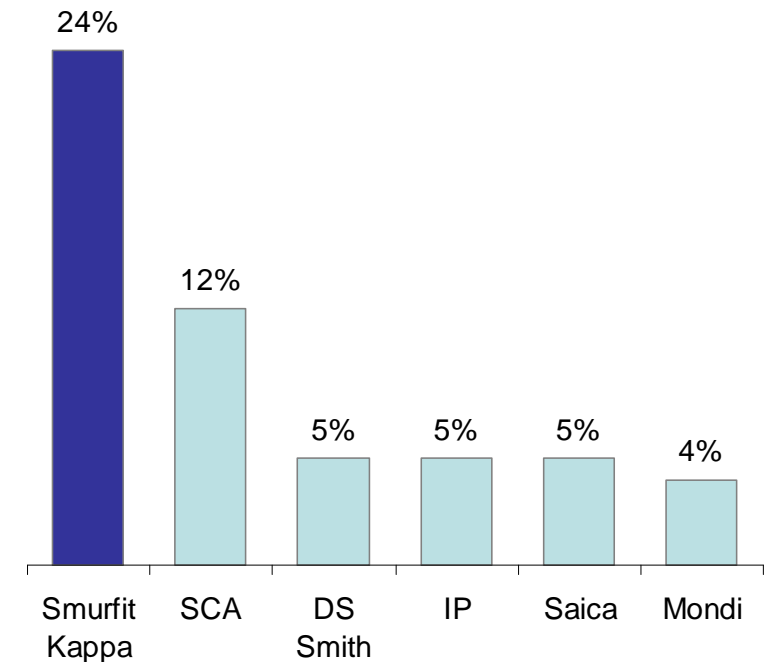
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SKG | Clear market leader



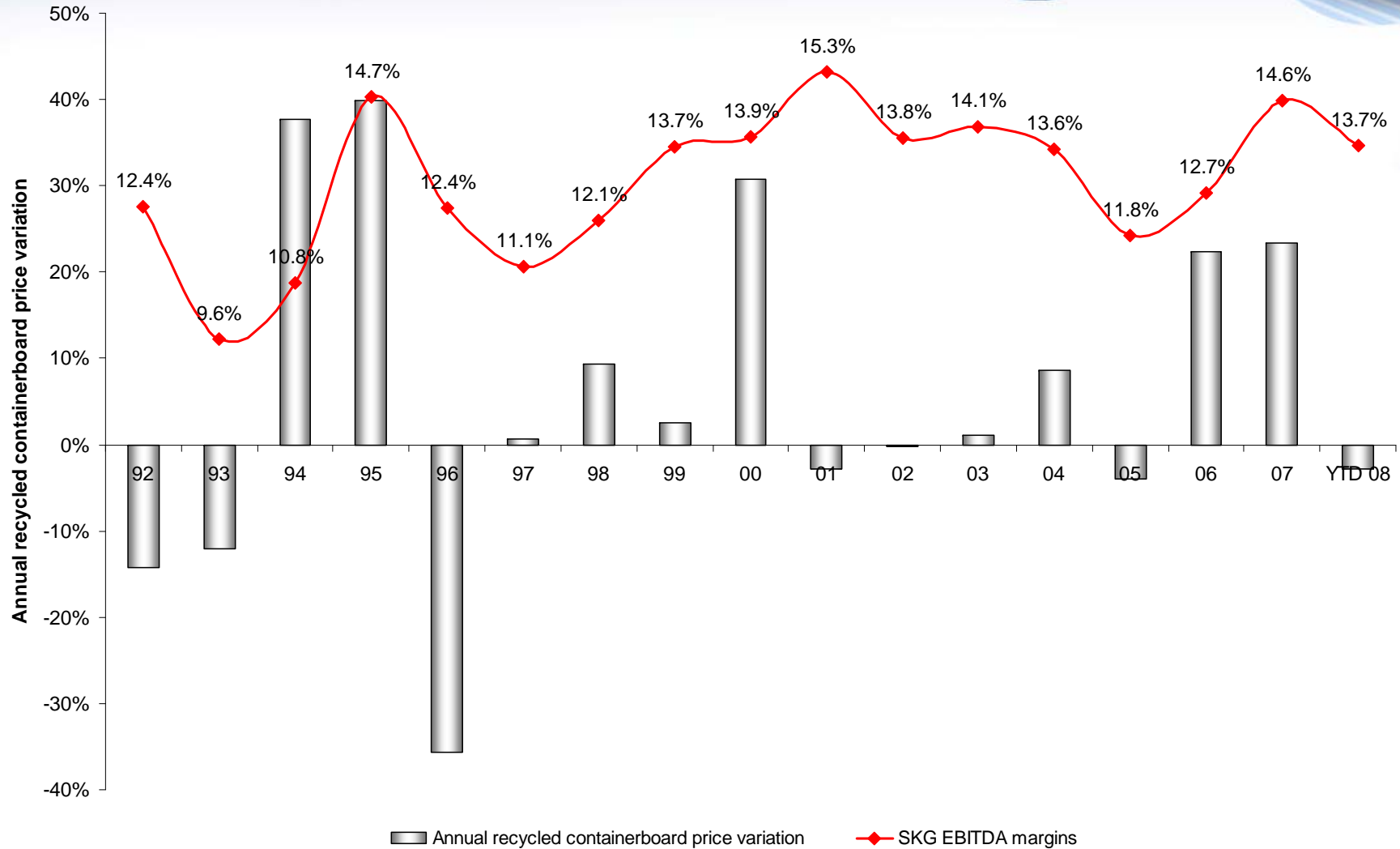
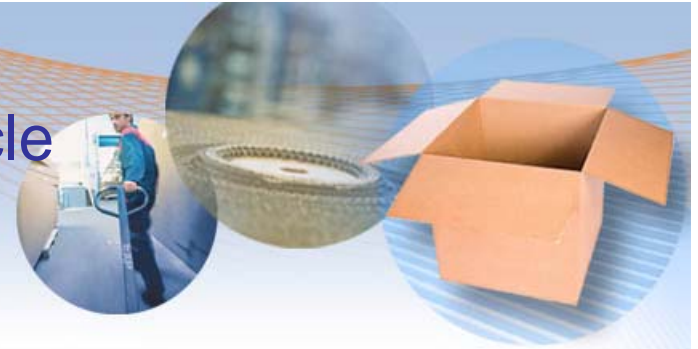
- Leading global paper-based packaging group
 - Corrugated boxes = 70% of sales
- Formation through merger of Smurfit and Kappa in 2005
 - Combination of #1 and #3 European producers
- Clear European leader, increased exposure to high growth markets

Focused European leader



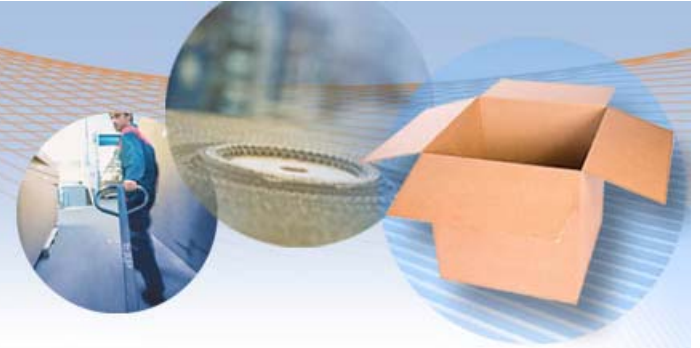
Source: 2005 production - RISI, company estimates based on Europe excl Russia

SKG | Resilient margins through the cycle



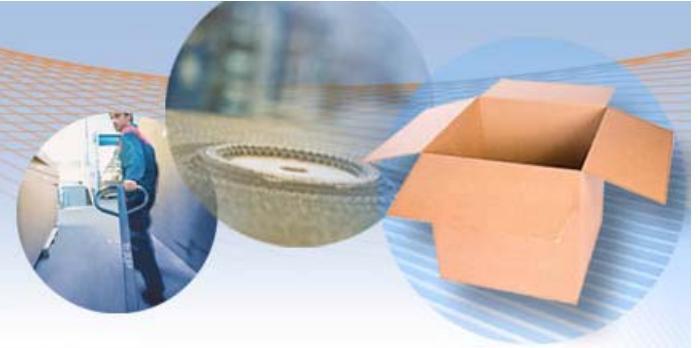
Source: RISI, company

SKG | A differentiated strategy



- Market facing company, backward integrated in containerboard
- Maximise free cash flow generation through the cycle
 - Flexible management of capex : no “empire-building projects”
 - Best-in-Class working capital management
- Built low cost asset base through acquisitions
 - Acquire well invested assets at the right time in the industry cycle
 - Subsequent restructuring and closure of higher cost capacity
 - “Buy other peoples’ mistakes”

SKG | Resilience of downstream corrugated business



- Positive demand profile, customer relationship holding up well
 - Unique Pan-European offering to customers
 - 60% of customers in Food & Beverage
- Pricing under increasing pressure
- Optimised integrated system
 - Lower cost system, competitive in current environment
 - Short Recycled liner, Long Kraftliner
- Unique set of tools to constantly improve quality of service to our customers

SKG Corrugated plants network



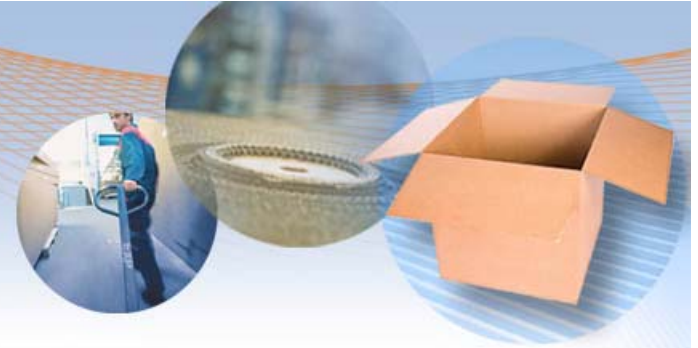
SKG | Market-led; Service Oriented

Unique set of tools designed for our customers



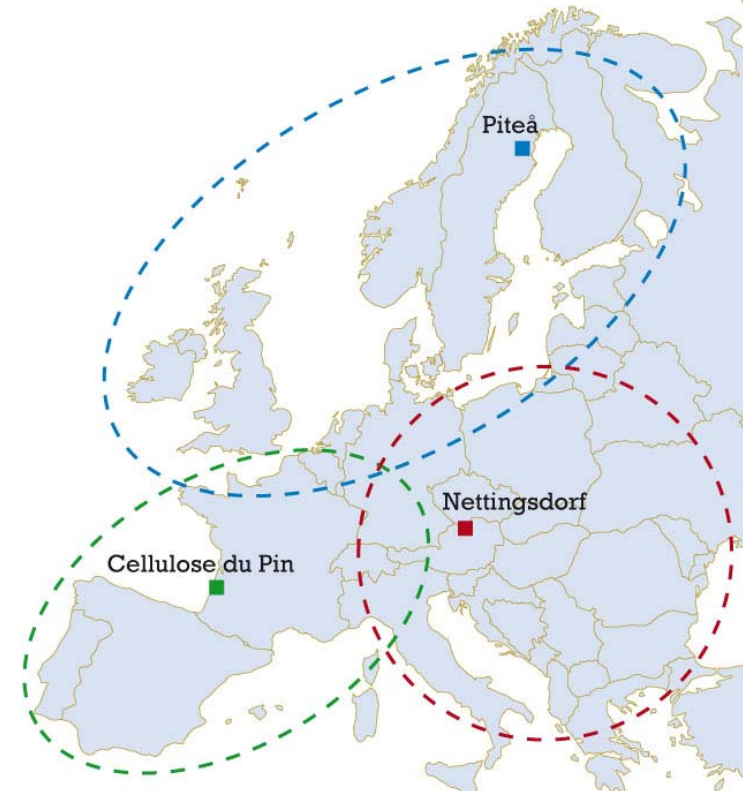
- Smurfit Kappa Innobook © : Select the fit-for-purpose design
 - Over 3000 Proven designs at the click of a button
- Technical team with unique know-how :
 - “Men In Black”
 - “Paper Process Technologies”
- Most advanced technical tools : Develop technical solutions that work
 - Paper to Box ©, Pack Expert ©, etc...

SKG | Kraftliner advantage

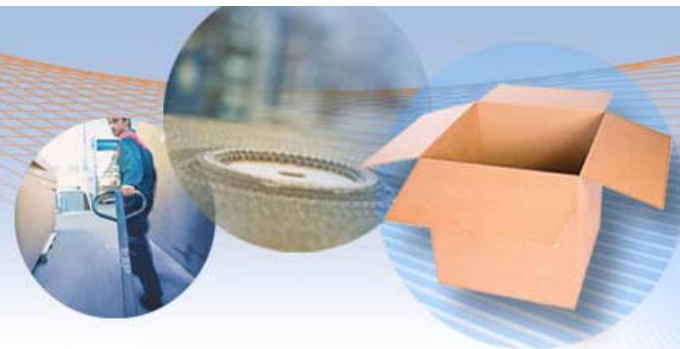


SKG kraftliner mill system

- SKG clear leader, especially in White-Top
- Significant barriers to entry
- Ideal locations close to raw materials & end markets
- Strengthening US\$ positive catalyst

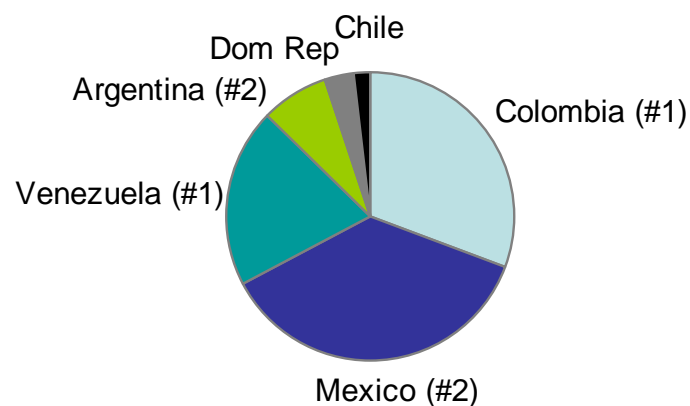


SKG | Latin American advantage

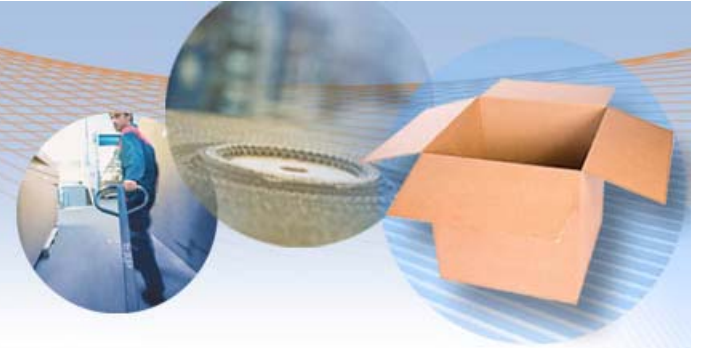


- Leading market positions, local management
- Portfolio of businesses and markets
- Highly consolidated markets, significant barriers to entry
- Continued superior profitability
- Approximately 17% of Group's overall EBITDA

Unique pan-Regional presence



Concluding remarks



- Consistency of message
- Need new capacity – re-think how it is introduced
- We are entering (at best) a low growth environment
- Base capacity expansion decisions accordingly
- Deliver economic returns for all stakeholders

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