

## Interim Management Statement

**9 May, 2008:** Smurfit Kappa Group plc (“SKG” or the “Group”), one of the world’s largest integrated manufacturers of paper-based packaging products, with operations in Europe and Latin America, today announced results for the 3 months ending 31 March, 2008.

### 2008 First Quarter | Key Financial Performance Measures

€m	Q1 2008	Q1 2007	Change	Q4 2007	Change
Revenue	€1,832	€1,794	2%	€1,818	1%
EBITDA before Exceptionals and Share-based Payments <sup>(1)</sup>	€257	€254	1%	€275	(7%)
EBITDA Margin	14.0%	14.2%	(0.2 pts)	15.1%	(1.1 pts)
Operating Profit before Exceptional Items	€156	€141	11%	€145	8%
Profit/(Loss) before Income Tax before Exceptional Items	€90	€43	107%	€88	2%
Free Cash Flow <sup>(2)</sup>	€1	€(40)	-	€73	-
Net Debt	€3,373	€3,549	5%	€3,404	1%
Net Debt to EBITDA (LTM)	3.16x	3.71x	-	3.20x	

(1) EBITDA before exceptional items and share-based payments is denoted by EBITDA throughout the remainder of the management commentary for ease of reference. A reconciliation of net profit/(loss) for the period to EBITDA before exceptional items and share-based payments is set out on page 22.

(2) Free cash flow is set out on page 8. The IFRS cash flow is set out on page 13.

## Performance Review & Outlook

Gary McGann, Smurfit Kappa Group CEO, commented: "The Group is pleased to report a positive EBITDA outcome and a strong cash flow performance for the three month period to 31 March, 2008. We are also pleased to report continued progress against our leverage objectives. Net debt has been reduced within the quarter. SKG's net debt to EBITDA multiple is now below the bottom end of our stated range.

During the quarter, business conditions in Europe reflected continued corrugated price recovery and broad-based cost inflation. Our Latin American businesses, which operate in high-growth markets, continue to make a significant contribution to the Group's overall performance.

SKG anticipates that a combination of factors will contribute to greater than expected margin pressure throughout the remainder of 2008. These factors include a slowdown in demand growth for corrugated, continued weakness of the value of the US\$ and further cost inflation. SKG recently announced the permanent closure of 130,000 tonnes of less efficient containerboard capacity and up to 80,000 tonnes of market-related downtime in 2008. These actions will maximize the ongoing efficiency of our mill system and address an increase in inventory levels of recycled containerboard.

While SKG will continue to review the cost profile of our mills against integration requirements, broader market demand and industry inventory levels, as a result of actions to date, we have an increasingly efficient mill system and remain short of recycled paper production capacity.

In 2008 and beyond, we will continue to exercise restraint in our capital programmes, base production decisions on a realistic assessment of demand, and participate selectively in consolidation opportunities presented by current market conditions. SKG will also seek to opportunistically increase its geographic reach and exposure to higher growth markets."

## About Smurfit Kappa Group

Smurfit Kappa Group is a world leader in paper-based packaging with operations in Europe and Latin America.

Smurfit Kappa Group operates in 22 countries in Europe and is the European leader in containerboard, solid board, corrugated and solid board packaging and has a key position in several other packaging and paper market segments, including graphic board, sack paper and paper sacks. Smurfit Kappa Group also has a growing presence in Eastern Europe. Smurfit Kappa Group operates in 9 countries in Latin America and is the only pan-regional operator.

## Forward Looking Statements

Some statements in this announcement are forward-looking. They represent expectations for SKG's business, and involve risks and uncertainties. These forward-looking statements are based on current expectations and projections about future events. The Group believes that current expectations and assumptions with respect to these forward-looking statements are reasonable. However, because they involve known and unknown risks, uncertainties and other factors, which are in some cases beyond the Group's control, actual results or performance may differ materially from those expressed or implied by such forward-looking statements.

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## 2008 First Quarter | Performance Overview

SKG's financial outcome in the first quarter of 2008 particularly reflects a good performance within the corrugated business. It reflects a combination of continued progress in price recovery, together with reasonable demand, albeit slower in March, mainly due to Easter.

This positive achievement was offset by weakening conditions within our paper system, where further increases in input costs combined with recent pressure on containerboard pricing generated some margin compression.

Kraftliner profitability was negatively impacted by rising wood costs and pricing pressure from US imports which benefit from the weak US\$. In recycled containerboard, raw material and energy costs were up year-on-year, while containerboard pricing was impacted by pricing discounts following an industry-wide inventory build after Christmas.

To maximize the continuing efficiency of the Group's mill system, maintain a balanced system and to avoid a significant working capital increase, SKG announced in March the permanent closure of 130,000 tonnes of less efficient capacity and a further 80,000 tonnes of market-related downtime.

The Group's Latin American business continued to perform well in the first quarter. However, the overall financial contribution of Latin America to the Group's earnings was adversely affected by the relative strength of the euro.

## First Quarter, 2008 | Financial performance

Revenue of €1,832 million in the first quarter of 2008 represents a 2% increase on revenue of €1,794 million in the first quarter of 2007. Allowing for the negative impact of currency of €23 million and net disposals and closures of €11 million, revenue shows an underlying increase of €72 million, the equivalent of 4%.

EBITDA of €257 million increased by €3 million, or 1% compared to EBITDA of €254 million in the first quarter of 2007. This represents a margin of 14.0% and 14.2% respectively. Allowing for the impact of currency, acquisitions, disposals and closures, the underlying increase in EBITDA was over €5 million, which corresponds to an increase of over 2%.

Exceptional items in the first quarter of 2008 amounted to €28 million, and related entirely to the announced closure of our Valladolid recycled containerboard mill in Spain. The costs provided, while preliminary at this stage, comprise €11 million in respect of the impairment of fixed asset values (charged within Cost of Sales), redundancy costs of approximately €6 million, and other reorganization costs of €11 million. This compares with exceptionals of €10 million in the first quarter of 2007, primarily arising from the IPO costs and restructuring of the Group's Irish corrugated operations.

Pre-exceptional EBITDA in the first quarter of 2008 was €18 million lower than in the fourth quarter of 2007. The decrease reflects the traditional seasonal weakness of the first months of the year (which was more pronounced in 2008 with Easter falling in March) together with some margin compression in our containerboard business.

Pre-exceptional operating profit amounted to €156 million in the first quarter compared to €141 million in the same period in 2007. Allowing for the higher charge for share-based payments in 2007 as a result of the IPO, operating profit increased by an underlying €5 million, or 3% year-on-year.

First quarter pre-exceptional operating profit of €156 million compares with €145 million in the fourth quarter of 2007. However the fourth quarter of 2007 included a once-off expense of €16 million in respect of a reduction in goodwill. This expense arose from the recognition of deferred tax assets in the UK which had not been previously recognised. Allowing for this charge, operating profit in the first quarter of 2008 decreased by 3% quarter-on-quarter. The reported operating profit for the fourth quarter of 2007 compared to the same period in 2006 showed a decrease of 9%; however, allowing for the effect of this once-off expense, it showed an underlying increase of 1.2% year-on-year.

The year-on-year increase in operating profit was boosted by a lower net interest cost, resulting in an increase of €46 million in our pre-exceptional profit before income tax. This increase, the equivalent of over 100%, reflected primarily a €15 million increase in operating profit and a €31 million decrease in our net interest cost.

Taking our reported finance costs and income together, net cash interest and PIK interest were €26 million and €12 million lower year-on-year while non-cash net gains relating to currency and the fair value of derivatives were €7 million lower. While the non-cash gains relating to the fair value of derivatives and foreign currency movements may be relatively modest in net terms, we are required under IFRS to show the respective amounts within finance income and finance costs, thereby increasing both figures. In the first quarter of 2008, our finance costs include a charge of €31 million in respect of the fair value of currency derivatives, thereby masking the year-on-year savings in cash interest, while our finance income includes a gain of €34 million on foreign currency debt.

## **2008 First Quarter | Capital Structure & Debt Reduction**

The financial objective of the Group in 2008 is primarily further net debt reduction. At the end of March 2008, SKG delivered a net debt to EBITDA ratio of 3.16x, down from 3.20x at the end of December 2007. The corresponding multiple at March 2007 was 3.71x.

In April, SKG was upgraded by both Standard & Poor's and Fitch to 'BB' from 'BB-' (BB minus), with a 'Stable' outlook. These upgrades reflect the Group's sustained focus on operating efficiency, cash flow generation and de-leveraging, since the formation of SKG with the merger of Jefferson Smurfit and Kappa Packaging in December 2005.

## **Efficient Capacity Management & Capital Expenditure**

As announced on 27 March, 2008, SKG plans to close permanently 130,000 tonnes of less efficient containerboard capacity, and will also reduce its 2008 production by up to 80,000 tonnes through market-related downtime, to be taken primarily in the first half of the year.

SKG intends to close permanently its Valladolid recycled containerboard mill in Northern Spain in the second quarter of 2008. The Valladolid mill has an annual capacity of 130,000 tonnes. The closure will have the effect of reducing the Group's recycled capacity by 70,000 tonnes in 2008. The objective is to reduce operating costs and to maximize the continuing efficiency of SKG's Spanish mill system.

SKG estimates that the closure of its Valladolid mill will have a P&L cost of €28 million, and provision has been made for this in the first quarter. The cash cost in 2008 is expected to be €13 million.

In addition, SKG will take up to 80,000 tonnes of market-related downtime in 2008 to optimise the Group's supply-demand balance and to address an increase in recycled containerboard inventory levels. In March 2008, SKG took 19,000 tonnes of that downtime, which had a negative EBITDA impact of approximately €2 million. In April, SKG took a further 24,000 tonnes of downtime.

SKG will continue to review its production capacity, the cost profile of its mills relative to integration requirements, broader market demand and industry inventory levels. However, it should be noted that the Group's integrated system is already materially short of recycled capacity.

Capital expenditure during the first quarter of 2008 was approximately €63 million, which equates to 72% of depreciation, and compares with €68 million in the first quarter of 2007.

## **Synergies**

SKG is on schedule to achieve its increased target of €180 million of synergy benefits by the end of 2008. Based on the procedures learnt in the synergy process, SKG is working on formalising a Group Cost Take-Out programme.

## 2008 First Quarter | Performance Review

### Packaging: Europe

SKG's first quarter financial outcome reflects a good performance within the corrugated business, having achieved a further 1.6% price increase in the first quarter, for a total of 18.4% since the 'trough' of December 2005. It is estimated that but for exchange rate movements, there would have been another 0.5% increase recorded in the first quarter of 2008. SKG has therefore broadly achieved its target for recovery of 2006 and 2007 input cost increases.

SKG's corrugated business benefited from reasonable demand in the first two months of the year, especially in Northern and central Europe. However, March deliveries were materially lower than 2007 levels in all countries, mainly due to the early Easter holiday. Over the quarter, SKG corrugated volumes were down 1.8% on the comparable period in 2007.

This generally positive corrugated performance was offset by weakening conditions within recycled containerboard. On the supply side, there was a continued increase in inventories after Christmas, which was exacerbated by Easter falling in March. As a result, recycled containerboard, which has been in balance since the middle of 2006, began to show some signs of weakness. A €15 per tonne price slippage was reported in the indices in March in most markets.

These price decreases were matched by an increase in recovered fibre prices reflecting renewed buying from Asia in the first quarter of 2008. In November and December of 2007 there had been a reduction in recovered fibre prices of approximately €20 per tonne, primarily as a result of the withdrawal at that time of Chinese buyers. These reductions were reversed early in the New Year.

In the Group's kraftliner business, overall demand remained steady during the quarter, however, continuing imports of US kraftliner contributed to downward price pressure. The wood costs increase was somewhat less than expected however, as capacity closures from Finnish fine paper producers have positively impacted conditions for wood supply in Scandinavia.

Higher raw material and energy costs combined with pressure on containerboard pricing in the first quarter, generated margin compression in the Group's paper system, thus impacting overall profitability.

### Packaging: Latin America

While market conditions vary from country to country, our operations in Latin America continued to perform well in the first quarter, although EBITDA in euro terms, was lower than expected due to the adverse effect of the strength of the euro.

In the first quarter of 2008, SKG's corrugated volumes in Latin America were 4% lower than in the previous year, primarily reflecting the early Easter holiday, but also the negative effect on the Mexican market of the slow US economy.

SKG's Colombian operations continue to experience increasing volumes, strong pricing and good profits in a strong local economy.

In Venezuela, trading conditions were more difficult than the previous year, with SKG corrugated volumes flat year-on-year, but prices were increased to recover input costs increases.

SKG profitability in Argentina and Chile was significantly ahead of last year, reflecting higher volumes and price improvements across all SKG grades, despite a softer than expected agricultural season.

## **Specialties: Europe**

The Group's specialties business comprises those European mills which produce grades of paper other than containerboard, together with the related converting operations. These principally comprise the Group's solidboard mills, boxboard, paper sack businesses and the bag-in-box operations.

In the first quarter of 2008, the financial performance of SKG's specialties business improved compared to the same period in 2007, with a 7% increase in EBITDA year-on-year.

This positive performance primarily reflects SKG's strong focus on price recovery, but also benefited from a material volume increase in the Group's solidboard-packaging business in the Benelux, following the bankruptcy of a local competitor.

However, the Group's solidboard business continues to be significantly negatively impacted by rising recovered paper costs and the relatively higher fibre content than in containerboard. While board prices have increased year-on-year, further price initiatives are required within the converting business to fully recover the higher input costs.

Demand for sack paper remains positive, primarily driven by non-European customers, but volumes in the sack converting business declined 5% year-on-year, reflecting lower demand from the construction industry, particularly in Spain, France and Ireland.

SKG's bag-in-box business reported double-digit growth in profitability year-on-year in the first quarter of 2008. The recently acquired Spanish Plasticos operation performed well, and the Group started up its Russian operation in March.

## **First Quarter, 2008: Cash Flow**

Free cash flow for the quarter to March 2008 was a net inflow of €1 million, compared to a net outflow of €40 million in the same period in 2007. While the surplus for the quarter was modest, this was the first time since the merger that SKG has reported positive free cash flow in the first quarter. While capital expenditure was broadly unchanged year-on-year, the outflows in respect of current provisions, capital creditors and cash interest were lower in 2008. The working capital outflow in 2008 was considerably higher, mainly as a result of the higher level of pricing in the current year.

The working capital increase in the first quarter of 2008 was driven by an increase in debtors and, to a lesser extent, inventories while creditors were little changed from year-end levels. Despite the presence of Easter in March 2008, sales revenue in the month was higher than in December 2007 resulting in an increase in debtors. The increase in inventories is largely seasonal with, for example, a build-up of stocks in our solidboard packaging operations prior to the agricultural season in Europe.

Year-on-year, the move in working capital is primarily driven by higher inventories reflecting an increase in both stock volumes and value. In total, working capital at March 2008 amounted to €747 million compared to €665 million at December 2007 and €677 million at March 2007. Working capital at March 2008 represented 10.2% of annualised first quarter sales revenue compared to 9.1% at December 2007 and 9.4% at March 2007.

At €63 million for the first quarter of 2008, capital expenditure represented 72% of depreciation compared to 76% in 2007. The outflow of €13 million in respect of capital creditors was essentially the reversal of an inflow in the fourth quarter of 2007.

As a result of the IPO and subsequent refinancing in 2007, SKG achieved significant savings of both cash and PIK interest. The annualised cash interest savings amount to approximately €100 million, of which €70 million was achieved in 2007. 2008 will see the full benefit of these cash savings, and therefore a further reduction of approximately €30 million in the Group's interest bill.

Tax payments of €15 million in the first quarter of 2008 higher than in the same period last year as a result of the general improvement in the profitability of our operations.

Financing and investment movements were modest in the first quarter of 2008 at a net outflow of €2 million, resulting in a total usage of €1 million. Boosted by the net proceeds from the IPO, the total surplus in the first quarter of 2007 was €1,360 million.

The total usage of €1 million for the first quarter of 2008 was increased by €4 million in respect of the amortisation of debt issue costs, while offset by a positive currency movement on borrowing of €36 million. The positive currency movement reflected the relative strengthening of the euro since December 2007, primarily against the US dollar resulting in a reduction in the euro value of our dollar denominated debt. Debt issuance cost amortisation was considerably higher in the first quarter of 2007 when an accelerated write-off of the costs was prompted by the early paydown of debt following the IPO. Reflecting the paydown of the PIK debt following the IPO, no non-cash interest accrual arose in 2008.

Net borrowing amounted to €3,373 million at 31 March 2008 compared to €3,404 million at 31 December 2007. With the combination of lower net borrowing and the improved profitability of the Group's operations over the year, leverage (EBITDA to net borrowing ratio) decreased from 3.20x at December 2007 to 3.16x at March 2008. The corresponding multiple at March 2007 was 3.71x.

## Summary Cash Flows - SKG plc

Summary cash flows for the first quarter are set out in the following table.

	<b>3 months to 31-Mar-08 € Million</b>	3 months to 31-Mar-07 € Million
Pre-exceptional EBITDA	<b>257</b>	254
Exceptional items	-	(10)
Cash interest	<b>(60)</b>	(87)
Working capital change	<b>(75)</b>	(28)
Current provisions	<b>(12)</b>	(38)
Capital expenditure	<b>(63)</b>	(68)
Change in capital creditors	<b>(13)</b>	(38)
Sale of fixed assets	<b>1</b>	2
Tax paid	<b>(15)</b>	(11)
Other	<b>(19)</b>	(16)
Free cash flow	<b>1</b>	(40)
Shares issued through IPO	-	1,456
Refinancing costs	-	(56)
Sale of businesses and investments	<b>1</b>	4
Investments	-	(1)
Derivative termination payments	<b>(3)</b>	-
Dividends	-	(3)
Total (usage)/surplus	<b>(1)</b>	1,360
Net cash/(debt) acquired/disposed	-	1
Deferred debt issue costs amortised	<b>(4)</b>	(24)
Non-cash interest accrued	-	(12)
Currency translation adjustments	<b>36</b>	8
Decrease in net borrowing	<b>€1</b>	<b>€1,333</b>

(1) The summary cash flow is prepared on a different basis to the cash flow statement under IFRS.

The principal differences are as follows:

- a) The summary cash flow details movements in net borrowing. The IFRS cash flow details movement in cash and cash equivalents.
- b) Free cash flow reconciles to operating cash flows in the IFRS cash flow adjusted for capital expenditure, sale of fixed assets and certain interest expense.
- c) The IFRS cash flow has different sub-headings to those used in the summary cash flow.

## Capital Resources

The Group's primary sources of liquidity are cash flow from operations and borrowings under the revolving credit and restructuring facilities. The Group's primary uses of cash are for debt service and capital expenditure.

At 31 March, 2008 Smurfit Kappa Funding plc ("SK Funding") had outstanding €217.5 million 7.75% senior subordinated notes due 2015 and US\$200 million 7.75% senior subordinated notes due 2015. In addition Smurfit Kappa Treasury Funding Limited had outstanding US\$292.3 million 7.50% senior debentures due 2025 and the Group had outstanding €210 million floating rate notes issued under an accounts receivable securitisation program maturing in 2011.

Smurfit Kappa Acquisitions and certain subsidiaries are party to a Senior Credit Facility. The senior credit facility comprises a €423 million amortising A Tranche maturing in 2012, a €1,184 million B Tranche maturing in 2013 and a €1,183 million C Tranche maturing in 2014. In addition, as at 31 March, 2008, the facility included €875 million in committed lines including a €600 million revolving credit facility of which, apart from €18 million in letters of credit issued in support of other liabilities, there were no drawings or amounts borrowed under ancillary facilities or facilities supported by letters of credit, and a €275 million restructuring facility of which €103 million was borrowed.

The following table provides the range of interest rates as of 31 March, 2008 for each of the drawings under the various Senior Credit Facility term loans.

BORROWING ARRANGEMENT	CURRENCY	INTEREST RATE
Restructuring Facility	EUR	5.76% - 5.81%
Term Loan A	EUR	5.76% - 6.27%
Term Loan B	EUR	6.09% - 6.64%
	USD	6.50%
Term Loan C	EUR	6.34% - 6.89%
	USD	6.75%

Borrowings under the revolving credit facility are available to fund the Group's working capital requirements, capital expenditures and other general corporate purposes and will terminate in December 2012.

## Market Risk and Risk Management Policies

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. At 31 March, 2008 the Group had fixed an average of 63% of its interest cost on borrowings over the following twelve months.

Our fixed rate debt comprised mainly €217.5 million 7.75% senior subordinated notes due 2015, US\$200 million 7.75% senior subordinated notes due 2015 and US\$292 million 7.50% senior debentures due 2025. In addition the Group also has €2,030 million in interest rate swaps with maturity dates ranging from October 2008 to October 2012.

Our earnings are affected by changes in short-term interest rates as a result of our floating rate borrowings. If variable interest rates for these borrowings increase by one percent, our interest expense would increase, and income before taxes would decrease, by approximately €15 million over the following twelve months. Interest income on our cash balances would increase by approximately €4 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

The Group uses foreign currency borrowings, currency swaps, options and forward contracts in the management of its foreign currency exposures.

## Group Income Statement

	Unaudited			Unaudited		
	3 Months to 31-Mar-08			3 Months to 31-Mar-07		
	Pre- Exceptional 2008 €000	Exceptional 2008 €000	Total 2008 €000	Pre- Exceptional 2007 €000	Exceptional 2007 €000	Total 2007 €000
<b>Continuing operations</b>						
Revenue	1,832,016	-	1,832,016	1,793,705	-	1,793,705
Cost of sales	(1,299,335)	(10,950)	(1,310,285)	(1,292,490)	-	(1,292,490)
Gross profit	532,681	(10,950)	521,731	501,215	-	501,215
Distribution costs	(146,847)	-	(146,847)	(149,193)	-	(149,193)
Administrative expenses	(230,479)	-	(230,479)	(239,443)	-	(239,443)
Other operating income	403	-	403	28,321	729	29,050
Other operating expenses	-	(17,318)	(17,318)	-	(11,140)	(11,140)
Operating profit	155,758	(28,268)	127,490	140,900	(10,411)	130,489
Finance costs	(137,665)	-	(137,665)	(136,446)	(75,396)	(211,842)
Finance income	70,272	-	70,272	38,174	-	38,174
Share of associates' profit (after tax)	1,457	-	1,457	754	-	754
<b>Profit/(loss) before income tax</b>	<b>89,822</b>	<b>(28,268)</b>	<b>61,554</b>	<b>43,382</b>	<b>(85,807)</b>	<b>(42,425)</b>
Income tax expense			(18,713)			(24,235)
<b>Profit/(loss) for the financial period</b>			<b>€42,841</b>			<b>€(66,660)</b>
<i>Attributable to:</i>						
Equity holders of the Company			40,163			(70,389)
Minority interest			2,678			3,729
<b>Profit/(loss) for the financial period</b>			<b>€42,841</b>			<b>€(66,660)</b>
<b>Earnings per share:</b>						
<b>Continuing:</b>						
Basic earnings per share (cent per share)			18.4			(50.9)
Diluted earnings per share (cent per share)			18.1			(49.3)

## Group Statement of Recognised Income and Expense

	Unaudited 3 months to 31-Mar-08 €000	Unaudited 3 months to 31-Mar-07 €000
<b>Items of income and expense recognised directly within equity:</b>		
Foreign currency translation adjustments	(19,192)	(30,418)
Defined benefit pension schemes		
- Actuarial loss	(84,645)	(9,059)
- Movement in deferred tax	12,890	605
Effective portion of changes in fair value of cash flow hedges:		
- Movement out of reserve	(3,235)	(2,261)
- New fair value adjustments into reserve	339	2,886
Net change in fair value of available-for-sale financial assets	(237)	-
Net income and expense recognised directly within equity	<u>(94,080)</u>	<u>(38,247)</u>
Profit/(loss) for the financial year	<u>42,841</u>	<u>(66,660)</u>
<b>Total recognised income and expense for the financial year</b>	<b><u>€51,239</u></b>	<b><u>€(104,907)</u></b>
<i>Attributable to:</i>		
Equity holders of the Company	(55,523)	(109,502)
Minority interest	4,284	4,595
	<b><u>€51,239</u></b>	<b><u>€(104,907)</u></b>

## Group Balance Sheet

	Unaudited 3 months to 31-Mar-08 €000	Unaudited 3 months to 31-Mar-07 €000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3,195,873	3,337,656
Goodwill and intangible assets	2,398,169	2,458,970
Biological assets	76,894	69,224
Investment in associates	80,514	76,891
Available-for-sale financial assets	43,265	44,688
Trade and other receivables	5,471	9,180
Derivative financial instruments	2,850	10,104
Deferred income tax assets	353,721	302,018
	<u>6,156,757</u>	<u>6,308,731</u>
<b>Current assets</b>		
Inventories	709,546	646,592
Biological assets	6,870	8,917
Trade and other receivables	1,436,252	1,447,780
Derivative financial instruments	24,000	16,979
Restricted cash	21,451	22,056
Cash and cash equivalents	413,352	618,249
	<u>2,611,471</u>	<u>2,760,573</u>
Non-current assets held for sale	15,999	5,000
<b>Total assets</b>	<u>€8,784,227</u>	<u>€9,074,304</u>
<b>Equity</b>		
<b>Capital and reserves attributable to the equity holders of the Company</b>		
Equity share capital	228	353
Capital and other reserves	2,512,916	2,577,366
Retained earnings	(511,763)	(742,392)
<b>Total equity attributable to equity holders of the Company</b>	<u>2,001,381</u>	<u>1,835,327</u>
Minority interest	141,304	139,240
<b>Total equity</b>	<u>2,142,685</u>	<u>1,974,567</u>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	3,641,332	4,046,939
Employee benefits	551,779	584,788
Deferred income tax liabilities	525,340	536,381
Non-current taxes payable	29,007	29,477
Provisions for liabilities and charges	64,538	86,938
Capital grants	13,719	13,003
Other payables	8,060	-
	<u>4,833,775</u>	<u>5,297,526</u>
<b>Current liabilities</b>		
Borrowings	166,321	142,416
Trade and other payables	1,404,697	1,426,839
Current income tax liabilities	27,819	32,478
Derivative financial instruments	146,015	127,911
Provisions for liabilities and charges	62,915	72,567
	<u>1,807,767</u>	<u>1,802,211</u>
<b>Total liabilities</b>	<u>6,641,542</u>	<u>7,099,737</u>
<b>Total equity and liabilities</b>	<u>€8,784,227</u>	<u>€9,074,304</u>

## Group Cash Flow Statement

	Unaudited 3 months to 31-Mar-08 €000	Unaudited 3 months to 31-Mar-07 €000
<b>Cash flows from operating activities</b>		
Profit/(loss) for the financial period	42,841	(66,660)
<i>Adjustment for</i>		
Income tax expense	18,713	24,235
Loss on sale of assets and businesses – continuing operations	-	(729)
Amortisation of capital grants	(382)	(369)
Impairment of property, plant and equipment	10,950	-
Equity settled share-based payment transactions	3,682	13,237
Amortisation of intangible assets	11,132	10,531
Share of profit of associates	(1,457)	(754)
Depreciation charge	85,734	88,870
Net finance costs	67,394	173,666
Change in inventories	(33,076)	(23,969)
Change in biological assets	954	486
Change in trade and other receivables	(69,897)	(110,452)
Change in trade and other payables	28,080	105,432
Change in provisions	(3,136)	(41,481)
Change in employee benefits	(9,776)	(8,961)
Foreign currency translation adjustments	(937)	(704)
Cash generated from operations	150,819	162,378
Interest paid	(65,870)	(160,194)
Income taxes paid:		
Irish corporation tax paid	(793)	(511)
Overseas corporation tax (net of tax refunds) paid	(14,307)	(10,799)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>69,849</b>	<b>(9,126)</b>
<b>Cash flows from investing activities</b>		
Interest received	9,952	4,653
Business disposals	580	4,802
Purchase of property, plant & equipment and biological assets	(73,624)	(105,775)
Purchase of intangible assets	(1,888)	(128)
Repayment of capital grants	(23)	(242)
Purchase of available-for-sale financial assets	(2)	(3)
(Increase) in restricted cash	(8,355)	(10,524)
Disposal of property, plant and equipment	657	1,740
Disposal of investments	-	69
Dividends received from associates	-	366
Investments in / disposals of associates	-	25
Purchase of subsidiaries and minorities	-	(1,163)
<b>Net cash outflow from investing activities</b>	<b>(72,703)</b>	<b>(106,180)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of new ordinary shares	33	1,495,038
Costs associated with issuing new shares	(60)	(38,790)
Increase / (decrease) in interest-bearing borrowings	6,843	(1,053,220)
Repayment of finance lease liabilities	(3,707)	(4,068)
Derivative termination payments	(2,631)	-
Dividends paid to minority interests	(423)	(3,383)
<b>Net cash inflow from financing activities</b>	<b>55</b>	<b>395,577</b>
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>(2,799)</b>	<b>280,271</b>
<b>Reconciliation of opening to closing cash and cash equivalents</b>		
Cash and cash equivalents at 1 January	375,390	321,494
Currency translation adjustment	(8,301)	(1,154)
(Decrease) / increase in cash and cash equivalents	(2,799)	280,271
<b>Cash and cash equivalents at 31 March</b>	<b>€364,290</b>	<b>€600,611</b>

## 1. General information

Smurfit Kappa Group plc ('SKG plc') ('the Company') and its subsidiaries (together 'the Group') manufacture, distribute and sell containerboard, corrugated containers and other paper-based packaging products such as solidboard and graphicboard.

The Company is a public limited company incorporated and tax resident in Ireland. The address of its registered office is Beech Hill, Clonskeagh, Dublin 4, Ireland.

The Company was formed in January 2007 as the ultimate holding company of the Group. On 31 January, 2007 the Group, previously headed by Smurfit Kappa Investments Limited (formerly known as Smurfit Kappa Group Limited) ('SKIL'), underwent a reorganisation in advance of the Group's initial public offering ('IPO'). The shareholders of SKIL exchanged their shares of SKIL for an identical number of newly issued shares of SKG plc. This exchange transaction has been accounted for as a reverse acquisition and the financial statements have been prepared on the basis of the new legal parent having been acquired by the existing Group. As a result, the Group did not restate the assets and liabilities of SKIL to their fair values. These assets and liabilities continue to be carried at the amounts they were recorded at prior to the exchange transaction, and consequently no goodwill arises on the transaction.

On 14 March, 2007 the Company completed an IPO with the placing to institutional investors of 78,787,879 new ordinary shares in SKG plc. This offering, together with the issue of an additional 11,818,181 ordinary shares, generated gross proceeds of €1,495 million, which were used to repay certain debt obligations of the Group and to repay the shareholder PIK note issued in connection with the Group's 2005 Kappa Packaging merger.

Trading in the shares on the Irish Stock Exchange and the London Stock Exchange commenced on 20 March, 2007. The additional shares were issued on admission by Deutsche Bank acting as stabilising manager under an over-allocation option representing shares up to a maximum of 15% of the total number of shares in the initial public offering.

## 2. Basis of Preparation

The 2007 consolidated financial statements of SKG plc have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations as adopted by the EU, and with those parts of the Companies Acts applicable to companies reporting under IFRS. IFRS is comprised of standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards and interpretations approved by the predecessor International Accounting Standards Committee that have been subsequently approved by the IASB and remain in effect.

The financial information presented in this report has been prepared to comply with the requirement to publish an "Interim management statement" for the first quarter, in accordance with the Transparency Regulations which were signed into Irish law on 13 June, 2007. The Transparency Regulations do not require Interim management statements to be prepared in accordance with International Accounting Standard 34 – "Interim Financial Information" ("IAS 34"). Accordingly the Group has not prepared this financial information in accordance with IAS 34.

The financial information has been prepared on a consistent basis with the Group's accounting policies. Full details of the accounting policies adopted by the Group are contained in the financial statements included in the Group's annual report for the year ended 31 December 2007 which is available on the Group's website [www.smurfitkappa.com](http://www.smurfitkappa.com).

The Group's auditors have not reviewed the financial information contained in this report.

### **3. Significant accounting policies**

The condensed consolidated financial information, which is presented in euro rounded to the nearest thousand, has been prepared under the historical cost convention except for the following:

- derivative financial instruments are stated at fair value
- available-for-sale financial assets are stated at fair value
- biological assets are stated at fair value
- pension obligations are measured at the present value of the future estimated cash flows related to benefits earned and pension assets are valued at fair value
- the expense for share-based payments are measured based on the fair value of the awards at the grant date

### **4. Use of Estimates**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The key estimates and assumptions that have a significant impact on the financial statements are as follows:

- estimation of recoverable amount of goodwill and intangible assets
- estimates in relation to income taxes
- fair value of derivatives and other financial instruments
- valuation of available-for-sale financial assets
- measurement of defined benefit obligations.
- provisions
- share-based payments
- estimation of useful lives for fixed assets

## 5. Segmental Analyses

	3 months to 31-Mar-08			3 months to 31-Mar-07		
	Packaging	Specialties	Total	Packaging	Specialties	Total
	€000	€000	€000	€000	€000	€000
Third party revenue (external)	<b>€1,602,288</b>	<b>€229,728</b>	<b>€1,832,016</b>	€1,569,121	€224,584	€1,793,705
Segment results-pre exceptionals	155,047	9,354	164,401	150,190	7,411	157,601
Exceptional items	<b>(28,268)</b>	-	<b>(28,268)</b>	(1,870)	78	(1,792)
	<b>126,779</b>	<b>9,354</b>	<b>136,133</b>	148,320	7,489	155,809
Unallocated centre costs-pre exceptionals			<b>(8,643)</b>			(16,701)
Group centre exceptional items			-			(8,619)
Operating profit			<b>127,490</b>			130,489
Share of associates' profit/(loss) (after tax)	1,457	-	1,457	1,412	(658)	754
Finance costs			<b>(137,665)</b>			(211,842)
Finance income			<b>70,272</b>			38,174
Profit/(loss) before income tax			<b>€61,554</b>			€(42,425)

## 6. Employee Post Retirement Schemes – Defined Benefit Expense

The table below sets out the components of the defined benefit expense for the period:

	3 Months to 31-Mar-08	3 Months to 31-Mar-07
	€000	€000
Current service cost	10,490	13,133
Past service cost	559	-
(Gain) / loss on settlements and curtailments	(281)	28
Actuarial gains and losses arising on long-term employee benefits other than defined benefit schemes	485	(28)
	<b>11,253</b>	13,133
Expected return on scheme assets	(22,680)	(22,119)
Interest cost on scheme liabilities	26,130	24,443
Other financial expense	3,450	2,324
Defined benefit expense	<b>€14,703</b>	€15,457

The disclosures above reflect the requirements of IAS 19 – Employee Benefits. Included in cost of sales and administrative expenses is a defined benefit expense of €11,253,000 for the first quarter of 2008 (2007: €13,133,000). Expected Return on Scheme Assets of €22,680,000 (2007: €22,119,000) is included in Finance Income and Interest Cost on Scheme Liabilities of €26,130,000 (2007: €24,443,000) is included in Finance Expense in the Group Income Statement.

## 7. Other Operating Income

Other operating income in 2007 includes insurance proceeds of €28 million in respect of a fire in the Group's mill in Facture, France. The costs of the fire and related downtime were included in the appropriate cost headings within operating profit.

## 8. Exceptional Items

The following items are regarded as exceptional in nature:	2008 €000	2007 €000
Reorganisation and restructuring costs	(17,318)	(11,140)
Impairment of property, plant and equipment	(10,950)	-
Net income on sale of assets and operations	-	729
<b>Total exceptional items included in operating costs</b>	<b>€(28,268)</b>	<b>€(10,411)</b>
<hr/>		
Total exceptional items included in finance costs	-	€(75,396)

The reorganisation and restructuring costs and impairment of property, plant and equipment in 2008, relate entirely to the announced closure of our Valladolid recycled containerboard mill in Spain.

The reorganisation and restructuring costs in 2007, include the termination costs on closures of a cartons plant and a small sheet plant in Ireland.

Net income on sale of assets and operations in 2007 included gains on the sale of land and buildings in Spain and the UK.

Exceptional finance costs of €75 million arose in 2007 following our use of the proceeds from the IPO to pay down debt. These costs comprise refinancing costs of €56 million and the non-cash accelerated amortisation of debt costs of €19 million.

## 9. Earnings Per Share

### **Basic**

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	<b>3 Months to 31-Mar-08 €000</b>	3 Months to 31-Mar-07 €000
Profit / (loss) attributable to equity holders of the Company	<b>40,163</b>	(70,389)
Weighted average number of ordinary shares in issue ('000) <sup>(1)</sup>	<b>217,994</b>	138,241
<b>Basic earnings per share (cent per share)</b>	<b>18.4</b>	(50.9)

### **Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares which comprise convertible shares issued under the Management Equity Plan.

	<b>3 Months to 31-Mar-08 €000</b>	3 Months to 31-Mar-07 €000
Profit / (loss) attributable to equity holders of the Company	<b>40,163</b>	(70,389)
Weighted average number of ordinary shares in issue ('000) <sup>(1)</sup>	<b>217,994</b>	138,241
Potential dilutive ordinary shares assumed	<b>4,514</b>	4,577
<b>Diluted weighted average ordinary shares</b>	<b>222,508</b>	142,818
<b>Diluted earnings per share (cent per share)</b>	<b>18.1</b>	(49.3)

(1) Average of ordinary shares in issue pre and post the IPO. Ordinary shares in issue at 31 March 2008 amounted to 218,009,667.

## 10. Reconciliation of Movements in Total Equity

	<b>3 months to 31-Mar-08 €000</b>	3 months to 31-Mar-07 €000
At beginning of period	<b>2,190,665</b>	631,521
Total recognised gains and losses	<b>(51,239)</b>	(104,907)
Shares issued	-	91
Share premium on shares issued	-	1,436,356
Share-based payment expense	<b>3,682</b>	13,237
Dividends paid to minorities	<b>(423)</b>	(1,731)
<b>At end of period</b>	<b>€2,142,685</b>	€1,974,567

## 11. Analysis of Net Debt

	31-Mar-08 €000	31-Dec-07 €000
Senior credit facility:		
Revolving credit facility (1) – interest at relevant interbank rate + 1.5%	(10,199)	(10,746)
Restructuring facility (2) – interest at relevant interbank rate + 1.5% until conversion to Term Loan	103,200	103,200
Tranche A Term loan (3a) – interest at relevant interbank rate + 1.5%	422,946	422,214
Tranche B Term loan (3b) – interest at relevant interbank rate + 1.875%	1,183,930	1,187,045
Tranche C Term loan (3c) – interest at relevant interbank rate + 2.125%	1,182,927	1,186,147
Yankee bonds (including accrued interest) (4)	188,452	198,674
Bank loans and overdrafts / (cash)	(284,331)	(324,946)
2011 Receivables securitisation floating rate notes (including accrued interest) (5)	206,098	205,815
	<b>2,993,023</b>	2,967,403
2015 Cash pay subordinated notes (including accrued interest) (6)	337,013	352,985
<b>Net Debt before finance leases</b>	<b>3,330,036</b>	3,320,388
Finance leases	67,674	72,786
<b>Net Debt including leases - Smurfit Kappa Funding plc</b>	<b>3,397,710</b>	3,393,174
Balance of revolving credit facility reclassified to debtors	10,199	10,746
<b>Net Debt after reclassification - Smurfit Kappa Funding plc</b>	<b>3,407,909</b>	3,403,920
SKG plc, SK Investments Ltd, SK Holdings plc, SK Corporation Ltd & Smurfit Finance Lux cash	(35,060)	(44)
<b>Net Debt including leases - Smurfit Kappa Group plc</b>	<b>€3,372,849</b>	€3,403,876

- (1) Revolving credit facility of €600 million (available under the senior credit facility) to be repaid in full in 2012 (Revolver Loans = Nil, drawn under ancillary facilities and facilities supported by letters of credit = Nil, letters of credit issued in support of other liabilities-€18 million)
- (2) Restructuring credit facility of €275 million (available under the senior credit facility)
- (3a) Term Loan A due to be repaid in certain instalments up to 2012
- (3b) Term Loan B due to be repaid in full in 2013
- (3c) Term Loan C due to be repaid in full in 2014
- (4) 7.50% senior debentures due 2025 of \$292.3 million
- (5) Receivables securitisation floating rate notes mature September 2011
- (6) €217.5 million 7.75% senior subordinated notes due 2015 and US\$200.0 million 7.75% senior subordinated notes due 2015

## 12. Convertible Equity

In March 2007 upon the IPO becoming effective, all of the then class A, E, F and H convertible shares and 80% of the class B convertible shares vested and were converted into D convertible shares. The class C, class G and 20% of the class B convertible shares did not vest and were re-designated as A1, A2 and A3 convertible shares.

The A1, A2 and A3 convertible shares will automatically convert on a one-to-one basis into D convertible shares on the first, second and third anniversaries respectively of the IPO, provided their holder remains an employee of the Group at the relevant anniversary. The D convertible shares resulting from these conversions are convertible on a one-to-one basis into ordinary shares, at the instance of the holder, upon the payment by the holder of the agreed conversion price. The life of the D convertible shares arising from the vesting of these new classes of convertible share ends on 20 March, 2014.

The plans provide for equity settlement only, no cash settlement alternative is available.

In March 2007, SKG plc adopted the 2007 Share Incentive Plan (the "2007 SIP"). Incentive awards under the 2007 SIP are in the form of New Class B and New Class C convertible shares issued in equal proportions to participants at a nominal value of €0.001 per share. On satisfaction of specified performance criteria the New B and New C convertible shares will automatically convert on a one-to-one basis into D convertible shares. The D convertibles may be converted by the holder into ordinary shares upon payment of the agreed conversion price. The conversion price for each D convertible share is the market value of an ordinary share on the date the participant was invited to subscribe less the nominal subscription price. Each award has a life of ten years from the date of issuance of the New Class B and New Class C convertible shares.

As of 31 March 2008, SKG plc had a total of 15,326,648 convertible shares in issue in total, 10,130,168 under the 2002 Plan, as amended and 5,196,480 under the 2007 SIP.

A summary of the activity under the 2002 Plan, as amended, for the period from 31 December, 2007 to 31 March, 2008 is presented below.

Shares 000's	Class of Convertible shares				
	D	A1	A2	A3	Total
<b>Balance December 2007</b>	<b>8,399.8</b>	<b>583.7</b>	<b>583.7</b>	<b>583.6</b>	<b>10,150.8</b>
<b>Vested into D</b>	583.7	(583.7)	-	-	-
<b>Converted into Ordinary shares</b>	(20.7)	-	-	-	(20.7)
<b>Balance March 2008</b>	<b>8,962.8</b>	-	<b>583.7</b>	<b>583.6</b>	<b>10,130.1</b>
<b>Exercisable March 2008</b>	<b>8,962.8</b>	-	-	-	<b>8,962.8</b>

The exercise price for all D convertible shares other than those derived from Class H convertibles at 31 March, 2008 was €4.28. The exercise price for D convertible shares derived from Class H convertibles was €5.69 at 31 March, 2008. The weighted average remaining contractual life of all the awards issued under the 2002 Plan, as amended, at 31 March, 2008 was 4.73 years.

A summary of the activity under the 2007 SIP, for the period from 31 December, 2007 to 31 March, 2008 is presented below:

Shares 000's	Class of Convertible shares		
	New B	New C	Total
Balance December 2007	1,374.6	1,374.6	2,749.2
Exercisable December 2007	-	-	-
March 2008 Allotted	1,223.6	1,223.6	2,447.3
Balance March 2008	2,598.2	2,598.2	5,196.5
Exercisable March 2008	-	-	-

The weighted average exercise price for all New B and New C convertible shares upon vesting at 31 March, 2008 was €13.68. The weighted average remaining contractual life of all the awards issued under the 2007 SIP at 31 March, 2008 was 9.53 years.

### 13. Statutory Accounts

The financial information presented in this report does not represent full statutory accounts. Full statutory accounts for the year ended 31 December, 2007, prepared in accordance with IFRS as adopted by the EU and containing an unqualified audit report, will be filed with the Registrar of Companies in due course.

### 14. Board Approval

The 2008 first quarter results are unaudited and were approved by the board of directors on 8 May, 2008.

### 15. Distribution of Interim Report

The 2008 first quarter results are available on the Group's website ([www.smurfitkappa.com](http://www.smurfitkappa.com)).

## Supplemental Financial Information

### Reconciliation of net income to EBITDA, before exceptional items & share-based payment expense

	3 months to 31-Mar-08 €000	3 months to 31-Mar-07 €000
Profit/(loss) for the financial period	40,163	(70,389)
Equity minority interests	2,678	3,729
Income tax expense	18,713	24,235
Share of associates' operating income	(1,457)	(754)
Loss on sale of assets and operations –subsidiaries	-	(729)
Reorganisation and restructuring costs	17,318	11,140
Impairment of fixed assets	10,950	-
Total net interest	67,393	173,668
Share-based payment expense	3,682	13,237
Depreciation, depletion (net) and amortisation	97,820	99,887
EBITDA before exceptional items and share-based payment expense	<b>€257,260</b>	<b>€254,024</b>

### Supplemental Historical Financial Information

€M	Q1, 2007	Q2, 2007	Q3, 2007	Q4, 2007	FY 2007	Q1, 2008
Group and third party revenue	2,628	2,650	2,689	2,656	10,624	2,702
Third party revenue	1,794	1,831	1,829	1,818	7,272	1,832
EBITDA before exceptional items and share-based payment expense	254	260	275	275	1,064	257
EBITDA margin	14.2%	14.2%	15.1%	15.1%	14.6%	14.0%
Operating profit	130	134	171	126	562	127
Profit /(loss) before tax	(42)	43	106	64	170	62
Free cashflow	(40)	3	150	73	186	1
Basic earnings per share (cent per share)	(50.9)	14.4	38.6	46.9	74.3	18.4
Weighted average number of shares used in EPS calculation	138,241	217,702	217,768	217,952	198,188	217,994
Net debt	3,549	3,605	3,448	3,404	3,404	3,373
Net debt to EBITDA (LTM)	3.71	3.62	3.30	3.20	3.20	3.16