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# Interim Report 2010

# 2010 SECOND QUARTER RESULTS

**11 August 2010:** 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 and 6 months ending 30 June 2010.

## 2010 Second Quarter & First Half | Key Financial Performance Measures

€ m	H1 2010	H1 2009	change	Q2 2010	Q2 2009	change	Q1 2010	change
Revenue	€3,226	€3,002	7%	€1,696	€1,498	13%	€1,530	11%
EBITDA before Exceptional Items and Share-based Payment <sup>(1)</sup>	€404	€363	11%	€221	€184	20%	€184	20%
EBITDA Margin	12.5%	12.1%	-	13.0%	12.3%	-	12.0%	-
Operating Profit before Exceptional Items	€206	€170	22%	€119	€87	37%	€87	37%
(Loss)/Profit Before Income Tax	€(9)	€39	-	€(5)	€19	-	€(3)	-
Basic (Loss)/Earnings Per Share (€ cts)	(17.4)	6.7	-	(10.3)	3.0	-	(7.0)	-
Return on Capital Employed	7.2%	7.5%	-	-	-	-	-	-
Free Cash Flow <sup>(2)</sup>	€(69)	€18	-	€(12)	€18	-	€(58)	-
Net Debt				€3,291	€3,164	4%	€3,162	4%
Net Debt to EBITDA (LTM)				4.2X	4.0X	-	4.2X	-

(1) EBITDA before exceptional items and share-based payment expense is denoted by EBITDA throughout the remainder of the management commentary for ease of reference. A reconciliation of net income for the period to EBITDA before exceptional items and share-based payment expense is set out on page 42.

(2) Free cash flow is set out on page 13. The IFRS cash flow is set out on pages 23 and 24.

### Highlights | Quarter two

- 11% sequential revenue growth reflects accelerating demand and corrugated pricing recovery
- Improved EBITDA margin of 13.0% underlines benefits of ongoing cost take-out actions
- Good demand, higher input costs and low inventory levels will deliver further pricing recovery in H2
- SKG now expects to deliver EBITDA growth in the region of 20% for the full year 2010

## Performance Review & Outlook

Gary McGann, Smurfit Kappa Group CEO, commented: "The Group is pleased to deliver an improved EBITDA margin of 13% in quarter two. Materially higher input costs were in part offset by the acceleration of corrugated price recovery in Europe and Latin America, together with the healthy pick-up in demand across all our key markets.

By the end of 2010, SKG's cost take-out programme initiated in 2008 will have generated €300 million of saving benefits, thereby significantly enhancing its cost competitiveness. SKG's lean cost base, its ongoing customer and market focus, combined with its judicious capital allocation decisions and financial discipline, will contribute to delivering superior returns compared to its industry peers through the cycle.

In July, demand for the Group's products continued to recover. Although the concerns about the macro economic environment remain, SKG has not seen any sign of slowdown across its businesses to date. Furthermore, the current tight inventory levels combined with intensified input cost pressure are supportive of the recently announced additional containerboard price increases in Europe. Business conditions in Latin America also continue to support strong volume and pricing progress.

Notwithstanding ongoing input cost pressure in the second half of 2010, SKG expects to continue to recover corrugated pricing and achieve its 2010 cost take-out target thereby delivering increased profitability. Consequently, subject to normal business risk, SKG now expects to deliver EBITDA growth in the region of 20% for the full year 2010, which together with strong cash flow generation in the second half of the year will lead to a meaningful reduction in its net debt to EBITDA ratio."

## 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 21 countries in Europe and is the European leader in containerboard, solidboard, corrugated and solidboard packaging and has a key position in several other packaging and paper market segments, including graphicboard and sack paper. Smurfit Kappa Group also has a good base in Eastern Europe and operates in 9 countries in Latin America where it is the only pan-regional operator.

## Forward Looking Statements

Some statements in this announcement are forward-looking. They represent expectations for the Group'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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## 2010 Second Quarter & First Half | Performance Overview

The Group's improved EBITDA margin of 13.0% in the second quarter primarily reflects the progress in its European packaging business' performance, supported by increasing demand growth and further advances in corrugated price recovery. The profitability of the Group's Specialties business improved in the second quarter compared to the first quarter following the divestment of its sack converting business in May. A further €25 million of cost take-out also contributed to the Group's enhanced performance in the second quarter.

SKG's performance also continues to highlight the significant contribution of its Latin American operations, supported by sustained strong volume and pricing momentum in the region. After a 7% year-on-year demand growth in the first quarter, the Group's Latin American corrugated deliveries were 11% higher year-on-year in quarter two, reflecting particularly strong demand recovery in Colombia, Mexico and Argentina.

In Europe, the Group's corrugated volumes in quarter two were on average 5% higher than in the first quarter of 2010, and 8% higher than in the second quarter of 2009. Excluding the acquisition of the Mondi corrugated operations in the UK in May 2010, the Group's European corrugated volumes were 5% higher year-on-year in quarter two. In July, demand for the Group's corrugated products has remained firm.

The Group's improving EBITDA performance also reflects incremental benefits from the very strong pricing momentum that prevails in the kraftliner market, where SKG is a clear leader in Europe. Following three successful price increases in the first half of the year, the Group recently announced a further price increase of €60 per tonne for implementation in September.

In the recycled containerboard market, positive demand trends combined with input cost pressure and inventory levels at two-year lows, led SKG to announce a number of recycled containerboard price increases over the past nine months. At the end of quarter two, public market indices have reported recycled containerboard price increases of €155 per tonne, the equivalent of approximately 70% from the totally uneconomically low price levels that prevailed in the industry in 2009.

From their peak in April, the Group's recovered fibre costs have declined slightly in May and June. In early July however, intensified demand and lower collection rates in the summer were generating some renewed upward pressure on the Group's fibre costs, which together with energy and other input cost increases, led SKG to recently announce a further recycled containerboard price rise for implementation in September.

From a medium-term industry perspective, it is worth bearing in mind that no new recycled containerboard machine will be built in Europe before 2012.

The higher containerboard pricing environment is in turn generating major pressure on corrugated producers' margins, which has resulted in positive corrugated price movements in the first half of the year. Further corrugated price increases are required in the second half to compensate for higher input costs, and restore acceptable profitability and returns in the business. Corrugated pricing recovery remains SKG's priority for the remainder of 2010, with good evidence of satisfactory progress year to date.

Net debt increased by €239 million in the first half of the year primarily reflecting cyclical and seasonal working capital outflows, combined with negative currency impacts and the cash outflow linked to the asset swap with Mondi ("asset swap"). SKG expects strong cash flow in the second half of the year, which will lead to a positive free cash flow for 2010 in total, and to a meaningful reduction in its net debt to EBITDA ratio.

## 2010 Second Quarter | Financial Performance

At €1,696 million for the second quarter of 2010, sales revenue was 13% higher than in the second quarter of 2009. However, allowing for a positive impact of currency of €15 million and for a net decrease resulting from the asset swap and plant closures of €2 million, adjusted revenue shows an underlying increase of €186 million, the equivalent of approximately 12%.

Compared to the first quarter of 2010, sales revenue in the second quarter was €166 million higher (11%). Again allowing for a positive currency impact of €32 million, primarily arising from the stronger contribution of our Latin American operations as a result of the weaker euro, and for a small impact from the asset swap and closures, adjusted revenue shows an underlying increase of €133 million, the equivalent of 9%.

At €221 million, EBITDA in the second quarter of 2010 was €37 million higher than the second quarter of 2009. Positive currency moves, the benefit of the asset swap and the closure of loss making operations combined to increase EBITDA by €5 million year-on-year, leading to an underlying EBITDA increase of €32 million, the equivalent of 17%. Compared to the first quarter of 2010, EBITDA showed an underlying increase of €31 million in the second quarter (allowing for a €6 million positive EBITDA impact arising from favourable currency moves, and the asset swap net of plant closures).

Exceptionals charged within operating profit in the second quarter amounted to €42 million, of which approximately €40 million related to the asset swap completed in May, and €2 million related to hyperinflationary adjustments in respect of the currency loss recorded in Venezuela in the first quarter. There were no exceptional costs charged within the operating profit in the equivalent period in 2009.

At €77 million, operating profit after exceptional items for the second quarter of 2010 was €10 million lower than in 2009, a decrease of approximately 12%.

Net finance costs of €83 million were €15 million higher year-on-year. The increase reflected the higher average interest cost following the restructuring of the Group's capital base in 2009 through the amendment to the Senior Credit Facility and the November bond issue.

Including the Group's share of associates' profit, the loss before tax was €5 million in the second quarter of 2010 compared to a profit of €19 million in 2009.

## 2010 First Half | Financial performance

Revenue of €3.2 billion in the first half of 2010 represents a 7% increase on the first half of 2009. Allowing for a positive currency impact of €7 million, and for a decrease of €9 million from the asset swap and plant closures, revenue shows an underlying increase of €226 million (8%).

EBITDA of €404 million in the first half of 2010 was €41 million, or 11% higher than in the comparable period in 2009. Currency increased comparable EBITDA by €1 million, while the asset swap and plant closures added €4 million, leading to an underlying increase of €36 million (10%).

Operating profit after exceptional items for the half year was €150 million, compared to €170 million for the same period in 2009. Exceptional charges within operating profit were €56 million, of which approximately €40 million related to the asset swap completed in May. The balance related to the loss on US dollar denominated net trading balances in our Venezuelan operations as a result of the devaluation of the Venezuelan currency in January and associated hyperinflationary adjustments. There were no exceptional costs charged within the operating profit in the equivalent period in 2009.

Net finance costs of €160 million in 2010 compared with €130 million for the same period in 2009. The 2009 charge included an exceptional gain of €8 million on the Group's debt buy-back.

Including the Group's share of associates' profit of €1 million in 2010, total loss before tax was €9 million in the first six months of 2010 compared to a profit of €39 million in 2009.

## 2010 Second Quarter & First Half | Free Cash Flow

Free cash flow for the second quarter was a net outflow of €12 million, giving a net outflow of €69 million for the first six months of 2010. As the Group continues to manage items within its control, this cash flow outcome primarily resulted from increased working capital levels,



reflecting the impact of higher raw materials and end-product prices, together with the normal impact of the seasonality of SKG's business on the first half cash flow.

The working capital outflow in the first half of 2010 amounted to €127 million. However, at €645 million at the end of June 2010, working capital represented 9.5% of annualised net revenue, compared to 9.8% at June 2009 and 9.2% at March 2010.

Cash interest of €133 million in the first half of 2010 was broadly in line with the quarter one run rate, but €33 million higher than in the first half of 2009. The year-on-year increase reflects a higher average interest cost as a result of the changes in the Group's capital structure in 2009.

To maximise its debt paydown capability through the downturn, SKG reduced its capital expenditure to 63% of depreciation in 2009. In the first half of 2010, the Group's capital expenditure was €84 million, representing 49% of depreciation; this relatively low level is a matter of timing. Indeed, as markets continue to recover in 2010, SKG is increasing its capital expenditure back towards its normal levels of approximately 90% of depreciation.

Tax payments of €32 million in the first half of 2010 were €5 million lower than in 2009.

The Group expects strong cash flow generation in the second half of the year, primarily supported by higher earnings and seasonal working capital inflows, somewhat offset by higher capital expenditure.

## 2010 Second Quarter & First Half | Capital Structure

At the end of June 2010, the Group's net debt was €239 million higher than the December 2009 level, primarily reflecting working capital outflows of €127 million, together with adverse currency movements of €103 million, and €56 million of a cash outflow relating to the asset swap, including €2 million of net cash disposed, finalised in quarter two. These negatives were somewhat offset by higher EBITDA and lower capital expenditure year-on-year.

The negative currency movement primarily reflects the relative weakening of the euro versus the US dollar during the first half of the year, and also includes approximately €27 million of a reduction in the value of the Group's cash balances in Venezuela as a result of the devaluation of the Bolivar in January 2010.

While negatively impacting our net debt levels, overall a stronger US dollar is positive for the operating dynamics of SKG's business.

The Group continues to benefit from its attractive financing package and long-term debt profile, with an average debt maturity of 5.6 years, and no material maturities before December 2013. In addition, SKG maintains a strong liquidity position, with approximately €457 million of cash on its balance sheet at the end of June 2010, and undrawn committed credit facilities of approximately €525 million, of which €373 million matures in December 2013, with the remainder maturing a year earlier.

## Board of Directors

On 22 June 2010, the Group announced the appointment of Roberto Newell to the Board as a non-executive Director.

Roberto Newell (62) is a Mexican citizen. He is currently Chief Executive Officer of the Instituto Mexicano para la Competitividad, A.C. ("IMCO"), an independent think-tank in Mexico, established to develop policies to enhance Mexico's competitiveness. Prior to joining IMCO, Mr Newell served Mexico's Federal Government, most recently as Deputy Secretary for Agriculture. Between 1984 and 2001, Mr Newell worked for McKinsey & Co.

Mr Newell's appointment reflects the increasing importance of the Latin American region to the Group. His extensive experience will be very valuable to the Board as we continue to develop our presence in this region.

## Asset Swap with Mondi

As previously advised, on 4 May the Group completed an asset swap agreement with Mondi Group ("Mondi"). SKG has acquired Mondi's UK corrugated operations, which reported a 2009 full year EBITDA of €8.0 million, while SKG has disposed its Western European sack converting operations, which reported an EBITDA loss of €4.4 million in 2009, to Mondi.

The total cash cost of the asset swap for SKG was €56 million, including net cash disposed of €2 million. SKG has incurred an exceptional loss of approximately €40 million in relation to the asset swap.

This deal further strengthens the Group's leadership in its core corrugated packaging business, and enhances the efficiency and significance of its integrated system in the increasingly attractive UK market.

## Acquisition of a lightweight containerboard machine

To further enhance its operating efficiency, in July the Group announced the acquisition of a 5-metre lightweight recycled containerboard machine with a capacity of approximately 250,000 tonnes from the liquidator of the CaDiDavid operation in Italy. That machine had

been mothballed in 2009 as a result of the poor economic conditions that prevailed in the industry at the time.

SKG's intention is to install this machine within its European containerboard system. It is not expected that the project will result in a material increase in the company's containerboard capacity. When finalised, a further announcement will be issued on the proposed installation plans for the machine.

## 2010 Second Quarter & First Half | Cost Take-Out Programme

Early in 2008, the Group initiated a cost take-out programme to further strengthen the competitiveness of its operations. In the full year 2008, the programme delivered just over €70 million of sustainable cost savings, and a further €140 million was delivered in 2009.

The Group's 2010 objective is to generate at least €90 million of saving benefits, bringing the three-year target to at least €300 million over the 2008-2010 period.

In the second quarter of 2010, the Group delivered €25 million of additional cost take-out, which contributed to the improved EBITDA margin performance of 13.0% in the period, despite the anticipated margin squeeze from the significant input cost increases.

In total for the first half of 2010, the Group has delivered €50 million of cost take-out benefits.

## 2010 Second Quarter & First Half | Performance Review

### Packaging: Europe

Following a 3% year-on-year volume growth in the first quarter, demand for the Group's products accelerated further in the second quarter, reaching a 5% underlying growth year-on-year (SKG's actual year-on-year volume growth was 8% including additional volumes in the UK from the asset swap). Demand for the Group's product has remained strong in July.

Compared to the first quarter, SKG experienced a 3% underlying volume growth in quarter two. Demand recovery in the period was particularly strong in the Group's businesses in Germany, Italy, the UK, France and Scandinavia.

Despite a significant year-on-year increase in input costs throughout the first half of 2010, the improved EBITDA margin in quarter two demonstrates SKG's significant operational exposure to the economic recovery, and highlights the ongoing benefit of its integrated model at all points in the cycle. In the first half, the Group's average recovered fibre prices more than doubled compared to last year's levels, while energy costs in the second quarter were approximately 8% higher than in the second quarter of 2009.

The significant fibre cost increase in the first half was driven by strong Chinese demand, and new capacity ramping-up in Central and Eastern Europe, for which new raw material supply chains were needed. The Group's recovered fibre costs progressively increased by approximately €45 per tonne through the first three months of 2010, reaching a 15-year high of over €120 per tonne in March and April.

Although prices abated slightly in May and June reflecting lower demand from China, the Group's recovered fibre prices in the second quarter were still €15 per tonne higher than in the first quarter of 2010. In July, higher domestic and export demand combined with lower recollection rates were generating renewed cost pressure. While higher raw material prices generate some near-term margin compression within the Group's system, they provide a clear platform for the higher product pricing needed by the industry to support a viable economic business.

On the supply side, discipline has continued to prevail throughout the industry, which together with improving demand trends is contributing to maintaining inventory levels in the market at 2-year lows, despite the start-up of a new paper machine in March. This, combined with intensified input cost pressure, is supportive of the sustained containerboard pricing momentum in Europe. From September 2009 to June 2010, recycled containerboard prices have increased by €155 per tonne (the equivalent of 70%), and SKG has recently announced a further €60 per tonne increase for implementation in September.

On the European kraftliner market, where SKG is a net seller of approximately 500,000 tonnes per annum, price increases of €190 per tonne, or approximately 50%, have been implemented from the low point in August 2009 to June 2010. SKG has recently announced an additional €60 per tonne price increase for September, to offset increasing wood costs, and to continue the efforts to restore economically sensible price levels in this heavily invested paper grade.

The strong kraftliner pricing momentum primarily reflects the structural improvement in that market since the end of 2009, as large capacity closures in North America reduced the tonnage available for export, thereby significantly tightening supply in Europe. After a 14% decline of US kraftliner imports into Europe in 2009, the Group expects a further overall decline in 2010.

In turn, higher containerboard prices have generated significant pressure on the earnings of corrugated producers, which has led to a material pick-up in corrugated prices through the first half of 2010. As is normal, it takes up to six months to fully offset higher containerboard prices through corrugated price recovery.

From the low point in September 2009 to the end of June 2010, SKG has successfully increased its corrugated pricing by approximately 10%. The Group will be seeking further

corrugated increases in the second half, in order to compensate for the containerboard price hikes that were implemented since the beginning of the year. Throughout 2010 and into 2011, the Group's priority is to continue to recover significant input cost increases in end market pricing.

### **Latin America**

The Group's improving EBITDA performance also reflects the sustained strong contribution of its Latin American operations. In the second quarter of 2010, SKG's Latin American EBITDA, in euro terms, was 31% higher than in the second quarter of 2009, primarily reflecting strong volume and pricing recovery across most of the Group's businesses in the region. With an EBITDA margin of 16.8% in quarter two, Latin America continues to deliver superior profitability compared to the Group's other operations.

In comparison with the first quarter of 2010, EBITDA in the second quarter was 23% higher, reflecting the accelerating improvement of the operating environment, and the relative weakening of the euro in the period, which increased the Latin American contribution to the Group's consolidated earnings.

On the demand side, after a 7% year-on-year growth in the first quarter of 2010, volumes grew by 11% year-on-year in quarter two. As can be seen from these strong demand trends, Latin America remains one of the world's higher growth markets. SKG anticipates that it will continue to benefit from its portfolio of businesses in the region and from the proven ability of its management team to drive and grow its business through the cycle. In the first half of 2010, Latin America represented 23% of the Group's EBITDA.

In Mexico, the Group's corrugated volumes in quarter two continued to recover at the double-digit levels experienced since the beginning of the year. While raw material and electricity costs were significantly higher year-on-year in the first half, this was somewhat offset by the successful implementation of a first corrugated price increase in the period. SKG has recently announced a second corrugated price increase for 1 July. This positive Mexican environment is underpinned by the tight supply situation and pricing momentum that prevails in the US since the beginning of the year.

After a slower first quarter, the recovery in the Colombian economy accelerated in the second quarter, allowing the Group's volumes to increase by 12% year-on-year in the period. While the Group's prices were materially higher year-on-year, the low level of inflation in the country is somewhat constraining significant further pricing initiatives. SKG's profitability in the country, however, is continuing to benefit from its ongoing focus on operating efficiency, together with the benefits of the Group's recovery boiler investment finalised in 2009.

In Argentina, the recovered fibre market remains under significant pressure. The consequent cost increase together with 17% end-market demand growth in the first half of the year has underpinned significant paper and corrugated price increases in the period.

On the negative side, in the challenging Venezuelan market, the Group's corrugated deliveries were lower year-on-year in the first half. Continuing high inflation in the country, combined with energy supply shortages negatively impacted activity and earnings in the period.

### **Specialties: Europe**

In the second quarter of 2010, EBITDA margins in the Group's specialties businesses improved materially compared to the first quarter, primarily reflecting the divestment of the loss making sack converting operations in May, together with strong bag-in-box demand and the higher sack kraft paper prices in the period.

While the Group's solidboard profitability was significantly impacted by higher recovered fibre prices in the first half of the year, this was partly offset by improving demand and a €50 per tonne price increase implemented in quarter two. Furthermore, in July, the Group announced an additional €50 per tonne solidboard price increase for implementation in the autumn, which will go some way to supporting an earnings recovery in that business.

Strong export demand and the implementation of a €100 per tonne price increase in the first half positively impacted the performance of the Group's sack kraft mill in Spain in the period. SKG has announced a further €80 per tonne sack kraft paper price increase for September.

## Summary Cash Flows

Summary cash flows for the second quarter and six months are set out in the following table.

	3 months to 30-June-10 € Million	3 months to 30-June-09 € Million	6 months to 30-June-10 € Million	6 months to 30-June-09 € Million
Pre-exceptional EBITDA	221	184	404	363
Exceptional Items	(2)	-	(16)	-
Cash interest expense	(67)	(48)	(133)	(100)
Working capital change	(63)	(2)	(127)	(9)
Current provisions	(8)	(1)	(14)	(11)
Capital expenditure	(51)	(53)	(84)	(113)
Change in capital creditors	(4)	(14)	(37)	(47)
Sale of fixed assets	-	1	1	3
Tax paid	(25)	(28)	(32)	(37)
Other	(13)	(21)	(31)	(31)
Free cash flow	(12)	18	(69)	18
Share issues	1	-	3	-
Gain on debt buy-back	-	2	-	9
Sale of businesses and investments	(9)	-	(9)	-
Purchase of investments	(45)	-	(46)	-
Derivative termination (payments)/ receipts	(1)	(4)	-	1
Dividends	(3)	(2)	(3)	(3)
Net cash (outflow)/inflow	(69)	14	(124)	25
Net cash acquired/disposed	(2)	-	(2)	-
Deferred debt issue costs amortised	(5)	(4)	(10)	(9)
Currency translation adjustments	(53)	13	(103)	5
(Increase)/decrease in net debt	(129)	23	(239)	21

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

The principal difference is that the summary cash flow details movements in net debt while the IFRS cash flow details movement in cash and cash equivalents. In addition, the IFRS cash flow has different sub-headings to those used in the summary cash flow. A reconciliation of the free cash flow to cash generated from operations in the IFRS cash flow is set out below.

	6 months to 30-June-10 € Million	6 months to 30-June-09 € Million
<b>Free cash flow</b>	<b>(69)</b>	18
Add back: Cash interest	<b>133</b>	100
Capital expenditure	<b>84</b>	113
Change in capital creditors	<b>37</b>	47
Tax payments	<b>32</b>	37
Less: Sale of fixed assets	<b>(1)</b>	(3)
Profit on sale of assets and business – non exceptional	<b>(9)</b>	(4)
Receipt of capital grants (in “Other”)	-	(1)
Dividends received from associates (in “Other”)	<b>(1)</b>	(1)
<b>Cash generated from operations</b>	<b>206</b>	306

## Capital Resources

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

At 30 June 2010 Smurfit Kappa Funding plc 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 had outstanding €500 million 7.25% senior secured notes due 2017 and €500 million 7.75% senior secured notes due 2019. Smurfit Kappa Acquisitions and certain subsidiaries are also party to a Senior Credit Facility. The Senior Credit Facility comprises a €196 million amortising A Tranche maturing in 2012, an €817 million B Tranche maturing in 2013 and an €816 million C Tranche maturing in 2014. In addition, as at 30 June



2010, the facility included a €525 million revolving credit facility of which there was €16.6 million in letters of credit issued in support of other liabilities.

The following table provides the range of interest rates as of 30 June 2010 for each of the drawings under the various Senior Credit Facility term loans.

<b>Borrowing arrangement</b>	<b>Currency</b>	<b>Interest Rate</b>
Term Loan A	EUR	3.682% - 3.888%
Term Loan B	EUR	3.805% - 4.123%
	USD	3.670%
Term Loan C	EUR	4.055% - 4.354%
	USD	3.920%

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

## 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 30 June 2010 the Group had fixed an average of 76% of its interest cost on borrowings over the following twelve months.

Our fixed rate debt comprised mainly €500 million 7.25% senior secured notes due 2017, €500 million 7.75% senior secured notes due 2019, €217.5 million 7.75% senior subordinated notes due 2015, US\$200 million 7.75% senior subordinated notes due 2015 and US\$292.3 million 7.50% senior debentures due 2025. In addition the Group also has €1,110 million in interest rate swaps with maturity dates ranging from April 2012 to July 2014.

Our earnings are affected by changes in short-term interest rates as a result of our floating rate borrowings. If LIBOR interest rates for these borrowings increase by one percent, our interest expense would increase, and income before taxes would decrease, by approximately €10 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.

## Principal Risks and Uncertainties

Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified, evaluated and appropriate risk management strategies are implemented at each level.

The key business risks are identified by the senior management team. The Board in conjunction with senior management identifies major business risks faced by the Group and determines the appropriate course of action to manage these risks.

The principal risks and uncertainties faced by the Group were outlined in our 2009 annual report on page 36. The annual report is available on our website [www.smurfitkappa.com](http://www.smurfitkappa.com).

The principal risks and uncertainties remain substantially the same for the remaining six months of the financial year, and are summarised below:

- The cyclical nature of the packaging industry could result in overcapacity and consequently threaten the Group's pricing structure
- If the effects of the current economic slowdown exacerbate or the slowdown is sustained over any significant length of time it could adversely affect the Group's financial position and results of operations
- If operations at any of the Group's facilities (in particular its key mills) were interrupted for any significant length of time it could adversely affect the Group's financial position and results of operations
- Price fluctuations in raw materials and energy costs would adversely affect the Group's manufacturing costs
- The Group is exposed to currency exchange rate fluctuations
- The Group may not be able to attract and retain suitably qualified employees as required for its business
- The Group is subject to a growing number of environmental laws and regulations, and the cost of compliance or the failure to comply with current and future laws and regulations may negatively affect the Group's business
- The Group is exposed to potential risks in relation to its Venezuelan operations
- The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates
- Substantial future sales of shares by the existing major shareholders may depress the share price.

The Board regularly monitors all of the above risks and appropriate actions are taken to mitigate those risks or address the potential adverse consequences.

# GROUP INCOME STATEMENT – SIX MONTHS

	Unaudited			Unaudited		
	6 months to 30-June-10			6 months to 30-June-09		
	Pre- Exceptional 2010 € million	Exceptional 2010 € million	Total 2010 € million	Pre- Exceptional 2009 € million	Exceptional 2009 € million	Total 2009 € million
<b>Continuing operations</b>						
Revenue	3,226	-	3,226	3,002	-	3,002
Cost of sales	(2,341)	-	(2,341)	(2,152)	-	(2,152)
Gross profit	885	-	885	850	-	850
Distribution costs	(275)	-	(275)	(254)	-	(254)
Administrative expenses	(418)	(16)	(434)	(428)	-	(428)
Other operating income	14	-	14	2	-	2
Other operating expenses	-	(40)	(40)	-	-	-
Operating profit	206	(56)	150	170	-	170
Finance costs	(271)	-	(271)	(190)	-	(190)
Finance income	111	-	111	52	8	60
Share of associates' profit/(loss) (after tax)	1	-	1	(1)	-	(1)
<b>(Loss)/profit before income tax</b>	<b>47</b>	<b>(56)</b>	<b>(9)</b>	<b>31</b>	<b>8</b>	<b>39</b>
Income tax expense			(31)			(17)
<b>(Loss)/profit for the financial period</b>			<b>(40)</b>			<b>22</b>
<i>Attributable to:</i>						
Owners of the Parent			(38)			15
Non-controlling interests			(2)			7
<b>(Loss)/profit for the financial period</b>			<b>(40)</b>			<b>22</b>
<b>Earnings per share:</b>						
Basic (loss)/earnings per share (cent per share)			(17.4)			6.7
Diluted (loss)/earnings per share (cent per share)			(17.4)			6.7

The notes to the condensed interim Group Financial Statements on pages 25 to 40 form an integral part of this financial information.

## GROUP INCOME STATEMENT – SECOND QUARTER

	Unaudited			Unaudited		
	3 months to 30-June-10			3 months to 30-June-09		
	Pre- Exceptional 2010 € million	Exceptional 2010 € million	Total 2010 € million	Pre- Exceptional 2009 € million	Exceptional 2009 € million	Total 2009 € million
<b>Continuing operations</b>						
Revenue	1,696	-	1,696	1,498	-	1,498
Cost of sales	(1,235)	-	(1,235)	(1,068)	-	(1,068)
Gross profit	461	-	461	430	-	430
Distribution costs	(140)	-	(140)	(129)	-	(129)
Administrative expenses	(210)	(2)	(212)	(215)	-	(215)
Other operating income	8	-	8	1	-	1
Other operating expenses	-	(40)	(40)	-	-	-
Operating profit	119	(42)	77	87	-	87
Finance costs	(137)	-	(137)	(73)	-	(73)
Finance income	54	-	54	3	2	5
Share of associates' profit (after tax)	1	-	1	-	-	-
<b>(Loss)/profit before income tax</b>	<b>37</b>	<b>(42)</b>	<b>(5)</b>	<b>17</b>	<b>2</b>	<b>19</b>
Income tax expense			(17)			(10)
<b>(Loss)/profit for the financial period</b>			<b>(22)</b>			<b>9</b>
Attributable to:						
Owners of the Parent			(22)			6
Non-controlling interests			-			3
<b>(Loss)/profit for the financial period</b>			<b>(22)</b>			<b>9</b>
Earnings per share:						
Basic (loss)/earnings per share (cent per share)			<b>(10.3)</b>			3.0
Diluted (loss)/earnings per share (cent per share)			<b>(10.3)</b>			3.0

## GROUP STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months to 30-June-10 € million	Unaudited 6 months to 30-June-09 € million
(Loss)/profit for the financial period	<b>(40)</b>	22
<b>Other comprehensive income:</b>		
Foreign currency translation adjustments	<b>(3)</b>	26
Defined benefit pension schemes:		
- Actuarial loss	<b>(23)</b>	(55)
- Movement in deferred tax	<b>6</b>	17
Effective portion of changes in fair value of cash flow hedges:		
- Movement out of reserve	<b>13</b>	4
- New fair value adjustments into reserve	<b>(28)</b>	(17)
- Movement in deferred tax	<b>2</b>	1
<b>Total other comprehensive income</b>	<b>(33)</b>	(24)
<b>Comprehensive income and expense for the financial period</b>	<b>(73)</b>	(2)
<i>Attributable to:</i>		
Owners of the Parent	<b>(83)</b>	(11)
Non-controlling interests	<b>10</b>	9
	<b>(73)</b>	(2)

The notes to the condensed interim Group Financial Statements on pages 25 to 40 form an integral part of this financial information.

# GROUP BALANCE SHEET

	Unaudited 30-June-10 € million	Unaudited 30-June-09 € million	Audited 31-Dec-09 € million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3,037	2,990	3,066
Goodwill and intangible assets	2,234	2,148	2,222
Available-for-sale financial assets	32	31	32
Investment in associates	15	12	13
Biological assets	94	82	91
Trade and other receivables	4	5	4
Derivative financial instruments	20	1	-
Deferred income tax assets	287	256	280
	<b>5,723</b>	<b>5,525</b>	<b>5,708</b>
<b>Current assets</b>			
Inventories	632	568	586
Biological assets	10	8	8
Trade and other receivables	1,344	1,178	1,105
Derivative financial instruments	8	4	3
Restricted cash	34	43	43
Cash and cash equivalents	423	606	601
	<b>2,451</b>	<b>2,407</b>	<b>2,346</b>
Non-current assets held for sale	3	10	4
<b>Total assets</b>	<b>8,177</b>	<b>7,942</b>	<b>8,058</b>
<b>Equity</b>			
<b>Capital and reserves attributable to owners of the Parent</b>			
Equity share capital	-	-	-
Capital and other reserves	2,330	2,344	2,345
Retained earnings	(683)	(702)	(669)
<b>Total equity attributable to owners of the Parent</b>	<b>1,647</b>	<b>1,642</b>	<b>1,676</b>
Non-controlling interests	180	151	179
<b>Total equity</b>	<b>1,827</b>	<b>1,793</b>	<b>1,855</b>

## GROUP BALANCE SHEET [CONTINUED]

	Unaudited 30-June-10 € million	Unaudited 30-June-09 € million	Audited 31-Dec-09 € million
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	3,603	3,669	3,563
Employee benefits	680	565	653
Derivative financial instruments	85	112	80
Deferred income tax liabilities	319	317	325
Non-current income tax liabilities	14	19	15
Provisions for liabilities and charges	44	39	44
Capital grants	13	13	13
Other payables	5	4	3
	<b>4,763</b>	4,738	4,696
<b>Current liabilities</b>			
Borrowings	145	144	133
Trade and other payables	1,335	1,167	1,211
Current income tax liabilities	33	19	28
Derivative financial instruments	43	43	90
Provisions for liabilities and charges	31	38	45
	<b>1,587</b>	1,411	1,507
<b>Total liabilities</b>	<b>6,350</b>	6,149	6,203
<b>Total equity and liabilities</b>	<b>8,177</b>	7,942	8,058

The notes to the condensed interim Group Financial Statements on pages 25 to 40 form an integral part of this financial information.

# GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Capital and other reserves							Total equity attributable to owners of the Parent € million	Non-controlling interests € million	Total equity € million
	Equity share capital € million	Share premium € million	Reverse acquisition reserve € million	Cash flow hedging reserve € million	Foreign currency translation reserve € million	Reserve for share-based payment € million	Retained earnings € million			
At 1 January 2010	-	1,928	575	(44)	(174)	60	(669)	1,676	179	1,855
Shares issued	-	3	-	-	-	-	-	3	-	3
Total comprehensive income and expense	-	-	-	(13)	(15)	-	(55)	(83)	10	(73)
Hyperinflation adjustment	-	-	-	-	-	-	40	40	4	44
Share-based payment	-	-	-	-	-	2	-	2	-	2
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(3)	(3)
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	(1)	(1)
Other movements	-	-	-	-	8	-	1	9	(9)	-
<b>At 30 June 2010</b>	<b>-</b>	<b>1,931</b>	<b>575</b>	<b>(57)</b>	<b>(181)</b>	<b>62</b>	<b>(683)</b>	<b>1,647</b>	<b>180</b>	<b>1,827</b>
At 1 January 2009	-	1,928	575	(27)	(203)	57	(679)	1,651	145	1,796
Total comprehensive income and expense	-	-	-	(12)	24	-	(23)	(11)	9	(2)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(3)	(3)
Share-based payment	-	-	-	-	-	2	-	2	-	2
<b>At 30 June 2009</b>	<b>-</b>	<b>1,928</b>	<b>575</b>	<b>(39)</b>	<b>(179)</b>	<b>59</b>	<b>(702)</b>	<b>1,642</b>	<b>151</b>	<b>1,793</b>

The notes to the condensed interim Group Financial Statements on pages 25 to 40 form an integral part of this financial information.



# GROUP CASH FLOW STATEMENT

	Unaudited 6 months to 30-June-10 € million	Unaudited 6 months to 30-June-09 € million
<b>Cash flows from operating activities</b>		
(Loss)/profit for the financial period	(40)	22
<i>Adjustment for</i>		
Income tax expense	31	17
Loss/(profit) on sale of assets and businesses	25	(4)
Amortisation of capital grants	(1)	(2)
Equity settled share-based payment transactions	2	2
Amortisation of intangible assets	23	22
Share of (profit)/loss of associates	(1)	1
Depreciation charge	165	165
Net finance costs	160	130
Change in inventories	(62)	59
Change in biological assets	8	4
Change in trade and other receivables	(225)	40
Change in trade and other payables	160	(107)
Change in provisions	(15)	(18)
Change in employee benefits	(27)	(25)
Other	3	-
Cash generated from operations	206	306
Interest paid	(134)	(111)
Income taxes paid:		
Irish corporation tax paid	(1)	(3)
Overseas corporation tax (net of tax refunds) paid	(31)	(34)
<b>Net cash inflow from operating activities</b>	<b>40</b>	<b>158</b>

## GROUP CASH FLOW STATEMENT [CONTINUED]

	Unaudited 6 months to 30-June-10 € million	Unaudited 6 months to 30-June-09 € million
<b>Cash flows from investing activities</b>		
Interest received	2	6
Mondi asset swap	(56)	-
Purchase of property, plant and equipment and biological assets	(118)	(155)
Purchase of intangible assets	(3)	(5)
Receipt of capital grants	-	1
Decrease/(increase) in restricted cash	10	(23)
Disposal of property, plant and equipment	10	7
Dividends received from associates	1	1
Purchase of non-controlling interests	(1)	-
<b>Net cash outflow from investing activities</b>	<b>(155)</b>	<b>(168)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issue of new ordinary shares	3	-
Decrease in interest-bearing borrowings	(50)	(81)
Repayment of finance lease liabilities	(7)	(7)
Deferred debt issue costs	(1)	-
Dividends paid to non-controlling interests	(3)	(3)
<b>Net cash outflow from financing activities</b>	<b>(58)</b>	<b>(91)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(173)</b>	<b>(101)</b>

### Reconciliation of opening to closing cash and cash equivalents

Cash and cash equivalents at 1 January	587	683
Currency translation adjustment	(7)	10
Decrease in cash and cash equivalents	(173)	(101)
<b>Cash and cash equivalents at 30 June</b>	<b>407</b>	<b>592</b>

The notes to the condensed interim Group Financial Statements on pages 25 to 40 form an integral part of this financial information.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. General Information

Smurfit Kappa Group plc (“SKG plc”) (“the Company”) (“the Parent”) 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.

## 2. Basis of Preparation

The condensed interim Group financial information included in this report has been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Irish Financial Services Regulatory Authority and with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as adopted by the European Union. Certain quarterly information and the balance sheet as at 30 June 2009 have been included in this report; this information is supplementary and not subject to the requirements of IAS 34. This report should be read in conjunction with the consolidated financial statements for the year ended 31 December 2009 included in the 2009 annual report which is available on the Group website ([www.smurfitkappa.com](http://www.smurfitkappa.com)). The accounting policies and methods of computation and presentation adopted in the preparation of the interim Group financial information are consistent with those applied in the annual report for the financial year ended 31 December 2009 and are described in those financial statements; with the exception of the application of the standards described below.

IAS 27, *Consolidated and Separate Financial Statements*, as revised requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. These transactions will no longer result in goodwill or gains and losses. The revised standard also specifies the accounting when control is lost with any remaining interest in the entity remeasured to fair value, and a gain or loss recognised in profit or loss. The Group has applied IAS 27 as revised prospectively to transactions with non-controlling interests from 1 January 2010. Adoption of IAS 27 did not have a material effect on the Group Financial Statements.

IFRS 3, *Business Combinations*, as revised continues to apply the acquisition method in accounting for business combinations but with some significant changes. For example, all payments to purchase a business must be recorded at fair value at the acquisition date with contingent payments classified as debt and subsequently remeasured in profit or loss. There is a choice, on an acquisition by acquisition basis, to measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition related expenses are expensed. The Group has adopted revised IFRS 3 with effect from 1 January 2010. It applies to business combinations after that date. Adoption of IFRS 3 did not have a material effect on the Group Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

### 2. Basis of Preparation (continued)

In addition, the following new standards, amendments and interpretations became effective in 2010, however, they either do not have an effect on the Group financial statements or they are not currently relevant for the Group:

- IFRS 2 (Amendment) – Group Cash-settled Share-based Payment Transactions
- IAS 39 (Amendment) – Eligible Hedged Items, Financial Instruments: Recognition and Measurement
- IFRIC 17 – Distributions of Non-cash Assets to Owners

The condensed interim Group financial information includes all adjustments that management considers necessary for a fair presentation of such financial information. All such adjustments are of a normal recurring nature. Some tables in this interim statement may not add correctly due to rounding.

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

The condensed interim Group financial information presented does not constitute full group accounts within the meaning of Regulation 40(1) of the European Communities (Companies: Group Accounts) Regulations, 1992 of Ireland insofar as such group accounts would have to comply with all of the disclosure and other requirements of those Regulations. Full Group accounts for the year ended 31 December 2009 will be filed with the Irish Registrar of Companies in due course. The audit report on those Group accounts was unqualified.

### 3. Segmental Analyses

The Group has identified three operating segments on the basis of which performance is assessed and resources are allocated: 1) Packaging Europe, 2) Specialties Europe and 3) Latin America.

The Packaging segment is highly integrated. It includes a system of mills and plants that produces a full line of containerboard that is converted into corrugated containers. Our Specialties segment comprises activities dedicated to the needs of specific and sometimes niche markets. These include bag-in-box, solidboard and paper sacks. The Latin America segment comprises all forestry, paper, corrugated and folding carton activities in a number of Latin American countries. Inter segment revenue is not material. No operating segments have been aggregated for disclosure purposes.

### 3. Segmental Analyses (continued)

Segment disclosures are based on operating segments identified under IFRS 8. Segment profit is measured based on earnings before interest, tax, depreciation, amortisation, exceptional items and share-based payment expense (pre-exceptional EBITDA). Segmental assets consist primarily of property, plant and equipment, biological assets, goodwill and intangible assets, inventories, trade and other receivables, deferred income tax assets and cash and cash equivalents.

	6 months to 30-June-10				6 months to 30-June-09			
	Packaging	Specialties	Latin	Total	Packaging	Specialties	Latin	Total
	Europe	Europe	America		Europe	Europe	America	
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
<b>Revenue and Results</b>								
Third party revenue	<b>2,266</b>	<b>414</b>	<b>546</b>	<b>3,226</b>	2,117	404	481	3,002
EBITDA before exceptional items	<b>294</b>	<b>27</b>	<b>92</b>	<b>413</b>	247	39	87	373
Segment exceptional items	<b>(1)</b>	<b>(39)</b>	<b>(16)</b>	<b>(56)</b>	-	-	-	-
EBITDA after exceptional items	<b>293</b>	<b>(12)</b>	<b>76</b>	<b>357</b>	247	39	87	373
Unallocated centre costs				<b>(9)</b>				(10)
Share-based payment expense				<b>(2)</b>				(2)
Depreciation and depletion (net)				<b>(173)</b>				(169)
Amortisation				<b>(23)</b>				(22)
Share of associates' profit/(loss) after tax				<b>1</b>				(1)
Finance costs				<b>(271)</b>				(190)
Finance income				<b>111</b>				60
(Loss)/profit before income tax				<b>(9)</b>				39
Income tax expense				<b>(31)</b>				(17)
(Loss)/profit for the financial period				<b>(40)</b>				22
<b>Assets</b>								
Segment assets	<b>5,212</b>	<b>886</b>	<b>1,312</b>	<b>7,410</b>	5,253	992	1,006	7,251
Investment in associates	<b>2</b>	<b>-</b>	<b>13</b>	<b>15</b>	2	-	10	12
Group centre assets				<b>752</b>				679
Total assets				<b>8,177</b>				7,942

## NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

### 3. Segmental Analyses (continued)

	3 months to 30-June-10				3 months to 30-June-09			
	Packaging Europe € million	Specialties Europe € million	Latin America € million	Total € million	Packaging Europe € million	Specialties Europe € million	Latin America € million	Total € million
<b>Revenue and Results</b>								
Third party revenue	<b>1,178</b>	<b>216</b>	<b>302</b>	<b>1,696</b>	1,048	213	237	1,498
EDITDA before exceptional items	<b>158</b>	<b>17</b>	<b>51</b>	<b>226</b>	124	25	39	188
Segment exceptional items	<b>(1)</b>	<b>(39)</b>	<b>(2)</b>	<b>(42)</b>	-	-	-	-
EBITDA after exceptional items	<b>157</b>	<b>(22)</b>	<b>49</b>	<b>184</b>	124	25	39	188
Unallocated centre costs				<b>(5)</b>				(4)
Share-based payment expense				<b>(1)</b>				(1)
Depreciation and depletion (net)				<b>(89)</b>				(85)
Amortisation				<b>(12)</b>				(11)
Share of associates' profit after tax				<b>1</b>				-
Finance costs				<b>(137)</b>				(73)
Finance income				<b>54</b>				5
(Loss)/profit before income tax				<b>(5)</b>				19
Income tax expense				<b>(17)</b>				(10)
(Loss)/profit for the financial period				<b>(22)</b>				9

### 4. Exceptional Items

	6 months to 30-June-10 € million	6 months to 30-June-09 € million
The following items are regarded as exceptional in nature:		
Currency trading loss on Bolivar devaluation	<b>(16)</b>	-
Mondi asset swap	<b>(40)</b>	-
Total exceptional items included in operating costs	<b>(56)</b>	-
Exceptional items included in finance income	-	8

#### 4. Exceptional Items (continued)

As noted in the Group's financial statements for 2009, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte ("VEF"), on 8 January 2010. The official exchange rate generally applicable to SKG was changed from VEF 2.15 per U.S. dollar to VEF 4.3 per U.S. dollar. The currency translation loss of €14 million arose in quarter one from the effect of retranslation of the U.S. dollar denominated net payables of its Venezuelan operations. A further €2 million of hyperinflationary adjustments in relation to this, are included within operating profit in the second quarter.

During the second quarter an asset swap agreement was completed with Mondi. As a result of this, three corrugated plants in the UK were acquired and the paper sack plants (other than the Polish plant which is being sold separately) were disposed. The transaction generated an exceptional loss of €40 million in the second quarter.

For 2009 the exceptional finance income of €8 million related to the gain on the Group's debt buy-back. In February 2009, the Group launched an auction process to buy-back up to €100 million of its Senior bank debt. In total, just over €100 million of offers were received, of which €43 million were accepted at an average discount of 24% to par.

#### 5. Finance Costs and Income

	6 months to 30-June-10 € million	6 months to 30-June-09 € million
<i>Finance costs</i>		
Interest payable on bank loans and overdrafts	78	84
Interest payable on finance leases and hire purchase contracts	2	2
Interest payable on other borrowings	66	29
Foreign currency translation loss on debt	65	9
Fair value loss on other derivatives not designated as hedges	-	18
Interest cost on employee benefit plan liabilities	50	48
Net monetary loss – hyperinflation	10	-
<b>Total finance cost</b>	<b>271</b>	190
<i>Finance income</i>		
Other interest receivable	3	6
Foreign currency translation gain on debt	4	10
Gain on debt buy-back	-	8
Fair value gain on other derivatives not designated as hedges	69	2
Expected return on employee benefit plan assets	35	34
<b>Total finance income</b>	<b>111</b>	60
<b>Net finance cost</b>	<b>160</b>	130

## NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

### 6. Income Tax Expense

#### Income tax expense recognised in the Group Income Statement

	6 months to 30-June-10 € million	6 months to 30-June-09 € million
Current taxation:		
Europe	18	7
Latin America	21	18
	<b>39</b>	25
Deferred taxation	<b>(8)</b>	(8)
<b>Income tax expense</b>	<b>31</b>	17

#### Current tax is analysed as follows:

Ireland	1	4
Foreign	38	21
	<b>39</b>	25

#### Income tax recognised directly in equity

	6 months to 30-June-10 € million	6 months to 30-June-09 € million
Arising on actuarial gains/losses on defined benefit plans	<b>(6)</b>	(17)
Arising on qualifying derivative cash flow hedges	<b>(2)</b>	(1)
	<b>(8)</b>	(18)



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

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

	6 months to 30-June-10 € million	6 months to 30-June-09 € million
Current service cost	18	19
Past service cost	-	2
(Gain) on settlements and curtailments	(1)	-
	<b>17</b>	21
Expected return on plan assets	(35)	(34)
Interest cost on plan liabilities	50	48
Net financial expense	15	14
Defined benefit expense	<b>32</b>	35

Included in cost of sales, distribution costs and administrative expenses is a defined benefit expense of €17 million for the first six months of 2010 (2009: €21 million). Expected Return on Plan Assets of €35 million (2009: €34 million) is included in Finance Income and Interest Cost on Plan Liabilities of €50 million (2009: €48 million) is included in Finance Costs in the Group Income Statement.

The amounts recognised in the Group Balance Sheet were as follows:

	30-June-10 € million	31-Dec-09 € million
Present value of funded or partially funded obligations	(1,561)	(1,447)
Fair value of plan assets	1,303	1,208
Deficit in funded or partially funded plans	(258)	(239)
Present value of wholly unfunded obligations	(422)	(414)
Net employee benefit liabilities	<b>(680)</b>	(653)

The employee benefits provision has increased from €653 million at 31 December 2009 to €680 million at 30 June 2010. The rise in the provision was mainly as a result of the fall in the euro discount rate in the period.

## NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

### 8. Earnings Per Share

#### **Basic**

Basic earnings per share is calculated by dividing the profit or loss attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the period.

	3 Months to 30-Jun-10 € million	3 Months to 30-Jun-09 € million	6 Months to 30-Jun-10 € million	6 Months to 30-Jun-09 € million
(Loss)/profit attributable to owners of the Parent	<b>(22)</b>	6	<b>(38)</b>	15
Weighted average number of ordinary shares in issue (million)	<b>218</b>	218	<b>218</b>	218
Basic (loss)/earnings per share (cent per share)	<b>(10.3)</b>	3.0	<b>(17.4)</b>	6.7

#### **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 Plans.

	3 Months to 30-Jun-10 € million	3 Months to 30-Jun-09 € million	6 Months to 30-Jun-10 € million	6 Months to 30-Jun-09 € million
(Loss)/profit attributable to owners of the Parent	<b>(22)</b>	6	<b>(38)</b>	15
Weighted average number of ordinary shares in issue (million)	<b>218</b>	218	<b>218</b>	218
Potential dilutive ordinary shares assumed	-	-	-	-
Diluted weighted average ordinary shares	<b>218</b>	218	<b>218</b>	218
Diluted (loss)/earnings per share (cent per share)	<b>(10.3)</b>	3.0	<b>(17.4)</b>	6.7

## 8. Earnings Per Share (continued)

At 30 June 2010 there were 2,939,386 potential ordinary shares in issue which could dilute EPS in the future, but these were not included in the computation of diluted EPS in the period because they would have the effect of reducing the loss per share. Accordingly there is no difference between basic and diluted loss per share in 2010. At 30 June 2009 there were 329,080 potential ordinary shares in issue which were included in the computation of the diluted EPS.

## 9. Property, Plant and Equipment

	Land and Buildings € million	Plant and Equipment € million	Total € million
<b>Six months ended 30 June 2010</b>			
Opening net book amount	1,151	1,915	3,066
Reclassification	9	(9)	-
Additions	1	73	74
Acquisitions	12	22	34
Depreciation charge for the period	(24)	(141)	(165)
Retirements and disposals	(6)	-	(6)
Foreign currency translation adjustment	(5)	16	11
Hyperinflation adjustment	11	12	23
<b>At 30 June 2010</b>	<b>1,149</b>	<b>1,888</b>	<b>3,037</b>
<b>Year ended 31 December 2009</b>			
Opening net book amount	1,108	1,930	3,038
Reclassification	16	(18)	(2)
Additions	4	199	203
Depreciation charge for the year	(57)	(298)	(355)
Impairment losses recognised in the Group Income Statement	(13)	(20)	(33)
Retirements and disposals	(3)	(2)	(5)
Foreign currency translation adjustment	13	28	41
Hyperinflation adjustment	83	96	179
<b>At 31 December 2009</b>	<b>1,151</b>	<b>1,915</b>	<b>3,066</b>

## NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

### 10. Share-based Payment

#### Share-based payment expense recognised in the Group Income Statement

	6 months to 30-June-10 € million	6 months to 30-June-09 € million
Charge arising from fair value calculated at grant date	2	2

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 vested on the first, second and third anniversaries respectively of the IPO. 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"). The 2007 SIP was amended in May 2009. 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 class B and new class 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 average market value of an ordinary share for the three dealing days immediately prior to the date that 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. The performance period for the new class B and new class C convertible shares is three financial years.

## 10. Share-based Payment (continued)

The performance conditions for the new class B and new class C convertible shares awarded under the 2007 SIP prior to 2009 are as follows. The new class B convertible shares will automatically convert into D convertible shares if the growth in the Company's earnings per share over the performance period is a percentage equal to at least five per cent per annum plus the annual percentage increase in the Consumer Price Index of Ireland, compounded.

The new class C convertible shares are subject to that same performance condition. In addition, the new class C convertible shares are subject to a performance condition based on the Company's total shareholder return over the three-year period relative to the total shareholder return of a peer group of companies ("TSR Condition"). Under that condition, 30% of the new class C convertible shares will convert into D convertible shares if the Company's total shareholder return is at the median performance level and 100% will convert if the Company's total shareholder return is at or greater than the upper quartile of the peer group. A sliding scale will apply for performance between the median and upper quartiles. Current market conditions will make it extremely difficult for the Company to satisfy the performance conditions applicable to the awards made in 2008. The awards made in 2007 lapsed in 2010 and ceased to be capable of conversion to D convertible shares.

For new class B and new class C convertible shares awarded from 2009, the new class B and new class C convertible shares will convert into D convertible shares if the TSR condition is satisfied. However, notwithstanding that the TSR condition applicable to any such award may have been satisfied, the Compensation Committee retains an overriding discretion to disallow the vesting of the award, in full or in part, if, in its opinion the Company's underlying financial performance or total shareholder return (or both) has been unsatisfactory during the performance period.

The Compensation Committee determined the performance conditions for awards granted under the 2007 SIP to date after consultation with the Irish Association of Investment Managers.

A combined summary of the activity under the 2002 plan, as amended, and the 2007 SIP, as amended for the period from 31 December 2009 to 30 June 2010 is presented below. For more details on the 2002 plan, please refer to page 123 of the 2009 annual report.

## NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

### 10. Share-based Payment (continued)

	Number of convertible shares ooo's
At 31 December 2009	16,954
Forfeited in the period	(183)
Lapsed in the period	(2,347)
Granted in the period	2,604
Exercised in the period	(588)
<b>At 30 June 2010</b>	<b>16,440</b>

At 30 June 2010, 9,079,187 shares were exercisable under the 2002 plan, as amended. The weighted average exercise price for these shares at 30 June 2010 was €4.59. The weighted average remaining contractual life of the awards issued under the 2002 Plan, as amended, at 30 June 2010 was 2.6 years.

The weighted average exercise price for the new B and new C convertible shares upon vesting at 30 June 2010 was €6.57. The weighted average remaining contractual life of the awards issued under the 2007 SIP, as amended, at 30 June 2010 was 8.9 years. No shares were exercisable at June 2010 or December 2009.

## 11. Analysis of Net Debt

	30-June-10 € million	31-Dec-09 € million
Senior credit facility		
Revolving credit facility <sup>(1)</sup> – interest at relevant interbank rate + 3.25% on RCF1 and +3.5% on RCF2 <sup>(8)</sup>	(11)	(13)
Tranche A term loan <sup>(2a)</sup> – interest at relevant interbank rate + 3.25% <sup>(8)</sup>	196	219
Tranche B term loan <sup>(2b)</sup> – interest at relevant interbank rate + 3.375% <sup>(8)</sup>	817	809
Tranche C term loan <sup>(2c)</sup> – interest at relevant interbank rate + 3.625% <sup>(8)</sup>	816	808
Yankee bonds (including accrued interest) <sup>(3)</sup>	239	203
Bank loans and overdrafts/(cash)	(377)	(565)
Receivables securitisation floating rate notes 2011 <sup>(4)</sup>	209	208
	<b>1,889</b>	1,669
2015 cash pay subordinated notes (including accrued interest) <sup>(5)</sup>	383	358
2017 senior secured notes (including accrued interest) <sup>(6)</sup>	486	485
2019 senior secured notes (including accrued interest) <sup>(7)</sup>	489	488
<b>Net debt before finance leases</b>	<b>3,247</b>	3,000
Finance leases	35	41
<b>Net debt including leases – Smurfit Kappa Funding plc</b>	<b>3,282</b>	3,041
Balance of revolving credit facility reclassified to debtors	11	13
<b>Total debt after reclassification – Smurfit Kappa Funding plc</b>	<b>3,293</b>	3,054
Net (cash) in parents of Smurfit Kappa Funding plc	(2)	(2)
<b>Net Debt including leases – Smurfit Kappa Group plc</b>	<b>3,291</b>	3,052

(1) Revolving credit facility of €525 million split into RCF1 and RCF2 of €152 million and €373 million (available under the senior credit facility) to be repaid in full in 2012 and 2013 respectively. (Revolver loans - Nil, drawn under ancillary facilities and facilities supported by letters of credit - nil, letters of credit issued in support of other liabilities - €16.6 million)

(2a) Term loan A due to be repaid in certain instalments up to 2012

(2b) Term loan B due to be repaid in full in 2013

(2c) Term loan C due to be repaid in full in 2014

(3) 750% senior debentures due 2025 of \$292.3 million

(4) Receivables securitisation floating rate notes mature September 2011

(5) €217.5 million 7.75% senior subordinated notes due 2015 and \$200 million of 7.75% senior subordinated notes due 2015

## NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

### 11. Analysis of Net Debt

- (6) €500 million 7.25% senior secured notes due 2017  
(7) €500 million 7.75% senior secured notes due 2019  
(8) Effective 2 July 2009 the margins applicable to the Senior Credit Facility have been amended to the following:

<b>Debt/EBITDA ratio</b>	<b>Tranche A and RCF<sup>1</sup></b>	<b>Tranche B</b>	<b>Tranche C</b>	<b>RCF<sup>2</sup></b>
Greater than 4.0 : 1	3.25%	3.375%	3.625%	3.50%
4.0 : 1 or less but more than 3.5 : 1	3.00%	3.125%	3.375%	3.25%
3.5 : 1 or less but more than 3.0 : 1	2.75%	3.125%	3.375%	3.00%
3.0 : 1 or less	2.50%	3.125%	3.375%	2.75%

### 12. Venezuela

#### Hyperinflation

As discussed more fully in the 2009 annual report, Venezuela became hyperinflationary during 2009 when its cumulative inflation rate for the past three years exceeded 100%. As a result, the Group applied the hyperinflationary accounting requirements of IAS 29 to its Venezuelan operations at 31 December 2009 and for the first half of 2010. The hyperinflationary adjustments for the year ended 31 December 2009 were recorded in the fourth quarter of 2009 and in accordance with IAS 21, comparative amounts are not adjusted. Therefore, the results of the second quarter and first six months of 2009 have not been adjusted for hyperinflation.

The index used to reflect current values is derived from a combination of Banco Central de Venezuela's National Consumer Price Index from its initial publication in December 2007 and the Consumer Price Index for the metropolitan area of Caracas for earlier periods. The level of and movement in the price index for the first six months of 2010 and the full year 2009 are as follows:

	30-June-10	31-Dec-09
Index at period end	190.4	163.7
Movement in period	16.3%	25.1%

As a result of hyperinflation, a net monetary loss of €10 million was recorded in the Group Income Statement for the first six months of 2010 and total equity increased by €44 million in the same period.



## 11. Analysis of Net Debt (continued)

### Devaluation

As noted in the 2009 annual report, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte ("VEF"), on 8 January 2010. The official exchange rate generally applicable to SKG was changed from VEF 2.15 per U.S. dollar to VEF 4.3 per U.S. dollar. For the first half of 2010 a loss of €16 million arises from the effect of retranslation of the U.S. dollar denominated net payables of its Venezuelan operations and associated hyperinflationary adjustments, which is included within operating profit. In addition, the Group recorded a reduction in net assets of €223 million in relation to these operations, which is reflected in the Group Statement of Comprehensive Income as a part of foreign currency translation adjustments.

## 13. Acquisitions and Disposals

On 4 May 2010, the Group completed an asset swap agreement with Mondi Group ('Mondi'). This agreement resulted in the Group acquiring Mondi's corrugated operations in the UK while Mondi acquired the Group's Western European sack converting operations. The total cash cost of the asset swap for the Group was €56 million, including €2 million of net cash disposed.

### Acquisition of Mondi's UK Corrugated Assets

The acquisition of Mondi's UK corrugated operations, comprised three corrugated box plants. The three facilities reported a combined 2009 full year EBITDA of €8.0 million, and a profit before tax of €2.0 million.

Provisional fair value amounts equate to net book values acquired. While the fair value exercise has not been completed, no significant adjustments are expected.

	Provisional Fair Values € million
Total non current assets	33
Inventories	4
Trade and other receivables	20
Cash and cash equivalents	2
Total non current liabilities	(1)
Trade and other payables	(17)
Provisions for liabilities and charges	(1)
Net assets acquired	40
Goodwill	4
<b>Consideration</b>	<b>44</b>

## NOTES TO THE FINANCIAL STATEMENTS [CONTINUED]

### 13. Acquisitions and Disposals (continued)

#### **Disposal of SKG's Western European Sack Converting Assets**

The disposal of the Western European sack converting operations, comprised four plants in France, three in Spain, and one in Italy, as well as a number of sales offices. In 2009, these operations reported an EBITDA loss of €4.4 million and a loss before tax of €12.6 million.

### 14. Related Party Transactions

Details of related party transactions in respect of the year ended 31 December 2009 are contained in Note 31 of our 2009 annual report. The Group continued to enter into transactions in the normal course of business with its associates and other related parties during the period. There were no transactions with related parties in the first half of 2010 or changes to transactions with related parties disclosed in the 2009 financial statements that had a material effect on the financial position or the performance of the Group.

### 15. Board Approval

This interim management report and condensed interim financial statements were approved by the Board of Directors on 10 August 2010.

### 16. Distribution of Interim Management Report

The 2010 interim management report and condensed interim financial statements are available on the Group's website ([www.smurfitkappa.com](http://www.smurfitkappa.com)). A printed copy will be posted to shareholders and will be available to the public from that date at the Company's registered office.

## RESPONSIBILITY STATEMENT IN RESPECT OF THE SIX MONTHS ENDED 30 JUNE 2010

The Directors are responsible for preparing this interim management report and the condensed interim financial information in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Irish Financial Services Regulatory Authority and with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as adopted by the European Union.

The Directors confirm that, to the best of their knowledge:

- the condensed interim Group financial information for the half year ended 30 June 2010 has been prepared in accordance with the international accounting standard applicable to interim financial reporting, IAS 34, adopted pursuant to the procedure provided for under Article 6 of the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the condensed interim Group financial information for the half year ended 30 June 2010, and a description of the principal risks and uncertainties for the remaining six months;
- the interim management report includes a fair review of related party transactions that have occurred during the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period, and any changes in the related parties’ transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

**G.W. McGann**, Director and Chief Executive Officer

**I.J. Curley**, Director and Chief Financial Officer

10 August 2010

## SUPPLEMENTAL FINANCIAL INFORMATION

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

	3 months to 30-Jun-10 € million	3 months to 30-Jun-09 € million	6 months to 30-Jun-10 € million	6 months to 30-Jun-09 € million
(Loss)/profit for the financial period	<b>(22)</b>	9	<b>(40)</b>	22
Income tax expense	<b>17</b>	10	<b>31</b>	17
Currency trading loss on devaluation of Bolivar	<b>2</b>	-	<b>16</b>	-
Mondi asset swap	<b>40</b>	-	<b>40</b>	-
Share of associates' operating (profit)/loss	<b>(1)</b>	-	<b>(1)</b>	1
Net finance costs	<b>83</b>	68	<b>160</b>	130
Share-based payment expense	<b>1</b>	1	<b>2</b>	2
Depreciation, depletion (net) and amortisation	<b>101</b>	96	<b>196</b>	191
EBITDA before exceptional items and share-based payment expense	<b>221</b>	184	<b>404</b>	363

## SUPPLEMENTAL HISTORICAL FINANCIAL INFORMATION

€ Million	Q2, 2009	Q3, 2009	Q4, 2009	FY, 2009	Q1, 2010	Q2, 2010
Group and third party revenue	2,250	2,309	2,380	9,207	2,435	2,740
Third party revenue	1,498	1,515	1,541	6,057	1,530	1,696
EBITDA before exceptional items and share-based payment expense	184	192	186	741	184	221
EBITDA margin	12.3%	12.7%	12.1%	12.2%	12.0%	13.0%
Operating profit	87	46	51	267	73	77
Profit/(loss) before tax	19	(27)	(63)	(52)	(3)	(5)
Free cash flow	18	125	29	172	(58)	(12)
Basic earnings/(loss) per share (cent per share)	3.0	(20.9)	(41.6)	(55.8)	(7.0)	(10.3)
Weighted average number of shares used in EPS calculation (million)	218	218	218	218	218	218
Net debt	3,164	3,034	3,052	3,052	3,162	3,291
Net debt to EBITDA (LTM)	4.0	4.0	4.1	4.1	4.2	4.2





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