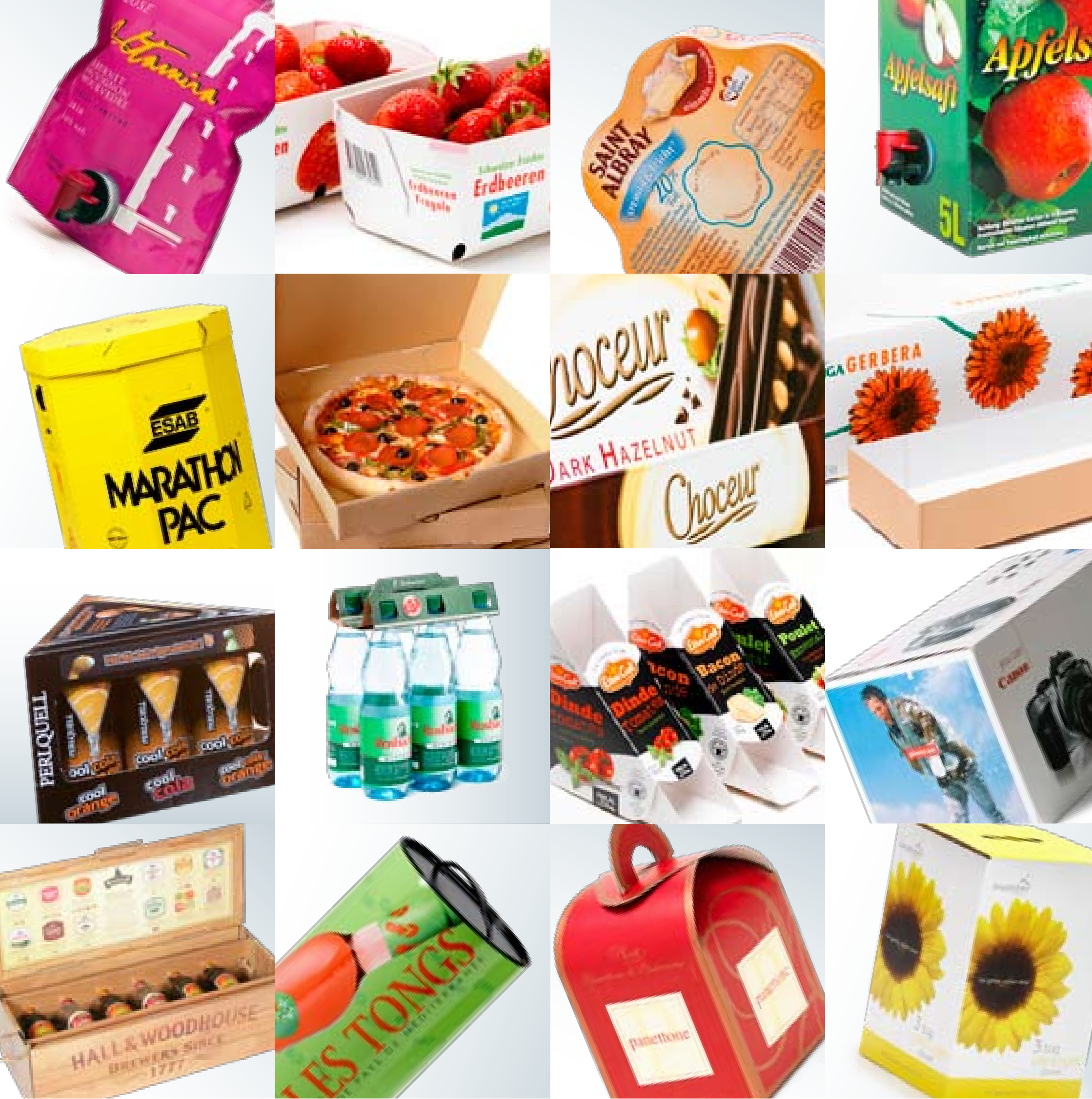

INTERIM REPORT **2012**

Smurfit Kappa Group plc

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2012 SECOND QUARTER RESULTS

2012 Second Quarter & First Half | Key Financial Performance Measures

€ m	H1 2012	H1 2011	change	Q2 2012	Q2 2011	change	Q1 2012	change
Revenue	€3,680	€3,670	0%	€1,857	€1,867	(1%)	€1,823	2%
EBITDA before Exceptional Items and Share-based Payment (1)	€500	€507	(1%)	€255	€264	(4%)	€246	4%
EBITDA Margin	13.6%	13.8%	-	13.7%	14.2%	-	13.5%	-
Operating Profit before Exceptional Items	€305	€315	(3%)	€156	€167	(7%)	€149	5%
Profit before Income Tax	€190	€136	39%	€85	€58	46%	€105	(19%)
Basic EPS (cent)	51.6	31.3	65%	24.5	15.7	56%	27.1	(10%)
Pre-exceptional EPS (cent)	39.7	47.4	(16%)	24.5	31.4	(22%)	15.3	60%
Return on Capital Employed	12.2%	11.9%	3%	-	-	-	-	-
Free Cash Flow (2)	€47	€78	(40%)	€63	€66	(4%)	(€16)	-
Net Debt				€2,785	€3,003	(7%)	€2,775	0%
Net Debt to EBITDA (LTM)				2.8x	3.0x	-	2.7x	-

(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 profit for the period to EBITDA before exceptional items and share-based payment expense is set out on page 40.

(2) Free cash flow is set out on page 12. The IFRS cash flow is set out on page 24.

Highlights

- Strong EBITDA performance of €500 million in H1. Integrated system underpins quality of earnings
- Robust free cash flow of €63 million in Q2. Free cash flow generation will accelerate in H2
- Net debt reduced by over €500 million in last 2 years. Net debt/EBITDA of 2.8x well within stated target
- Containerboard price increases announced
- Full year EBITDA guidance re-affirmed

Performance Review and Outlook

Gary McGann, Smurfit Kappa Group CEO, commented: "SKG is pleased to report a strong EBITDA of €500 million for the first half. This performance is underpinned by the strength of our integrated model, relatively stable box prices in the period, and our continuing focus on cost take-out and operating efficiency. Our Latin American business continues to provide us with geographic diversity, superior margins, and good growth prospects.

In a challenging macro-economic environment, our European box volumes remained stable in the second quarter. This further demonstrates the resilience of our business and the value that our customers place in our strong market offering, service led approach and unrivalled innovation capabilities.

Our first half performance also benefited from our leading position in the increasingly consolidated kraftliner market. The favourable supply/demand balance for that grade allowed us to successfully implement a price increase in the second quarter, with further pricing progress announced for the second half.

In recycled containerboard, the price reduction experienced in Europe since the beginning of April has been more pronounced than the decline in OCC costs, resulting in significant margin compression. To restore viable margins for that part of our business, we recently announced a €100 per tonne price increase.

In the last two years, we have reduced net debt by over €500 million, thereby sustainably reducing financial risk. Our decision at the end of 2011 to re-instate a dividend stream reflects that progress and provides shareholders with certainty of value. The operating and financial disciplines which have contributed to our current strong position are continuing to define our approach to business.

While macro-economic risks remain, we continue to expect a 2012 full year EBITDA similar to that achieved in 2011. Our free cash flow generation will accelerate in the second half, thereby further expanding our available range of strategic and financial options. Our aim is to continue expanding our position as the industry leader in corrugated."

Dividend

The Board intends to pay an interim dividend of 7.50 cent per share in October 2012.

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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2012 Second Quarter & First Half | Performance Overview

Despite declining OCC and testliner prices and a weakening global economy, the Group reported revenue of €3.7 billion for the half year, in line with prior year levels. The slight decrease in EBITDA to €500 million over the same period in part reflects the compression of margins within our recycled paper operations, together with somewhat lower margins in Latin America, primarily due to one-off events.

In a challenging macro-economic environment, SKG's corrugated box volumes in the second quarter were unchanged when compared to the second quarter of 2011, and in the UK specifically SKG's box volumes increased by 3%, reflecting some market share gains. In the more commoditised corrugated sheets business however, our volumes were lower year-on-year. As a result, our total corrugated volumes decreased by 2% year-on-year in quarter two.

As expected, SKG's European corrugated pricing was stable in the second quarter. This result underpinned the resilience of the integrated model, and reflects SKG's continuing focus on margin over volume. Furthermore, despite a slowing market, our pricing consistency is also reflective of the value our customers place in our products and ancillary services.

In 2010 the Group launched a two year cost take-out programme with an objective to generate €150 million of savings benefits in 2011/2012. Through a combination of targeted capital expenditure, capacity rationalisation and a 'bottom up' approach, SKG has delivered €100 million of cost take-out in 2011 with a further €45 million in the half year 2012. SKG is confident in its ability to deliver a further €50 million in cost savings in the remainder of 2012, thereby significantly exceeding the original target.

SKG's Latin American operations continue to provide geographic diversification for the Group, and both Colombia and Mexico have shown significant EBITDA growth in the first half. Results in Argentina and Venezuela were lower year-on-year however, primarily due to a number of one-off items. The region's performance is expected to improve in the second half of the year.

In kraftliner, as a result of permanent capacity closures in Europe and lower US imports into Europe, a price increase of €40 per tonne was achieved in the second quarter. The continued tightness of that market, combined with recently announced price increases for kraftliner in the US, led SKG to announce a further price increase of €50 per tonne for implementation in September. SKG expects to be a clear beneficiary of a more consolidated kraftliner market, being the clear market leader in Europe and a net seller of that grade.

Following a rapid rise in early 2012, OCC prices have steadily declined month on month since April, to a cumulative decline of €20 per tonne during quarter two. Lower OCC prices in turn led to a €45 per tonne reduction in recycled containerboard prices in the period, thereby reducing margins for that grade to unsustainable levels. As a result, SKG recently announced a €100 per tonne price increase for all recycled containerboard grades, starting 1 September, 2012.

Despite a €97 million working capital outflow, €37 million of dividend payments and €18 million of adverse currency movements, the Group's net debt increased by only €33 million in the half year to June 2012. This outcome reflects the Group's ongoing focus and strong track record in cash management. Underlying cash generation is expected to accelerate in the second half of the year which will facilitate further net debt reduction.

2012 Second Quarter | Financial Performance

At €1,857 million, sales revenue in the second quarter of 2012 was 2% higher than the €1,823 million reported in the first quarter, with underlying growth of €12 million boosted by a positive €22 million from currency movements and hyperinflationary adjustments. Compared to quarter two 2011, revenue was 1% lower in the period.

Reported EBITDA of €255 million in the second quarter of 2012 was €9 million lower than the second quarter of 2011. This reflects lower earnings in Latin America partly offset by slightly higher earnings in Europe. Compared to the first quarter of 2012, EBITDA increased by €9 million.

At €156 million, operating profit after exceptional items for the second quarter of 2012 was €24 million higher than in 2011, an increase of approximately 18%.

Net finance costs of €73 million in the second quarter of 2012 were €2 million lower than in the second quarter of 2011, primarily reflecting the Group's lower net debt.

Including the Group's share of associates' profit, the profit before income tax was €85 million in the second quarter of 2012 reflecting a €27 million (46%) increase on the similar period in 2011.

Earnings per share were 24.5 cent for the quarter to June 2012 (2011: 15.7 cent). There were no exceptional items during the quarter (2011: exceptional charge of €35 million), resulting in a pre-exceptional earnings per share of 24.5 cent (2011: 31.4 cent).

2012 First Half | Financial Performance

Revenue for the half year grew from €3,670 million in 2011 to €3,680 million in 2012. However the reported increase of €10 million was mainly driven by a net positive €52 million from currency movements and hyperinflationary adjustments and by €16 million from net acquisitions. Therefore, there was an underlying decrease of €58 million in revenue compared to the first half of 2011.

At €500 million, EBITDA in the first half of 2012 was €7 million, or 1% lower than the comparable period in 2011. Despite the pressure on box prices, driven by lower average selling prices for paper and board, selling prices held up reasonably well but at the cost of some lost volume, particularly in the sheet market.

There were exceptional gains of €28 million included in the first quarter's operating profit, however no exceptional items were reported in the second quarter of 2012. The first quarter gains were made up of €10 million from the sale of land at SKG's former Valladolid mill in Spain and €18 million relating to the disposal of a company in Slovakia. This gain primarily relates to the reclassification (under IFRS) of the cumulative translation differences within equity from reserves to retained earnings through the Group Income Statement. Exceptional charges of €36 million within operating profit in the first half of 2011 related almost entirely to the closure of our Nanterre mill.

Operating profit after exceptional items for the half year was €333 million, compared to €279 million for the same period in 2011, an increase of 19%.

Net finance costs of €145 million were €1 million lower year-on-year, primarily reflecting lower net debt.

Including the Group's share of associates' profit of €2 million in 2012, profit before income tax was €190 million for the half year 2012 compared to €136 million in 2011.

Income tax expense of €72 million for the half year 2012 represented a €4 million increase on the previous year. This was primarily due to legislative changes in a number of European countries and an additional tax expense in some countries as a result of increased profits.

Earnings per share was 51.6 cent for the half year 2012 (2011: 31.3 cent). Adjusting for the exceptional gain in 2012 of €28 million (2011: exceptional charge of €36 million), pre-exceptional EPS was 39.7 cent (2011: 47.4 cent).

2012 Second Quarter & First Half | Free Cash Flow

Free cash flow amounted to €63 million in the second quarter of 2012 compared to €66 million in 2011. Although EBITDA was lower in 2012 and both tax payments and other outflows were higher, the negative impact was largely offset by a lower working capital outflow. At €47 million for the six months to June 2012, our free cash flow was €31 million lower year-on-year, primarily because of higher tax payments and higher capital expenditure and other outflows, partly offset by a lower working capital outflow.

Following an increase of €88 million in the first quarter, working capital increased by €9 million in the second quarter. The outflow for the six months to June 2012 was therefore €97 million. This was mainly due to an increase in debtors with an offsetting increase in trade and other creditors. Working capital amounted to €661 million at June 2012, representing 8.9% of annualised sales revenue compared to 9.3% at June 2011 demonstrating the continued strong focus on cash management.

Capital expenditure amounted to €126 million in the first half of 2012 and equated to 74% of depreciation, compared to €116 million and 66% in the first six months of 2011. For the full year, SKG's capital expenditure is expected to amount to approximately 90% of depreciation, similar to the 2011 level.

Cash interest at €120 million for the six months to June 2012 was €2 million lower than in 2011, mainly reflecting reduced debt levels.

At €47 million in the first six months of 2012, our tax payments were €25 million higher than in 2011. This was primarily driven by legislative changes in Europe and higher cash tax payments in Latin America.

2012 Second Quarter & First Half | Capital Structure

The Group's net debt has reduced by €218 million to €2,785 million in the year to June 2012. In total over the last two years, the Group has shown its firm commitment to deleveraging, with over €500 million of net debt reduction in the period. This reduction was achieved despite continuing challenging business conditions, and underscores the resilience of SKG's business and its ability to generate a strong free cash flow in any environment.

Following the amendments to its Senior Credit Facility ('SCF') in the first quarter, the Group continues to benefit from an average debt maturity profile of 5.2 years. SKG also maintains a strong liquidity position, with €513 million of cash on its balance sheet at the end of June 2012, and undrawn committed credit facilities of €525 million. The reduction in the Group's cash position during the second quarter reflects the voluntary early debt repayment of €330 million in the period.

At the end of June 2012, the Group's net debt to EBITDA ratio of 2.8x is comfortably below our stated objective of remaining below 3.0x throughout the cycle. The Group's focus on maximising free cash flow generation for further debt pay-down, combined with strong cash reserves, an increased maturity profile and diversified funding sources continues to provide SKG with good financial flexibility.

2012 Second Quarter & First Half | Operating efficiency

Commercial offering, innovation and sustainability

SKG's offering continues to be valued by our international customers in both Europe and Latin America. This differentiated offering has supported volume growth of 6% in our Pan-European business in the first half of 2012. SKG's strengths in this area are rooted in our extensive geographic coverage, our innovative approach to packaging solutions, and pivotally our industry leading approach to customer service. In Europe, the majority of our Pan-European volume is contracted for periods of between one and six years, and we consider these customers as long term partners for the future.

Using the skills and experience acquired in servicing the increasing demands of international customers, SKG has continued to pay special attention to the recruitment and retention of local customers who benefit from the best international standards of the Group's businesses, delivered locally.

The Group remains fundamentally committed to driving innovation and further developing its service capabilities. We receive over 600 customers per year at our Retail Test Centre in the Netherlands in order to ensure our products are meeting their exacting requirements. In response to a market trend towards more Shelf Ready Packaging, SKG has focused on providing an ever increasing level of sophistication, innovation and functionality to our customers. This is recognised by them with the numerous customer and industry awards SKG has received in recent times.

Serving 60,000 customers worldwide across almost every industry, SKG realises the crucial importance of a central packaging database supported by advanced IT tools in order to fully utilise its global capabilities. The resultant development is our trademark online packaging suite, "Innotools", which comprises three software systems: (1) InnoBook harnesses the output of 675 SKG designers worldwide in a virtual design library; (2) Paper to Box determines the optimised fibre content for each box; and (3) Pack Expert guarantees the box structure will perform to the customer's specifications using optimal economic combinations. Ultimately we ensure we deliver the right packaging solution on a just in time and right first time basis.

During the quarter the Group continued to invest in state of the art equipment in response to increasing demands for high quality, multi-coloured packaging. Significant investment programmes were finalised during the quarter including a new five colour flexo folder gluer in Interwell, Austria, a six colour flexo die cut machine in Stalybridge, England and capacity expansion projects undertaken in our Italian and French Bag-in-box operations.

The Group also continues its significant investment programme in its containerboard system. In particular, in March SKG announced a €115 million project in the UK, to re-build and install a modern, lightweight recycled containerboard machine on its existing Townsend Hook site. This initiative is within the scope of SKG's stated capital expenditure guidance, and will significantly improve the cost competitiveness and efficiency of its UK mill system. Such investments continue to underpin SKG's market leading containerboard system.

The combination of our tools, service culture, focus on sustainability and customer supporting investments ensures that we maintain our position as the international leader in high performance packaging.

Corporate Social Responsibility ('CSR')

In June 2012 SKG announced the publication of its fifth annual Sustainable Development Report, and reaffirmed its progress and commitment to supplying sustainable paper-based packaging solutions. The Group is confident that sustainability is entirely compatible with economic competitiveness and provides a key differentiating factor in the marketplace. A copy of our 2011 Sustainable Development Report can be downloaded from our website www.smurfitkappa.com.

The Group is also conscious of building sustainable relationships in the regions, and specific locations, in which it operates. As a result it has a number of initiatives in Latin America focused in areas such as education, environmental protection, and building responsible leadership in the communities, particularly in Colombia. In Venezuela, since 2009 over 211,000 people have attended SKG organised health clinics.

Cost Take-out Programme

The Group's continued focus on operating efficiencies was re-confirmed in quarter one 2012 with the upwards review of the two year (2011/2012) cost take-out objective from €150 million to €200 million. Against this backdrop a total of €45 million cost take-out was achieved in the first half of 2012 bringing the total operational savings since January 2011 to €145 million. The Group remains confident of achieving its two year cost take-out target.

The cost take-out programme is viewed as an essential tool in combating cost inflation, and a discernible measure of our success in this regard is the Group's consistently strong EBITDA margins over the last number of years.

Site Visit | Epernay Bag-in-box & Corrugated Plants, 4 & 5 September 2012

Smurfit Kappa Group is organising a site visit for institutional investors and analysts which will take place on 4 & 5 September 2012 in the Group's Bag-in-box and Corrugated plants in Epernay, France. The event will be hosted by the Chairman and senior management of the Group, and will include presentations on SKG's leadership position in the packaging industry, in addition to tours of both plants.

2012 Second Quarter & First Half | Performance Review

Europe

Despite lower revenue, European EBITDA increased by 2% in the first half. This result reflects the Group's continued focus on maximising returns, and highlights the benefits of increased operating efficiencies delivered as part of the cost take-out programme. As expected, SKG's corrugated pricing remained steady throughout the second quarter.

On the demand side, SKG's European corrugated volumes declined by 1% in the first six months of 2012. This result was underpinned by unchanged box volumes which account for approximately 90% of our total corrugated volumes, while corrugated sheets volumes were 10% lower year-on-year.

Reducing OCC prices throughout the second quarter generated downward pressure on recycled containerboard prices. From the peak in April to the end of June, recycled containerboard prices have reduced by €45 per tonne, the equivalent of a 10% decrease. The decline in paper prices outstripped the reduction in input costs, leading margins to unsustainable levels. As a result, to date 217,000 tonnes of recycled capacity closures have been announced or realised for 2012.

In the kraftliner market, the recent permanent closure of a 290,000 tonne mill in Europe, combined with a 19% reduction in US imports into Europe in the first four months of the year, allowed SKG to implement a €40 per tonne price increase in quarter two.

In July, SKG's 520,000 tonne kraftliner mill in France was forced to temporarily cease production following the collapse of a black liquor tank. The Group's current estimate is that the mill will be shut for approximately six weeks, with no material effect on its results of operations for 2012.

Energy costs have remained stable with a 2% increase in the second quarter 2012 compared to 2011. This is due in part to stable global energy prices but also to the Group's concerted approach to controlling costs in this area.

Latin America

Latin America reported revenue of €675 million in the first half, representing 18% of the Group's overall revenue. EBITDA of €97 million in the period was 13% lower than in 2011, primarily reflecting somewhat lower demand and a number of one-off events. The performance of the region is expected to recover in the second half, supported by higher productivity levels, pricing progress, and continued focus on cost take-out actions.

In Colombia, stable corrugated demand and some progress on pricing delivered an improved EBITDA outcome in the first half. The annual maintenance shut-down of our Cali mill went as planned in the second quarter.

The EBITDA of our Mexican operations increased by 6% year-on-year in the first half, primarily as a result of the Group's internal cost take-out efforts. The recently announced paper price increase in the US should provide a strong platform for pricing in the domestic Mexican market.

SKG's underlying corrugated volumes in Argentina were materially lower in the first half, reflecting the increasingly challenging local economic environment. SKG's performance in the first half was also significantly impacted by a prolonged strike in one of its packaging plants in Argentina. The plant restarted normal operations in early May.

The Group's Venezuelan business was also subject to a number of one-off costs in the second quarter, including the planned maintenance downtime of its mill system and reduced packaging output as a result of industrial relations issues in one of its packaging plants in the country, which has now been resolved.

Despite some country-specific challenges from time to time, the Group believes that the geographic diversity of its business in the Latin American region, together with the proven ability of its local management allows it to deliver a consistently strong performance through the cycle. Latin America remains a key target region for SKG's future growth.

Summary Cash Flow[1]

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

	3 months to 30-Jun-12 €m	3 months to 30-Jun-11 €m	6 months to 30-Jun-12 €m	6 months to 30-Jun-11 €m
Pre-exceptional EBITDA	**255**	264	**500**	507
Cash interest expense	**(59)**	(61)	**(120)**	(122)
Working capital change	**(9)**	(33)	**(97)**	(119)
Current provisions	**(1)**	(3)	**(5)**	(6)
Capital expenditure	**(63)**	(62)	**(126)**	(116)
Change in capital creditors	**(2)**	(9)	**(29)**	(15)
Tax paid	**(33)**	(12)	**(47)**	(22)
Sale of fixed assets	**3**	-	**11**	1
Other	**(28)**	(18)	**(40)**	(30)
Free cash flow	**63**	66	**47**	78
Share issues	**1**	1	**5**	8
Ordinary shares purchased – own shares	**-**	-	**(13)**	-
Sale of businesses and investments	**-**	(8)	**1**	(4)
Purchase of investments	**(1)**	-	**(7)**	(1)
Dividends	**(36)**	(3)	**(37)**	(3)
Derivative termination payments	**(2)**	(1)	**(1)**	(1)
Net cash inflow/(outflow)	**25**	55	**(5)**	77
Deferred debt issue costs amortised	**(6)**	(4)	**(10)**	(8)
Currency translation adjustments	**(29)**	7	**(18)**	38
(Increase)/decrease in net debt	**(10)**	58	**(33)**	107

(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 movements 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-Jun-12 €m	6 months to 30-Jun-11 €m
Free cash flow		**47**	78
Add back:	Cash interest	**120**	122
	Capital expenditure (net of change in capital creditors)	**155**	131
	Tax payments	**47**	22
Less:	Sale of fixed assets	**(11)**	(1)
	Profit on sale of assets and businesses – non exceptional	**(3)**	(6)
	Receipt of capital grants (in "Other")	**-**	(1)
	Dividends received from associates (in "Other")	**(1)**	(1)
	Non-cash financing activities	**(7)**	(4)
Cash generated from operations		**347**	340

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 2012 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 €222 million variable funding notes issued under the new €250 million accounts receivable securitisation program maturing in November 2015.

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 €696 million Tranche B maturing in 2016 and a €704 million Tranche C maturing in 2017. In addition, as at 30 June 2012, the facility includes a €525 million revolving credit facility of which there was €0.2 million drawn under facilities supported by letters of credit.

The following table provides the range of interest rates as of 30 June 2012 for each of the drawings under the various senior credit facility term loans.

Borrowing arrangement	Currency	Interest Rate
Term Loan B	EUR	4.001% – 4.393%
	USD	4.094%
Term Loan C	EUR	4.251% – 4.643%
	USD	4.344%

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 2012 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 €1,010 million in interest rate swaps with maturity dates ranging from October 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 €9 million over the following twelve months. Interest income on our cash balances would increase by approximately €5 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 2011 annual report on page 50. The annual report is available on our website 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 current economic climate were to deteriorate further and result in an increased economic slowdown which was sustained over any significant length of time, or the sovereign debt crisis (including its impact on the euro) were to intensify, 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 could 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 shareholder 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 their potential adverse consequences.

GROUP INCOME STATEMENT – SIX MONTHS

	Unaudited 6 months to 30-Jun-12			Unaudited 6 months to 30-Jun-11		
	Pre-exceptional 2012	Exceptional 2012	Total 2012	Pre-exceptional 2011	Exceptional 2011	Total 2011
	€m	€m	€m	€m	€m	€m
Revenue	**3,680**	**-**	**3,680**	3,670	-	3,670
Cost of sales	**(2,623)**	**-**	**(2,623)**	(2,637)	(13)	(2,650)
Gross profit	**1,057**	**-**	**1,057**	1,033	(13)	1,020
Distribution costs	**(290)**	**-**	**(290)**	(282)	-	(282)
Administrative expenses	**(463)**	**-**	**(463)**	(437)	-	(437)
Other operating income	**1**	**28**	**29**	1	-	1
Other operating expenses	**-**	**-**	**-**	-	(23)	(23)
Operating profit	**305**	**28**	**333**	315	(36)	279
Finance costs	**(204)**	**-**	**(204)**	(215)	-	(215)
Finance income	**59**	**-**	**59**	69	-	69
Profit on disposal of associate	**-**	**-**	**-**	2	-	2
Share of associates' profit (after tax)	**2**	**-**	**2**	1	-	1
Profit before income tax	**162**	**28**	**190**	172	(36)	136
Income tax expense			**(72)**			(68)
Profit for the financial period			**118**			68
Attributable to:						
Owners of the Parent			**115**			69
Non-controlling interests			**3**			(1)
Profit for the financial period			**118**			68
Earnings per share						
Basic earnings per share – cent			**51.6**			31.3
Diluted earnings per share – cent			**50.6**			30.6

The notes to the condensed interim Group Financial Statements on pages 26-38 form an integral part of this financial information.

GROUP INCOME STATEMENT – SECOND QUARTER

	Unaudited 3 months to 30-Jun-12			Unaudited 3 months to 30-Jun-11		
	Pre-exceptional 2012	Exceptional 2012	Total 2012	Pre-exceptional 2011	Exceptional 2011	Total 2011
	€m	€m	€m	€m	€m	€m
Revenue	**1,857**	**-**	**1,857**	1,867	-	1,867
Cost of sales	**(1,327)**	**-**	**(1,327)**	(1,341)	(13)	(1,354)
Gross profit	**530**	**-**	**530**	526	(13)	513
Distribution costs	**(147)**	**-**	**(147)**	(143)	-	(143)
Administrative expenses	**(228)**	**-**	**(228)**	(217)	-	(217)
Other operating income	**1**	**-**	**1**	1	-	1
Other operating expenses	**-**	**-**	**-**	-	(22)	(22)
Operating profit	**156**	**-**	**156**	167	(35)	132
Finance costs	**(98)**	**-**	**(98)**	(101)	-	(101)
Finance income	**25**	**-**	**25**	26	-	26
Share of associates' profit (after tax)	**2**	**-**	**2**	1	-	1
Profit before income tax	**85**	**-**	**85**	93	(35)	58
Income tax expense			**(30)**			(19)
Profit for the financial period			**55**			39
Attributable to:						
Owners of the Parent			**55**			35
Non-controlling interests			**-**			4
Profit for the financial period			**55**			39
Earnings per share						
Basic earnings per share – cent			**24.5**			15.7
Diluted earnings per share – cent			**24.1**			15.3

GROUP STATEMENT OF COMPREHENSIVE INCOME – SIX MONTHS

	Unaudited 6 months to 30-Jun-12 €m	Unaudited 6 months to 30-Jun-11 €m
Profit for the financial period	**118**	68
Other comprehensive income:		
Foreign currency translation adjustments	**87**	(54)
Defined benefit pension plans including payroll tax:		
– Actuarial loss	**(74)**	(39)
– Movement in deferred tax	**10**	5
Effective portion of changes in fair value of cash flow hedges:		
– Movement out of reserve	**12**	11
– New fair value adjustments into reserve	**(5)**	11
– Movement in deferred tax	**(1)**	(3)
Total other comprehensive income/(expense)	**29**	(69)
Total comprehensive income/(expense) for the financial period	**147**	(1)
Attributable to:		
Owners of the Parent	**127**	4
Non-controlling interests	**20**	(5)
	147	(1)

The notes to the condensed interim Group Financial Statements on pages 26-38 form an integral part of this financial information.

GROUP STATEMENT OF COMPREHENSIVE INCOME – SECOND QUARTER

	Unaudited 3 months to 30-Jun-12 €m	Unaudited 3 months to 30-Jun-11 €m
Profit for the financial period	**55**	39
Other comprehensive income:		
Foreign currency translation adjustments	**52**	(7)
Defined benefit pension plans including payroll tax:		
– Actuarial loss	**(43)**	(15)
– Movement in deferred tax	**7**	2
Effective portion of changes in fair value of cash flow hedges:		
– Movement out of reserve	**6**	5
– New fair value adjustments into reserve	**(1)**	(10)
– Movement in deferred tax	**(1)**	-
Total other comprehensive income/(expense)	**20**	(25)
Total comprehensive income for the financial period	**75**	14
Attributable to:		
Owners of the Parent	**63**	6
Non-controlling interests	**12**	8
	75	14

GROUP BALANCE SHEET

	Unaudited 30-Jun-12 €m	Unaudited 30-Jun-11 €m	Audited 31-Dec-11 €m
ASSETS			
Non-current assets			
Property, plant and equipment	**2,984**	2,918	2,973
Goodwill and intangible assets	**2,249**	2,190	2,210
Available-for-sale financial assets	**32**	32	32
Investment in associates	**16**	14	14
Biological assets	**127**	87	114
Trade and other receivables	**4**	6	5
Derivative financial instruments	**12**	-	6
Deferred income tax assets	**162**	111	177
	5,586	5,358	5,531
Current assets			
Inventories	**708**	716	690
Biological assets	**11**	10	10
Trade and other receivables	**1,480**	1,463	1,326
Derivative financial instruments	**8**	5	7
Restricted cash	**11**	9	12
Cash and cash equivalents	**502**	545	845
	2,720	2,748	2,890
Total assets	**8,306**	8,106	8,421

EQUITY			
Capital and reserves attributable to the owners of the Parent			
Equity share capital	**-**	-	-
Capital and other reserves	**2,401**	2,295	2,336
Retained earnings	**(295)**	(487)	(341)
Total equity attributable to the owners of the Parent	**2,106**	1,808	1,995
Non-controlling interests	**211**	169	191
Total equity	**2,317**	1,977	2,186

GROUP BALANCE SHEET [continued]

	Unaudited 30-Jun-12 €m	Unaudited 30-Jun-11 €m	Audited 31-Dec-11 €m
LIABILITIES			
Non-current liabilities			
Borrowings	**3,228**	3,416	3,450
Employee benefits	**711**	611	655
Derivative financial instruments	**44**	112	54
Deferred income tax liabilities	**211**	188	210
Non-current income tax liabilities	**12**	7	10
Provisions for liabilities and charges	**58**	43	55
Capital grants	**12**	14	13
Other payables	**8**	7	10
	4,284	4,398	4,457
Current liabilities			
Borrowings	**70**	141	159
Trade and other payables	**1,531**	1,490	1,504
Current income tax liabilities	**40**	47	36
Derivative financial instruments	**49**	21	59
Provisions for liabilities and charges	**15**	32	20
	1,705	1,731	1,778
Total liabilities	**5,989**	6,129	6,235
Total equity and liabilities	**8,306**	8,106	8,421

The notes to the condensed interim Group Financial Statements on pages 26-38 form an integral part of this financial information.

GROUP STATEMENT OF CHANGES IN EQUITY

	Capital and other reserves										
	Equity share capital	Share premium	Own shares	Reverse acquisition reserve	Cash flow hedging reserve	Foreign currency translation reserve	Share-based payment reserve	Retained earnings	Total equity attributable to the owners of the Parent	Non-controlling interests	Total equity
Unaudited	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2012	-	1,945	-	575	(35)	(228)	79	(341)	1,995	191	2,186
Profit for the financial period	-	-	-	-	-	-	-	115	115	3	118
Other comprehensive income:											
Foreign currency translation adjustments	-	-	-	-	-	70	-	-	70	17	87
Defined benefit pension plans including payroll tax	-	-	-	-	-	-	-	(64)	(64)	-	(64)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	6	-	-	-	6	-	6
Total comprehensive income for the period	-	-	-	-	6	70	-	51	127	20	147
Shares issued	-	5	-	-	-	-	-	-	5	-	5
Shares acquired by Deferred Share Awards Trust	-	-	(13)	-	-	-	-	-	(13)	-	(13)
Hyperinflation adjustment	-	-	-	-	-	-	-	28	28	4	32
Dividends paid	-	-	-	-	-	-	-	(33)	(33)	(4)	(37)
Recycling of cumulative foreign exchange reserve on disposal	-	-	-	-	-	(17)	-	-	(17)	-	(17)
Share-based payment	-	-	-	-	-	-	14	-	14	-	14
At 30 June 2012	**-**	**1,950**	**(13)**	**575**	**(29)**	**(175)**	**93**	**(295)**	**2,106**	**211**	**2,317**

GROUP STATEMENT OF CHANGES IN EQUITY
[continued]

	Capital and other reserves									
	Equity share capital	Share premium	Reverse acquisition reserve	Cash flow hedging reserve	Foreign currency translation reserve	Share-based payment reserve	Retained earnings	Total equity attributable to the owners of the Parent	Non-controlling interests	Total equity
Unaudited	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2011	-	1,937	575	(45)	(216)	64	(552)	1,763	173	1,936
Profit for the financial period	-	-	-	-	-	-	69	69	(1)	68
Other comprehensive income:										
Foreign currency translation adjustments	-	-	-	-	(50)	-	-	(50)	(4)	(54)
Defined benefit pension plans including payroll tax	-	-	-	-	-	-	(34)	(34)	-	(34)
Effective portion of changes in fair value of cash flow hedges	-	-	-	19	-	-	-	19	-	19
Total comprehensive income/(expense) for the period	-	-	-	19	(50)	-	35	4	(5)	(1)
Shares issued	-	8	-	-	-	-	-	8	-	8
Hyperinflation adjustment	-	-	-	-	-	-	30	30	4	34
Dividends paid	-	-	-	-	-	-	-	-	(3)	(3)
Share-based payment	-	-	-	-	-	3	-	3	-	3
At 30 June 2011	**-**	**1,945**	**575**	**(26)**	**(266)**	**67**	**(487)**	**1,808**	**169**	**1,977**

The notes to the condensed interim Group Financial Statements on pages 26-38 form an integral part of this financial information.

GROUP CASH FLOW STATEMENT

	Unaudited 6 months to 30-Jun-12 €m	Unaudited 6 months to 30-Jun-11 €m
Cash flows from operating activities		
Profit for the financial period	**118**	68
Adjustment for		
Income tax expense	**72**	68
Profit on sale of assets and businesses	**(29)**	(3)
Amortisation of capital grants	**(1)**	(1)
Impairment of property, plant and equipment	**-**	13
Equity settled share-based payment expense	**14**	3
Amortisation of intangible assets	**10**	14
Share of associates' profit (after tax)	**(2)**	(1)
Profit on disposal of associate	**-**	(2)
Depreciation charge	**163**	166
Net finance costs	**145**	146
Change in inventories	**(5)**	(90)
Change in biological assets	**8**	9
Change in trade and other receivables	**(132)**	(196)
Change in trade and other payables	**33**	165
Change in provisions	**(12)**	7
Change in employee benefits	**(38)**	(28)
Other	**3**	2
Cash generated from operations	**347**	340
Interest paid	**(125)**	(125)
Income taxes paid:		
Overseas corporation tax (net of tax refunds) paid	**(47)**	(22)
Net cash inflow from operating activities	**175**	193

GROUP CASH FLOW STATEMENT [continued]

	Unaudited 6 months to 30-Jun-12 €m	Unaudited 6 months to 30-Jun-11 €m
Cash flows from investing activities		
Interest received	**4**	3
Purchase of property, plant and equipment and biological assets	**(151)**	(129)
Purchase of intangible assets	**(3)**	(2)
Receipt of capital grants	**-**	1
Decrease/(increase) in restricted cash	**1**	(2)
Disposal of property, plant and equipment	**14**	7
Disposal of associates	**-**	4
Dividends received from associates	**1**	1
Purchase of subsidiaries and non-controlling interests	**(11)**	(1)
Deferred consideration	**5**	(8)
Net cash outflow from investing activities	**(140)**	(126)
Cash flows from financing activities		
Proceeds from issue of new ordinary shares	**5**	8
Ordinary shares purchased – own shares	**(13)**	-
Decrease in interest-bearing borrowings	**(323)**	(12)
Repayment of finance lease liabilities	**(4)**	(6)
Derivative termination payments	**(1)**	(1)
Deferred debt issue costs	**(12)**	-
Dividends paid to shareholders	**(33)**	-
Dividends paid to non-controlling interests	**(4)**	(3)
Net cash outflow from financing activities	**(385)**	(14)
(Decrease)/increase in cash and cash equivalents	**(350)**	53
Reconciliation of opening to closing cash and cash equivalents		
Cash and cash equivalents at 1 January	**825**	481
Currency translation adjustment	**8**	(7)
(Decrease)/increase in cash and cash equivalents	**(350)**	53
Cash and cash equivalents at 30 June	**483**	527

The notes to the condensed interim Group Financial Statements on pages 26-38 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 whose shares are publicly traded. It is 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 2011 have been included in this report; this information is supplementary and not required by IAS 34. This report should be read in conjunction with the consolidated financial statements for the year ended 31 December 2011 included in the 2011 annual report which is available on the Group website 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 2011 and are described in those financial statements. No new standards, amendments or interpretations which became effective in 2012 have had a material effect on the Group financial statements.

The Group is a highly integrated paper and paperboard manufacturer with leading market positions, quality assets and broad geographic reach. The financial position of the Group, its cash generation, capital resources and liquidity continue to provide a stable financing platform. Having made enquiries, the Directors have a reasonable expectation that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the half year financial statements.

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. Certain 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.

2. Basis of Preparation [continued]

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 2011 will be filed with the Irish Registrar of Companies in due course. The audit report on those Group accounts was unqualified.

3. Segmental Analyses

With effect from 1 September 2011 the Group reorganised the way in which its European businesses are managed. As part of this reorganisation for commercial reasons, the businesses which previously formed part of the Specialties segment were operationally merged with its existing Packaging Europe segment (now referred to as 'Europe') and are now managed on a combined basis to make decisions about the allocation of resources and in assessing performance. After this date, the Group ceased to produce financial information for Specialties as the financial information of all of its plants is now combined with the other Europe segment plants.

As a result, the Group has now two segments on the basis of which performance is assessed and resources are allocated: 1) Europe and 2) Latin America and segmental information is presented below on this basis. Prior year segmental information has been restated to conform to the current year segment presentation.

The Europe segment is highly integrated. It includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. 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.

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 ('EBITDA before exceptional items'). 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.

NOTES TO THE FINANCIAL STATEMENTS
[continued]

3. Segmental Analyses (continued)

	6 months to 30-Jun-12			6 months to 30-Jun-11		
	Europe	Latin America	Total	Europe	Latin America	Total
	€m	€m	€m	€m	€m	€m
Revenue and Results						
Revenue	**3,005**	**675**	**3,680**	3,064	606	3,670
EBITDA before exceptional items	**418**	**97**	**515**	410	111	521
Segment exceptional items	**28**	**-**	**28**	(23)	-	(23)
EBITDA after exceptional items	**446**	**97**	**543**	387	111	498
Unallocated centre costs			**(15)**			(14)
Share-based payment expense			**(14)**			(3)
Depreciation and depletion (net)			**(171)**			(175)
Amortisation			**(10)**			(14)
Impairment of assets			**-**			(13)
Finance costs			**(204)**			(215)
Finance income			**59**			69
Profit on disposal of associate			**-**			2
Share of associates' profit (after tax)			**2**			1
Profit before income tax			**190**			136
Income tax expense			**(72)**			(68)
Profit for the financial period			**118**			68
Assets						
Segment assets	**6,249**	**1,625**	**7,874**	6,278	1,320	7,598
Investment in associates	**2**	**14**	**16**	1	13	14
Group centre assets			**416**			494
Total assets			**8,306**			8,106

3. Segmental Analyses (continued)

	3 months to 30-Jun-12			3 months to 30-Jun-11		
	Europe	Latin America	Total	Europe	Latin America	Total
	€m	€m	€m	€m	€m	€m
Revenue and Results						
Revenue	**1,515**	**342**	**1,857**	1,557	310	1,867
EBITDA before exceptional items	**218**	**42**	**260**	209	61	270
Segment exceptional items	**-**	**-**	**-**	(22)	-	(22)
EBITDA after exceptional items	**218**	**42**	**260**	187	61	248
Unallocated centre costs			**(5)**			(6)
Share-based payment expense			**(6)**			(2)
Depreciation and depletion (net)			**(87)**			(88)
Amortisation			**(6)**			(7)
Impairment of assets			**-**			(13)
Finance costs			**(98)**			(101)
Finance income			**25**			26
Share of associates' profit (after tax)			**2**			1
Profit before income tax			**85**			58
Income tax expense			**(30)**			(19)
Profit for the financial period			**55**			39

4. Exceptional Items

	6 months to 30-Jun-12 €m	6 months to 30-Jun-11 €m
The following items are regarded as exceptional in nature:		
Impairment loss on property, plant and equipment	**-**	(13)
Reorganisation and restructuring costs	**-**	(23)
Disposal of assets and operations	**28**	-
Exceptional items included in operating profit	**28**	(36)

NOTES TO THE FINANCIAL STATEMENTS
[continued]

4. Exceptional Items [continued]

Exceptional items of €28 million in the first six months comprised €10 million in respect of the sale of land at SKG's former Valladolid mill in Spain (operation closed in 2008), together with €18 million relating to the disposal of a company in Slovakia. The gain primarily relates to the reclassification (under IFRS) of the cumulative translation differences within equity from reserves to retained earnings through the Group Income Statement.

In June 2011, SKG closed its recycling containerboard mill in Nanterre, France. This resulted in an impairment loss on property, plant and equipment of €13 million and reorganisation and restructuring costs of €22 million. The remaining €1 million of reorganisation and restructuring costs related to the continuing rationalisation of the Group's corrugated operations in Ireland.

5. Finance Costs and Income

	6 months to 30-Jun-12 €m	6 months to 30-Jun-11 €m
Finance costs:		
Interest payable on bank loans and overdrafts	**68**	67
Interest payable on finance leases and hire purchase contracts	**-**	1
Interest payable on other borrowings	**68**	66
Foreign currency translation loss on debt	**11**	3
Fair value loss on derivatives not designated as hedges	**1**	24
Interest cost on employee benefit plan liabilities	**50**	50
Net monetary loss – hyperinflation	**6**	4
Total finance costs	**204**	215
Finance income:		
Other interest receivable	**(4)**	(3)
Foreign currency translation gain on debt	**(3)**	(24)
Fair value gain on derivatives not designated as hedges	**(13)**	(4)
Expected return on employee benefit plan assets	**(39)**	(38)
Total finance income	**(59)**	(69)
Net finance costs	**145**	146

6. Income Tax Expense

Income tax expense recognised in the Group Income Statement

	6 months to 30-Jun-12 €m	6 months to 30-Jun-11 €m
Current taxation:		
Europe	**28**	21
Latin America	**24**	43
	52	64
Deferred taxation	**20**	4
Income tax expense	**72**	68
Current tax is analysed as follows:		
Ireland	**2**	2
Foreign	**50**	62
	52	64

Income tax recognised in the Group Statement of Comprehensive Income

	6 months to 30-Jun-12 €m	6 months to 30-Jun-11 €m
Arising on actuarial gains/losses on defined benefit plans including payroll tax	**(10)**	(5)
Arising on qualifying derivative cash flow hedges	**1**	3
	(9)	(2)

Income tax expense of €72 million for the half year 2012 represented a €4 million increase on the previous year. This includes the effects of legislative changes in Europe and an additional tax expense in some countries as a result of increased profit.

The taxation expense in 2011 for Latin America includes a €23 million tax expense arising from the implementation of a new equity tax law in Colombia, effective on 1 January 2011, which although payable over four years, was required to be expensed in quarter one 2011.

The movement in deferred tax includes a benefit of €10 million in 2011 related to tax losses and a deferred tax expense from increased taxable income in 2012.

NOTES TO THE FINANCIAL STATEMENTS
[continued]

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-Jun-12 €m	6 months to 30-Jun-11 €m
Current service cost	**14**	13
Past service cost	**-**	1
Actuarial loss arising on long-term employee benefits other than defined benefit schemes	**1**	-
Gain on curtailment	**(12)**	-
	3	14
Expected return on plan assets	**(39)**	(38)
Interest cost on plan liabilities	**50**	50
Net financial expense	**11**	12
Defined benefit expense	**14**	26

Included in cost of sales, distribution costs and administrative expenses is a defined benefit expense of €3 million for the half year (2011: €14 million). The reduction of the expense in 2012 is largely as a result of a gain on curtailment of €12 million which was due to the restructuring of the Group's UK pension schemes. Expected return on plan assets of €39 million (2011: €38 million) is included in finance income and interest cost on plan liabilities of €50 million (2011: €50 million) is included in finance costs in the Group Income Statement.

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

	30-Jun-12 €m	31-Dec-11 €m
Present value of funded or partially funded obligations	**(1,810)**	(1,715)
Fair value of plan assets	**1,558**	1,486
Deficit in funded or partially funded plans	**(252)**	(229)
Present value of wholly unfunded obligations	**(459)**	(426)
Net employee benefit liabilities	**(711)**	(655)

The employee benefits provision has increased from €655 million at 31 December 2011 to €711 million at June 2012. The main reason for this is the increase in liabilities due to the lower Eurozone AA corporate bond yields.

8. Earnings Per Share

Basic

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

	6 months to 30-Jun-12	6 months to 30-Jun-11
Profit attributable to the owners of the Parent (€ million)	**115**	69
Weighted average number of ordinary shares in issue (million)	**223**	221
Basic earnings per share – cent	**51.6**	31.3

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 and matching shares issued under the Deferred Annual Bonus Plan.

	6 months to 30-Jun-12	6 months to 30-Jun-11
Profit attributable to the owners of the Parent (€ million)	**115**	69
Weighted average number of ordinary shares in issue (million)	**223**	221
Dilutive potential ordinary shares assumed (million)	**4**	5
Diluted weighted average ordinary shares (million)	**227**	226
Diluted earnings per share – cent	**50.6**	30.6

NOTES TO THE FINANCIAL STATEMENTS
[continued]

8. Earnings Per Share [continued]

Pre-exceptional

	6 months to 30-Jun-12	6 months to 30-Jun-11
Profit attributable to the owners of the Parent (€ million)	**115**	69
Exceptional items included in operating profit (Note 4) (€ million)	**(28)**	36
Taxation on exceptional items (€ million)	**2**	-
Pre-exceptional profit attributable to the owners of the Parent (€ million)	**89**	105
Weighted average number of ordinary shares in issue (million)	**223**	221
Pre-exceptional earnings per share – cent	**39.7**	47.4

9. Dividends

During the period, the final dividend for 2011 of 15 cent per share was paid to the holders of ordinary shares.

10. Property, Plant and Equipment

	Land and buildings €m	Plant and equipment €m	Total €m
Six months ended 30 June 2012			
Opening net book amount	1,115	1,858	2,973
Reclassification	6	(9)	(3)
Additions	10	104	114
Acquisitions	1	1	2
Depreciation charge for the period	(24)	(139)	(163)
Retirements and disposals	(3)	-	(3)
Hyperinflation adjustment	7	8	15
Foreign currency translation adjustment	19	30	49
At 30 June 2012	**1,131**	**1,853**	**2,984**
Year ended 31 December 2011			
Opening net book amount	1,128	1,880	3,008
Reclassification	19	(25)	(6)
Additions	4	282	286
Acquisitions	2	7	9
Depreciation charge for the year	(50)	(296)	(346)
Impairments	(5)	(10)	(15)
Retirements and disposals	(2)	(1)	(3)
Hyperinflation adjustment	21	23	44
Foreign currency translation adjustment	(2)	(2)	(4)
At 31 December 2011	**1,115**	**1,858**	**2,973**

NOTES TO THE FINANCIAL STATEMENTS

[continued]

11. Analysis of Net Debt

	30-Jun-12 €m	31-Dec-11 €m
Senior credit facility		
Revolving credit facility[1] – interest at relevant interbank rate +3.25% on RCF[8]	**(9)**	(6)
Tranche A term loan[2a] – interest at relevant interbank rate + 2.5%	**-**	94
Tranche B term loan[2b] – interest at relevant interbank rate + 3.625%[8]	**696**	822
Tranche C term loan[2c] – interest at relevant interbank rate + 3.875%[8]	**704**	819
US Yankee bonds (including accrued interest) [3]	**233**	226
Bank loans and overdrafts	**71**	71
Cash	**(513)**	(857)
2015 receivables securitisation variable funding notes[4]	**219**	206
2015 cash pay subordinated notes (including accrued interest) [5]	**381**	376
2017 senior secured notes (including accrued interest)[6]	**491**	490
2019 senior secured notes (including accrued interest)[7]	**493**	492
Net debt before finance leases	**2,766**	2,733
Finance leases	**10**	13
Net debt including leases	**2,776**	2,746
Balance of revolving credit facility reclassified to debtors	**9**	6
Net debt after reclassification	**2,785**	2,752

(1) Revolving credit facility ('RCF') of €525 million (available under the senior credit facility) to be repaid in full in 2016. (Revolver loans - nil, drawn under ancillary facilities and facilities supported by letters of credit – €0.2 million)

(2a) Tranche A term loan prepaid in April 2012

(2b) Tranche B term loan due to be repaid in full in 2016 (maturity date extended from 2013 on 1 March 2012)

(2c) Tranche C term loan due to be repaid in full in 2017 (maturity date extended from 2014 on 1 March 2012)

(3) US$292.3 million 7.50% senior debentures due 2025

(4) Receivables securitisation variable funding notes due 2015

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

(6) €500 million 7.25% senior secured notes due 2017

(7) €500 million 7.75% senior secured notes due 2019

11. Analysis of Net Debt [continued]

(8) The margins applicable to the senior credit facility are determined as follows:

Net debt/EBITDA ratio	RCF	Tranche B	Tranche C
Greater than 4.0 : 1	4.000%	3.875%	4.125%
4.0 : 1 or less but more than 3.5 : 1	3.750%	3.625%	3.875%
3.5 : 1 or less but more than 3.0 : 1	3.500%	3.625%	3.875%
3.0 : 1 or less but more than 2.5 : 1	3.250%	3.625%	3.875%
2.5 : 1 or less	3.125%	3.500%	3.750%

The reduction in the Group's cash position during the second quarter reflects the voluntary early debt repayment of €330 million in the period.

The Group's activities expose it to a variety of financials risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

There have been no changes in the Group's financial risks or financial risk management policies since year end.

12. Venezuela

Hyperinflation

As discussed more fully in the 2011 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 – *Financial Reporting in Hyperinflationary Economies* to its Venezuelan operations at 31 December 2009 and for all subsequent accounting periods.

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 at June 2012 and 2011 are as follows:

	30-Jun-12	30-Jun-11
Index at period end	**285.5**	235.3
Movement in period	**7.5%**	13.0%

NOTES TO THE FINANCIAL STATEMENTS
[continued]

12. Venezuela [continued]

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the Group Income Statement is impacted as follows: Revenue €12 million increase (2011: €3 million increase), pre-exceptional EBITDA €2 million decrease (2011: €3 million decrease) and profit after taxation €20 million decrease (2011: €16 million decrease). In 2012, a net monetary loss of €6 million (2011: €4 million loss) was recorded in the Group Income Statement. The impact on the Group's net assets and total equity is an increase of €12 million (2011: €19 million increase).

13. Related Party Transactions

Details of related party transactions in respect of the year ended 31 December 2011 are contained in Note 29 of our 2011 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 2012 or changes to transactions with related parties disclosed in the 2011 financial statements that had a material effect on the financial position or the performance of the Group.

14. Post Balance Sheet Events

In July, SKG's 520,000 tonne kraftliner mill in France was forced to temporarily cease production following the collapse of a black liquor tank. The Group's current estimate is that the mill will be shut for approximately six weeks, with no material effect on its results of operations for 2012.

15. Board Approval

The interim management report and condensed interim financial statements were approved by the Board of Directors on 31 July 2012.

16. Distribution of the Interim Management Report

The 2012 interim management report and condensed interim financial statements are available on the Group's website (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 2012

The Directors, whose names and functions are listed on pages 36 and 37 in the Group's 2011 annual report, 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 IAS 34, Interim Financial Reporting 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 2012 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 2012, 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.

Signed on behalf of the Board

G.W. McGann, Director and Chief Executive Officer
I.J. Curley, Director and Chief Financial Officer

31 July 2012

SUPPLEMENTAL FINANCIAL INFORMATION

EBITDA before exceptional items and share-based payment expense is denoted by EBITDA in the following schedules for ease of reference.

Reconciliation of Profit to EBITDA

	3 months to 30-Jun-12 €m	3 months to 30-Jun-11 €m	6 months to 30-Jun-12 €m	6 months to 30-Jun-11 €m
Profit for the financial period	**55**	39	**118**	68
Income tax expense	**30**	19	**72**	68
Impairment loss on property, plant and equipment	**-**	13	**-**	13
Reorganisation and restructuring costs	**-**	22	**-**	23
Disposal of assets and operations	**-**	-	**(28)**	-
Profit on disposal of associate	**-**	-	**-**	(2)
Share of associates' profit (after tax)	**(2)**	(1)	**(2)**	(1)
Net finance costs	**73**	75	**145**	146
Share-based payment expense	**6**	2	**14**	3
Depreciation, depletion (net) and amortisation	**93**	95	**181**	189
EBITDA	**255**	264	**500**	507

Supplemental Historical Financial Information

€m	Q2, 2011	Q3, 2011	Q4, 2011	FY, 2011	Q1, 2012	Q2, 2012
Group and third party revenue	3,124	3,109	2,919	12,108	2,950	3,050
Third party revenue	1,867	1,868	1,819	7,357	1,823	1,857
EBITDA	264	264	245	1,015	246	255
EBITDA margin	14.2%	14.1%	13.4%	13.8%	13.5%	13.7%
Operating profit	132	162	149	590	177	156
Profit before income tax	58	85	77	299	105	85
Free cash flow	66	117	199	394	(16)	63
Basic earnings per share - cent	15.7	22.2	39.4	93.0	27.1	24.5
Weighted average number of shares used in EPS calculation (million)	222	222	222	222	222	223
Net debt	3,003	2,921	2,752	2,752	2,775	2,785
Net debt to EBITDA (LTM)	2.98	2.84	2.71	2.70	2.73	2.76

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