

10 August 2011: Smurfit Kappa Group plc (“SKG” or the “Group”) today announced results for the 3 months and 6 months ending 30 June 2011.

2011 Second Quarter & First Half | Key Financial Performance Measures

€m	H1 2011	H1 2010	change	Q2 2011	Q2 2010	change	Q1 2011	change
Revenue	€3,670	€3,226	14%	€1,867	€1,696	10%	€1,803	4%
EBITDA before Exceptional Items and Share-based Payment ⁽¹⁾	€507	€404	25%	€264	€221	20%	€243	9%
EBITDA Margin	13.8%	12.5%	-	14.2%	13.0%	-	13.5%	-
Operating Profit before Exceptional Items	€315	€206	52%	€167	€119	40%	€148	13%
Profit/(Loss) before Income Tax	€136	€(9)	-	€58	€(5)	-	€78	-
Basic EPS (cent)	31.3	(17.4)	-	15.7	(10.3)	-	15.6	-
Pre-exceptional EPS (cent)	47.4	8.4	-	31.4	9.0	-	16.0	-
Return on Capital Employed	11.9%	7.2%	-	-	-	-	-	-
Free Cash Flow ⁽²⁾	€78	€(69)	-	€66	€(12)	-	€12	-
Net Debt				€3,003	€3,291	(9%)	€3,061	(2%)
Net Debt to EBITDA (LTM)				2.98x	4.21x	-	3.18x	-

(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 31.

(2) Free cash flow is set out on page 9. The IFRS cash flow is set out on page 17.

Highlights

- 14% revenue growth and 25% EBITDA growth year-on-year in H1. Pre-exceptional EPS of €0.47
- Significant net debt reduction of €107 million in H1. Total net debt reduction of €288 million in LTM
- Net debt to EBITDA ratio reduced to below 3.0x
- Cash generation and debt paydown will accelerate in H2. Year-end net debt target of €2.85 billion

Performance Review and Outlook

Gary McGann, Smurfit Kappa Group CEO, commented: “We are pleased to report significant net debt reduction of €107 million in the first half. In the last twelve months, we have reduced net debt by €288 million. This strong performance highlights continued disciplined cash flow management, which combined with sustained earnings growth delivered a reduction of our net debt to EBITDA ratio to below 3.0x at the end of June 2011.

Against a backdrop of increased cost pressure in the second quarter, our improved EBITDA margin of 14.2% primarily reflects further progress on European corrugated pricing recovery, an increasingly efficient operating base and a continuing strong performance in our Latin American businesses.

Notwithstanding the positive operating performance in the first half, with risks to the global economy increasing, it is difficult to be definitive about the business outlook. In that context, we are maintaining our focus on delivering enhanced packaging solutions for our customers, while continuing our drive on cost efficiency, corrugated pricing recovery, and debt pay down. Our target is to reduce net debt to €2.85 billion by the year end.”

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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2011 Second Quarter & First Half | Performance Overview

As expected, rising input costs continue to be recovered through corrugated pricing, in line with the usual time lag. During the first half of 2011, SKG's European corrugated prices increased by 4.5%, including over 2% in the second quarter. As a result, and despite intensified input cost pressure in quarter two, SKG delivered an improved EBITDA margin of 14.2% in the quarter compared to 13.5% in the first quarter.

Demand for the Group's products remains healthy, with Germany being the key driver of growth in Europe. Against increasingly tough comparators in quarter two SKG's European corrugated volumes were 2% higher year-on-year. Compared to the first quarter of 2011, corrugated volumes were 1% higher in the second quarter.

The Group's improved margin performance in quarter two also reflects a stronger performance by its Latin American operations, which delivered an EBITDA margin of 19.9% in the period. Compared to a margin of 16.7% in quarter one, the second quarter outcome reflects higher selling prices in most countries, together with the restart of our Cali mill following the extensive maintenance downtime that occurred in March 2011.

Through the cycle, SKG's focus is to generate superior financial returns. This objective is underpinned by exceptional commercial attributes providing innovative packaging solutions and leading customer service, combined with strong operating and financial disciplines. These disciplines include an unrelenting focus on cost efficiency, as outlined through the €39 million of cost take-out delivered in the first half of 2011, and ongoing efficient capacity management. In that context, in June SKG announced the permanent closure of its less efficient recycled containerboard mill in Nanterre (France).

Having permanently closed 10 less efficient containerboard mills since 2005, and significantly invested in its "champion" mills, the Group is equipped with a modern and efficient integrated containerboard system which is well positioned to successfully compete with any other paper packaging system in Europe.

In the first half, SKG's total cost of raw material and energy was approximately €300 million higher year-on-year. Compared to quarter one 2011, the Group's recovered fibre costs were 12% higher in quarter two, while energy costs were 3% higher. Although a €10 per tonne reduction in recovered fibre prices occurred in June, prices have since remained stable near record-high levels of an average €155 per tonne.

Against a backdrop of increasing working capital requirements, the Group delivered a relatively strong free cash flow performance which contributed to reduce net debt by €107 million in the first half. Compared to June 2010 levels, SKG's net debt reduced by €288 million at the end of June 2011. The Group's free cash flow generation will accelerate in the second half of 2011, thereby achieving further significant progress towards its targeted debt levels.

2011 Second Quarter | Financial Performance

At €1,867 million for the second quarter of 2011, sales revenue was 10% higher than in the second quarter of 2010. However, allowing for the negative impact of currency and hyperinflation accounting of €32 million, together with a net €10 million in respect of acquisitions, disposals and closures, the underlying increase in revenue was €213 million, the equivalent of approximately 13%.

Compared to the first quarter of 2011, sales revenue in the second quarter was €64 million higher with an underlying increase of €70 million, the equivalent of 4%.

At €264 million, EBITDA in the second quarter of 2011 was €43 million higher than the second quarter of 2010. On a comparable basis EBITDA increased year-on-year by €45 million, the equivalent of 21%. Compared to the first quarter of 2011, EBITDA increased by €21 million.

The closure of our Nanterre mill in France resulted in an exceptional charge of €35 million within operating profit in the second quarter of 2011. This charge comprised €22 million of restructuring costs and €13 million of impairment losses on property, plant and equipment. In the second quarter of 2010, exceptional items of €42 million charged within operating profit related mainly to the asset swap with Mondi.

At €132 million, operating profit after exceptional items for the second quarter of 2011 was €55 million higher than in 2010, an increase of approximately 72%.

Net finance costs of €75 million in the second quarter of 2011 were €8 million lower than in the second quarter of 2010, primarily reflecting a lower average interest cost.

Including the Group's share of associates' profit, the profit before tax was €58 million in the second quarter of 2011 compared to a loss of €5 million in 2010.

Earnings per share was 15.7 cent for the quarter to June 2011 (2010: loss per share 10.3 cent). Adjusting for the exceptional charge in the quarter of €35 million (2010: €42 million), pre-exceptional earnings per share was 31.4 cent (2010: 9 cent).

2011 First Half | Financial Performance

Revenue of €3,670 million in the first half of 2011 represents a 14% increase on the first half of 2010. Allowing for a negative impact of currency and hyperinflation accounting of €5 million, and for a net €19 million in respect of acquisitions, disposals and closures, revenue shows an underlying year-on-year increase of €468 million (15%).

At €507 million, EBITDA in the first half of 2011 was €103 million, or 25% higher than in the comparable period in 2010. While the impact of currency was negligible, acquisitions and the absence of loss making operations sold or closed in 2010 increased 2011's EBITDA by €4 million, giving an underlying increase of €99 million (24%).

Exceptional items charged within operating profit in the first half of 2011 related almost entirely to the closure of our Nanterre mill. In the first half of 2010, exceptional charges within operating profit amounted to €56 million, of which approximately €40 million related to the asset swap with Mondi, while the balance related to the currency devaluation and associated hyperinflationary adjustments in Venezuela, which were booked primarily in the first quarter.

Operating profit after exceptional items for the half year was €279 million, compared to €150 million for the same period in 2010, an increase of 86%.

Net finance costs of €146 million were €14 million lower year-on-year, primarily reflecting a lower average interest cost.

Including the Group's share of associates' profit of €1 million in 2011, total profit before tax was €136 million in the first six months of 2011 compared to a loss of €9 million in 2010.

Income tax expense of €68 million for the half year included a €23 million tax expense arising from the implementation of additional temporary taxes in Colombia on 1 January, which although payable over the next four years, was required to be expensed in quarter one 2011, under IFRS.

Earnings per share was 31.3 cent for the six months to June 2011 (2010: loss per share 17.4 cent). Adjusting for the exceptional charge in the six months to June of €36 million (2010: €56 million), pre-exceptional EPS was 47.4 cent (2010: 8.4 cent).

2011 Second Quarter & First Half | Free Cash Flow

Compared to a net outflow of €69 million reported in the first half of 2010, the Group reported a positive free cash flow of €78 million in the first half of 2011. This primarily reflected the 25% increase in EBITDA and lower working capital outflows year-on-year, somewhat offset by higher capital expenditure. This first half free cash flow performance was the strongest in any first half since the creation of SKG in 2005, and highlights the Group's sharp focus on debt paydown and de-leveraging.

The working capital move in the first half of 2011 was an outflow of €119 million, primarily reflecting improved volumes and higher raw material and end-product prices. SKG continues to actively manage working capital, and despite the need for inventory building in advance of the planned Piteå kraftliner mill downtime in August 2011, the Group's working capital to annualised sales ratio reduced to 9.3% at June 2011, compared to 9.5% at June 2010 and 9.8% at June 2009.

Capital expenditure of €116 million in the first half of 2011 equated to 66% of depreciation, compared to 49% in the first half of 2010. For the full year 2011 SKG expects to increase its capital expenditure towards its normalised levels.

Cash interest of €122 million in the first half of 2011 was €11 million lower than in the first half of 2010, primarily reflecting a lower average interest cost year-on-year.

Tax payments of €22 million in the first half of 2011 were €10 million lower than in 2010.

2011 Second Quarter & First Half | Capital Structure

The Group's net debt reduced by €107 million to €3,003 million in the first half of 2011, mainly reflecting SKG's positive free cash flow performance of €78 million in the period and €38 million of favourable currency movements, somewhat offset by a deferred consideration payment relating to the disposal of SKG's loss-making Rol Pin operation in 2010. The positive currency movement in the first half primarily reflects the relative strength of the euro against the US dollar.

Compared to June 2010, net debt at the end of June 2011 was €288 million lower, the equivalent of a 9% reduction. It is worth bearing in mind that the year-on-year reduction in net debt was achieved despite a cumulative working capital outflow of €84 million over that period, reflecting higher volumes and prices.

The Group continues to benefit from its average debt maturity profile of 4.8 years, with no material maturities before December 2013. In addition, SKG currently has €554 million of cash on its balance sheet, with committed undrawn credit facilities of approximately €525 million.

At the end of June 2011, the Group's net debt to EBITDA ratio reduced to below 3.0x for the first time since the establishment of the Group in 2005. The Group's strategic priority for 2011 continues to be one of maximising free cash flow generation for further debt paydown and de-leveraging. A reducing leverage, combined with a strong liquidity position, a good maturity profile and diversified funding sources, provide SKG with improving financial flexibility.

2011 Second Quarter & First Half | Operating Efficiency

Reorganisation of Specialties segment

With effect from 1 September, 2011 the Group has decided to transfer its Specialties businesses into its existing European Packaging segment. The board mills will be integrated with SKG's containerboard business, while the converting operations will be integrated into the relevant country corrugated network.

On the converting side, by the creation of effectively a "one-stop-shop", the Group will be positioned to offer the most complete and innovative range of paper-based packaging solutions for all applications. The business will also benefit from benchmarking and optimal operating efficiency. On the solidboard side the application of the Group's containerboard model of grade optimisation and supply chain management is expected to deliver improved cost competitiveness.

The Group's successful bag-in-box business will also benefit from this restructuring through a renewed market-led expansionary focus under the leadership of the Group's Packaging management team.

This reorganisation will increase the breadth of the Group's commercial offering and enhance its overall cost efficiency, which should contribute to improving the margins of its integrated solid, graphic and carton board businesses.

Nanterre mill closure

In June, SKG announced the closure of its recycled containerboard mill in Nanterre (France) which has been idled since April 2010. This will result in a permanent capacity rationalisation of 160,000 tonnes.

The permanent closure of the Nanterre mill resulted in an exceptional charge of €35 million in the second quarter of 2011, including €13 million of impairment losses. Following the announced closure of the mill, SKG is currently reviewing its options to monetise the 17 hectare Nanterre site, located in the vicinity of Paris.

Including Nanterre, the Group has now permanently closed 10 less efficient containerboard mills since 2005 (the equivalent of 920,000 tonnes of capacity). In the period, SKG has also continued to invest significant capital in its "champion" mills. As a result of those actions, SKG's European Packaging operations are equipped today with a modern and efficient integrated system of 14 recycled containerboard and 3 kraftliner mills.

The Group is confident that its mill system is at least as competitive as any other containerboard system in Europe.

Commercial offering

In addition to its continued focus on operating excellence, SKG's strong margin performance through the cycle also reflects its clear commitment to provide customers with innovative, sustainable and cost efficient paper-based packaging solutions.

The Group is uniquely equipped to provide industry leading customer service, supported by its unrivalled geographical footprint, its state of the art design capabilities and its broad-based product offering. In the first half of 2011, these attributes allowed SKG to be awarded significant incremental volumes with key multi-national Fast Moving Consumer Goods (FMCG) customers.

SKG is committed to continue investing to meet and exceed customers' requirements. In that context, in the first half the Group finalised a €20 million investment programme in its Italian packaging operation, equipping it with state of the art 5-colour printing capacity, thereby further enhancing its offering in the local value-added packaging market.

In the first half, SKG also finalised a 3-year modernisation programme in its Pruszkow facility in Poland. This initiative is part of a broader €30 million investment programme for SKG Poland, and demonstrates the Group's commitment to follow its customers' development and grow its market share in the Eastern European market.

Finally, as part of multiple efficiency and quality enhancing investments across the company, SKG is currently installing over 10 new state of the art pieces of packaging equipment to develop greater advantage for its customers.

Cost take-out programme

In 2011, SKG initiated a 2-year initiative, with a target to generate €150 million of cost savings by the end of 2012. This programme generated €39 million of cost savings benefits in the first half of 2011 (including €22 million in quarter two), which partially mitigated the impact of the significant rise in input costs experienced in the period.

2011 Second Quarter & First Half | Performance Review

Packaging: Europe

Following the 4% underlying demand growth experienced in the full year 2010, demand for SKG's corrugated packaging solutions remained healthy through the first half of 2011, showing a 2% underlying growth year-on-year. SKG's businesses in Germany, the Benelux and Spain experienced particularly strong demand in the period. Including Mondi's UK corrugated operations acquired in May 2010, the Group's volumes were 4% higher in the first half.

Corrugated pricing continued to recover throughout the first half. The Group's European corrugated prices in the second quarter were on average 2% higher compared to the first quarter of 2011. Higher product prices, together with an ongoing strong focus on cost efficiency allowed SKG to deliver a resilient European Packaging EBITDA margin of 13.9% in the second quarter, despite meaningfully higher input costs.

The Group's recovered fibre costs in the second quarter increased by approximately 12% compared to the first quarter of 2011, reaching an all time high level of €165 per tonne in April and May, primarily driven by incremental demand from Eastern European countries. In the second quarter, SKG also experienced sequential increases of 10% in starch costs and 3% in energy costs.

Compared to the first half of 2010, the Group's recovered fibre costs were 31% higher, wood was 16% higher, starch was 85% higher and energy was 5% higher in 2011. Rising input costs, combined with good demand levels and a continued appropriate level of inventories provided a strong platform for pricing. Consequently, in the first half of 2011, recycled containerboard prices increased by €70 per tonne. At the end of the second quarter however, a modest fall in recovered fibre prices has led to a €15 to €20 per tonne decline in recycled containerboard prices in July.

With corrugated packaging demand expected to continue to rise broadly in line with general economic growth, the underlying key driver of pricing through the cycle should remain supply. In that context, it is worth

bearing in mind that the industry is expecting only one new recycled containerboard machine in Europe to start-up in quarter one 2012, with one more in 2013.

The containerboard price increases implemented in the first half of 2011 continue to generate significant pressure on corrugated producers' earnings. As is normal, it takes up to six months to fully offset higher containerboard prices through corrugated price recovery. Having achieved a 16.5% price recovery from the low point in 2009 to the end of 2010, SKG achieved a further 4.5% corrugated price increase in the first half of 2011.

On the kraftliner side, following a €250 per tonne cumulative price increase from the low point in 2009 to the end of 2010, cheaper US imports in the first half of 2011 generated some downward pressure on European prices. A €20 per tonne price reduction was reported in public market indices in quarter one, with a further €10 per tonne decline in quarter two. Furthermore, the absence of an expected price increase in the US market, combined with generally stable wood costs in Europe, is constraining further upward pricing momentum for this grade in the near term.

The European kraftliner market remains balanced however, and the Group expects prices to remain stable in the near term. As previously announced, SKG will be taking 70,000 tonnes of maintenance-related downtime at its Swedish kraftliner mill in August 2011.

Packaging: Latin America

In the second quarter, Latin American EBITDA of €61 million was 21% higher year-on-year, and 24% higher than in the first quarter of 2011. Compared with a margin of 16.7% in the first quarter, the improved margin of 19.9% in quarter two primarily highlights higher prices in most countries, together with the absence of significant maintenance downtime and poor weather conditions that had affected our first quarter margin performance.

In the first half, Latin America represented 22% of the Group's overall EBITDA, with particularly strong performances in Venezuela and Argentina.

While SKG's corrugated volumes in Colombia were 6% higher year-on-year in the second quarter, pricing was relatively stable, highlighting moderate inflation in the country, an increasingly strong currency and aggressive price action from competitors. Following the end of the maintenance downtime at our Cali mill in March, the Group's Colombian earnings in quarter two improved compared to quarter one, and EBITDA is expected to show further growth in the second half.

In the challenging Venezuelan market, following a 7% demand decline in 2010, SKG experienced positive year-on-year corrugated volume growth of 1% in the first half of 2011. Continuing high inflation in the country was more than offset by SKG's cost take-out and operating efficiency actions, as well as by increased pricing.

In July, the Venezuelan authorities have issued precautionary measures over a further 7,253 hectares of the Group's forestry land, with a view to acquiring it and converting its use to food production and related activities. Management are in discussion with the authorities.

SKG's Mexican EBITDA was higher year-on-year in the first half. While corrugated volumes were 1% lower year-on-year largely as a result of a poor agricultural season in quarter one (due to severe weather), prices were higher on average, thereby contributing to offset rising input costs. Further pricing progress in the second half of 2011 is expected to be difficult to secure as a result of lower US containerboard export prices.

High inflation continues to prevail in Argentina, which is starting to affect demand. After a 14% demand growth in 2010, the Group's corrugated volumes in the country were 1% higher in the first half of 2011. Higher prices year-on-year supported good EBITDA growth in the first half.

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 management team to drive the business and grow its earnings, will continue to deliver a strong performance through the cycle.

Specialties: Europe

Following an unsustainably low EBITDA margin performance of 5.7% in the first half of 2010, SKG's Specialties EBITDA margin improved to 9.3% in the first half of 2011. The Group's decision to integrate the Specialties assets into the Packaging Europe segment from September 2011 is expected to further improve the margins in the solidboard, and graphicboard parts of this business area.

The improved Specialties' margin performance year-on-year largely reflects higher prices for solidboard packaging as a result of board price increases of €100 per tonne implemented in 2010, together with the absence of the loss-making sack converting operations which were divested in May 2010. The Group's bag-in-box division continued to perform strongly in the first half.

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-June-11	3 months to 30-June-10	6 months to 30-June-11	6 months to 30-June-10
	€m	€m	€m	€m
Pre-exceptional EBITDA	264	221	507	404
Exceptional Items	-	(2)	-	(16)
Cash interest expense	(61)	(67)	(122)	(133)
Working capital change	(33)	(63)	(119)	(127)
Current provisions	(3)	(8)	(6)	(14)
Capital expenditure	(62)	(51)	(116)	(84)
Change in capital creditors	(9)	(4)	(15)	(37)
Sale of fixed assets	-	-	1	1
Tax paid	(12)	(25)	(22)	(32)
Other	(18)	(13)	(30)	(31)
Free cash flow	66	(12)	78	(69)
Share issues	1	1	8	3
Sale of businesses and investments	(8)	(9)	(4)	(9)
Purchase of investments	-	(45)	(1)	(46)
Derivative termination payments	(1)	(1)	(1)	-
Dividends	(3)	(3)	(3)	(3)
Net cash inflow/(outflow)	55	(69)	77	(124)
Net cash acquired/disposed	-	(2)	-	(2)
Deferred debt issue costs amortised	(4)	(5)	(8)	(10)
Currency translation adjustments	7	(53)	38	(103)
Decrease/(increase) in net debt	58	(129)	107	(239)

(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-Jun-11	6 months to 30-Jun-10
	€m	€m
Free cash flow	78	(69)
Add back: Cash interest	122	133
Capital expenditure (net of change in capital creditors)	131	121
Tax payments	22	32
Less: Sale of fixed assets	(1)	(1)
Profit on sale of assets and businesses – non exceptional	(6)	(9)
Receipt of capital grants (in “Other”)	(1)	-
Dividends received from associates (in “Other”)	(1)	(1)
Non-cash lease movement	(4)	-
Cash generated from operations	340	206

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 2011 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 €171.9 million variable funding notes issued under the new €250 million accounts receivable securitisation programme 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 €132 million amortising Tranche A maturing in 2012, an €815 million Tranche B maturing in 2013 and an €813 million Tranche C maturing in 2014. In addition, as at 30 June 2011, the facility included as at 30 June a €525 million revolving credit facility, none of which was drawn.

The following table provides the range of interest rates as of 30 June 2011 for each of the drawings under the various senior credit facility term loans.

BORROWING ARRANGEMENT	CURRENCY	INTEREST RATE
Term Loan A	EUR	3.982%
Term Loan B	EUR	4.349% - 4.649%
	USD	3.418%
Term Loan C	EUR	4.599% - 4.869%
	USD	3.668%

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 2011 the Group had fixed an average of 78% of its interest cost on borrowings over the following twelve months.

The Group's 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.

The Group's 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 2010 annual report on page 47. 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 economic recovery were to reverse or sovereign debt concerns were to intensify and result in an economic slowdown which was 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 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 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 their potential adverse consequences.

Group Income Statement – Six Months

	<u>Unaudited</u>			<u>Unaudited</u>		
	6 months to 30-Jun-11			6 months to 30-Jun-10		
	Pre- exceptional 2011 €m	Exceptional 2011 €m	Total 2011 €m	Pre- exceptional 2010 €m	Exceptional 2010 €m	Total 2010 €m
Revenue	3,670	-	3,670	3,226	-	3,226
Cost of sales	(2,637)	(13)	(2,650)	(2,341)	-	(2,341)
Gross profit	1,033	(13)	1,020	885	-	885
Distribution costs	(282)	-	(282)	(275)	-	(275)
Administrative expenses	(437)	-	(437)	(418)	(16)	(434)
Other operating income	1	-	1	14	-	14
Other operating expenses	-	(23)	(23)	-	(40)	(40)
Operating profit	315	(36)	279	206	(56)	150
Finance costs	(215)	-	(215)	(271)	-	(271)
Finance income	69	-	69	111	-	111
Profit on disposal of associate	2	-	2	-	-	-
Share of associates' profit (after tax)	1	-	1	1	-	1
Profit/(loss) before income tax	172	(36)	136	47	(56)	(9)
Income tax expense			(68)			(31)
Profit/(loss) for the financial period			68			(40)
<i>Attributable to:</i>						
Owners of the Parent			69			(38)
Non-controlling interests			(1)			(2)
Profit/(loss) for the financial period			68			(40)
Earnings per share:						
Basic earnings/(loss) per share - cent			31.3			(17.4)
Diluted earnings/(loss) per share - cent			30.6			(17.4)

The notes to the condensed interim Group Financial Statements on pages 18 to 29 form an integral part of this financial information.

Group Income Statement – Second Quarter

	<u>Unaudited</u>			<u>Unaudited</u>		
	3 months to 30-Jun-11			3 months to 30-Jun-10		
	Pre- exceptional 2011	Exceptional 2011	Total 2011	Pre- exceptional 2010	Exceptional 2010	Total 2010
€m	€m	€m	€m	€m	€m	
Revenue	1,867	-	1,867	1,696	-	1,696
Cost of sales	(1,341)	(13)	(1,354)	(1,235)	-	(1,235)
Gross profit	526	(13)	513	461	-	461
Distribution costs	(143)	-	(143)	(140)	-	(140)
Administrative expenses	(217)	-	(217)	(210)	(2)	(212)
Other operating income	1	-	1	8	-	8
Other operating expenses	-	(22)	(22)	-	(40)	(40)
Operating profit	167	(35)	132	119	(42)	77
Finance costs	(101)	-	(101)	(137)	-	(137)
Finance income	26	-	26	54	-	54
Share of associates' profit (after tax)	1	-	1	1	-	1
Profit/(loss) before income tax	93	(35)	58	37	(42)	(5)
Income tax expense			(19)			(17)
Profit/(loss) for the financial period			39			(22)
<i>Attributable to:</i>						
Owners of the Parent			35			(22)
Non-controlling interests			4			-
Profit/(loss) for the financial period			39			(22)
Earnings per share:						
Basic earnings/(loss) per share - cent			15.7			(10.3)
Diluted earnings/(loss) per share - cent			15.3			(10.3)

Group Statement of Comprehensive Income

	<u>Unaudited</u> 6 months to 30-Jun-11 €m	<u>Unaudited</u> 6 months to 30-Jun-10 €m
Profit/(loss) for the financial period	68	(40)
Other comprehensive income:		
Foreign currency translation adjustments	(54)	(3)
Defined benefit pension plans:		
- Actuarial loss including payroll tax	(39)	(23)
- Movement in deferred tax	5	6
Effective portion of changes in fair value of cash flow hedges:		
- Movement out of reserve	11	13
- New fair value adjustments into reserve	11	(28)
- Movement in deferred tax	(3)	2
Total other comprehensive income	<u>(69)</u>	<u>(33)</u>
Comprehensive income and expense for the financial period	<u>(1)</u>	<u>(73)</u>
<i>Attributable to:</i>		
Owners of the Parent	4	(83)
Non-controlling interests	(5)	10
	<u>(1)</u>	<u>(73)</u>

The notes to the condensed interim Group Financial Statements on pages 18 to 29 form an integral part of this financial information.

Group Balance Sheet

	<u>Unaudited</u> 30-Jun-11 €m	<u>Unaudited</u> 30-Jun-10 €m	<u>Audited</u> 31-Dec-10 €m
ASSETS			
Non-current assets			
Property, plant and equipment	2,918	3,037	3,008
Goodwill and intangible assets	2,190	2,234	2,209
Available-for-sale financial assets	32	32	32
Investment in associates	14	15	16
Biological assets	87	94	88
Trade and other receivables	6	4	5
Derivative financial instruments	-	20	2
Deferred income tax assets	111	287	134
	<u>5,358</u>	<u>5,723</u>	<u>5,494</u>
Current assets			
Inventories	716	632	638
Biological assets	10	10	7
Trade and other receivables	1,463	1,344	1,292
Derivative financial instruments	5	8	8
Restricted cash	9	34	7
Cash and cash equivalents	545	423	495
	<u>2,748</u>	<u>2,451</u>	<u>2,447</u>
Non-current assets held for sale	-	3	-
Total assets	<u><u>8,106</u></u>	<u><u>8,177</u></u>	<u><u>7,941</u></u>
EQUITY			
Capital and reserves attributable to the owners of the Parent			
Equity share capital	-	-	-
Capital and other reserves	2,295	2,330	2,315
Retained earnings	(487)	(683)	(552)
Total equity attributable to the owners of the Parent	<u>1,808</u>	<u>1,647</u>	<u>1,763</u>
Non-controlling interests	169	180	173
Total equity	<u><u>1,977</u></u>	<u><u>1,827</u></u>	<u><u>1,936</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings	3,416	3,603	3,470
Employee benefits	611	680	595
Derivative financial instruments	112	85	101
Deferred income tax liabilities	188	319	206
Non-current income tax liabilities	7	14	9
Provisions for liabilities and charges	43	44	49
Capital grants	14	13	14
Other payables	7	5	7
	<u>4,398</u>	<u>4,763</u>	<u>4,451</u>
Current liabilities			
Borrowings	141	145	142
Trade and other payables	1,490	1,335	1,351
Current income tax liabilities	47	33	5
Derivative financial instruments	21	43	27
Provisions for liabilities and charges	32	31	29
	<u>1,731</u>	<u>1,587</u>	<u>1,554</u>
Total liabilities	<u>6,129</u>	<u>6,350</u>	<u>6,005</u>
Total equity and liabilities	<u><u>8,106</u></u>	<u><u>8,177</u></u>	<u><u>7,941</u></u>

The notes to the condensed interim Group Financial Statements on pages 18 to 29 form an integral part of this financial information.

Group Statement of Changes in Equity (Unaudited)

Capital and other reserves

	Equity share capital	Share premium	Reverse acquisition reserve	Cash flow hedging reserve	Foreign currency translation reserve	Reserve for share-based payment	Retained earnings	Total equity attributable to the owners of the Parent	Non-controlling interests	Total equity
	€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
Shares issued	-	8	-	-	-	-	-	8	-	8
Total comprehensive income and expense	-	-	-	19	(50)	-	35	4	(5)	(1)
Hyperinflation adjustment	-	-	-	-	-	-	30	30	4	34
Share-based payment	-	-	-	-	-	3	-	3	-	3
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(3)	(3)
At 30 June 2011	-	1,945	575	(26)	(266)	67	(487)	1,808	169	1,977
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)	-
At 30 June 2010	-	1,931	575	(57)	(181)	62	(683)	1,647	180	1,827

The notes to the condensed interim Group Financial Statements on pages 18 to 29 form an integral part of this financial information.

Group Cash Flow Statement

	<u>Unaudited</u> 6 months to 30-Jun-11 €m	<u>Unaudited</u> 6 months to 30-Jun-10 €m
Cash flows from operating activities		
Profit/(loss) for the financial period	68	(40)
<i>Adjustment for</i>		
Income tax expense	68	31
(Profit)/loss on sale of assets and businesses	(3)	25
Amortisation of capital grants	(1)	(1)
Impairment of property, plant and equipment	13	-
Equity settled share-based payment transactions	3	2
Amortisation of intangible assets	14	23
Share of associates' profit (after tax)	(1)	(1)
Profit on disposal of associates	(2)	-
Depreciation charge	166	165
Net finance costs	146	160
Change in inventories	(90)	(62)
Change in biological assets	9	8
Change in trade and other receivables	(196)	(225)
Change in trade and other payables	165	160
Change in provisions	7	(15)
Change in employee benefits	(28)	(27)
Other	2	3
Cash generated from operations	340	206
Interest paid	(125)	(134)
Income taxes paid:		
Irish corporation tax paid	-	(1)
Overseas corporation tax (net of tax refunds) paid	(22)	(31)
Net cash inflow from operating activities	193	40
Cash flows from investing activities		
Interest received	3	2
Mondi asset swap	-	(56)
Purchase of property, plant and equipment and biological assets	(129)	(118)
Purchase of intangible assets	(2)	(3)
Receipt of capital grants	1	-
(Increase)/decrease in restricted cash	(2)	10
Disposal of property, plant and equipment	7	10
Disposal of associates	4	-
Dividends received from associates	1	1
Purchase of subsidiaries and non-controlling interests	(1)	(1)
Deferred consideration	(8)	-
Net cash outflow from investing activities	(126)	(155)
Cash flow from financing activities		
Proceeds from issue of new ordinary shares	8	3
Decrease in interest-bearing borrowings	(12)	(50)
Repayment of finance lease liabilities	(6)	(7)
Derivative termination payments	(1)	-
Deferred debt issue costs	-	(1)
Dividends paid to non-controlling interests	(3)	(3)
Net cash outflow from financing activities	(14)	(58)
Increase/(decrease) in cash and cash equivalents	53	(173)
Reconciliation of opening to closing cash and cash equivalents		
Cash and cash equivalents at 1 January	481	587
Currency translation adjustment	(7)	(7)
Increase/(decrease) in cash and cash equivalents	53	(173)
Cash and cash equivalents at 30 June	527	407

The notes to the condensed interim Group Financial Statements on pages 18 to 29 form an integral part of this financial information.

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 2010 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 2010 included in the 2010 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 2010 and are described in those financial statements.

The following new standards, amendments and interpretations became effective in 2011, however, they either do not have an effect on the Group financial statements or they are not currently relevant for the Group:

- *Classification of Rights Issues* (Amendment to IAS 32)
- *IAS 24, Related Party Disclosure (Revised)*
- *Amendments to IFRIC 14, Prepayments of a Minimum Funding Requirement*
- *IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*

In addition, a number of annual improvements to IFRSs are effective for 2011, however, none of these had or is expected to have 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 provide a stable financing platform and its key debt ratios continue to improve. After making 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. 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 2010 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. The Specialties segment comprises activities dedicated to the needs of specific and sometimes niche markets. These include bag-in-box and solidboard. 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.

As part of an internal reorganisation during 2010 our sack kraft paper mill was transferred from the Specialties segment to the Packaging segment. Prior year segmental information has been restated to conform to the current year segment presentation.

	6 months to 30-Jun-11				6 months to 30-Jun-10			
	Packaging Europe €m	Specialties Europe €m	Latin America €m	Total €m	Packaging Europe €m	Specialties Europe €m	Latin America €m	Total €m
Revenue and Results								
Revenue	<u>2,684</u>	<u>380</u>	<u>606</u>	<u>3,670</u>	<u>2,302</u>	<u>378</u>	<u>546</u>	<u>3,226</u>
EBITDA before exceptional items	375	35	111	521	299	22	92	413
Segment exceptional items	<u>(24)</u>	<u>1</u>	<u>-</u>	<u>(23)</u>	<u>(1)</u>	<u>(39)</u>	<u>(16)</u>	<u>(56)</u>
EBITDA after exceptional items	<u>351</u>	<u>36</u>	<u>111</u>	<u>498</u>	<u>298</u>	<u>(17)</u>	<u>76</u>	<u>357</u>
Unallocated centre costs				(14)				(9)
Share-based payment expense				(3)				(2)
Depreciation and depletion (net)				(175)				(173)
Amortisation				(14)				(23)
Impairment of assets				(13)				-
Finance costs				(215)				(271)
Finance income				69				111
Profit on disposal of associate				2				-
Share of associates' profit (after tax)				1				1
Profit/(loss) before income tax				136				(9)
Income tax expense				<u>(68)</u>				<u>(31)</u>
Profit/(loss) for the financial period				<u>68</u>				<u>(40)</u>
Assets								
Segment assets	5,452	711	1,310	7,473	5,374	724	1,312	7,410
Investment in associates	<u>1</u>	<u>-</u>	<u>13</u>	<u>14</u>	<u>2</u>	<u>-</u>	<u>13</u>	<u>15</u>
Group centre assets				619				752
Total assets				<u>8,106</u>				<u>8,177</u>

	3 months to 30-Jun-11				3 months to 30-Jun-10			
	Packaging Europe €m	Specialties Europe €m	Latin America €m	Total €m	Packaging Europe €m	Specialties Europe €m	Latin America €m	Total €m
Revenue and Results								
Revenue	<u>1,355</u>	<u>202</u>	<u>310</u>	<u>1,867</u>	<u>1,198</u>	<u>196</u>	<u>302</u>	<u>1,696</u>
EBITDA before exceptional items	189	20	61	270	162	13	51	226
Segment exceptional items	<u>(23)</u>	<u>1</u>	<u>-</u>	<u>(22)</u>	<u>(1)</u>	<u>(39)</u>	<u>(2)</u>	<u>(42)</u>
EBITDA after exceptional items	<u>166</u>	<u>21</u>	<u>61</u>	<u>248</u>	<u>161</u>	<u>(26)</u>	<u>49</u>	<u>184</u>
Unallocated centre costs				(6)				(5)
Share-based payment expense				(2)				(1)
Depreciation and depletion (net)				(88)				(89)
Amortisation				(7)				(12)
Impairment of assets				(13)				-
Finance costs				(101)				(137)
Finance income				26				54
Share of associates' profit (after tax)				<u>1</u>				<u>1</u>
Profit/(loss) before income tax				<u>58</u>				<u>(5)</u>
Income tax expense				<u>(19)</u>				<u>(17)</u>
Profit/(loss) for the financial period				<u><u>39</u></u>				<u><u>(22)</u></u>

4. Exceptional Items

	6 months to 30-Jun-11 €m	6 months to 30-Jun-10 €m
The following items are regarded as exceptional in nature:		
Impairment loss on property, plant and equipment	(13)	-
Reorganisation and restructuring costs	(23)	-
Currency trading loss on Venezuelan Bolivar devaluation	-	(16)
Mondi asset swap	-	(40)
Total exceptional items	<u>(36)</u>	<u>(56)</u>

In June, SKG closed its recycled 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 relates to the continuing rationalisation of the Group's corrugated operations in Ireland.

In the first half of 2010 a currency translation loss of €16 million arose from the effect of the retranslation of the U.S. dollar denominated net payables of the Venezuelan operations following the devaluation of the Bolivar Fuerte in January 2010.

During the second quarter of 2010 an asset swap agreement was completed with Mondi. As a result of this, three corrugated plants in the UK were acquired and the Group's paper sacks plants (other than the Polish plant which was sold separately in December 2010) were disposed. The transaction generated an exceptional loss of €40 million in the second quarter.

5. Finance Costs and Income

	6 months to 30-Jun-11 €m	6 months to 30-Jun-10 €m
<i>Finance costs</i>		
Interest payable on bank loans and overdrafts	67	78
Interest payable on finance leases and hire purchase contracts	1	2
Interest payable on other borrowings	66	66
Foreign currency translation loss on debt	3	65
Fair value loss on derivatives not designated as hedges	24	-
Interest cost on employee benefit plan liabilities	50	50
Net monetary loss – hyperinflation	4	10
Total finance cost	215	271
<i>Finance income</i>		
Other interest receivable	(3)	(3)
Foreign currency translation gain on debt	(24)	(4)
Fair value gain on derivatives not designated as hedges	(4)	(69)
Expected return on employee benefit plan assets	(38)	(35)
Total finance income	(69)	(111)
Net finance cost	146	160

6. Income Tax Expense

Income tax expense recognised in the Group Income Statement

	6 months to 30-Jun-11 €m	6 months to 30-Jun-10 €m
<i>Current taxation:</i>		
Europe	21	18
Latin America	43	21
	64	39
Deferred taxation	4	(8)
Income tax expense	68	31

Current tax is analysed as follows:

Ireland	2	1
Foreign	62	38
	64	39

Income tax recognised in the Group Statement of Comprehensive Income

	6 months to 30-Jun-11 €m	6 months to 30-Jun-10 €m
Arising on actuarial gains/losses on defined benefit plans	(5)	(6)
Arising on qualifying derivative cash flow hedges	3	(2)
	(2)	(8)

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

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-11	6 months to 30-Jun-10
	€m	€m
Current service cost	13	18
Past service cost	1	-
Gain on settlements and curtailments	-	(1)
	14	17
Expected return on plan assets	(38)	(35)
Interest cost on plan liabilities	50	50
Net financial expense	12	15
Defined benefit expense	26	32

Included in cost of sales, distribution costs and administrative expenses is a defined benefit expense of €14 million for the first six months of 2011 (2010: €17 million). Expected Return on Plan Assets of €38 million (2010: €35 million) is included in Finance Income and Interest Cost on Plan Liabilities of €50 million (2010: €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-11	31-Dec-10
	€m	€m
Present value of funded or partially funded obligations	(1,534)	(1,548)
Fair value of plan assets	1,325	1,357
Deficit in funded or partially funded plans	(209)	(191)
Present value of wholly unfunded obligations	(402)	(404)
Net employee benefit liabilities	(611)	(595)

The employee benefits provision has increased from €595 million at 31 December 2010 to €611 million at 30 June 2011. The increase in the provision is mainly as a result of assets underperforming their assumed return.

8. Earnings Per Share

Basic

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

	3 Months to 30-Jun-11	3 Months to 30-Jun-10	6 Months to 30-Jun-11	6 Months to 30-Jun-10
	€m	€m	€m	€m
Profit/(loss) attributable to the owners of the Parent	35	(22)	69	(38)
Weighted average number of ordinary shares in issue (million)	222	218	221	218
Basic earnings/(loss) per share – cent	15.7	(10.3)	31.3	(17.4)

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-11	3 Months to 30-Jun-10	6 Months to 30-Jun-10	6 Months to 30-Jun-10
	€m	€m	€m	€m
Profit/(loss) attributable to the owners of the Parent	35	(22)	69	(38)
Weighted average number of ordinary shares in issue (million)	222	218	221	218
Potential dilutive ordinary shares assumed	5	-	5	-
Diluted weighted average ordinary shares	227	218	226	218
Diluted earnings/(loss) per share – cent	15.3	(10.3)	30.6	(17.4)

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 was no difference between basic and diluted loss per share in 2010.

9. Property, Plant and Equipment

	Land and buildings €m	Plant and equipment €m	Total €m
Six months ended 30 June 2011			
Opening net book amount	1,128	1,880	3,008
Reclassification	4	(5)	(1)
Additions	1	106	107
Impairments	-	(13)	(13)
Depreciation charge for the period	(24)	(142)	(166)
Retirements and disposals	(1)	-	(1)
Hyperinflation adjustment	8	9	17
Foreign currency translation adjustment	(12)	(21)	(33)
At 30 June 2011	1,104	1,814	2,918
Year ended 31 December 2010			
Opening net book amount	1,151	1,915	3,066
Reclassification	25	(25)	-
Additions	5	249	254
Acquisitions	10	21	31
Depreciation charge for the year	(50)	(293)	(343)
Retirements and disposals	(11)	(7)	(18)
Hyperinflation adjustment	16	18	34
Foreign currency translation adjustment	(18)	2	(16)
At 31 December 2010	1,128	1,880	3,008

10. Share-based Payment

Share-based payment expense recognised in the Group Income Statement

	6 months to 30-Jun-11 €m	6 months to 30-Jun-10 €m
Charge arising from fair value calculated at grant date	2	2
Charge arising from deferred annual bonus plan	1	-
	3	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.

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. The awards made in 2007 and 2008 lapsed in March 2010 and March 2011 respectively and ceased to be capable of conversion to D convertible shares.

The new class B and new class C convertible shares issued during and from 2009 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 B and 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. 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 plans provide for equity settlement only, no cash settlement alternative is available.

A combined summary of the activity under the 2002 Plan, as amended, and the 2007 SIP, as amended for the period from 1 January 2011 to 30 June 2011 is presented below.

	Number of convertible shares 000's
At 1 January 2011	14,947
Forfeited in the period	(89)
Lapsed in the period	(2,266)
Exercised in the period	(1,766)
At 30 June 2011	10,826

At 30 June 2011, 5,897,303 shares were exercisable and were convertible to ordinary shares. The weighted average exercise price for all shares exercisable at 30 June 2011 was €4.59.

The weighted average exercise price for shares outstanding under the 2002 Plan, as amended, at 30 June 2011 was €4.59. The weighted average remaining contractual life of the awards issued under the 2002 Plan, as amended, at 30 June 2011 was 1.7 years.

The weighted average exercise price for shares outstanding under the 2007 SIP, as amended, at 30 June 2011 was €5.44. The weighted average remaining contractual life of the awards issued under the 2007 SIP, as amended, at 30 June 2011 was 8.5 years.

Deferred Annual Bonus Plan

In May 2011, the SKG plc Annual General Meeting approved the adoption of the SKG plc 2011 Deferred Annual Bonus Plan ("DABP") which replaces the existing long-term incentive plan, the 2007 SIP.

The size of award to each participant under the DABP will be subject to the level of annual bonus earned by a participant in any year. As part of the revised executive compensation arrangements, the maximum annual bonus potential for participants in the DABP has been increased from 100% to 150% of salary. The actual bonus paid in any financial year will be based on the achievement of clearly defined annual financial targets for some of the Group's Key Performance Indicators ("KPI") being EBITDA⁽¹⁾, Return on Capital Employed ("ROCE") and Free Cash Flow ("FCF"), together with targets for health and safety and a comparison of the Group's financial performance compared to that of a peer group.

The proposed structure of the new plan is that 50% of any annual bonus earned for a financial year will be deferred into SKG plc shares (Deferred Shares) to be granted in the form of a Deferred Share Award. The Deferred Shares will vest (i.e. become unconditional) after a three year holding period based on continuity of employment.

At the same time as the grant of a Deferred Share Award, a Matching Share Award can be granted up to the level of the Deferred Share Award. Following a three year performance period, the Matching Shares may vest up to a maximum of 3 times the level of the Matching Share Award. Matching Awards will vest provided the Committee consider that Company's ROCE and Total Shareholder Return ("TSR") are competitive against the constituents of a comparator group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Awards will be dependent on the achievement of the Company's FCF⁽²⁾ and ROCE targets measured over the same three year performance period on an inter-conditional basis.

The actual performance targets assigned to the Matching Awards will be set by the Compensation Committee on the granting of awards at the start of each three year cycle. The Company will lodge the actual targets with the Company's auditors prior to the grant of any awards under the DABP.

In June 2011, conditional Matching Share Awards totalling 654,814 SKG plc shares were awarded to eligible employees which gives a potential maximum of 1,964,442 SKG plc shares that may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2013.

- (1) Earnings before exceptional items, share-based payment expense, net finance costs, tax, depreciation and intangible asset amortisation.
- (2) In calculating FCF, capital expenditure will be set at a minimum of 90% of depreciation for the 3 year performance cycle.

11. Analysis of Net Debt

	30-Jun-11	31-Dec-10
	€m	€m
Senior credit facility		
Revolving credit facility ⁽¹⁾ – interest at relevant interbank rate + 2.75% on RCF1 and +3% on RCF2 ⁽⁸⁾	(8)	(8)
Tranche A term loan ^(2a) —interest at relevant interbank rate + 2.75% ⁽⁸⁾	132	164
Tranche B term loan ^(2b) —interest at relevant interbank rate + 3.125% ⁽⁸⁾	815	816
Tranche C term loan ^(2c) —interest at relevant interbank rate + 3.375% ⁽⁸⁾	813	814
Yankee bonds (including accrued interest) ⁽³⁾	203	219
Bank loans and overdrafts	70	75
Cash	(554)	(502)
2015 receivables securitisation variable funding notes ⁽⁴⁾	168	149
	1,639	1,727
2015 cash pay subordinated notes (including accrued interest) ⁽⁵⁾	359	370
2017 senior secured notes (including accrued interest) ⁽⁶⁾	489	488
2019 senior secured notes (including accrued interest) ⁽⁷⁾	491	490
Net debt before finance leases	2,978	3,075
Finance leases	17	26
Net debt including leases	2,995	3,101
Balance of revolving credit facility reclassified to debtors	8	9
Net debt after reclassification	3,003	3,110

(1) Revolving credit facility (“RCF”) 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)

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

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

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

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

(4) Receivables securitisation variable funding notes due November 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

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

Debt/EBITDA ratio	Tranche A and RCF1	Tranche B	Tranche C	RCF2
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%

The Group’s activities expose it to a variety of financial 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 2010.

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 2010 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 2011 and 2010 are as follows:

	30 Jun 2011	30 Jun 2010
Index at period end	235.3	190.4
Movement in period	13.0%	16.3%

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the Group Income Statement for the first six months of 2011 is impacted as follows: Sales €3 million increase (2010: €18 million increase), pre-exceptional EBITDA €3 million decrease (2010: nil) and profit after taxation €16 million decrease (2010: €20 million decrease). In the first six months of 2011, a net monetary loss of €4 million (2010: €10 million loss) was recorded in the Group Income Statement. The impact on our net assets and our total equity is an increase of €19 million (2010: €24 million increase).

Devaluation

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 arose 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. Related Party Transactions

Details of related party transactions in respect of the year ended 31 December 2010 are contained in Note 31 of our 2010 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 2011 or changes to transactions with related parties disclosed in the 2010 financial statements that had a material effect on the financial position or the performance of the Group.

14. Post Balance Sheet Events

In July, the Venezuelan authorities have issued precautionary measures over a further 7,253 hectares of the Group's forestry land, with a view to acquiring it and converting its use to food production and related activities. Management are in discussion with the authorities.

15. Board Approval

This interim management report and condensed interim financial statements were approved by the Board of Directors on 9 August 2011.

16. Distribution of Interim Management Report

The 2011 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 2011

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 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 2011 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 2011, 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

9 August 2011

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/(Loss) to EBITDA

	3 months to 30-Jun-11 €m	3 months to 30-Jun-10 €m	6 months to 30-Jun-11 €m	6 months to 30-Jun-10 €m
Profit/(loss) for the financial period	39	(22)	68	(40)
Income tax expense	19	17	68	31
Impairment loss on property, plant and equipment	13	-	13	-
Reorganisation and restructuring costs	22	-	23	-
Currency trading loss on Bolivar devaluation	-	2	-	16
Mondi asset swap	-	40	-	40
Profit on disposal of associate	-	-	(2)	-
Share of associates' operating profit (after tax)	(1)	(1)	(1)	(1)
Net finance costs	75	83	146	160
Share-based payment expense	2	1	3	2
Depreciation, depletion (net) and amortisation	95	101	189	196
EBITDA	264	221	507	404

Supplemental Historical Financial Information

€m	Q2, 2010	Q3, 2010	Q4, 2010	FY, 2010	Q1, 2011	Q2, 2011
Group and third party revenue	2,740	2,761	2,833	10,769	2,956	3,124
Third party revenue	1,696	1,702	1,749	6,677	1,803	1,867
EBITDA	221	243	257	904	243	264
EBITDA margin	13.0%	14.3%	14.7%	13.5%	13.5%	14.2%
Operating profit	77	143	115	409	147	132
Profit/(loss) before tax	(5)	63	49	103	78	58
Free cash flow	(12)	128	23	82	12	66
Basic earnings/(loss) per share - cent	(10.3)	16.9	23.3	22.9	15.6	15.7
Weighted average number of shares used in EPS calculation (million)	218	218	219	219	221	222
Net debt	3,291	3,123	3,110	3,110	3,061	3,003
Net debt to EBITDA (LTM)	4.21	3.75	3.44	3.44	3.18	2.98