

SKG reports 20% EBITDA growth

13 February, 2008: Smurfit Kappa Group plc (“SKG” or the “Group”), one of the world’s largest integrated manufacturers of paper-based packaging products, with operations in Europe and Latin America, today announced results for the 3 months and 12 months ending 31 December, 2007.

2007 Fourth Quarter | Key Financial Performance Measures

| €m | FY 2007 | FY 2006 | Change | Q4 2007 | Q4 2006 | Change |
|---|------------|------------|---------|------------|------------|---------|
| Revenue | €7,272 | €6,970 | 4% | €1,818 | €1,749 | 4% |
| EBITDA before exceptional items and share-based payments ⁽¹⁾ | €1,064 | €883 | 20% | €275 | €254 | 8% |
| EBITDA Margin | 14.6% | 12.7% | 1.9 pts | 15.1% | 14.5% | 0.6 pts |
| Operating Profit | €562 | €230 | 144% | €126 | €42 | - |
| Profit/(Loss) before Tax | €170 | (€143) | - | €64 | (€43) | - |
| Free Cash Flow ⁽²⁾ | €186 | (€29) | - | €73 | €35 | 109% |
| Net Debt | | | | €3,404 | €4,882 | 30% |
| Net Debt to EBITDA (LTM) | | | | 3.2x | 5.5x | - |

(1) EBITDA before exceptional items and share-based payments is denoted by EBITDA throughout the remainder of the management commentary for ease of reference. A reconciliation of net profit/(loss) for the period to EBITDA before exceptional items and share-based payments is set out on page 26.

(2) Free cash flow is set out on page 10. The IFRS cash flow is set out on page 15.

Financial Performance Highlights

➤ **20% EBITDA growth**

EBITDA of €1,064 million represents a 20% year-on-year increase

➤ **Industry leading EBITDA margins**

Full year EBITDA margin increase to 14.6 per cent

➤ **Strong cash flow generation**

Full year free cash flow of €186 million

➤ **30% net debt reduction**

Net debt to EBITDA of 3.2x – below the bottom end of the IPO range

➤ **Synergy target exceeded**

Merger target of €160 million exceeded ahead of schedule - Increased target to €180 million

➤ **Dividend**

Final dividend proposed of 16.05 euro cent

Performance Review & Outlook

Gary McGann, Smurfit Kappa Group CEO, commented: "We are pleased to report strong earnings growth for 2007. This is the Group's first full year financial performance since its successful IPO in March, 2007. SKG has delivered EBITDA growth within the range of expectations set at IPO, industry leading margins and has exceeded both its leverage and synergy objectives.

This strong performance reflects a generally positive price environment in Europe, the continuing drive to maximise the benefits of the merger and a strong contribution from the Group's Latin American businesses.

Despite the uncertain economic outlook, our operations have performed well year to date in an operating environment where supply and demand are reasonably balanced. Assuming current market conditions prevail, SKG expects modest EBITDA growth for 2008 together with continuing strong free cash flow generation."

About Smurfit Kappa Group

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

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

Forward Looking Statements

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

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2007 Fourth Quarter and Full Year | Performance Overview

SKG's financial outcome for 2007 reflects a good financial performance with selling price improvements more than offsetting the negative impact of cost inflation. Underlying revenue growth of 7.6% for the full year of 2007, primarily reflects significant product price improvements in Europe, but also a strong performance from the Group's operations in Latin America.

There were a number of factors, however, which impacted SKG's earnings growth in 2007. Strong input costs increases, especially for recovered fibre, combined with balanced market conditions in Europe, have allowed for three consecutive recycled containerboard price increases to be implemented through the year. Higher containerboard prices, while underpinning corrugated pricing momentum, have generated short-term margin compression within the Group's integrated system given the time lag involved in ultimately recovering the containerboard increases through higher box prices. In addition, anticipated price increases for kraftliner were not sustained due to increased imports from the US into Europe, which, together with higher wood costs, impacted kraftliner profitability growth.

On the positive side, overall demand was positive in 2007 despite a slower growth than expected in the second half of the year. SKG progressively implemented corrugated price increases in every quarter, totalling over 8% for the year. Into 2008, SKG expects to continue delivering corrugated price improvements to recover our paper input costs and some index price recovery has already occurred early in January.

With the benefit of improving selling prices and a temporary reduction in recovered paper prices, SKG's EBITDA at €275 million for the fourth quarter was unchanged from the third quarter. While a slow finish to the year and the recycled containerboard increase implemented in October negatively impacted margins on the corrugated side, corrugated pricing strengthened further in the fourth quarter. SKG's overall EBITDA margin in the fourth quarter of 2007 was 15.1% - unchanged from the third quarter – compared to 14.5% in the fourth quarter of 2006.

Fourth Quarter, 2007: Year-on-year financial performance

Revenue of €1,818 million in the fourth quarter of 2007 represents a 3.9% increase on revenue of €1,749 million in the fourth quarter of 2006. Acquisitions in 2007 added almost €6 million to revenue although currency moves and disposals and closures had a negative impact. Allowing for acquisitions and for the negative impact of currency of €19 million and for the absence in 2007 of operations sold or closed in 2006 or earlier in 2007, which reduced comparable revenue by €24 million, revenue shows an underlying increase of €106 million or 6.1% for the fourth quarter.

EBITDA of €275 million increased 8.1% compared to EBITDA of €254 million in the fourth quarter of 2006. This represents a margin of 15.1% and 14.5% respectively. Allowing for the impact of currency, acquisitions, disposals and closures, the underlying increase in EBITDA was 10.6%.

Exceptional items included in operating profit amounted to €19 million, compared to €117 million in 2006 and these primarily relate to reorganisation and restructuring costs. Depreciation and amortisation increased on the prior year by 36%. These items contributed to an operating profit increase of €84 million on the prior period.

Net finance costs decreased on the comparative period by 25%, following the paydown of debt from the IPO proceeds.

Pre-exceptional profit before tax of €88 million increased by €12 million on the comparative period. Profit before tax post exceptional items amounted to €64 million (2006: loss of €43 million).

Full year, 2007: Year-on-year financial performance

Revenue of €7,272 million for the full year 2007 represents a 4.3% increase on revenue of €6,970 million for the full year 2006. Allowing for the negative impact of currency of €33 million and for net disposals and closures of €193 million, revenue shows an underlying increase of €528 million or 7.6% for the full year 2007.

EBITDA of €1,064 million in 2007 increased 20.5% compared to EBITDA of €883 million for 2006. This represents a margin of 14.6% and 12.7% respectively. Allowing for the overall impact of currency moves and for net disposals and closures, the underlying growth in EBITDA was 21.7%.

Exceptional items included in operating profit amounted to €56 million, compared to €250 million in 2006 and these primarily relate to reorganisation and restructuring costs. Depreciation and amortisation decreased on the prior year by 6%. These items contributed to an operating profit increase of €332 million on the prior period.

Net finance costs increased on the comparative period by 7%, mainly as a result of exceptional debt settlement costs of €115 million. Net finance costs before exceptional items fell, due to the paydown of debt from the IPO proceeds.

Pre-exceptional profit before tax of €341 million increased by €205 million on the comparative period. Profit before tax post exceptional items amounted to €170 million (2006: loss of €143 million).

2007 Fourth Quarter and Full Year | Capital Structure & Debt Reduction

SKG successfully returned to public equity markets through the completion of an all primary IPO in March 2007. The Group raised gross proceeds of €1,495 million through a global institutional offering. Proceeds were applied to reduce debt and optimise SKG's capital structure.

As a result of the IPO and the subsequent refinancing, SKG achieved significant interest savings in terms of both cash and PIK interest. These savings amounted to approximately €115 million in 2007 with a full year benefit of €150 million.

In July 2007, the Group successfully secured approval to amend its senior credit facilities. The amendment, together with a successful cash tender offer for SKG's US dollar denominated 9.625% Senior Notes due 2012 and euro denominated 10.125% Senior Notes due 2012, resulted in a further reduction in the Group's overall cost of debt of approximately €10 million per annum and gives SKG greater financial flexibility. In the third and fourth quarter, SKG's significant increase in free cash flow further reduced net debt. At 31 December, 2007, SKG's net debt was €3,404 million which compares to €3,605 million at 30 June, 2007 and €4,882 million at 31 December, 2006.

In November 2007, Smurfit Kappa Funding plc, a subsidiary of the Group, filed with the US Securities and Exchange Commission ("SEC") to terminate its duty under the Securities Exchange Act of 1934 to file reports, thereby relieving it of the requirement to file annual financial reports (Form 20-F) and other periodic reports with the SEC. The changes will have no impact on SKG's quarterly and annual financial reports and will not reduce the current level of financial disclosure provided by SKG.

In line with the objectives set at IPO, the financial focus of the Group in 2007 has been leverage reduction. At the end of December, SKG delivered a net debt to EBITDA ratio of just under 3.2x, below the bottom end of the original target leverage range it set itself at IPO of 3.25x to 4.25x.

Acquisitions and Disposals

In the first half of the year, SKG acquired a small corrugated box plant in Romania, giving it a market share of 5% in that country. This acquisition provides SKG with an initial entry to the emerging Romanian market and represents some progress towards the Group's objective of growth in Eastern Europe.

In the third quarter, the Group acquired the Plasticos bag-in-box operation in Spain. This business is being merged with the Group's existing and fast growing bag-in-box division. Plasticos will provide a platform for further development of the SKG bag-in-box business in southern Europe. In addition, in order to expand its geographical offering for bag-in-box, SKG completed a greenfield expansion at its St Petersburg plant in Russia in the second half of the year.

The Group completed a number of asset and non-core business disposals in 2007, including some property sales. Total consideration for these disposals was in excess of €40 million. The Group continues to actively focus on disposing of non-core and non-strategic assets and expects to make further progress in this regard in 2008.

Efficient Capacity Management & Capital Expenditure

Following the closure of significant, higher cost capacity during 2006, SKG closed further capacity during the first half of 2007, with the closure of its paper mill in Alaincourt, France, removing 90,000 tonnes of the European recycled containerboard market.

In 2007, SKG also closed two corrugated plants, a solid board machine, and a solid board packaging operation. Operating cost reduction and further improving the quality of the Group's existing asset base was the basis for these disposals.

In line with the Group's policy of optimising its asset base, SKG is examining a further possible capacity rationalisation initiative in 2008. Further details will follow in the second quarter report.

Capital expenditure during the fourth quarter was approximately €96 million. The Group's full year capital expenditure of €324 million equates to 90% of depreciation, in line with expectations, and approximately 4% of full year net revenue.

Synergies

The momentum behind the synergy programme continued in 2007, and the run rate at the end of the year was approximately €166 million. SKG has therefore achieved its original synergy target of €160 million a year in advance, and has now increased its full target to €180 million, which is expected to be achieved by the end of 2008.

Board of Directors

On 7 February, 2008, Mr Paul T. Stecko was co-opted to the Board of SKG as an independent, non-executive Director. Mr Stecko has served as Chief Executive Officer of Packaging Corporation of America (PCA) since January 1999 and as Chairman of PCA since March 1999.

From November 1998 to April 1999, Mr Stecko served as President and Chief Operating Officer of Tenneco Inc. From January 1997 to November 1998, Mr Stecko served as Chief Operating Officer of Tenneco. From December 1993 through January 1997, Mr Stecko served as President and Chief Executive Officer of Tenneco Packaging Inc. Prior to joining Tenneco Packaging, Mr Stecko spent 16 years with International Paper Company. Mr Stecko is a member of the board of directors of Tenneco Automotive Inc., State Farm Mutual Insurance Company, and the American Forest and Paper Association. Mr Stecko was selected as the 2004 CEO of the Year in the Paper and Packaging industry by Wall Street analysts in an annual survey conducted by RISI.

Mr Stecko's knowledge of and experience within the sector will contribute significantly to the SKG Board. Smurfit Kappa Group expects to make further appointments of independent, non-executive Directors to its Board during the course of 2008.

Dividend

The Board is recommending a final dividend of 16.05 euro cent per share. It is proposed to pay the final dividend on 16 May, 2008 to all ordinary shareholders on the share register at the close of business on 4 April, 2008.

2007 Fourth quarter and Full year | Performance Review

Overall trading in 2007 was significantly ahead of 2006. This reflected balanced market conditions in recycled containerboard in Europe, together with positive overall corrugated demand, despite slower growth than expected in the second half of the year, largely as a result of the poor summer season.

Three price increases in recycled containerboard were implemented in 2007, in part to recover the continued upward pressure on recovered paper, energy and other raw material prices. Corrugated prices were progressively increased in each quarter to reflect higher containerboard prices. However, there is a 3 to 6 months time lag for the full recovery of paper price increases through corrugated pricing. Therefore, while overall price momentum was good through the year, SKG experienced some margin pressure within its corrugated system, as box price increases were progressively implemented to reflect higher input costs.

In Latin America, the Group's operations benefited from a combination of higher sales volumes and higher average selling prices during the year, which contributed to increased earnings growth for the region.

Packaging: Europe

While the product price environment in Europe was generally positive in 2007, strong market conditions for recycled containerboard combined with somewhat weaker conditions for kraftliner. A more balanced market has allowed recycled containerboard producers to recover significant increases in input costs, by implementing several price increases. Two price increases of €30 per tonne each for recycled containerboard were implemented in the first half of the year, and a third increase of €20 to €30 per tonne, depending on the countries, was implemented in October. These increases were primarily intended to recover further increases in recovered fibre prices, which occurred in March/April and again in July/August, totalling approximately €35 per tonne increase at the peak. In November and December however, there were some reductions in recovered fibre prices as a result of the withdrawal of Chinese buyers from the market. These were temporary, and prices are under upward pressure again in January, supporting recycled containerboard prices.

As regards kraftliner, official statistics state that US kraftliner imports increased 34% year-on-year during the first nine months of 2007. This level of imports continued during the fourth quarter, reflecting the relative weakness of the US dollar and slow domestic US demand. As a result of the sharp increase in US imports, SKG did not achieve the kraftliner price increase planned for April 2007 although average kraftliner selling prices were higher year-on-year compared to 2006.

SKG's total European kraftliner volumes declined 2% in 2007 compared to 2006. This primarily reflects fire-related downtime at the Factice mill in the first quarter, the impact of which was covered by the Group's insurance arrangements. Excluding the impact of Factice, growth would have been an underlying 3% in 2007, with demand proving to be positive, helped by reverse substitution from recycled containerboard to kraftliner for specific applications. SKG's European recycled containerboard volumes, excluding the impact of disposals and closures, increased 1% year-on-year, in line with corrugated growth.

As an integrated corrugated producer, higher containerboard price increases have resulted in increasing input costs for SKG's corrugated operations. SKG's priority has therefore been to implement the necessary corrugated price increases required to recover input cost increases. In 2007, SKG increased its corrugated prices by 8.1% on average. Further corrugated price increases are expected into 2008 to fully recover the October containerboard price increase, with some index related progress already occurring early in the new year.

Corrugated demand growth varied across Europe in 2007. Strong growth in the UK, Benelux and Germany in the first nine months of the year was partly offset by poor summer demand in France, Spain and Italy. In the fourth quarter however, demand was slower across the region. This was partly related to a long Christmas closedown.

SKG's European corrugated volumes, excluding the impact of disposals and closures, increased by approximately 1% in 2007 compared to 2006. SKG's volume growth compares to an estimated 2% broader market growth in the same period, with the lower SKG figures reflecting the strong continued push for price recovery.

Packaging: Latin America

While market conditions vary from country to country, demand growth was generally strong across the Latin American region, and SKG's operations continued to report a sharp financial performance in 2007, with good growth in revenue and earnings year-on-year. In 2007, SKG's containerboard volumes in Latin America were 2% higher than in 2006, while corrugated volumes increased 4% year-on-year. The higher growth rate in corrugated reflects our regional capacity constraint in containerboard.

In Mexico, SKG experienced positive corrugated volume growth in the first half of the year. In the second half, growth was slower due to the US economic slowdown and related impact on Mexican finished goods' exports. Domestic demand continued to hold up however, and SKG implemented corrugated price increases in the market. As a result, SKG's overall profitability in 2007 was materially ahead of 2006.

SKG's Colombian business continues to experience high volumes, strong pricing and good profits, in the context of the strong local economy.

In Venezuela, despite a high labour cost adjustment over the third quarter, SKG's operations in the country benefited from the vibrant economic growth in 2007, and report good progress year-on-year.

Following a difficult start to the year in Argentina where increases in labour and energy affected profitability, SKG operations recovered strongly in the second half, as price recovery was achieved.

SKG is hosting an investor day – "Latin America Focus" – for investors and analysts on 19 February, 2008, in New York. This day will allow attendees to better understand the strength of SKG's business in this emerging region, the quality of its management and its potential business growth opportunities.

Specialties: Europe

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

In 2007, the financial performance of SKG's specialties business improved compared to 2006, with a 13% increase of EBITDA year-on-year, primarily reflecting SKG's strong focus on restoring acceptable end product pricing.

However, the performance of the solidboard business continues to be significantly impacted by rising recovered paper costs due to higher fibre content than in containerboard. While board prices have increased year-on-year, further price initiatives are required on the converting side to fully recover the higher input costs.

The sack paper market remains very strong, driven by a positive supply/demand dynamic. As a result, SKG recently announced a further price increase of €60 per tonne which is being implemented in the first quarter of 2008. As SKG is 50% integrated in sack paper, this increase should have a positive effect on the division's earnings. Getting the prices through to the converting operations proved to be a more challenging exercise in 2007, with oversupply and intense competition in many markets. However, price increases have been negotiated for 2008.

SKG's bag-in-box business reported strong growth in 2007, despite lower volumes than expected in the third quarter following poor wine consumption in the summer months. To support its growth, SKG concluded two expansion projects in 2007: the acquisition of the Plasticos business in Spain, which will provide a platform for further development of the Group's bag-in-box footprint in southern Europe, together with a greenfield bag-in-box facility at its existing St Petersburg corrugated plant in Russia.

Fourth Quarter, 2007: Cash Flows & Capital Structure

Free cash flow in the fourth quarter of 2007 was €73 million compared to €35 million in the same period in 2006. The improved cash flow reflected the increased profits generated by the Group in 2007, even allowing for the significant exceptional items booked in 2006 but unpaid at the year-end and the non-cash impairment of fixed assets (both of which are added back in the cash flow). The benefit of the increased profits in 2007 was partly offset by a lower working capital inflow than in 2006.

The working capital inflow in the fourth quarter of 2007 was €17 million compared to €33 million in 2006. This followed increased input pricing, both of finished goods and raw materials, and a strong third quarter inflow.

Capital expenditure at €96 million in the fourth quarter of 2007 represented approximately 99% of depreciation compared to 166% in 2006. The relatively high level of expenditure in 2006 largely reflected the phasing of projects during the year with capital expenditure for the full year representing 98% of depreciation.

At €28 million, tax payments were significantly higher in the fourth quarter of 2007 than in 2006. This reflected both the phasing of payments and the higher level of cash tax for the full year. This was driven primarily by an overall improvement in the profitability of our operations year-on-year in countries such as Germany where we have a significant presence.

Financing and investment activity in the fourth quarter of 2007 resulted in a net outflow of €40 million, after which the net cash inflow for the Group was €33 million. The main outflows were a €22 million repayment of derivatives and investment expenditure of €11 million primarily in respect of the Spanish Bag-in-Box business, Plásticos. The €5 million of refinancing costs paid in the quarter related to the amendment to our bond indenture. Including disposal proceeds of €9 million, the net cash inflow in the fourth quarter in 2006 was €44 million.

The net cash inflow of €33 million in the fourth quarter of 2007 was increased by positive currency translation adjustments of €14 million, reflecting the relative strength of the euro, while reduced by €4 million in respect of the amortisation of debt issuance costs. The currency adjustment on our net borrowing was very much lower than in the past given the reduction in our exposure, particularly to the U.S. dollar, following the repayment of the majority of our unhedged dollar denominated debt with the proceeds of the IPO. The overall result was a reduction of €44 million in net borrowing during the fourth quarter of 2007, compared to €97 million in the same period in 2006.

Full year, 2007: Cash Flows & Capital Structure

Free cash flow for the year to December 2007 was a net inflow of €186 million, compared to a net outflow of €29 million in the same period in 2006. This progression reflects the improvement in profitability year-on-year, taking into account a significant reduction in exceptional costs and once off refinancing costs. Although these items increased the loss before tax in 2006, they are added back to reach the free cash flow figure for the year. The improvement in profitability was partly offset by a negative movement in the level of capital creditors and increased outflows in current provisions. Conversely, year-on-year the working capital outflow was reduced.

The working capital outflow for the year was €25 million compared to an outflow of €75 million in 2006. The change on the prior year's level of working capital was due to a significant increase in debtors at the year end 2006. In total, working capital at 31 December 2007 amounted to €665 million compared to €625 million at December 2006, with the increase reflecting mainly the impact of higher pricing and inventory volumes. Year-on-year, the largest increase was in inventories as a result of both pricing and stock levels. The stock increase is primarily related to stock builds for planned maintenance downtime in 2008. Working capital at 31 December 2007 represented 9.1% of annualised fourth quarter sales revenue compared to 9.5% at 30 September 2007 and 8.9% at 31 December 2006.

Capital expenditure for the year of €324 million represented 90% of depreciation compared to expenditure in 2006, which at €345 million represented 98% of depreciation. The change in capital creditors of €36 million occurred primarily in the first quarter of 2007 and was in essence the reversal of the inflow in 2006.

The current provisions outflow for the year to December 2007 was €80 million compared to €23 million in 2006. This outflow related principally to the restructuring and reorganisation costs provided in 2006. The improved profitability in 2007 resulted in a significant increase in tax payments.

Primarily as a result of the IPO in March, cash flows from financing and investment activity amounted to €1,295 for the year to December 2007, with the proceeds of the share issue of €1,495 million partially offset by costs of the IPO of €62 million and those relating to the subsequent refinancing of borrowings of €84 million (including €5 million in respect of the amendment of our bond indenture in the fourth quarter).

Excluding the IPO, cash flows from financing and investment activity amounted to an outflow of €54 million. Of this amount the repayment of derivatives accounted for €45 million, which included derivatives terminated as a result of debt paydown and cash flows arising on maturing currency swaps. Investment expenditure mainly related to the purchase of Plasticos and the investment in Europack Carton in Romania. The total cash outlay for the year was a net €14 million. Disposal proceeds of €11 million in 2007 related mainly to Jonsac, Recycling Ireland and our tubes and core business in Mexico, with a deferred element of the consideration in relation to our Voghera mill in Italy, which was sold in 2005, also included.

The net cash inflow for the year was €1,481 million compared to an outflow of €60 million in 2006. The surplus for 2007 was increased by a positive currency movement on borrowing of €54 million while offset by €47 million in respect of the amortisation of debt issue costs, €30 million of which was accelerated by the paydown of debt, and €12 million of non-cash interest accrued. Following the reduction in our debt level, particularly U.S. dollar debt, the currency adjustment on net borrowing was significantly lower than what it was in 2006.

Net borrowing amounted to €3,404 million at 31 December 2007 compared to €3,448 million at 30 September 2007. As the improvement in the profitability of the Group's operations over the year, leverage (EBITDA to net borrowing ratio) has decreased from 3.7x at March to 3.6x at June, 3.3x at September and 3.2x at December 2007.

Summary Cash Flows⁽¹⁾

Summary cash flows for the fourth quarter and full year are set out in the following table.

| | 3 months to 31-Dec-07 € Million | 3 months to 31-Dec-06 € Million | 12 months to 31-Dec-07 € Million | 12 months to 31-Dec-06 € Million |
|---|--|---------------------------------------|---|--|
| Profit/(loss) before tax - subsidiaries | 60 | (45) | 157 | (149) |
| Exceptional items | 7 | 25 | 13 | 134 |
| Impairment of fixed assets | - | 27 | 6 | 31 |
| Depreciation and depletion | 97 | 82 | 360 | 353 |
| Amortisation of intangible assets | 13 | 10 | 45 | 42 |
| Reduction in goodwill | 16 | - | 16 | - |
| Non cash interest expense (incl. fv of derivatives) | (1) | - | 46 | 11 |
| Refinancing costs | 5 | - | 84 | - |
| Share-based payments | 4 | 2 | 25 | 8 |
| Working capital change | 17 | 33 | (25) | (75) |
| Current provisions | (11) | (5) | (80) | (23) |
| Capital expenditure | (96) | (136) | (324) | (345) |
| Change in capital creditors | 10 | 45 | (36) | 36 |
| Sale of fixed assets | 7 | 12 | 29 | 25 |
| Tax paid | (28) | (7) | (73) | (42) |
| Dividends from associates | 1 | 1 | 4 | 5 |
| Other | (28) | (9) | (61) | (40) |
| Free cash flow | 73 | 35 | 186 | (29) |
| Investments | (11) | - | (14) | (34) |
| Sale of businesses and investments | - | 9 | 11 | 15 |
| Shares issued through IPO | - | - | 1,495 | - |
| Costs of IPO | (2) | - | (62) | - |
| Repayment of derivatives | (22) | - | (45) | - |
| Share issues | 1 | - | 1 | - |
| Dividends paid to minorities | (1) | - | (7) | (7) |
| Acquisition costs and fees | - | - | - | (5) |
| Refinancing costs | (5) | - | (84) | - |
| Net cash inflow/(outflow) | 33 | 44 | 1,481 | (60) |
| Net cash/(debt) acquired/disposed | 1 | 1 | 2 | 1 |
| EU disposals inter-company debt repaid | - | 28 | - | 28 |
| Deferred debt issue costs amortised | (4) | (4) | (47) | (19) |
| Non-cash interest accrued | - | (14) | (12) | (51) |
| Currency movement on US\$ debt | - | 17 | - | 48 |
| Currency translation adjustments | 14 | 25 | 54 | 65 |
| Decrease in net borrowing | €44 | €97 | €1,478 | €12 |

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

The principal differences are as follows:

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

Capital Resources

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

At 31 December, 2007 Smurfit Kappa Funding plc ("SK Funding") had outstanding €217.5 million 7.75% senior subordinated notes due 2015 and US\$200 million 7.75% senior subordinated notes due 2015. In addition Smurfit Kappa Treasury Funding Limited had outstanding US\$292.3 million 7.50% senior debentures due 2025 and the Group had outstanding €210 million floating rate notes issued under an accounts receivable securitisation program maturing in 2011.

Smurfit Kappa Acquisitions and certain subsidiaries are party to a Senior Credit Facility. The senior credit facility comprises a €422 million amortising A Tranche maturing in 2012, a €1,187 million B Tranche maturing in 2013 and a €1,186 million C Tranche maturing in 2014. In addition, as at 31 December, 2007, the facility included €875 million in committed lines including a €600 million revolving credit facility of which there were no drawings or amounts borrowed under ancillary facilities or facilities supported by letters of credit, and a €275 million restructuring facility of which €103 million was borrowed.

The following table provides the range of interest rates as of 31 December, 2007 for each of the drawings under the various Senior Credit Facility term loans.

| BORROWING ARRANGEMENT | CURRENCY | INTEREST RATE |
|------------------------|----------|---------------|
| Restructuring Facility | EUR | 6.25% - 6.44% |
| Term Loan A | EUR | 6.16% - 6.45% |
| Term Loan B | EUR | 6.31% - 6.82% |
| | USD | 7.12% |
| Term Loan C | EUR | 6.56% - 7.07% |
| | USD | 7.37% |

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

On 20 March, 2007 SKG plc received gross proceeds from an initial public offering of its shares of €1.495 billion. The net proceeds of the offering have been used to repay certain indebtedness of the subsidiaries of SKG plc, including SK Funding, together with costs of the initial public offering and costs associated with refinancing and debt repayment.

On 21 March, 2007 SKG plc paid off its shareholder PIK obligation of €99.6 million.

On 14 February, 2007 Smurfit Kappa Holdings plc ("SK Holdings") launched a tender offer for its 11.5% senior PIK notes due 2015 (the "PIK notes"). On 21 March, 2007 90% of the PIK notes were tendered in the tender offer. The settlement amount including the tender premium was €380.4 million. On 21 March, 2007 SK Holdings issued a call notice on the remaining outstanding PIK notes which was finally settled on 20 April, 2007 at a settlement amount including a premium of €42.7 million.

On 14 February, 2007 SK Funding launched a tender offer for €219 million of its 10.125% euro senior notes due in October 2012 and US\$470 million of its 9.625% Dollar senior notes also due in October 2012. On 21 March, 2007 the tender offers for €219 million of the 10.125% euro senior notes and US\$470 million of the 9.625% Dollar senior notes were settled. The total settlements including tender premium were €236.3 million and US\$501.9 million respectively. On 22 March, 2007 SK Funding launched a further tender offer for €98 million of its 10.125% senior euro notes due in October 2012 and US\$208 million of 9.625% Dollar senior bonds due in October 2012. These tenders were settled on 24 April, 2007. The total settlements including tender premium on the second tender were €105.2 million and US\$221.4 million respectively. Following these tenders the remaining obligations were €33 million under the 10.125% euro senior notes and US\$72 million under the 9.625% Dollar senior notes. On 19 July, 2007 SK Funding launched a tender offer for all of the remaining 10.125% euro and 9.625% US Dollar senior notes. This tender closed on 16 August, 2007, resulting in the repayment of €29 million of the euro senior notes and US\$72 million of the Dollar senior notes. The repayment was funded by a drawdown under tranches B and C of the senior credit facility. On 2 November, 2007 the remaining €3.68 million euro senior notes and US\$0.06 million Dollar senior notes were redeemed in full.

Market Risk and Risk Management Policies

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. At 31 December, 2007 the Group had fixed an average of 60% of its interest cost on borrowings over the following twelve months.

Our fixed rate debt comprised mainly €217.5 million 7.75% senior subordinated notes due 2015, US\$200 million 7.75% senior subordinated notes due 2015 and US\$292 million 7.50% senior debentures due 2025. In addition the Group also has €1,780 million in interest rate swaps with maturity dates ranging from October 2008 to June 2010.

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 €16 million over the following twelve months. Interest income on our cash balances would increase by approximately €4 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

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

Group Income Statement – Full Year

| | 12 Months to 31-Dec-07 | | | 12 Months to 31-Dec-06 | | |
|---|-----------------------------|---------------------|-----------------|-----------------------------|---------------------|-------------------|
| | Pre- Exceptional 2007 | Exceptional 2007 | Total 2007 | Pre- Exceptional 2006 | Exceptional 2006 | Total 2006 |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Continuing operations | | | | | | |
| Revenue | 7,271,657 | - | 7,271,657 | 6,969,642 | - | 6,969,642 |
| Cost of sales | (5,236,787) | (6,433) | (5,243,220) | (5,009,582) | (31,299) | (5,040,881) |
| Gross profit | 2,034,870 | (6,433) | 2,028,437 | 1,960,060 | (31,299) | 1,928,761 |
| Distribution costs | (583,542) | - | (583,542) | (597,284) | - | (597,284) |
| Administrative expenses | (882,086) | - | (882,086) | (884,925) | - | (884,925) |
| Other operating income | 48,489 | 12,513 | 61,002 | 1,972 | - | 1,972 |
| Other operating expenses | - | (61,797) | (61,797) | - | (218,285) | (218,285) |
| Operating profit | 617,731 | (55,717) | 562,014 | 479,823 | (249,584) | 230,239 |
| Finance costs | (492,158) | (115,427) | (607,585) | (569,440) | (29,905) | (599,345) |
| Finance income | 202,961 | - | 202,961 | 219,636 | - | 219,636 |
| Share of associates' profit (after tax) | 12,513 | - | 12,513 | 6,360 | - | 6,360 |
| Profit/(loss) before income tax | 341,047 | (171,144) | 169,903 | 136,379 | (279,489) | (143,110) |
| Income tax expense | | | (3,503) | | | (10,505) |
| Profit/(loss) for the financial period | | | €166,400 | | | €(153,615) |
| <i>Attributable to:</i> | | | | | | |
| Equity holders of the Company | | | 147,169 | | | (170,134) |
| Minority interest | | | 19,231 | | | 16,519 |
| Profit/(loss) for the financial period | | | €166,400 | | | €(153,615) |
| Earnings per share: | | | | | | |
| Continuing: | | | | | | |
| Basic earnings per share (cent per share) | | | 74.3 | | | (134.8) |
| Diluted earnings per share (cent per share) | | | 71.7 | | | (134.8) |

Group Statement of Recognised Income and Expense

| | 2007 €000 | 2006 €000 |
|---|-----------------|-------------------|
| Items of income and expense recognised directly within equity: | | |
| Foreign currency translation adjustments | (92,101) | (45,511) |
| Defined benefit pension schemes | | |
| - Actuarial gain/(loss) | 50,494 | 87,701 |
| - Movement in deferred tax | (15,992) | (15,514) |
| Effective portion of changes in fair value of cash flow hedges: | | |
| - movement out of reserve | (11,818) | 2,351 |
| - new fair value adjustments into reserve | 11,121 | 23,427 |
| - Movement in deferred tax | (25) | (1,184) |
| Net change in fair value of available-for-sale financial assets | 564 | 11 |
| Net income and expense recognised directly within equity | (57,757) | 51,281 |
| Profit/(loss) for the financial year | 166,400 | (153,615) |
| Total recognised income and expense for the financial year | €108,643 | €(102,334) |
| <i>Attributable to:</i> | | |
| Equity holders of the Company | 100,458 | (107,553) |
| Minority interest | 8,185 | 5,219 |
| | €108,643 | €(102,334) |

Group Balance Sheet

| | 2007 €000 | 2006 €000 |
|---|--------------------------|--------------------------|
| Assets | | |
| Non-current assets | | |
| Property, plant and equipment | 3,251,479 | 3,381,981 |
| Goodwill and intangible assets | 2,416,785 | 2,485,147 |
| Available-for-sale financial assets | 43,511 | 44,413 |
| Investment in associates | 79,307 | 76,668 |
| Biological assets | 74,758 | 68,042 |
| Trade and other receivables | 6,716 | 14,260 |
| Derivative financial instruments | 4,301 | 10,668 |
| Deferred income tax assets | 340,415 | 302,215 |
| | <u>6,217,272</u> | <u>6,383,394</u> |
| Current assets | | |
| Inventories | 682,169 | 630,168 |
| Biological assets | 6,862 | 7,856 |
| Trade and other receivables | 1,379,105 | 1,337,416 |
| Derivative financial instruments | 28,261 | 16,819 |
| Restricted cash | 13,096 | 10,317 |
| Cash and cash equivalents | 401,622 | 360,385 |
| | <u>2,511,115</u> | <u>2,362,961</u> |
| Non-current assets held for sale | 15,999 | 5,000 |
| Total assets | <u><u>€8,744,386</u></u> | <u><u>€8,751,355</u></u> |
| Equity | | |
| Capital and reserves attributable to the equity holders of the Company | | |
| Equity share capital | 228 | 136 |
| Capital and other reserves | 2,538,047 | 1,158,748 |
| Retained earnings | (485,053) | (663,706) |
| Total equity attributable to equity holders of the Company | <u>2,053,222</u> | <u>495,178</u> |
| Minority interest | 137,443 | 136,343 |
| Total equity | <u><u>2,190,665</u></u> | <u><u>631,521</u></u> |
| Liabilities | | |
| Non-current liabilities | | |
| Borrowings | 3,667,618 | 5,092,371 |
| Employee benefits | 480,964 | 584,594 |
| Deferred income tax liabilities | 530,102 | 543,845 |
| Non-current taxes payable | 19,704 | 29,477 |
| Provisions for liabilities and charges | 77,698 | 92,204 |
| Capital grants | 14,176 | 13,869 |
| Other payables | 8,535 | - |
| | <u>4,798,797</u> | <u>6,356,360</u> |
| Current liabilities | | |
| Borrowings | 150,976 | 160,661 |
| Trade and other payables | 1,402,687 | 1,356,615 |
| Current income tax liabilities | 25,650 | 14,135 |
| Derivative financial instruments | 121,058 | 127,167 |
| Provisions for liabilities and charges | 54,553 | 104,896 |
| | <u>1,754,924</u> | <u>1,763,474</u> |
| Total liabilities | <u><u>6,553,721</u></u> | <u><u>8,119,834</u></u> |
| Total equity and liabilities | <u><u>€8,744,386</u></u> | <u><u>€8,751,355</u></u> |

Group Cash Flow Statement

| | 2007 €000 | 2006 €000 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Profit/(loss) for the financial year | 166,400 | (153,615) |
| <i>Adjustment for</i> | | |
| Income tax expense | 3,503 | 10,505 |
| Profit on sale of assets and businesses – continuing operations | (12,513) | 22,856 |
| Amortisation of government grants | (2,157) | (1,972) |
| Impairment of property, plant and equipment | 6,433 | 31,299 |
| Equity settled share-based payment transactions | 24,741 | 8,084 |
| Amortisation of intangibles | 45,304 | 42,445 |
| Reduction in goodwill | 16,068 | - |
| Share of profit of associates | (12,513) | (6,360) |
| Depreciation charge | 357,225 | 357,549 |
| Net finance costs | 404,624 | 379,709 |
| Change in inventories | (68,645) | (807) |
| Change in biological assets | 3,053 | (5,105) |
| Change in trade and other receivables | (55,438) | (61,333) |
| Change in trade and other payables | 100,265 | 9,996 |
| Change in provisions | (62,347) | 55,234 |
| Change in employee benefits | (55,294) | (36,094) |
| Foreign currency translation adjustments | 678 | (4,759) |
| Cash generated from operations | 859,387 | 647,632 |
| Interest paid | (409,871) | (349,876) |
| Income taxes paid: | | |
| Irish corporation tax paid | (4,296) | (2,651) |
| Overseas corporation tax (net of tax refunds) paid | (69,175) | (38,879) |
| Net cash inflow from operating activities | 376,045 | 256,226 |
| Cash flows from investing activities | | |
| Interest received | 28,612 | 13,318 |
| Business disposals | 10,720 | 42,438 |
| Purchase of property, plant & equipment and biological assets | (349,744) | (295,213) |
| Purchase of intangible assets | (6,796) | (10,117) |
| Receipt of capital grants | 2,424 | 783 |
| Purchase of available-for-sale financial assets | (106) | (1,507) |
| (Increase) / decrease in restricted cash | (2,779) | 759,342 |
| Disposal of property, plant and equipment | 28,529 | 25,224 |
| Disposal of investments | - | 1,129 |
| Dividends received from associates | 3,617 | 5,087 |
| Investments in /disposals of associates | 408 | 1,598 |
| Purchase of subsidiaries and minorities | (12,013) | (22,300) |
| Deferred and contingent acquisition consideration paid | (14) | (33,573) |
| Net cash (outflow)/inflow from investing activities | (297,142) | 486,209 |
| Cash flow from financing activities | | |
| Proceeds from issue of new ordinary shares | 1,496,244 | - |
| Costs associated with issuing new shares | (62,208) | - |
| (Decrease) / increase in interest-bearing borrowings | 91,853 | 136,070 |
| Repayment of finance lease liabilities | (20,256) | (17,741) |
| Repayments of interest-bearing borrowings | (1,464,927) | (738,203) |
| Repayment of derivatives | (45,186) | - |
| Deferred debt issuance costs | (8,213) | - |
| Dividends paid to minority interests | (7,282) | (7,175) |
| Net cash (outflow) from financing activities | (19,975) | (627,049) |
| Increase in cash and cash equivalent | 58,928 | 115,386 |
| Reconciliation of opening to closing cash and cash equivalents | | |
| Cash and cash equivalents at 1 January | 321,494 | 214,358 |
| Currency translation adjustment | (5,032) | (8,250) |
| Increase in cash and cash equivalents | 58,928 | 115,386 |
| Cash and cash equivalents at 31 December | €375,390 | €321,494 |

1. General information

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

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

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

2. Basis of Preparation

Following admission to the Official List of the Irish Stock Exchange and the Financial Services Authority in accordance with European Union Regulations, the Company is required to prepare statutory consolidated financial statements for the year ended 31 December 2007 and subsequent years in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU, International Financial Reporting Interpretations Committee ("IFRIC") interpretations adopted by the EU, and with those parts of the Companies Acts applicable to companies reporting under IFRS.

In connection with the Company's application for admission, the Company was required by item 20.1 of Annex 1 to the Prospectus Regulations 2005 to prepare and present in its prospectus the last three years audited historical financial information in a form consistent with the accounting policies to be adopted in the Company's 2007 financial statements. Accordingly, the directors of the Company prepared financial information for the Group at the transition date of 1 January 2004 and for each of the years ended 31 December 2004, 2005 and 2006, on the basis expected to be applicable, in so far as was then currently known, for the financial statements to be prepared for the year ended 31 December 2007, except where otherwise required or permitted by IFRS 1 *First-time adoption of International Financial Reporting Standards*.

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

The financial information presented in this report has been prepared in accordance with the Listing Rules of the Irish Stock Exchange and the accounting policies that the Group have adopted for 2007. These accounting policies are consistent with the Group's accounting policies included in the prospectus. Full details of the accounting policies adopted by the Group on implementation of IFRS were published in its prospectus dated 13 March 2007, which is available on the Group's website www.smurfitkappa.com.

3. Use of Estimates

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

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

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

4. Segmental Analyses

| | 12 months to 31-Dec-07 | | | 12 months to 31-Dec-06 | | |
|--|------------------------|-----------------|-------------------|------------------------|-----------------|-------------------|
| | Packaging | Specialties | Total | Packaging | Specialties | Total |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Third party revenue (external) | <u>€6,313,553</u> | <u>€958,104</u> | <u>€7,271,657</u> | <u>€5,998,830</u> | <u>€970,812</u> | <u>€6,969,642</u> |
| Segment results-pre exceptionals | 598,781 | 55,582 | 654,363 | 465,058 | 49,352 | 514,410 |
| Exceptional items | <u>(23,825)</u> | <u>(4,965)</u> | <u>(28,790)</u> | <u>(199,511)</u> | <u>(49,427)</u> | <u>(248,938)</u> |
| Segment results-post exceptionals | 574,956 | 50,617 | 625,573 | 265,547 | (75) | 265,472 |
| Unallocated centre costs-pre exceptionals | | | <u>(36,632)</u> | | | <u>(34,587)</u> |
| Group centre exceptional items | | | <u>(26,927)</u> | | | <u>(646)</u> |
| Operating profit | | | 562,014 | | | 230,239 |
| Share of associates' profit/(loss) (after tax) | 12,513 | - | 12,513 | 7,907 | (1,547) | 6,360 |
| Finance costs | | | <u>(607,585)</u> | | | <u>(599,345)</u> |
| Finance income | | | <u>202,961</u> | | | <u>219,636</u> |
| Profit/(loss) before income tax | | | <u>€169,903</u> | | | <u>€(143,110)</u> |

5. Employee Post Retirement Schemes – Defined Benefit Expense

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

| | 12 Months to 31-Dec-07 | 12 Months to 31-Dec-06 |
|--|---------------------------|---------------------------|
| | €000 | €000 |
| Current service cost | 50,255 | 51,995 |
| Past service cost | 4,706 | 3,823 |
| (Gain) on settlements and curtailments | (5,109) | (4,189) |
| Actuarial gains and losses arising on long-term employee benefits other than defined benefit schemes | (3,518) | 1,130 |
| | 46,334 | 52,759 |
| Expected return on scheme assets | (87,387) | (80,684) |
| Interest cost on scheme liabilities | 96,348 | 89,939 |
| Other financial expense | 8,961 | 9,255 |
| Defined benefit expense | €55,295 | €62,014 |

The disclosures above reflect the requirements of IAS 19 – Employee Benefits. Included in cost of sales and net operating expenses is a defined benefit expense of €46,334,000 and €52,759,000 for 2007 and 2006 respectively. Expected Return on Scheme Assets of €87,387,000 (2006: €80,684,000) is included in Finance Income and Interest Cost on Scheme Liabilities of €96,348,000 (2006: €89,939,000) is included in Finance Expense in the Group Income Statement.

6. Other Operating Income

Other operating income includes insurance proceeds of €46 million in respect of a fire in the Group's mill in Factice, France. The costs of the fire and related downtime are included in the appropriate cost headings within operating profit.

7. Exceptional Items

| The following items are regarded as exceptional in nature: | 2007 €000 | 2006 €000 |
|--|-------------------|-------------------|
| Reorganisation and restructuring costs | (61,797) | (174,540) |
| Settlement of Dominican Republic legal case | - | (20,279) |
| Net income/(loss) on sale of assets and operations | 12,513 | (22,856) |
| Impairment loss on property, plant and equipment | (6,433) | (31,299) |
| Other impairments | - | (610) |
| Total exceptional items included in operating costs | €(55,717) | €(249,584) |
| Total exceptional items included in finance costs | €(115,427) | €(29,905) |

Following the completion of the merger with Kappa Packaging ("Kappa") in December 2005, the Group undertook a significant restructuring programme with the objective of fully integrating the combined operations of the Jefferson Smurfit Group and Kappa Packaging in order to achieve planned synergy benefits. This programme involved the restructuring of our European paper mills and converting plants and rationalisation of our head office function. Reorganisation and restructuring costs comprise redundancy payments and other closure costs in both 2007 and 2006.

The reorganisation and restructuring costs in 2007, include the termination costs on closures of a containerboard mill in France, a cartons plant and a small sheet plant in Ireland and a solid board packaging plant in Norway. Reorganisation and restructuring costs also include a payment to the former Chairman of the Group of €9 million as a result of the Separation Agreements entered into at the time of the IPO, costs of €10 million in respect of the termination of certain long-term contracts and €4 million in respect of once-off costs relating to our compliance program.

The paper mill restructuring programme in 2006 included the closure of five high-cost containerboard mills; four in France and one in Germany. The Group's corrugated converting plants in Europe were restructured to optimise the enlarged system and make it more efficient. The programme resulted in the closure of four plants; two in France and two in the UK.

As a result of the restructuring programme significant synergies have been achieved throughout the Group, including paper mill rationalisation, machine specialisation, paper logistics and integration, corrugated system optimisation, purchasing savings and central and administrative overhead reductions.

In 2007 an impairment charge of €6.4 million is reflected in the Packaging segment and resulted from the closure of the containerboard mill in France. In 2006, an impairment charge amounting to €22.1 million was recognised in the Packaging segment in relation to a number of entities predominantly located in the Eurozone, which results primarily from the restructuring programme. An impairment charge of €9.2 million was also reflected in the Specialties segment and resulted from the restructuring of certain operations in the Netherlands and the resulting impact on recoverable amounts of underlying property, plant and equipment.

Net income on sale of assets and operations in 2007 included gains on the sale of land and buildings in Spain, Italy, the UK and Venezuela. We also sold a small sack plant in Sweden and a small solid board operation in Mexico. The net gains arising on these disposals, net of other gains and losses, gave rise to the overall gain of €12.5 million above. During 2006, the Group completed the disposal of eight facilities as required under the European Union approval of the merger with Kappa comprising of operations in the Netherlands, Sweden and Denmark. Losses arising on these disposals, net of other less significant gains and losses, gave rise to the overall loss of €22.9 million above.

In 2006, the Group was subject to a long running court action in relation the ownership of its corrugated container plant in the Dominican Republic. Following the completion of court proceedings in 2006, the Group incurred settlement costs of €20.3 million. The settlement includes the transfer of title to certain assets and payment of cash consideration in three tranches in January 2007, 2008 and 2009, all of which was expensed in 2006.. The Group has retained ownership of the plant and equipment and the goodwill of the business.

Exceptional finance costs of €115 million arose in 2007 following our use of the proceeds from the IPO to pay down debt. These costs comprise refinancing costs of €85 million and the non-cash accelerated amortisation of debt costs of €30 million. The exceptional finance cost of €30 million in 2006 related mainly to the impairment of available-for-sale financial assets.

8. Earnings Per Share

Basic

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

| | 2007 €000 | 2006 €000 |
|---|--------------|--------------|
| Profit / (loss) attributable to equity holders of the Company | 147,169 | (170,134) |
| Weighted average number of ordinary shares in issue ('000) ⁽¹⁾ | 198,188 | 126,242 |
| Basic earnings per share (cent per share) | 74.3 | (134.8) |

Diluted

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

| | 2007 €000 | 2006 ⁽²⁾ €000 |
|---|--------------|-----------------------------|
| Profit / (loss) attributable to equity holders of the Company | 147,169 | (170,134) |
| Weighted average number of ordinary shares in issue ('000) ⁽¹⁾ | 198,188 | 126,242 |
| Potential dilutive ordinary shares assumed | 7,140 | - |
| Diluted weighted average ordinary shares | 205,329 | 126,242 |
| Diluted earnings per share (cent per share) | 71.7 | (134.8) |

(1) Average of ordinary shares in issue pre and post the IPO. Ordinary shares in issue at 31 December, 2007 amounted to 217,985,995.

(2) There is no difference between basic and diluted loss per share in 2006 as the inclusion of the dilutive impact of the convertible shares would have the effect of reducing the loss per share.

9. Reconciliation of Movements in Shareholder's Funds

| | 12 months to 31-Dec-2007 €000 | 12 months to 31-Dec-2006 €000 |
|-----------------------------------|-------------------------------------|-------------------------------------|
| At beginning of period | 631,521 | 729,869 |
| Total recognised gains and losses | 108,643 | (102,334) |
| Shares issued | 92 | - |
| Share premium on shares issued | 1,432,905 | - |
| Share-based payment expense | 24,741 | 8,084 |
| Purchase of minorities | (1,462) | (14) |
| Dividends paid to minorities | (5,775) | (4,084) |
| At end of period | €2,190,665 | €631,521 |

10. Analysis of Net Debt

| | 31-Dec-07 €000 | 31-Dec-06 €000 |
|---|-------------------|-------------------|
| Senior credit facility: | | |
| Revolving credit facility (1) – interest at relevant interbank rate + 1.5% | (10,746) | (6,982) |
| Restructuring facility (2) – interest at relevant interbank rate + 1.5% until conversion to Term Loan | 103,200 | 103,200 |
| Tranche A Term loan (3a) – interest at relevant interbank rate + 1.5% | 422,214 | 442,492 |
| Tranche B Term loan (3b) – interest at relevant interbank rate + 1.875% | 1,187,045 | 1,142,998 |
| Tranche C Term loan (3c) – interest at relevant interbank rate + 2.125% | 1,186,147 | 1,142,547 |
| Yankee bonds (including accrued interest) (4) | 198,674 | 219,764 |
| Bank loans and overdrafts / (cash) | (324,946) | (246,715) |
| 2011 Receivables securitisation floating rate notes (including accrued interest) (5) | 205,815 | 204,656 |
| | 2,967,403 | 3,001,960 |
| 2012 Bonds (including accrued interest) (6) | - | 922,218 |
| 2015 Cash pay subordinated notes (including accrued interest) (7) | 352,985 | 368,299 |
| Net Debt before finance leases | 3,320,388 | 4,292,477 |
| Finance leases | 72,786 | 91,281 |
| Net Debt including leases - Smurfit Kappa Funding plc | 3,393,174 | 4,383,758 |
| Balance of revolving credit facility reclassified to debtors | 10,746 | 6,982 |
| Deferred debt issuance costs other | - | (1,994) |
| Net Debt after reclassification - Smurfit Kappa Funding plc | 3,403,920 | 4,388,746 |
| 2015 Senior PIK Notes - Smurfit Kappa Holdings plc (including accrued interest) (8) | - | 396,344 |
| Smurfit Finance Luxemburg Sarl PIK (9) | - | 97,700 |
| SKG plc, SK Investments Ltd, SK Holdings plc, SK Corporation Ltd & Smurfit Finance Lux cash | (44) | (460) |
| Net Debt including leases - Smurfit Kappa Group plc | €3,403,876 | €4,882,330 |

- (1) Revolving credit facility of €600 million (available under the senior credit facility) to be repaid in full in 2012 (Revolver Loans = €0m, Drawn under Ancillary facilities and facilities supported by letters of credit = €0m)
- (2) Restructuring credit facility of €275 million (available under the senior credit facility)
- (3a) Term Loan A due to be repaid in certain instalments up to 2012
- (3b) Term Loan B due to be repaid in full in 2013
- (3c) Term Loan C due to be repaid in full in 2014
- (4) 7.50% senior debentures due 2025 of \$292.3 million
- (5) Receivables securitisation floating rate notes mature September 2011
- (6) 10.125% senior notes due 2012 and 9.625% senior notes due 2012
- (7) €217.5 million 7.75% senior subordinated notes due 2015 and US\$200.0 million 7.75% senior subordinated notes due 2015
- (8) 11.5% Senior PIK Notes due 2015
- (9) 9% Shareholder PIK

11. Convertible Equity

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

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

Subject to certain conditions the convertible shares may become vested at the discretion of the board of directors of SKG plc at any time. The plans provide for equity settlement only, no cash settlement alternative is available.

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

As of 31 December, 2007, SKG plc had a total of 12,900,028 convertible shares in issue in total, 10,150,828 under the 2002 Plan, as amended and 2,749,200 under the 2007 SIP.

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

| Shares 000's | Class of Convertible shares | | | | | | | | | | | Total |
|---------------------------------------|-----------------------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|--------------|-----------------|
| | A | B | C | D | E | F | G | H | A1 | A2 | A3 | |
| Balance Dec. 2006 | 126.6 | 413.2 | 206.6 | 286.6 | 2,923.5 | 2,923.5 | 1,461.7 | 2,062.9 | - | - | - | 10,404.6 |
| Vested into D | (126.6) | (330.6) | - | 8,367.0 | (2,923.5) | (2,923.5) | - | (2,062.9) | - | - | - | - |
| Converted into A1, A2 & A3 | - | (82.6) | (206.6) | - | - | - | (1,461.7) | - | 583.7 | 583.7 | 583.6 | - |
| Converted into Ordinary shares | - | - | - | (253.8) | - | - | - | - | - | - | - | (253.8) |
| Balance Dec. 2007 | - | - | - | 8,399.8 | - | - | - | - | 583.7 | 583.7 | 583.6 | 10,150.8 |
| Exercisable Dec. 2007 | - | - | - | 8,399.8 | - | - | - | - | - | - | - | 8,399.8 |

The exercise price for all D convertible shares other than those derived from Class H convertibles at 31 December, 2007 was €4.28. The exercise price for D convertible shares derived from Class H convertibles was €5.69 at 31 December, 2007. The weighted average remaining contractual life of all the awards issued under the 2002 Plan, as amended, at 31 December, 2007 was 4.98 years.

A summary of the activity under the 2007 SIP, for the period ended 31 December, 2007 is presented below:

| Shares 000's | Class of Convertible shares | | |
|---------------------------|-----------------------------|---------|---------|
| | New B | New C | Total |
| April 2007 Allotted | 424.2 | 424.2 | 848.4 |
| May 2007 Allotted | 950.4 | 950.4 | 1,900.8 |
| Balance December 2007 | 1,374.6 | 1,374.6 | 2,749.2 |
| Exercisable December 2007 | - | - | - |

The exercise price for all New B and New C convertible shares upon vesting at 31 December, 2007 was €18.28. The weighted average remaining contractual life of all the awards issued under the 2007 SIP at 31 December, 2007 was 9.32 years.

12. Transactions with Key Management Personnel

In June 2007, a cash amount totalling approximately €5.8 million was awarded to the Executive Directors and the Company Secretary by the major shareholders Madison Dearborn Capital Partners and Smurfit Kappa Feeder G.P. Limited and is payable directly by those shareholders. The award was made in connection with the successful flotation of the company.

13. Statutory Accounts

The financial statements prepared in accordance with International Financial Reporting Standards included in this report do not comprise "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 the disclosure and other requirements of those Regulations. The preliminary release was approved by the board of directors. The annual report and financial statements will be approved by the board of directors and reported on by the auditors in due course. Accordingly, the financial information is unaudited. Full group accounts for the year ended 31 December, 2006 have received an unqualified audit report and have been filed with the Irish Registrar of Companies.

Supplemental Financial Information

Group Income Statement – Fourth Quarter

| | 3 Months to 31-Dec-07 | | | 3 Months to 31-Dec-06 | | |
|---|-----------------------------|---------------------|-----------------|-----------------------------|---------------------|------------------|
| | Pre- Exceptional 2007 | Exceptional 2007 | Total 2007 | Pre- Exceptional 2006 | Exceptional 2006 | Total 2006 |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Continuing operations | | | | | | |
| Revenue | 1,817,795 | - | 1,817,795 | 1,749,206 | - | 1,749,206 |
| Cost of sales | (1,342,575) | (358) | (1,342,933) | (1,248,339) | (27,458) | (1,275,797) |
| Gross profit | 475,220 | (358) | 474,862 | 500,867 | (27,458) | 473,409 |
| Distribution costs | (139,926) | - | (139,926) | (138,116) | - | (138,116) |
| Administrative expenses | (191,372) | - | (191,372) | (204,099) | - | (204,099) |
| Other operating income | 904 | 4,975 | 5,879 | 511 | (7,259) | (6,748) |
| Other operating expenses | - | (23,155) | (23,155) | - | (82,271) | (82,271) |
| Operating profit | 144,826 | (18,538) | 126,288 | 159,163 | (116,988) | 42,175 |
| Finance costs | (114,735) | (5,457) | (120,192) | (131,200) | (1,905) | (133,105) |
| Finance income | 54,769 | - | 54,769 | 45,728 | - | 45,728 |
| Share of associates' profit (after tax) | 2,769 | - | 2,769 | 2,014 | - | 2,014 |
| Profit/(loss) before income tax | 87,629 | (23,995) | 63,634 | 75,705 | (118,893) | (43,188) |
| Income tax expense | | | 45,557 | | | (5,883) |
| Profit/(loss) for the financial period | | | €109,191 | | | €(49,071) |
| <i>Attributable to:</i> | | | | | | |
| Equity holders of the Company | | | 102,166 | | | (55,266) |
| Minority interest | | | 7,025 | | | 6,195 |
| Profit/(loss) for the financial period | | | €109,191 | | | €(49,071) |

Segmental Analyses – Fourth Quarter

| | 3 months to 31-Dec-07 | | | 3 months to 31-Dec-06 | | |
|--|-----------------------|-----------------|-------------------|-----------------------|-------------|------------------|
| | Packaging | Specialties | Total | Packaging | Specialties | Total |
| | €000 | €000 | €000 | €000 | €000 | €000 |
| Third party revenue (external) | €1,579,134 | €238,661 | €1,817,795 | €1,522,742 | €226,464 | €1,749,206 |
| Segment results-pre exceptionals | 132,371 | 11,460 | 143,831 | 164,407 | 7,119 | 171,526 |
| Exceptional items | (3,183) | 1,250 | (1,933) | (69,020) | (47,179) | (116,199) |
| Segment results-post exceptionals | 129,188 | 12,710 | 141,898 | 95,387 | (40,060) | 55,327 |
| Unallocated centre costs-pre exceptionals | | | 995 | | | (12,363) |
| Group centre exceptional items | | | (16,605) | | | (789) |
| Operating profit | | | 126,288 | | | 42,175 |
| Share of associates' profit/(loss) (after tax) | 2,769 | - | 2,769 | 2,772 | (758) | 2,014 |
| Finance costs | | | (120,192) | | | (133,105) |
| Finance income | | | 54,769 | | | 45,728 |
| Profit/(loss) before income tax | | | €63,634 | | | €(43,188) |

Reconciliation of net income to EBITDA, before exceptional items and share-based payments

| | 3 months to 31-Dec-07 €000 | 3 months to 31-Dec-06 €000 | 12 months to 31-Dec-07 €000 | 12 months to 31-Dec-06 €000 |
|---|----------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| Profit/(loss) for the financial period | 109,191 | (49,071) | 166,400 | (153,615) |
| Income tax expense | (45,557) | 5,883 | 3,503 | 10,505 |
| Share of associates' operating income | (2,769) | (2,014) | (12,513) | (6,360) |
| (Income)/loss on sale of assets and operations – subsidiaries | (4,975) | 30,115 | (12,513) | 22,856 |
| Reorganisation and restructuring costs | 23,155 | 59,415 | 61,797 | 195,429 |
| Total net interest | 65,423 | 87,377 | 404,624 | 379,709 |
| Depreciation, depletion (net) and amortisation | 126,829 | 93,188 | 421,650 | 395,521 |
| Share-based payments | 3,388 | 2,096 | 24,741 | 8,084 |
| Impairment of fixed assets | 358 | 27,458 | 6,433 | 31,299 |
| EBITDA before exceptional items and share-based payments | €275,043 | €254,447 | €1,064,122 | €883,428 |

Employee Post Retirement Schemes – Defined Benefit Expense

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

| | 3 Months to 31-Dec-07 | 3 Months to 31-Dec-06 |
|--|----------------------------------|--------------------------|
| | €000 | €000 |
| Current service cost | 11,261 | 10,524 |
| Past service cost | 4,362 | 3,249 |
| (Gain) on settlements and curtailments | (131) | (725) |
| Actuarial gains and losses arising on long-term employee benefits other than defined benefit schemes | (3,283) | 182 |
| | 12,209 | 13,230 |
| Expected return on scheme assets | (21,399) | (20,268) |
| Interest cost on scheme liabilities | 23,383 | 22,453 |
| Other financial expense | 1,984 | 2,185 |
| Defined benefit expense | €14,193 | €15,415 |

The disclosures above reflect the requirements of IAS 19 – Employee Benefits. Included in cost of sales and net operating expenses is a defined benefit expense of €12,209,000 and €13,230,000 for the fourth quarter of 2007 and 2006 respectively. Expected Return on Scheme Assets of €21,399,000 (2006: €20,268,000) is included in Finance Income and Interest Cost on Scheme Liabilities of €23,383,000 (2006: €22,453,000) is included in Finance Expense in the Group Income Statement.