

## SKG reports 20% year-on-year growth in EBITDA for 3Q 2007

### 25% EBITDA growth for first nine months of 2007

**13 November, 2007:** 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 9 months ending 30 September, 2007.

### 2007 Third Quarter | Key Financial Performance Measures

€m	YTD 2007	YTD 2006	Change	Q3 2007	Q3 2006	Change	Q2 2007	Change
Revenue	€5,454	€5,220	4.5%	€1,829	€1,735	5.4%	€1,831	-
Pre-exceptional EBITDA	€789	€629	25.5%	€275	€229	20.3%	€260	6.1%
EBITDA Margin	14.5%	12.0%	2.5 pts	15.1%	13.2%	1.9 pts	14.2%	0.9 pts
Free Cashflow	€113	(€64)	-	€150	€64	134%	€3	-
Net Debt				€3,448	€4,979	31%	€3,605	4.4%
Net Debt to EBITDA (LTM)				3.3x	n/a	n/a	3.6x	0.3 pts

### Performance Highlights

- Continued and sequential EBITDA growth
  - EBITDA of €789 million to 30 September - 25 per cent year-on-year increase
- Industry leading EBITDA margin
  - EBITDA margin increase to 15.1 per cent in the third quarter
- Significant increase in free cash flow
  - €147 million increase in free cash flow quarter on quarter
- Continued net debt reduction
  - Net debt to EBITDA (LTM) of 3.3x

## Performance Review & Outlook

Gary McGann, Smurfit Kappa Group CEO, commented: “We are pleased to report continued, sequential EBITDA growth; increased and industry leading EBITDA margins; and a significant increase in free cash flow.

At the end of 2007, SKG will report a significant year-on-year increase in EBITDA and leverage and synergy targets will be exceeded.

Current and expected trading conditions continue to be characterised by cost inflation and corrugated price recovery. Assuming current market conditions prevail, SKG expects continued EBITDA growth for 2008.”

## 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 Third Quarter and First Nine Months | Performance Overview

SKG's financial outcome for the third quarter and first nine months of 2007 reflects a solid financial performance against a backdrop of significant cost inflation and lower summer volumes than expected in some European countries and in Mexico.

Solid underlying revenue growth, of 7.9% in the third quarter and 7.5% in the first nine months of 2007, primarily reflects product price improvements in Europe but also a strong performance from the Group's operations in Latin America.

There were a number of factors during the third quarter and first nine months of the year which have impacted EBITDA and EBITDA margin growth:

- Rapidly growing and higher than anticipated recovered paper prices in the first half of the year resulted in margin compression within SKG's containerboard system. In the third quarter, sustained strong Asian demand reversed seasonal pricing norms for recovered paper, which increased further in Europe over the period.
- In addition to recovered paper increases, other costs continued to increase in the third quarter, particularly in starch, wood and energy. SKG expects to continue to experience the impact of these increases in the fourth quarter and into 2008.
- Strong recovered paper prices and tight market conditions allowed SKG to implement two consecutive recycled paper increases in the first half of 2007, and a further increase in October. These containerboard increases generate initial margin compression within the Group's corrugated business as there is a 3 to 6 month time lag in the full implementation of paper price increases in corrugated pricing.
- In brown kraftliner, SKG had anticipated a price increase in the second quarter of 2007, which was not achieved due to the sustained relative weakness of the US dollar and increased US imports into the European market.

Higher input costs, while causing short-term margin pressure within the Group's overall system, have driven product price momentum when combined with healthy market demand. The Group expects to continue to deliver corrugated price improvements in the fourth quarter and into 2008 to recover paper increases.

Corrugated demand growth remained positive in most European countries in the third quarter and SKG is continuing to achieve corrugated price increases. Over the quarter, the Group has increased its corrugated pricing by a further 2.8% versus December 2005 price levels.

Positive market conditions in white top kraftliner (representing 30% of SKG's total kraftliner business) and in sack kraft paper resulted in price increases for these two grades being announced in the third quarter. These increases are expected to be fully implemented in the fourth quarter of 2007 for the former, and early 2008 for the latter.

### Third Quarter, 2007: Year-on-year financial performance

Revenue of €1,829 million in the third quarter of 2007 represents a 5.4% increase on revenue of €1,735 million in the third quarter of 2006. Allowing for the positive impact of currency of €3 million and the negative impact of disposals and closures of €46 million, revenue shows an underlying increase of €137 million or 7.9% for the third quarter.

EBITDA, before exceptional items, of €275 million increased 20.3% compared to EBITDA of €229 million in the third quarter of 2006. This represents a margin of 15.1% and 13.2% respectively.

### **Third Quarter, 2007: Quarter-on-quarter financial performance**

Revenue of €1,829 million in the third quarter of 2007 is flat on revenue of €1,831 million in the second quarter of 2007. EBITDA, before exceptional items, of €275 million increased 6.1% compared to EBITDA of €260 million in the second quarter of 2007. This represents a margin of 15.1% and 14.2% respectively.

### **First Nine Months, 2007: Year-on-year financial performance**

Revenue of €5,454 million in the first nine months of 2007 represents a 4.5% increase on revenue of €5,220 million in the first nine months of 2006. Allowing for the negative impact of currency of €13 million and for the negative impact of disposals and closures of €144 million, revenue shows an underlying increase of €391 million or 7.5% for the first nine months of 2007.

EBITDA, before exceptional items, of €789 million increased 25.5% compared to EBITDA of €629 million in the first nine months of 2006. This represents a margin on revenue of 14.5% and 12.0% respectively.

### **2007 Third Quarter and First Nine months | 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.

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, has resulted in a reduction in the Group's overall cost of debt of approximately €10 million per annum and gives SKG greater financial flexibility.

In the third quarter, SKG's significant increase in free cash flow further reduced net debt. At 30 September, 2007, SKG's net debt was €3,448 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.

The Group's financial objective for 2007 remains equity accretion through debt pay down. SKG remains on track to deliver a net debt to EBITDA ratio below the bottom end of our original target range of 3.25x to 4.25x by the end of the year.

### **Acquisitions and Disposals**

The Group acquired a bag-in-box operation in Spain, Plasticos, during the third quarter. This business will be merged with the Group's existing and fast growing bag-in-box division. Plasticos will provide a platform for further development of the Group's bag-in-box business in the south of Europe.

The Group completed a number of asset and non-core business disposals during the first nine months to September, including a number of property sales. Total consideration for these disposals was in excess of €30 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 the remainder of the year.

### **Capital Expenditure**

Capital expenditure during the third quarter was approximately €81 million. This compares to €69 million in the third quarter of 2006 and €68 million in the first quarter and €79 million in the second quarter of 2007. The Group's first nine months capital expenditure of €228 million equates to 87% of depreciation in the period. The Group's full year capital expenditure level in 2007 is expected to be modestly over 90% of depreciation and approximately 4% of full year net revenue.

### **Synergies**

The momentum behind the synergy programme continues and the run rate at the end of September 2007 was approximately €151 million. SKG's current objective is to deliver the original €160 million three year target by the end of 2007 – one year ahead of schedule.

### **2007 Third quarter and First Nine Months | Performance Review**

Overall trading in the first nine months of 2007 is significantly ahead of the same period in 2006. This reflects balanced market conditions in recycled containerboard in Europe, together with positive overall corrugated demand, despite a poor summer which impacted negatively our third quarter volumes in certain European countries.

Two price increases in recycled containerboard were implemented during the first half of the year, and a further increase has been fully implemented in October in most countries, in part to recover the continued upward pressure on recovered paper, energy and other raw material prices. Corrugated prices are being progressively increased to recover containerboard price increases. The implementation of corrugated price increases is always a slower process than the implementation of containerboard price increases. While overall price momentum is good, there is some margin pressure within the Group's corrugated system as current box pricing does not yet fully 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 first nine months of the year relative to the comparable period in 2006, which contributed to increased earnings growth for the region. In the third quarter however, SKG experienced slower volume growth than expected in Mexico due to temporary gas supply issues.

### **Packaging: Europe**

On the supply side, there was an unprecedented balancing of the market for recycled paper in 2006, when it was estimated that some 1.5 million tonnes of higher cost capacity were removed from the market. Further closures in 2007 were SKG's Alaincourt mill in France and a machine in Modena, Italy - removing a combined 150,000 tonnes. With supply/demand broadly in balance since the end of 2006, and continuing demand growth in 2007, the recycled paper market was extremely tight for the first half of the year.

A more balanced market has allowed producers to recover significant increases in input costs, primarily recovered paper, by implementing recycled containerboard price increases. Recovered paper prices have increased by approximately 40% in the first nine months of 2007. As a consequence, two consecutive recycled containerboard price increases, of €30 per tonne each, were implemented in the first half of 2007. In the third quarter, the overall European recycled containerboard market remained positive, and the €30 per tonne increase, announced for September, has been effectively fully implemented in October in most countries.

The brown kraftliner market in Europe remains challenging. The significant increase of imports from US and US dollar denominated regions into Europe in the first nine months of the year did not allow SKG to achieve the kraftliner price increase planned for April 2007. The increase of imports into Europe primarily reflects the relative weakness of the US dollar and slow domestic US demand.

In white-top kraftliner however, tight market conditions and high wood costs have allowed SKG to announce a €40 per tonne price increase for October. This increase will be progressively implemented during the fourth quarter of the year.

SKG's total European kraftliner volumes declined 5% in the first nine months of the year compared to the same period in 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, volumes increased 3% in the first nine months of the year compared to the same period in 2006 with demand proving to be strong. SKG's European recycled containerboard volumes, excluding the impact of disposals and closures, also increased 2% in the first nine months of the year compared to the same period in 2006.

As an integrated corrugated producer, containerboard price increases have resulted in increasing input costs for SKG's corrugated operations resulting in near-term margin compression. In corrugated, SKG experienced lower volume growth than the market during the first quarter, reflecting a strong and disciplined stance on pricing. However, SKG's volumes improved in the second quarter, especially in the UK, Benelux and Germany, as a result of broader market growth. Strong demand was sustained in these countries in the third quarter, but the poor summer impacted our volumes in France, Spain and Italy in the third quarter. As we move into the fourth quarter, demand shows signs of improvement.

Current demand levels, together with balanced capacity in containerboard and rising input costs, underpin price momentum and are expected to deliver continued corrugated price improvement in the fourth quarter of 2007 and, if current conditions continue, into 2008.

SKG's European corrugated volumes, excluding the impact of disposals and closures, increased by approximately 1% in the third quarter, and just over 1% in the first nine months of the year compared to the same period in 2006. SKG's nine months growth compares to an estimated 3% broader market growth in the same period, with the lower SKG figures reflecting the strong continued push for price recovery.

The SKG priority is to continue to implement the necessary corrugated price increases required to recover input cost increases. In the third quarter, SKG implemented a further 2.8% corrugated increase versus December 2005 price level.

### **Packaging: Latin America**

While market conditions vary from country to country, demand growth was generally strong across the Latin American region, with SKG's operations continuing to report strong growth in revenue and earnings year-on-year. SKG's Latin American operations reported a good performance in the first nine months of the year, with containerboard volumes 4% higher than in the same period in 2006. SKG's corrugated volumes in Latin America increased 5% in the first nine months of the year compared to the same period in 2006.

In Mexico, SKG experienced slower volume growth than expected in the third quarter, following temporary gas supply issues that forced SKG to scale down some of its operations for a few days in September. However, SKG continues to capture market share in the country, and results in the first nine months of 2007 are materially ahead of the same period last year.

SKG's Colombian business continues to experience high volumes and strong pricing. In Venezuela, despite a high labour cost adjustment over the quarter, SKG's operations in the country are benefiting from the vibrant economic growth.

Business conditions in Argentina also remain strong, although profitability was impacted by increases in energy and labour costs – the former caused by an energy shortage in the country and the latter by new labour laws.

### **Specialties: Europe**

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

In the first nine months of the year, the financial performance of SKG's specialties business slightly improved on the comparable period in 2006, reflecting primarily SKG's strong focus on restoring acceptable end product pricing. However, the performance of the specialties business is being significantly impacted by rising recovered paper costs; and while board prices have increased year-on-year, further price initiatives are required to fully recover the higher input costs.

The sackpaper market remains very strong, driven by a positive supply/demand dynamic in the market. As a result, SKG recently announced a new price increase of €70 per tonne which is expected to be implemented in the first quarter of 2008. As SKG is 50% integrated in sack paper, this increase should have a positive effect on the earnings of the division. On the converting side however, a fragmented oversupplied competitive market means that paper price increases are not being effectively implemented.

SKG's boxboard business improved in the first nine months of the year. Product prices are trending upwards, with price increases of €40-€50 per tonne announced for the fourth quarter, reflecting further pressure from rising input costs, while market conditions remain competitive.

SKG's bag-in-box business reported strong growth in volumes in the first nine month of the year, despite lower than expected third quarter volumes, following reduced wine consumption in the summer months. SKG has concluded the acquisition of the Plasticos business in Spain, which will provide a platform for further development of the Group's bag-in-box business in the south of Europe, and is also completing a greenfield expansion in Russia.

### **Third Quarter, 2007: Cash Flows & Capital Structure**

Strong free cash flow for the third quarter of 2007, resulted in a net inflow of €150 million compared to a net inflow of €64 million in the same period in 2006. The improvement in free cash flow was facilitated by a positive working capital change partially offset by a higher level of capital expenditure in 2007. The improved cash flow in 2007 reflects the increased profits generated by the Group in the third quarter.

SKG's reported third quarter profit reflects debt re-financing costs of €5 million. These costs are added back in arriving at free cash flow but deducted within the financing and investment section of the cash flow. The non-cash interest expense of €2 million represents a reduction on the same period in 2006.

Capital expenditure of €81 million in the third quarter of 2007 was higher than in 2006, representing 94% of depreciation compared to 76% in 2006. 2006 third quarter expenditure, while lower, reflects a different phasing of capital spend within the year. Expenditure for the full year to December 2006 represented 98% of depreciation. Working capital decreased by €56 million in the third quarter of 2007 with reduced debtors and increased creditors partly offset by increased stocks. The move in debtors, which is the principal driver of the change in working capital in the period, primarily reflects seasonal factors. Working capital of €92 million at September 2007 represented 9.5% of annualised revenue compared to 9.1% at September 2006.

Cash flows from financing and investment activity amounted to a net outflow of €13 million in the third quarter of 2007. The principal outflows were a €9 million repayment of derivatives as part of debt re-financing and additional re-financing costs of €5 million. In the third quarter of 2006, cash flows from financing and investment activity were modest resulting in a net outflow of €2 million.

The 2007 third quarter net cash inflow was €137 million. This inflow was increased by €26 million in respect of currency translation adjustments, reflecting a reduction in foreign currency borrowings as a result of the relative strength of the euro. The positive currency movement in the quarter was offset by €6 million in respect of the amortisation of debt issue costs (including the accelerated amortisation of €2 million). The overall result was a reduction of €157 million in net borrowing during the third quarter of 2007.

In the third quarter of 2006, a net cash inflow of €62 million was reduced by the amortisation of debt issuance costs of €6 million, PIK interest expense of €12 million and a negative currency movement of €1 million. The overall result was a decrease in net borrowing of €43 million during the third quarter of 2006.

Net borrowing amounted to €3,448 million at September 2007 compared to €3,605 million at June 2007. Reflecting the progressive strengthening of SKG's earnings, leverage (EBITDA to net debt ratio) has improved over the course of 2007 from 3.7x at March 2007 to 3.6x at June 2007 and 3.3x at September 2007. At December 2006, leverage was 5.5x.

**Year to September, 2007: Cash Flows & Capital Structure**

Free cash flow, for the first nine months of 2007 was a net inflow of €113 million compared to a net outflow of €64 million in the same period in 2006. The improvement in free cash flow reflects a combination of the higher profits generated in 2007 and a lower working capital outflow partly offset by higher capital expenditure (and capital creditors) and current provisions, primarily in respect of re-organisation and re-structuring charges provided for in 2006.

The underlying improvement in year-on-year profitability is masked by the significant finance costs incurred in 2007 in respect of the early paydown of debt following the IPO in March. These costs comprise refinancing costs of €79 million (added back in arriving at free cash flow but then deducted within the financing and investment section of the cash flow) and €31 million in respect of the accelerated write-off of debt costs relating to the debt paid down.

Capital expenditure at €228 million in 2007 represented 87% of depreciation compared to 77% in 2006. Working capital increased by €42 million in the nine months to September 2007 with increased debtors and, to a lesser extent, stocks partly offset by higher creditors. The comparative increase in 2006 was €108 million. The increase in working capital over the first nine months of 2007 reflected the impact of higher average prices of recovered paper and an element of seasonality as a result of the higher level of trading activity mid-year. As a percentage of annualised revenue, working capital of €692 million at September 2007 represented 9.5%, compared to 8.9% at December 2006 and 9.1% at September 2006.

Primarily as a result of the IPO, cash flows from financing and investment activity amounted to a net inflow of €1,335 million in the first nine months of 2007. The share issue raised €1,495 million while the costs of the IPO and those relating to the subsequent refinancing of borrowing amounted to €60 million and €79 million respectively. The repayment of derivatives resulted in an outflow of €23 million (€14 million of which related to the IPO). Apart from a payment of €34 million in deferred consideration to former Kappa shareholders, cash flows from financing and investment activity in the same period of 2006 were modest resulting in a net outflow of €40 million.

Net cash inflow for the first nine months of 2007 was €1,448 million. This inflow was increased by a positive currency movement of €40 million while offset by €43 million in respect of the amortisation of debt issuance costs (including the accelerated amortisation of €31 million) and €12 million in respect of non-cash interest in relation to the PIK debt prior to its paydown in late March. The overall result was a decrease of €1,434 million in net borrowing in the first nine months of 2007.

In the first nine months of 2006, the negative free cash flow and the outflow from financing and investment activity resulted in a net cash outflow of €104 million. This outflow was increased by €15 million in respect of the amortisation of debt issuance costs and €37 million in respect of non-cash interest and offset by positive currency movements of €71 million. The overall result was an increase of €85 million in net borrowing in the first nine months of 2006.

**Summary Cash Flows - SKG plc**

Summary cash flows for the third quarter and nine months are set out in the following table.

	3 months to 30-Sept-07	3 months to 30-Sept-06	9 months to 30-Sept-07	9 months to 30-Sept-06
	€ Million	€ Million	€ Million	€ Million
Profit/(loss) before tax - subsidiaries	103	(52)	97	(104)
Exceptional items	(11)	59	6	109
Impairment of fixed assets	1	4	6	4
Depreciation and depletion	87	91	263	271
Amortisation of intangible assets	11	11	32	32
Non-cash interest expense	2	13	47	11
Refinancing costs	5	-	79	-
Share-based payments	4	2	21	6
Working capital change	56	28	(42)	(108)
Current provisions	(8)	(13)	(69)	(18)
Capital expenditure	(81)	(69)	(228)	(209)
Change in capital creditors	2	-	(46)	(9)
Sale of fixed assets	4	4	22	13
Tax paid	(20)	(13)	(45)	(35)
Dividends from associates	-	1	3	4
Other	(5)	(2)	(33)	(31)
<b>Free cash flow</b>	<b>150</b>	<b>64</b>	<b>113</b>	<b>(64)</b>
Investments	-	-	(3)	(34)
Sale of businesses and investments	3	2	11	6
Shares issued through IPO	-	-	1,495	-
Costs of IPO	(2)	-	(60)	-
Repayment of derivatives	(9)	-	(23)	-
Dividends paid to minorities	-	(2)	(6)	(7)
Acquisition costs and fees	-	(2)	-	(5)
Refinancing costs	(5)	-	(79)	-
<b>Net cash inflow/(outflow)</b>	<b>137</b>	<b>62</b>	<b>1,448</b>	<b>(104)</b>
Net debt disposed	-	-	1	-
Deferred debt issue costs amortised	(6)	(6)	(43)	(15)
Non-cash interest accrued	-	(12)	(12)	(37)
Currency translation adjustments	26	(1)	40	71
<b>Decrease/(increase) in net borrowing</b>	<b>€157</b>	<b>€43</b>	<b>€1,434</b>	<b>€(85)</b>

## 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 30 September, 2007 Smurfit Kappa Funding plc ("SK Funding") had outstanding €3.68 million 10.125% senior notes due 2012, US\$0.06 million 9.625% senior notes due 2012, €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.

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.

Smurfit Kappa Acquisitions and certain subsidiaries are party to a Senior Credit Facility. The senior credit facility comprises a €443 million amortising A Tranche maturing in 2012, a €1,188 million B Tranche maturing in 2013 and a €1,187 C Tranche maturing in 2014. In addition, as at 30 September, 2007, the facility included €875 million in committed lines including a €600 million revolving credit facility of which €5.7 million was drawn 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 30 September, 2007 for each of the drawings under the various Senior Credit Facility term loans.

BORROWING ARRANGEMENT	CURRENCY	INTEREST RATE
Restructuring Facility	EUR	6.01%
Term Loan A	EUR	6.02% - 6.48%
Term Loan B	EUR	6.10% - 6.61%
	USD	7.26%
Term Loan C	EUR	6.35% - 6.86%
	USD	7.55%

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

### **Market Risk and Risk Management Policies**

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. At 30 September, 2007, the proportion of the Group's total borrowing that was at fixed interest rates was 61%.

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

As 30 September, 2007, our fixed rate debt comprises 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. The Group also has €1,780 million in interest rate swaps with a maturity date of more than one year.

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 €15 million on a per annum basis. Interest income on our cash balances would increase by approximately €4 million assuming a one percent increase in interest rates earned on such balances on a per annum basis.

**Group Income Statement – Third Quarter**

	3 Months to 30-Sept-07			3 Months to 30-Sept-06		
	Pre- Exceptional 2007	Exceptional 2007	Total 2007	Pre- Exceptional 2006	Exceptional 2006	Total 2006
	€000	€000	€000	€000	€000	€000
<b>Continuing operations</b>						
Revenue	1,829,123	-	1,829,123	1,734,934	-	1,734,934
Cost of sales	(1,299,684)	(1,413)	(1,301,097)	(1,242,286)	(3,841)	(1,246,127)
Gross profit	529,439	(1,413)	528,026	492,648	(3,841)	488,807
Distribution costs	(145,375)	-	(145,375)	(149,977)	-	(149,977)
Administrative expenses	(222,488)	-	(222,488)	(218,001)	-	(218,001)
Other operating income	11,349	1,668	13,017	1,461	3,993	5,454
Other operating expenses	-	(2,073)	(2,073)	-	(49,982)	(49,982)
Operating profit	172,925	(1,818)	171,107	126,131	(49,830)	76,301
Finance costs	(123,769)	(6,734)	(130,503)	(130,455)	(28,000)	(158,455)
Finance income	61,690	-	61,690	29,744	-	29,744
Share of associates' profit (after tax)	3,505	-	3,505	1,500	-	1,500
<b>Profit/(loss) before income tax</b>	114,351	(8,552)	105,799	26,920	(77,830)	(50,910)
Income tax expense			(16,732)			3,893
<b>Profit/(loss) for the financial period</b>			<b>€89,067</b>			<b>€(47,017)</b>
<i>Attributable to:</i>						
Equity holders of the Company			84,098			(52,536)
Minority interest			4,969			5,519
<b>Profit/(loss) for the financial period</b>			<b>€89,067</b>			<b>€(47,017)</b>

**Group Income Statement – Year to Date**

	9 Months to 30-Sept-07			9 Months to 30-Sept-06		
	Pre- Exceptional 2007	Exceptional 2007	Total 2007	Pre- Exceptional 2006	Exceptional 2006	Total 2006
	€000	€000	€000	€000	€000	€000
<b>Continuing operations</b>						
Revenue	5,453,862	-	5,453,862	5,220,436	-	5,220,436
Cost of sales	(3,894,212)	(6,075)	(3,900,287)	(3,761,243)	(3,841)	(3,765,084)
Gross profit	1,559,650	(6,075)	1,553,575	1,459,193	(3,841)	1,455,352
Distribution costs	(443,616)	-	(443,616)	(459,168)	-	(459,168)
Administrative expenses	(690,714)	-	(690,714)	(680,826)	-	(680,826)
Other operating income	47,585	7,538	55,123	1,461	7,259	8,720
Other operating expenses	-	(38,642)	(38,642)	-	(136,014)	(136,014)
Operating profit	472,905	(37,179)	435,726	320,660	(132,596)	188,064
Finance costs	(377,423)	(109,970)	(487,393)	(438,240)	(28,000)	(466,240)
Finance income	148,192	-	148,192	173,908	-	173,908
Share of associates' profit (after tax)	9,744	-	9,744	4,346	-	4,346
<b>Profit/(loss) before income tax</b>	<b>253,418</b>	<b>(147,149)</b>	<b>106,269</b>	<b>60,674</b>	<b>(160,596)</b>	<b>(99,922)</b>
Income tax expense			(49,060)			(4,622)
<b>Profit/(loss) for the financial period</b>			<b>€57,209</b>			<b>€(104,544)</b>
<i>Attributable to:</i>						
Equity holders of the Company			45,003			(114,868)
Minority interest			12,206			10,324
<b>Profit/(loss) for the financial period</b>			<b>€57,209</b>			<b>€(104,544)</b>

**Segmental Analyses – Third Quarter**

	3 months to 30-Sept-07			3 months to 30-Sept-06		
	Packaging	Specialties	Total	Packaging	Specialties	Total
	€000	€000	€000	€000	€000	€000
Group and third party revenue	2,354,224	335,462	2,689,686	2,192,743	339,661	2,532,404
Inter-segment revenue	(773,669)	(86,894)	(860,563)	(720,108)	(77,362)	(797,470)
Third party revenue (external)	<u>€1,580,555</u>	<u>€248,568</u>	<u>€1,829,123</u>	<u>€1,472,635</u>	<u>€262,299</u>	<u>€1,734,934</u>
Segment results – pre-exceptionals	164,543	20,317	184,860	117,446	16,405	133,851
Exceptional items	(2,643)	1,069	(1,574)	(48,880)	(1,186)	(50,066)
Segment results – post-exceptionals	161,900	21,386	183,286	68,566	15,219	83,785
Unallocated centre costs – pre-exceptionals			(11,935)			(7,720)
Group centre exceptional items			(244)			236
Operating profit			171,107			76,301
Share of associates' profit/(loss) (after tax)	2,176	1,329	3,505	1,726	(226)	1,500
Finance costs			(130,503)			(158,455)
Finance income			61,690			29,744
Profit/(loss) before income tax			<u>€105,799</u>			<u>€(50,910)</u>

**Segmental Analyses – Year to Date**

	9 months to 30-Sept-07			9 months to 30-Sept-06		
	Packaging	Specialties	Total	Packaging	Specialties	Total
	€000	€000	€000	€000	€000	€000
Group and third party revenue	6,990,034	978,502	7,968,536	6,654,681	986,111	7,640,792
Inter-segment revenue	(2,255,615)	(259,059)	(2,514,674)	(2,178,593)	(241,763)	(2,420,356)
Third party revenue (external)	<u>€4,734,419</u>	<u>€719,443</u>	<u>€5,453,862</u>	<u>€4,476,088</u>	<u>€744,348</u>	<u>€5,220,436</u>
Segment results – pre-exceptionals	466,410	44,122	510,532	300,651	42,233	342,884
Exceptional items	(20,642)	(6,215)	(26,857)	(130,491)	(2,248)	(132,739)
Segment results – post-exceptionals	445,768	37,907	483,675	170,160	39,985	210,145
Unallocated centre costs – pre-exceptionals			(37,627)			(22,224)
Group centre exceptional items			(10,322)			143
Operating profit			435,726			188,064
Share of associates' profit/(loss) (after tax)	9,744	-	9,744	5,135	(789)	4,346
Finance costs			(487,393)			(466,240)
Finance income			148,192			173,908
Profit/(loss) before income tax			<u>€106,269</u>			<u>€(99,922)</u>

**Group Balance Sheet**

	30-Sept-07	30-Sept-06
	€000	€000
<b>Non-current assets</b>		
Property, plant and equipment	3,295,493	3,394,143
Goodwill and intangible assets	2,437,528	2,481,718
Biological assets	76,150	62,637
Investment in associates	79,173	78,121
Available for sale financial assets	43,436	45,371
Trade and other receivables	4,533	15,141
Derivative financial instruments	6,953	5,978
Deferred income tax assets	301,009	322,580
	<b>6,244,275</b>	<b>6,405,689</b>
<b>Current assets</b>		
Inventories	696,788	645,778
Biological assets	6,813	6,195
Trade and other receivables	1,468,294	1,352,462
Derivative financial instruments	25,895	13,139
Restricted cash	14,984	18,906
Cash and cash equivalents	403,716	244,852
	<b>2,616,490</b>	<b>2,281,332</b>
Assets held for sale	5,000	81,957
	<b>2,621,490</b>	<b>2,363,289</b>
<b>Total assets</b>	<b>€8,865,765</b>	<b>€8,768,978</b>
<b>Equity</b>		
Equity share capital	229	136
Capital reserves	2,575,425	1,124,906
Retained earnings	(563,867)	(707,248)
Total shareholders equity	2,011,787	417,794
Minority interest	141,488	133,764
Total equity	2,153,275	551,558
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	3,708,989	5,108,082
Deferred income	1,960	-
Employee benefits	478,293	684,037
Deferred income tax liabilities	535,816	558,181
Non-current taxes payable	6,485	28,949
Provisions for liabilities and charges	82,931	53,391
Government grants	12,647	13,693
Total non-current liabilities	4,827,121	6,446,333
<b>Current liabilities</b>		
Interest-bearing loans and borrowings	157,474	134,946
Trade payables and other payables	1,477,360	1,382,371
Current income tax liabilities	65,438	6,272
Derivative financial instruments	128,869	99,849
Provisions for liabilities and charges	56,228	116,908
	<b>1,885,369</b>	<b>1,740,346</b>
Liabilities held for sale	-	30,741
	<b>1,885,369</b>	<b>1,771,087</b>
Total liabilities	6,712,490	8,217,420
<b>Total equity and liabilities</b>	<b>€8,865,765</b>	<b>€8,768,978</b>

**Group Statement of Recognised Income and Expense**

	<b>9 months to 30-Sept-07</b>	<b>9 months to 30-Sept-06</b>
	<b>€000</b>	<b>€000</b>
Items of income and expense recognised directly within equity:		
Foreign currency translation adjustments on foreign operations	(37,199)	(72,068)
Net change in fair value of available for sale financial assets	610	8
Net movement to cash flow hedge reserve	(850)	20,843
Actuarial gain/(loss) on defined benefit plans	73,886	(25,502)
Income tax on income and expense recognised directly within equity	(19,079)	607
Profit/(loss) for the financial period	<u>57,209</u>	<u>(104,544)</u>
Total recognised income and expense for the financial period	<u>74,577</u>	<u>(180,656)</u>
Attributable to:		
Equity holders of the company	63,230	(182,843)
Minority interest	<u>11,347</u>	<u>2,187</u>
	<u>€74,577</u>	<u>€(180,656)</u>

**Reconciliation of Movements in Shareholder's Funds**

	<b>9 months to 30-Sept-07</b>	<b>9 months to 30-Sept-06</b>
	<b>€000</b>	<b>€000</b>
At beginning of period	631,521	729,869
Total recognised gains and losses	74,577	(180,656)
Shares issued	93	-
Share premium on shares issued	1,431,933	-
Share-based payment expense	21,353	5,988
Purchase of minorities	(1,257)	(23)
Dividends paid to minorities	<u>(4,945)</u>	<u>(3,620)</u>
At end of period	<u>€2,153,275</u>	<u>€551,558</u>

## 1. GENERAL INFORMATION

Smurfit Kappa Group plc (“SKG plc” or “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 graphic board.

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 on 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 comprised 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 Group 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 exchange transaction, and consequently no goodwill arises on the transaction.

The financial information presented in this report has been prepared in accordance with the accounting policies that the Group expects to adopt for the 2007 year end. These accounting policies are consistent with the Group's accounting policies under IFRS as adopted by the EU included in the prospectus. Full details of the accounting policies adopted by the Group on implementation of IFRS were published in its prospectus in March 2007, which is available on the Group's website [www.smurfitkappa.com](http://www.smurfitkappa.com). There is, however, a possibility that the directors may determine that some changes are necessary when preparing the full annual financial statements for the first time in accordance with IFRS. The accounting standards and IFRIC interpretations that will be applicable and adopted for use in the European Union at 31 December 2007 are not known with certainty at the time of preparing this interim financial information.

### 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
- estimates in relation to income taxes
- fair value of derivatives and other financial instruments
- measurement of defined benefit obligations
- provisions
- share-based payments
- estimation of useful lives for fixed assets.

### 4. EMPLOYEE POST RETIREMENT SCHEMES – DEFINED BENEFIT COST

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

	<b>3 Months to 30-Sept-07</b>	3 Months to 30-Sept-06	<b>9 Months to 30-Sept-07</b>	9 Months to 30-Sept-06
	<b>€000</b>	€000	<b>€000</b>	€000
Current service cost	<b>12,543</b>	12,531	<b>38,994</b>	41,471
Past service cost	<b>160</b>	573	<b>345</b>	573
(Gain) on settlements and curtailments	<b>(2,200)</b>	(74)	<b>(4,978)</b>	(3,464)
Actuarial gains and losses arising on long-term employee benefits other than defined benefit schemes	<b>(208)</b>	519	<b>(234)</b>	948
	<b>10,295</b>	13,549	<b>34,127</b>	39,528
Expected return on scheme assets	<b>(21,967)</b>	(20,142)	<b>(65,988)</b>	(60,416)
Interest cost on scheme liabilities	<b>24,292</b>	21,763	<b>72,965</b>	67,486
Other financial expense	<b>2,325</b>	1,621	<b>6,977</b>	7,070
Defined benefit expense	<b>€12,620</b>	€15,170	<b>€41,104</b>	€46,598

The disclosures above reflect the requirements of IAS 19 – Employee Benefits. Included in cost of sales and distribution and administrative expenses is a total defined benefit expense of €10,295,000 and €34,127,000 for the third quarter and first nine months respectively (2006: €13,549,000 and €39,528,000 respectively). Expected Return on Scheme Assets is included in Finance Income and Interest Cost on Scheme Liabilities is included in Finance Costs in the Group Income Statement.

**5. ANALYSIS OF NET DEBT**

	<b>30-Sept-07</b>	<b>31-Dec-06</b>
	<b>€000</b>	<b>€000</b>
Senior credit facility:		
Revolving credit facility <sup>(1)</sup> – interest at relevant interbank rate + 1.75%	<b>(5,637)</b>	(6,982)
Restructuring facility <sup>(2)</sup> – interest at relevant interbank rate + 1.75% until conversion to Term loan	<b>103,200</b>	103,200
Tranche A Term loan <sup>(3a)</sup> – interest at relevant interbank rate + 1.75%	<b>442,511</b>	442,492
Tranche B Term loan <sup>(3b)</sup> – interest at relevant interbank rate + 1.875%	<b>1,188,271</b>	1,142,998
Tranche C Term loan <sup>(3c)</sup> – interest at relevant interbank rate + 2.125%	<b>1,187,492</b>	1,142,547
Yankee bonds (including accrued interest) <sup>(4)</sup>	<b>210,111</b>	219,764
Bank loans and overdrafts/(cash)	<b>(322,080)</b>	(246,715)
2011 Receivables securitisation floating rate notes (including accrued interest) <sup>(5)</sup>	<b>205,469</b>	204,656
	<b>3,009,337</b>	3,001,960
2012 Bonds (including accrued interest) <sup>(6)</sup>	<b>4,251</b>	922,218
2015 Cash pay subordinated notes (including accrued interest) <sup>(7)</sup>	<b>351,082</b>	368,299
Net debt before finance leases	<b>3,364,670</b>	4,292,477
Finance leases	<b>77,500</b>	91,281
<b>Net Debt including leases - Smurfit Kappa Funding plc</b>	<b>3,442,170</b>	4,383,758
Balance of revolving credit facility reclassified to debtors	<b>5,637</b>	6,982
Deferred debt issuance costs other	-	(1,994)
<b>Net Debt after reclassification - Smurfit Kappa Funding plc</b>	<b>3,447,807</b>	4,388,746
2015 Senior PIK Notes - Smurfit Kappa Holdings plc (including accrued interest) <sup>(8)</sup>	-	396,344
Smurfit Finance Luxembourg Sarl PIK <sup>(9)</sup>	-	97,700
SKG plc, SK Investments Ltd, SK Holdings plc, SK Corporation Ltd and Smurfit Finance Luxembourg cash	<b>(44)</b>	(460)
<b>Net Debt including leases - Smurfit Kappa Group plc</b>	<b>€3,447,763</b>	<b>€4,882,330</b>

- (1) Revolving credit facility of €600 million (available under the senior credit facility) to be repaid in full in 2012. (Revolver Loans = €0 million, Drawn under Ancillary Facilities and Facilities supported by Letters of Credit = €5.7 million).
- (2) Restructuring credit facility of €275 million (available under the senior credit facility).
- (3a) Term loan A due to be repaid in certain instalments up to 2012.
- (3b) Term loan B due to be repaid in full in 2013.
- (3c) Term loan C due to be repaid in full in 2014.
- (4) 7.50% senior debentures due 2025 of \$292.3 million.
- (5) Receivables securitisation floating rate notes due September 2011.
- (6) 10.125% senior notes due 2012 of €3.68 million and 9.625% senior notes due 2012 of \$0.06 million.
- (7) €217.5 million 7.75% senior subordinated notes due 2015 and \$200.0 million 7.75% senior subordinated notes due 2015.
- (8) 11.5% Senior PIK Notes due 2015.
- (9) 9% Shareholder PIK.

## 6. REFINANCING TRANSACTIONS

On 1 December, 2005 Smurfit Kappa Group (“SKG”) was formed with the merger of the operations of Jefferson Smurfit Group (“JSG”) and Kappa. The completion of the merger was financed through a new senior credit facility for the combined group. The senior credit facility comprises a €443 million amortising A Tranche maturing in 2012, a €1,188 million B Tranche maturing in 2013 and a €1,187 million C Tranche maturing in 2014. In addition, as at 30 September, 2007, the facility includes €875 million in committed lines including a €600 million revolving credit facility of which €5.7 million was drawn under ancillary facilities or facilities supported by letters of credit, and a €275 million restructuring facility of which €103 million was borrowed. In the year ended 31 December, 2006, €33 million was repaid on the Tranche A facility, €32 million of which was funded from the net proceeds of EU regulatory disposals. In June 2007, €1 million was repaid on the Tranche A facility.

The proceeds of the new senior credit facility were used (a) to refinance 10.625% Senior Subordinated Notes and 12.5% Senior Subordinated Discount Notes due 2009 of Kappa Beheer B.V. (“the Kappa Bonds”) (b) to refinance existing JSG and Kappa senior credit facilities (c) to fund the cash consideration payable to the Kappa shareholders and (d) to fund the costs associated with the merger.

In March 2007, Smurfit Kappa Holdings plc (“SK Holdings”) completed a tender offer and consent solicitation for its 11.5% senior PIK notes due 2015 (the “PIK notes”). 90% of the PIK notes were tendered in the tender offer. SK Holdings used a portion of the net proceeds from the initial public offering proceeds it received from SKG plc to finance the repurchase of notes and to pay fees and expenses related to the tender offer. The 10% of PIK notes not tendered in the tender offer were redeemed in April 2007.

In March 2007, Smurfit Kappa Funding plc (“SK Funding”) completed a tender offer for up to US\$470 million of its outstanding 9.625% Dollar Senior Notes due 2012 (the “Dollar senior notes”) and up to €219 million of its outstanding 10.125% euro Senior Notes due 2012 (the “euro senior notes”). In April 2007, SK Funding completed a further tender offer for up to US\$208 million of its outstanding Dollar senior notes and up to €98 million of its outstanding euro senior notes. Upon completion of the second tender offer, US\$72 million aggregate principal amount of Dollar senior notes and €33 million of euro senior notes remained outstanding. SK Funding used the net proceeds from the initial public offering proceeds it received from SKG plc to finance the repurchase of notes and to pay fees and expenses related to the tender offers. 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\$0.60 million Dollar senior notes were redeemed in full.

## 7. 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. When a Participant terminates employment, SKG plc reserves the right to redeem or purchase the convertible shares issued as a result of conversion.

As of 30 September, 2007, SKG plc had a total of 13,099,014 convertible shares in issue in total, 10,349,814 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 30 September, 2007 is presented below.

Shares 000's	Class of Convertible shares											Total
	A	B	C	D	E	F	G	H	A1	A2	A3	
<b>Balance Dec. 2006</b>	<b>126.6</b>	<b>413.2</b>	<b>206.6</b>	<b>286.6</b>	<b>2,923.5</b>	<b>2,923.5</b>	<b>1,461.7</b>	<b>2,062.9</b>	-	-	-	<b>10,404.6</b>
<b>Vested into D</b>	(126.6)	(330.6)	-	8,367.0	(2,923.5)	(2,923.5)	-	(2,062.9)	-	-	-	-
<b>Converted into A1, A2 &amp; A3</b>	-	(82.6)	(206.6)	-	-	-	(1,461.7)	-	583.7	583.7	583.6	-
<b>Converted into Ordinary shares</b>	-	-	-	(54.8)	-	-	-	-	-	-	-	(54.8)
<b>Balance Sept. 2007</b>	-	-	-	<b>8,598.8</b>	-	-	-	-	<b>583.7</b>	<b>583.7</b>	<b>583.6</b>	<b>10,349.8</b>
<b>Exercisable Sept. 2007</b>	-	-	-	<b>8,598.8</b>	-	-	-	-	-	-	-	<b>8,598.8</b>

The exercise price for all D convertible shares other than those derived from Class H convertibles at 30 September, 2007 was €4.28. The exercise price for D convertible shares derived from Class H convertibles was €5.69 at 30 September, 2007. The weighted average remaining contractual life of all the awards issued under the 2002 Plan, as amended, at 30 September, 2007 was 5.22 years.

A summary of the activity under the 2007 SIP, for the period ended 30 September, 2007 is presented below:

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

The exercise price for all New B and New C convertible shares upon vesting at 30 September, 2007 was €18.28. The weighted average remaining contractual life of all the awards issued under the 2007 SIP at 30 September, 2007 was 9.57 years.

8. RECONCILIATION OF NET INCOME/(LOSSES) TO EBITDA, BEFORE EXCEPTIONAL ITEMS AND SHARE-BASED PAYMENTS

	3 months to 30-Sept-07	3 months to 30-Sept-06	9 months to 30-Sept-07	9 months to 30-Sept-06
	€000	€000	€000	€000
Net income/(losses)	84,098	(52,536)	45,003	(114,868)
Equity minority interests	4,969	5,519	12,206	10,324
Income tax expense/(credit)	16,732	(3,893)	49,060	4,622
Share of associates' operating income	(3,505)	(1,500)	(9,744)	(4,346)
Total net interest	68,813	128,711	339,201	292,332
Depreciation, depletion and amortisation	98,006	100,767	294,822	302,333
Share-based payments	4,457	2,010	21,353	5,988
(Income) on sale of assets and operations – subsidiaries	(1,668)	(3,993)	(7,538)	(7,259)
Impairment of fixed assets	1,413	3,841	6,075	3,841
Reorganisation and restructuring costs	2,073	49,982	38,642	136,014
EBITDA before exceptional items and share-based payments	<b>€275,388</b>	<b>€228,908</b>	€789,080	€628,981