Smurfit Kappa

ANNUAL REPORT **2012**

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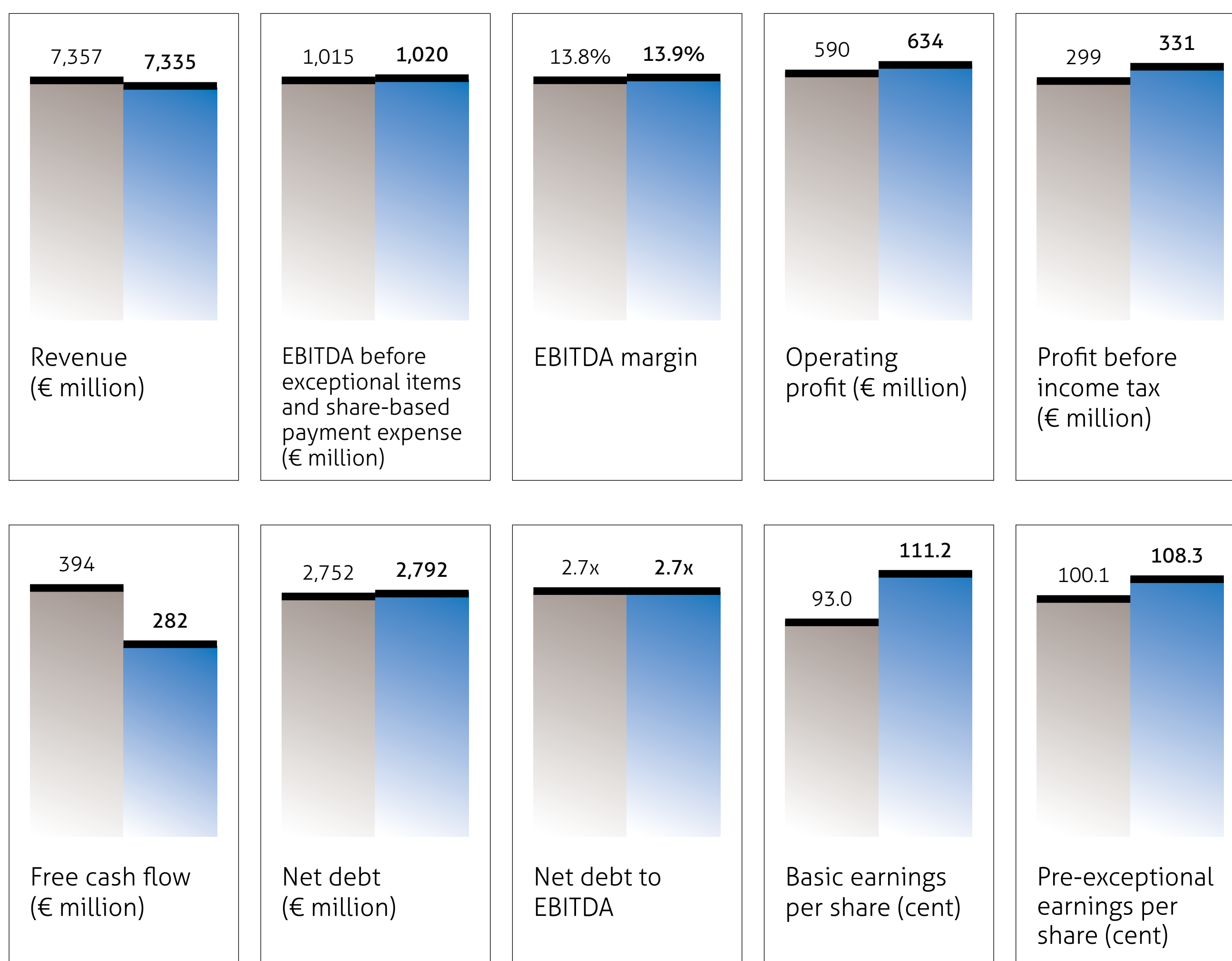
MISSION

The Smurfit Kappa Group strives to be a customer-oriented, market-led company where the satisfaction of customers, the personal development of employees and respect for local communities and the environment are seen as being inseparable from the aim of creating value for the shareholders.

Quality check on the paper machine at the Smurfit Kappa Zülpich recycled mill (Germany)

2012 FINANCIAL PERFORMANCE OVERVIEW



We employ

41,000	People worldwide

We operate in

21	Countries in Europe
11	Countries in the Americas

We own

38	Mills (27 produce containerboard)
231	Converting plants
47	Recovered fibre facilities
32	Other production facilities
104,000	Hectares of Latin American forest plantations

European market position in corrugated packaging, containerboard, solidboard and solidboard packaging

No.2

World market position for the production of corrugated packaging

GROUP PROFILE

Smurfit Kappa Group plc ('SKG' or the 'Group') is one of the world's largest integrated manufacturers of paper-based packaging products, with operations in Europe and the Americas. It manufactures, distributes and sells containerboard, corrugated containers and other paper-based packaging products such as solidboard, graphicboard and bag-in-box .

The Group has two reporting segments, Europe and the Americas. Prior to the acquisition of Orange County Container Group ('OCCG'), the two business segments identified were Europe and Latin America. Due to the high level of integration between OCCG and our existing operations in Mexico, OCCG is included with our existing Latin American operations which have been renamed as the Americas.

The Europe segment, which is highly integrated, includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. The Americas segment comprises the Group's forestry, paper, corrugated, paper sack and folding carton activities in the region.

The Group operates in 21 countries in Europe and is the European leader in corrugated packaging, containerboard, solidboard, and solidboard packaging with key positions in several other packaging and paper market segments and a growing base in Eastern Europe. We also have two bag-in-box facilities, located in Canada and Argentina, which are managed as part of our European operations. The Group operates in 11 countries in the Americas and is the only large-scale pan-regional producer of containerboard and corrugated containers in Latin America. In terms of world market positions, the Group is the second largest producer of corrugated packaging.

Given the high degree of integration between the mills and its conversion plants, particularly in terms of containerboard, the Group's end customers are primarily in the corrugated packaging market, which uses the packaging for product protection and product merchandising purposes. The corrugated market is a localised market and corrugated box plants need to be close to customers (generally no more than 250 to 300 kilometres), due to the relatively high cost of transporting the product. Approximately 60% of the Group's corrugated customers are in the fast moving consumer goods ('FMCG') sector (comprising food, beverage, and household consumables), the remainder being split across a wide range of different industries.

In 2012, the Group's Europe and Americas segments accounted for approximately 81% and 19% of revenue respectively.

At the date of this report, the Group owns 38 mills (27 of which produce containerboard), 231 converting plants (most of which convert containerboard into corrugated boxes), 47 recovered fibre facilities (which provide recovered fibre for the Group's mills) and 32 other production facilities carrying on various related activities. In addition, the Group owns approximately 104,000 hectares of forest plantations in Latin America.

Operations in the Americas

Virgin Mills (2)
Recycled Paper and Board Mills (10)
Corrugated (34)
Cartons (3)
Paper Sacks (5)
Recovered Fibre (31)
Other (4)

■ *Virgin Mills*
■ *Recycled Mills*
● *Corrugated*
○ *Cartons*
▲ *Paper Sacks*
△ *Bag-in-box*
◆ *Recovered Fibre*
♣ *Forestry*

The Americas

Sales Volumes	(million tonnes)*
Containerboard	1.0
Other Paper & Board	0.4
Corrugated	0.9

**Including OCCG for the full year*

Stacked corrugated boxes manufactured at Smurfit Kappa Bogotá (Colombia) for bags of liquid milk

Display trays produced at Smurfit Kappa Neuburg (Germany) for packs of sliced cheese

Operations in Europe

Virgin Mills (5)
Recycled Containerboard Mills (13)
Other Recycled Paper and Board Mills (8)
Corrugated (160)
Cartons and Solidboard Packaging (9)
Recovered Fibre (16)
Other (48)

■ *Virgin Mills*
■ *Recycled Mills*
● *Corrugated*
○ *Cartons and Solidboard Packaging*
▲ *Bag-in-box*
◆ *Recovered Fibre*

Europe

Sales Volumes	**(million tonnes)**
Kraftliner	1.4
Recycled Containerboard	3.0
Other Paper & Board	1.1
Corrugated	4.2
Solidboard Packaging	0.3

CHAIRMAN'S STATEMENT

YEAR IN REVIEW

Continuing our drive for earnings growth the Group is pleased to report EBITDA of €1,020 million with strong pre-exceptional EPS growth of 8% to 108.3 cent for the full year 2012. Notwithstanding the challenging macroeconomic environment, a robust operational performance has allowed SKG to undertake a number of financial and strategic initiatives which have left the Group in a very good position to drive future growth and deliver increased value to shareholders. With a generally soft macroeconomic environment in Europe and difficult market conditions in two of our countries in Latin America, the results reflect the strength and efficiency of the Group's integrated model in all market conditions and the benefits of our geographic diversity. On behalf of the Board, I would like to thank all of our employees for their contribution and commitment to the on-going success of the Group.

GOVERNANCE AND BOARD

The Board and Management of SKG support the highest standards of Corporate Governance and ethical business conduct. It is our view that Corporate Governance is not just a matter for the Board but that a culture of high standards of governance must be promoted from the top and must be fostered throughout the whole organisation. We believe that governance is about ensuring that 1) we have the right strategy to deliver for our shareholders and other stakeholders, 2) the executive team is leading and managing effectively to reach our strategic goals and in doing so they are held accountable and at the same time are fairly remunerated and 3) the risks to the Group are managed and mitigated and that appropriate controls are in place at all levels of the organisation. The key principles and practices designed to achieve these standards are set out in the Corporate Governance Statement.

Employees selecting designs at Smurfit Kappa Chelmsford (UK)

> "Well positioned to drive future growth and deliver increased value to shareholders."

Liam O'Mahony
Chairman

The Code recommends that, apart from the Chairman, at least half of the Board of Directors of a listed company should comprise non-executive directors determined by the Board to be independent. Following the retirement of two shareholder nominated Directors at the Annual General Meeting ('AGM') in May 2012 the Company has complied with the Code recommendation on Board independence and in November 2012 a further independent non-executive Director was co-opted to the Board. I would like to thank all of the Directors for their continued support and contribution to the development and effectiveness of the workings of the Board and its various Committees during the year.

DIRECTORS

During 2012 we were delighted to announce that Mr Irial Finan, a US based Irish citizen, and Ms Christel Bories a French citizen were co-opted to the Board as independent non-executive Directors. Their extensive experience across international markets and different industries will meaningfully contribute to the Board and the continued development of SKG.

As reported last year, Mr Gordon Moore and Mr Rolly van Rappard retired from the Board at the 2012 AGM.

Mr Christopher McGowan will retire from the Board at the forthcoming AGM. The Board would like to sincerely thank Chris for his support and contribution to the Group during his ten years as a Director and to offer him our best wishes for the future.

OPERATIONAL VISITS

In July, the Board travelled to Italy and visited the Asti corrugated plant and the Alessandria bag-in-box plant. These visits are extremely valuable in giving a deeper first-hand understanding of the strength and extent of our local businesses, their strategic positioning, and the dedication and enterprise of our teams at all levels throughout the organisation. During 2012, I personally made additional visits to facilities in Denmark, France, Germany, Spain, Sweden, the UK, Argentina and Chile, covering mills, corrugated plants and other operations.

INNOVATION

Smurfit Kappa continually strives to improve and to develop innovative products in partnership with its customers to meet the demands of a rapidly changing global market. As highlighted in the Operations Review on page 14, with 675 graphic designers worldwide, an array of design and logistical tools and unparalleled breadth of experience, we are uniquely equipped to make the difference for our customers. During the year, I was delighted to attend our 2012 Innovation awards event in the Netherlands, where the designers of our most innovative packaging solutions from all our European plants were judged by an external jury comprised of customers and received their awards in the presence of over 150 customers from around Europe.

SUSTAINABILITY

SKG is fundamentally committed to sustainability and social responsibility in its interaction with its customers, suppliers, employees, the communities in which it is privileged to do business and in relation to its impact on the broader environment. I am delighted to note the third party recognition for our work in this area and especially the awards which we have received from key customers and industry groups, details of which are set out in our fifth Sustainable Development Report which was produced in June 2012 and is available on our website. A summary of this report is contained on pages 30 to 33 of this Annual Report. A further such report will be issued in 2013.

ACQUISITION

Consistent with our strategy of expanding our business in higher growth markets, in the fourth quarter of 2012 we announced the completion of the acquisition of OCCG, an integrated paper-based packaging company with significant corrugated and converting operations in Mexico, and two corrugated plants and a paper mill in the United States. The consideration was approximately €260 million. This acquisition complements our existing Mexican business and increases our exposure to a demographically attractive and rapidly growing region. The teams are now focusing on the effective integration of our businesses in the region which gives us an exciting platform to continue to provide creative packaging solutions to both current and prospective customers.

State of the art litho laminated printing at Smurfit Kappa Dyboflex (Denmark)

Retail-ready box made at Smurfit Kappa Orange County's City of Industry plant (California, USA) for cartons of orange juice

SHAREHOLDINGS

Following the final disposal of shares by the private equity holders Madison Dearborn Partners and SK Feeder during the year, SKG's free float now stands at 99%.

DIVIDENDS AND DIVIDEND POLICY

As a result of the consistently improving operational performance and free cash flow, the Group reintroduced a dividend in February 2012. This was an important milestone for the Group, as the dividend provides certainty of value to our shareholders and was included as an important underpin to the original investment proposition in the 2007 SKG Initial Public Offering ('IPO').

The Board is recommending a final dividend of approximately 20.5 cent per share for 2012, a 37% increase on last year's final dividend and payable on 10 May 2013.

This increased dividend reflects the improved operational performance of the Group, and represents a tangible transfer of the benefits to the shareholders of the Group's debt pay-down and effective capital structure management.

The Directors' intention is that interim and final dividends will be paid in October and May in each year in the approximate proportions of one third and two thirds.

OUTLOOK

Against a difficult macro environment, SKG has had three good years of operational and financial performance and this combined with the capital structure changes outlined in this report give the Group a greater variety of strategic and financial options together with a significant platform on which to drive future growth and deliver increased value to shareholders.

Liam O'Mahony

Liam O'Mahony
Chairman

CHIEF EXECUTIVE'S REVIEW

2012 OVERVIEW

The Group is reporting EBITDA of €1,020 million and an EBITDA margin of 13.9% for the full year 2012, its second highest result since its IPO in 2007. This strong performance is the product of our integrated model which maximises efficiencies throughout the system. As a result, SKG's paper system is capable of running efficiently through the cycle, and its packaging network benefits from operating efficiencies, an optimised product portfolio, a clear focus on sustainability and an efficient distribution system throughout its markets.

Having shown signs of some erosion over the course of the year due to general market sentiment and a short-term downward trend in Old Corrugated Cases ('OCC') and testliner prices, SKG's underlying packaging pricing remained flat throughout the year. The Group has sought to mitigate the effects of volatile input costs on pricing by focusing on adding value to customer products, reducing the supply chain and driving operating efficiencies. SKG provides much more than a simple transport medium, focusing instead on being a partner to our customers through cost take-out programmes, a constant flow of innovative packaging solutions and a focus on sustainable products and processes.

Compared to 2011 levels, European box volumes while growing by 1% in the fourth quarter of 2012 were unchanged for the full year. Total corrugated volumes for SKG were marginally down year-on-year, and reflect the Group's stated position of sacrificing volumes where satisfactory margins cannot be achieved. Sheet feeding volumes decreased 8% for the full year 2012 year-on-year for that reason.

Sophisticated 8+1 colour preprint press
at Smurfit Kappa CorrPrint (Denmark)

“Focus on higher growth markets.”

Gary McGann
Group Chief Executive Officer

The Group has announced a €60 per tonne testliner price increase effective from 1 February 2013 given the unsustainable economics of recycled paper grades and the satisfactory demand environment. Approximately, €40 per tonne of this increase has already been achieved.

Further factors supportive of the price increase include: increasing demand for OCC and recovered paper grades; testliner export markets remaining reasonably strong and; recycled containerboard inventories dropping to levels which have been supportive of previous price increases. Current European capacity remains unchanged compared to December 2011, due to almost 700,000 tonnes of announced capacity closures, offsetting capacity additions, during 2012/2013. This should support a more stable pricing environment in the medium term.

The European kraftliner market achieved price increases of €90 per tonne in 2012. SKG is the market leader and is net long in the grade by approximately 500,000 tonnes. With limited scope to expand current production of the grade in Europe and the closure in 2012 of 290,000 tonnes of capacity in Norway, US exports to Europe particularly influence availability and pricing. Based on official statistics, these exports have reduced by 8% for the year to December 2012, maintaining a balanced supply into the market. This is due to continuing good demand and reduced inventories in the US market.

The performance of the Latin American business varied significantly between countries in 2012, with the overall EBITDA margin decreasing to 15.0%. Political and industrial unrest in both Venezuela and Argentina led to a number of production interruptions during the year, and to an overall decrease in Latin American

volume of 3% year-on-year. Colombia continued to perform well throughout the year and SKG's growing Mexican business had a strong 2012 result and has a good near term outlook as US paper price increases are passed through to corrugated pricing.

In line with SKG's stated strategy to focus on higher growth markets, the acquisition of OCCG, with operations in Mexico and the United States, was finalised on 30 November 2012 for a consideration of approximately €260 million. This is the Group's first substantial acquisition since the 2007 IPO. Full year 2012 EBITDA for OCCG was US$60 million, compared with pro-forma EBITDA of US$53 million, and the integration of the new company is progressing well to date.

Following the acquisition, the Americas segment of our business comprises our Latin American operations and OCCG. OCCG has been re-named Smurfit Kappa Orange County.

Reflecting SKG's increasing ability to fund accretive acquisitions from operating cash flows, net debt at the year-end was maintained at 2.7 times EBITDA notwithstanding the acquisition of OCCG. The Group remains committed to its target of remaining below 3.0 times Net Debt/EBITDA through the cycle.

CAPITAL STRUCTURE

Over the course of 2012 the Group successfully re-financed a significant portion of existing debt improving its debt maturity profile, reducing its interest costs and diversifying its funding base. Following an amendment and extension of its senior credit facility in March 2012, the Group successfully completed €690 million equivalent of bond issues in September 2012. These comprised €200 million 5.125% notes and US$300 million 4.875% notes maturing in 2018 together with a €250 million floating rate note with an interest cost of EURIBOR plus 3.50% maturing in 2020.

In January 2013 the Group completed a further €400 million note offering at an interest rate of 4.125% maturing in 2020. The solid fundamentals of SKG's operational performance and capital management, together with a strong bond market resulted in SKG being able to secure a rate at this attractive level. Year-on-year, the average maturity of the Group's debt has increased from 4.4 to 5.8 years and the bond component now constitutes almost 70% of drawn debt.

CUSTOMERS

SKG continues to be the best positioned supplier of innovative, market leading paper-based packaging in its chosen markets of Europe and the Americas. We seek to provide customers with innovative, sustainable and cost efficient packaging solutions that support the sale of our customers' products. The Group seeks to differentiate itself in the market through superior service, quality, innovation and customer relationships. While we continue to build long-term sustainable partnerships with our international and pan-European customers, we also consider it a high priority to extend the skills and experience acquired in serving these companies to our local customers in the many markets in which we operate.

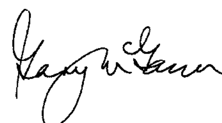
I would like to sincerely thank our customers on both continents for their continued confidence and trust. We will continue to invest to meet and exceed their requirements and we look forward to working with them to enhance the security and marketability of their products, thereby helping them to face the challenges of an increasingly competitive retail market.

OUR PEOPLE

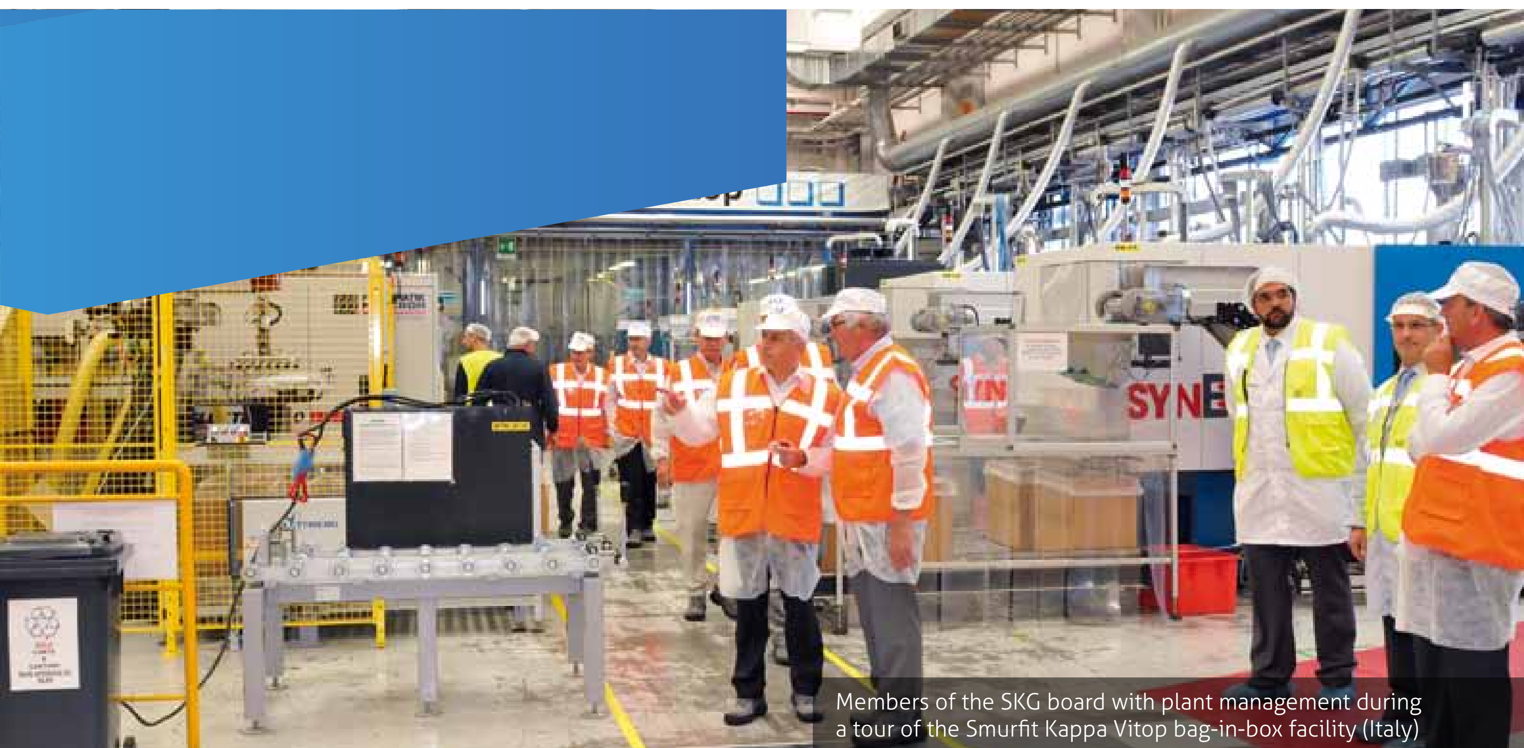
Our key competitive advantage and point of differentiation is our people, both individually but in particular working as cohesive teams. Our continued focus is on recruiting, developing, motivating and retaining skilled employees dedicated to working as a team to serve our diverse customer base. I would like to acknowledge the effort and commitment of our over 41,000 employees in the 32 countries in which we operated for their significant contribution to the results achieved in 2012. I would like to welcome our new colleagues in OCCG and we look forward to facing the challenges and opportunities of 2013 together and to continuing our efforts to make SKG the safest company in which to work in our industry.

CORPORATE SOCIAL RESPONSIBILITY

In its fifth annual Sustainable Development Report, released in June 2012, SKG highlighted its continued progress and commitment to social and environmental best practices and cited tangible evidence of this. This continues to be a high priority for the Group in fulfilling its obligation to its customers, its employees, the communities in which we are privileged to operate and the environment from which we draw our natural resources.



Gary McGann
Group Chief Executive Officer


Members of the SKG board with plant management during a tour of the Smurfit Kappa Vitop bag-in-box facility (Italy)

STRATEGY

The Group's objective is to deliver superior performance in terms of profitability and returns on capital through the cycle, thereby enhancing shareholder value, and to be the market leader in paper-based packaging in its chosen markets. This objective is underpinned by a focus on delivering superior customer satisfaction, a relentless pursuit of cost and operating efficiency, proactive environmental awareness, and a commitment to continuous improvement in the areas of health and safety and corporate social responsibility.

THE GROUP'S OBJECTIVES AND STRATEGIES ARE:

- to profitably build on its market positions in Western and Eastern Europe and in the Americas through selective focused growth, including:
  - organic growth from increased market share through consolidating, and where appropriate, extending its leadership position in Western Europe. This will be achieved by leveraging the Group's relationships with its customers across its broad product range and enhancing its profitability by maximising synergies and optimising the cost base; and
  - acquisition and merger based growth in areas where market share and/or coverage facilitates it, particularly in the higher growth markets of Eastern Europe and Latin America.
- to focus on enhancing its operational excellence, thereby continuing to improve its customer offering, by continuously upgrading its products, processes, services, quality and delivery in all markets by:
  - leveraging the Group's increasingly high quality asset base through continuous improvement programmes, transfer of best practice, industrial engineering, innovation and targeted capital investment; and
  - increasing the proportion of added-value converting products in the overall portfolio through the use of the Group's development and technology centres, its innovation tools, its pan-European network in greater value areas such as high quality printing, display and litho lamination; and
  - ensuring that its operations, whether in the converting or mill divisions, continue to be close to their customers and have a clear market focus rather than being production driven.
- to focus on cash flow and appropriate returns on investment in order to maximise shareholder value.
- to secure and retain the optimal balance between debt and equity capital to facilitate the Group's growth strategy in a cyclical industry, while striking the appropriate balance between risk and return.

OPERATIONS REVIEW

The Group continues to be the best positioned supplier of innovative, market leading paper-based packaging in its chosen markets of Europe and the Americas, which comprises the Group's operations in Latin America and the United States. The high quality of its earnings is supported by the Group's market oriented integrated model, the substantial geographic footprint of its operations and its clear focus on customer service which allows us to at least meet, and in many cases define, customer needs.

We successfully completed the acquisition of OCCG on 30 November 2012 and it has been immediately earnings accretive. Mirroring our own integrated system with ten packaging facilities and one recycled containerboard mill, OCCG has benefited from the US$50 per ton paper price increase which was implemented in the United States during the fourth quarter. As a result, its 2012 earnings have exceeded expectations with a positive outlook for performance in 2013 as the paper price increase is passed through to box prices. The Group continues to expect the delivery of the US$14 million target for initially identified synergies over the next two years and the process is underway to identify potential additional savings throughout the business. The main areas of focus have been operational improvements in the recycled mill and packaging systems, rationalisation of administration and distribution processes where possible and increased integration with our existing Mexican packaging network. The Mexican market remains one of the fastest growing economies in Latin America and with this acquisition we are now the strong number two manufacturer in the sector. With increasingly favourable comparisons to China as a destination for offshoring, above average growth is expected to continue in 2013 and beyond.

In line with our objective of maintaining the best integrated system in Europe, we undertook a number

Smurfit Kappa employees and visitors at the Scanpack 2012 packaging trade fair in Gothenburg (Sweden)

"Best positioned supplier of innovative, market leading paper-based packaging."

Tony Smurfit
Group Chief Operations Officer

of significant investments in our Paper Division in 2012, with the purpose of maximising efficiencies and driving future earnings. A rebuild of our Hoya recycled containerboard machine will increase capacity by approximately 80,000 tonnes per year of lightweight paper. Investments in energy projects in our Sanguesa and Nervion mills in Spain will materially decrease energy costs in 2013, and the conversion of our Wrexen mill in Germany to white top testliner will have a positive effect on the range of our offerings, the quality of our product and our cost base.

Latin American capital investment projects completed during 2012 included a shoe press installation in our Cerro Gordo mill in Mexico and a water treatment facility in the Bernal facility in Argentina, with a combined investment value of almost US$15 million. The level of capital investment in our Latin American operations is typically above the Group average, in line with the Group's focus on its higher growth markets.

The investments comprise both new equipment and quality used equipment from other parts of the Group.

EUROPE

The Europe segment is the larger of the Group's two segments, accounting for 81% of its revenue in 2012. It comprises primarily our integrated containerboard mills and corrugated operations as well as the bag-in-box and solidboard businesses, which previously reported within the Specialties Europe segment until the reorganisation of the operations in 2011.

The Group has facilities in 21 countries, in both Western and Eastern Europe. The operations consist of 26 mills, 17 of which produce containerboard, 189 converting plants (the majority of which produce corrugated packaging products) and 26 other production facilities carrying on other related activities. The mills are supported by a number of recovered fibre collection facilities and some wood procurement operations.

Our European containerboard mill system consists of three kraftliner mills, in Sweden, France and Austria, which between them produced over 1.4 million tonnes of brown and white kraftliner in 2012, 13 recycled containerboard mills which produced approximately 3.0 million tonnes of paper and a mill in Spain which produces both virgin-based MG paper and recycled containerboard. In addition, we have eight other recycled mills, which together produced approximately 700,000 tonnes of solidboard and boxboard and 200,000 tonnes of graphicboard in 2012. We also have a sack kraft mill in Spain, which produced over 100,000 tonnes of sack kraft paper.

On the conversion side, the operations comprise 108 corrugated plants, which produced approximately 4.2 million tonnes (7.7 billion square metres) in 2012 and 52 sheet plants. In addition, we have 29 plants which produce high end packaging differentiation products such as litho laminated corrugated products, display units and solidboard based packaging – extending the range of packaging solutions within our portfolio. Our converting operations are supported by a number of other small plants producing pre-print packaging, fulfilment activities and other packaging related products. Our European managed bag-in-box operations comprise six plants located in Europe, Canada and Argentina.

Revenue for the Europe segment in 2012 was €5.9 billion compared to €6.1 billion in 2011. Segmental EBITDA increased by €32 million to €844 million, representing 83% of the total for the Group, with a reported EBITDA margin of 14.2% compared to 13.4% in 2011. This margin increase was achieved due to maintenance of reasonable corrugated pricing in combination with the continued implementation of process efficiencies.

Corrugated based packaging prices have held up well throughout 2012 despite the volatility in OCC prices which characterised much of the year. Compared with the third quarter, box prices in the fourth quarter, on average, decreased by less than 1%. This was reflective of the full year position where prices decreased by an average of 0.7% year-on-year.

The Group saw broad stability year-on-year with an overall reduction in total corrugated volumes of 1% in the full year 2012 and a flat demand environment in the fourth quarter of 2012 compared to the same period in 2011. The primary loss of volume has been in the sheet side of the business, which accounts for up to 13% of European volume. It has been a conscious decision to forego lower priced volumes, preferring instead to focus on the value added packaging market.

The principal raw material input into the system, OCC, is still largely priced on the basis of Chinese demand, and this relationship is expected to continue for the foreseeable future. Despite there being an upward trend over the longer term, 2012 prices fluctuated by 37% over the base price peak to trough. The Group remains a leading operator in the recovered fibre market and maintains 75% 'grip' on its recovered fibre needs through its own supply and contractual agreements with suppliers throughout Europe.

High quality corrugated board manufactured at Smurfit Kappa Germersheim (Germany)

Different stylish containers produced at Smurfit Kappa Orange County's City of Industry plant (California, USA) for bottles of wine

Recycled containerboard pricing deteriorated over the course of 2012 as a result of unstable OCC pricing and an inability to push through price increases. However, the unsustainable margins which have developed in the grade cannot persist. On that basis, we announced a €60 per tonne increase on all recycled containerboard grades from 1 February 2013. Supported by current OCC dynamics and industry inventory levels, an increase of approximately €40 per tonne was successfully implemented in February and we expect to implement the remainder in March.

Following the closure of Peterson's kraftliner mill in Norway in April 2012, and continued strength in demand, the European market for virgin paper has been tight, and this was reflected in the price increase of €50 per tonne which was successfully implemented in September. The reduction in domestic supply was compounded by lower imports from the United States which were meaningfully reduced year-on-year.

In line with the Group's policy of focusing on high growth sectors, a number of investments in its bag-in-box division have been announced in 2012.

Following a €13 million investment in upgrading the facilities and increasing capacity of existing plants in France and Italy, we committed a further €28 million to build an additional facility in Ibi, Spain. Already the European market leader, these investments will give the Group access to further markets and enhance the strategic options for the future. The Group's Baguin bag-in-box facility in Argentina, acquired in January 2012, further enhances the geographic footprint of the business.

THE AMERICAS

Following the acquisition of OCCG, the Group's operations in the Americas consist of 12 paper mills in 5 countries (Argentina, Colombia, Mexico, the United States and Venezuela) producing containerboard, boxboard, sack paper and printing and writing paper, with a combined production of 1.4 million tonnes in 2012, including approximately 0.3 million tonnes of containerboard produced by OCCG on a full year basis. The mills are supported by 31 recovered fibre plants in six countries and forestry operations in Colombia and Venezuela. We also have 34 corrugated plants in seven countries with a 2012 production, including the OCCG plants for a full year, of over 0.9 million tonnes (1.5 billion square metres), eight other converting plants in five countries producing either paper sacks or folding carton, a preprint facility and three foam packaging plants in Mexico. The OCCG plants produced approximately 0.2 million tonnes (0.3 billion square metres) in 2012.

Revenue for the Americas segment in 2012 was €1.4 billion compared to €1.3 billion in 2011. Segmental EBITDA was €212 million, representing 21% of the total for the Group, compared to €237 million while the EBITDA margin on revenue was 15.0% in 2012 compared to 18.4% in 2011. The reduction in margin is primarily as a result of labour issues experienced in Venezuela and Argentina in 2012. Most of these issues have now been resolved, and the Group expects future margins to be more in line with historic levels.

Our operations in Venezuela had a challenging year, particularly affected by a number of industrial disputes. Volumes decreased by 17% in total, year-on-year, and EBITDA performance was adversely affected by approximately 35%. Overall, the difficult business environment that has generally prevailed over the last number of years continues to persist. As expected, a devaluation of the currency was announced on 8 February 2013, with the official exchange rate changing from VEF 4.3 per US dollar to VEF 6.3 per US dollar. The impact of the devaluation on our pre-exceptional EBITDA in 2013 is not expected to be material.

Following the successful implementation of a US$50 per ton paper price increase in the United States in the fourth quarter of 2012, our Mexican business was able to implement a similar price increase. Excluding the OCCG business, volumes increased by 2% in total during the year and EBITDA increased significantly. With a comprehensive network of plants bolstered by the recent OCCG acquisition, and the Mexican economy poised to grow on the back of a US economic recovery, especially in the Maquiladora region, the Group is well positioned for 2013.

The Colombian economy was stable throughout 2012 and this was reflected in our volumes, which remained flat overall. Despite some local pricing pressure, cost take-out initiatives facilitated the delivery of a very good EBITDA margin for the year. A number of major capital expenditure projects were completed in 2012, such as the installation of a new lime kiln and a gas turbo-generator in our Cali and Barranquilla mills respectively. These are expected to produce benefits in 2013.

Increased economic and political pressures in Argentina have contributed to the Group's lower performance in 2012, with a 12% year-on-year decline in total volumes, caused primarily by a 70 day strike in our Sunchales converting plant. The dispute was resolved in May 2012 and the volume lost will not represent a permanent reduction. Inflationary pressures are being addressed where possible by increased efficiency and corrugated price increases.

Latin America remains at the centre of our strategy for future growth, and while there are some country specific issues, it continues to deliver important geographic diversity and access to high growth markets. Our experienced local management teams continue to focus on maximising returns from the existing business, whilst developing new markets for our products reinforced by the Group's worldwide technical expertise and high standard of innovative performance packaging.

COMMERCIAL OFFERING AND INNOVATION

We are the market leader in paper-based packaging in Europe and are the only large scale pan-regional supplier in Latin America, putting us in the unique position to provide our 60,000 customers worldwide with an unrivalled product and service offering. The Group's pan-European sales business has had continued success in 2012 with 3% year-on-year volume growth, made up of both organic growth with current customers and new business wins.

With approximately 60% of our customers in the FMCG space, we have enhanced our product range to increasingly provide high quality retail ready

Employees examining artwork designs in the Development Department at Smurfit Kappa Denmark

Retail-ready tray made at Smurfit Kappa Delitzsch (Germany) for pots of yoghurt

packaging and merchandising displays, as well as standard transport packaging. In the case of retail ready packaging, approximately 75% of buying decisions are made at the point of purchase and, therefore, high quality packaging has a significant role to play in this regard. With 675 graphic designers worldwide, an array of design and logistical tools and unparalleled breadth of experience we are uniquely equipped to make the difference for our customers.

Innovation will continue to form an important underpin to our service offering, and a range of new product developments were announced in 2012. Retail Ready Packaging is an area of increasing focus by our customers and is an area where the Group adds real value. Through our experience in the field and our scientific approach we strive to maximise both functionality and end user impact with the lowest cost to our customers.

We also launched our new 'S-Flute' corrugated sheet offering in October, combining superior printing properties with high strength and lower weight. This innovation encapsulates the Group's approach to product development guaranteeing lower supply chain costs whilst building on existing quality.

During 2012, the Group was presented with a number of industry awards reflecting our established position as the recognised leader in the fields of product innovation and brand management. The awards included: four WorldStar awards from the World Packaging Organisation; a Gold for Corrugated PostPrint from Flexotech International; two awards in the Deutscher Verpackungspreis, the annual German industry's packaging competition; and the Pulp & Paper International Award for innovation in sustainable packaging.

In addition, the Group has been continuously recognised by its customers directly, and in recent months such recognition has included winning the Holistic Margin Management award from General Mills. This award was specifically in recognition of our contribution as a business partner in reducing costs and adding value over a 15 year period.

SYNERGY/COST TAKE-OUT PROGRAMME

We delivered €191 million in cost take-out from the two-year programme 2011/2012. This was €41 million ahead of the original target of €150 million set at the outset of 2011. It was, however, €9 million below the revised target of €200 million set in May 2012, and this was primarily due to a stoppage in our Facture mill.

Over the past five years, we have delivered €500 million in cost take-out benefits based on a detailed bottom-up approach. These have served to support the high quality earnings of the Group despite the upward trend in input costs year-on-year and low growth in some markets.

The Group has identified a further €100 million in cost take-out opportunities in 2013. These are predominantly focused in the areas of raw materials, labour and energy.

FINANCE REVIEW

RESULTS

Revenue decreased marginally to €7.3 billion in 2012 from €7.4 billion in 2011. With revenue boosted by €98 million in positive currency and hyperinflationary adjustments and by €58 million from net acquisitions, primarily OCCG, comparable revenue fell by €178 million year-on-year.

This decrease, the equivalent of almost 2.5%, reflected higher revenue in the Americas and lower revenue in Europe. The decrease in Europe was driven by a combination of lower average selling prices for containerboard, both recycled grades and kraftliner, and lower overall corrugated volumes. Average corrugated selling prices have held up reasonably well although at the cost of some lost volume given the very competitive market conditions. Higher comparable revenue in the Americas reflected a strong performance by our Mexican operations and the impact of inflationary pressures on selling prices in both Venezuela and Argentina.

At €1,020 million, the Group's EBITDA for 2012 was €5 million higher than 2011's €1,015 million. However, allowing for the positive impact of currency movements, hyperinflationary adjustments, acquisitions and closures, the underlying move was a decrease of €14 million, the equivalent of over 1%. This decrease mainly reflected a combination of earnings growth in Europe and lower earnings in the Americas as a result of a significant decrease in the profitability of our Venezuelan operations.

Employees monitoring the operation of the corrugator at Smurfit Kappa Vignate (Italy)

“Significant strengthening of the balance sheet.”

Ian Curley
Group Chief Financial Officer

In 2012, our European operations generated EBITDA of €844 million, representing 83% of the total for the Group, compared to €812 million in 2011. The year-on-year increase of €32 million reflected a strong performance from the corrugated operations and lower earnings on the mill side. While average corrugated prices fell by less than 1% year-on-year, the decline in recycled containerboard and kraftliner prices was greater resulting in higher margins for the corrugated operations, although corrugated volumes were down 1% in 2012 with lower sheet sales and unchanged box shipments. For the mills, the negative impact of lower containerboard prices was partly offset by a decline in OCC costs. As a result of the maintenance of solid corrugated pricing in combination with the continued implementation of process efficiencies, our EBITDA margin in Europe increased to 14.2% in 2012 from 13.4% in 2011.

The Americas business segment comprises the Group’s operations in Latin America and the United States. In 2012, these operations reported EBITDA of €212 million, representing 21% of the total for the Group, compared to €237 million in 2011. The performance of the operations in 2012 varied significantly between countries with the results adversely affected by political and labour issues in both Venezuela and Argentina. As a result, our EBITDA margin decreased to 15.0% from 18.4% in 2011.

While the depreciation charge in 2012 was €14 million lower than in 2011, the charge for depletion was €25 million higher, reflecting an increase in the fair value of our biological assets in Venezuela in 2011. The charge for the amortisation of intangible assets was €9 million lower year-on-year as certain assets were fully amortised. With the total charge for depreciation, depletion and amortisation higher by €2 million year-on-year and an increase of €11 million in share-based payments, the year-on-year increase of €5 million in EBITDA was more than offset at the level of pre-exceptional operating profit. Consequently, our pre-exceptional operating profit (EBITDA less depreciation, depletion and amortisation and the share-based payment expense) decreased by €8 million to €616 million compared to €624 million in 2011.

Our pre-exceptional net finance costs amounted to €294 million (costs of €387 million less income of €93 million) in 2012, compared to €301 million in 2011. The year-on-year decrease of €7 million resulted from the combination of lower cash interest costs and higher non-cash finance costs.

Pre-exceptional cash interest amounted to €235 million in 2012 compared to €245 million in 2011, with the €10 million decrease reflecting year-on-year debt pay-down and lower debt servicing costs. At €59 million, pre-exceptional non-cash interest costs were €3 million higher in 2012 as a result of lower currency translation gains and a higher hyperinflationary net monetary loss, partly offset by a positive move in the fair value of derivatives (from a net loss in 2011 to a gain in 2012).

Including the net profit of €3 million from our share of associates' earnings, the Group's pre-exceptional profit before income tax was €325 million in 2012 compared to 2011's €327 million, which included a profit of €2 million on the disposal of an investment in an associate.

EXCEPTIONAL ITEMS

Exceptional items charged within operating profit in 2012 amounted to a net gain of €18 million, comprising gains of €28 million and costs of €10 million. The exceptional gains comprised €10 million from the sale of land at the Group's former Valladolid mill in Spain and €18 million relating to the disposal of a company in Slovakia. This gain primarily relates to the reclassification of the cumulative translation differences from the Consolidated Statement of Comprehensive Income to the Consolidated Income Statement. The exceptional costs mainly comprised acquisition costs relating to OCCG and restructuring costs in Europe. Exceptional items of €34 million charged within operating profit in 2011 related almost entirely to the closure of the Nanterre containerboard mill in France. The charge comprised restructuring costs of €19 million and an impairment loss of €15 million in relation to property, plant and equipment.

Exceptional finance costs of €12 million in 2012 related mainly to the accelerated amortisation of deferred debt issue costs relating to the debt paid down with the proceeds of the bond issues and also to the call premium payable on the early repayment of the 2015 bonds. The exceptional finance income of €6 million in 2011 related to the receipt of monies from the liquidator of a Spanish company in which the Group previously held an investment.

PROFIT BEFORE INCOME TAX

After exceptional items, our total profit before income tax amounted to €331 million in 2012, comprising the pre-exceptional profit of €325 million and net exceptional gains of €6 million. In 2011, the total profit was €299 million comprising the pre-exceptional profit of €327 million and net exceptional costs of €28 million. With pre-exceptional profit slightly lower than in 2011, the year-on-year increase of €32 million in our total profit reflected the move in exceptional items from net costs in 2011 to net gains in 2012.

INCOME TAX EXPENSE

The accounting tax expense in 2012 was €71 million (comprising a current tax charge of €85 million net of a deferred tax credit of €14 million) compared to €81 million (comprising a current tax charge of €109 million net of a deferred tax credit of €28 million) in 2011.

Although the overall current taxation expense is lower year-on-year, the composition is different with a higher expense in Europe reflecting the improved profitability of our operations in the region and the impact of

Shelf-ready packaging manufactured at Smurfit Kappa Bogotá (Colombia) for packets of pasta

Employees working on new designs at the Packaging Experience Centre at Smurfit Kappa Yate (UK)

additional minimum taxes. Conversely, the lower current taxation expense in the Americas reflects both a lower level of earnings in the region as well as the inclusion in 2011 of €23 million in respect of an equity tax introduced in Colombia. Although this tax is payable over four years, under IFRS it was required to be fully expensed in 2011.

The net movement in deferred tax in 2012 includes a €10 million non-recurring credit for a reduction in the tax rate in Sweden and the recognition of additional deferred tax assets net of impairments on tax losses in Europe. In 2012, the net tax associated with exceptional items is not material whereas in 2011 it included a net tax credit of €13 million.

EARNINGS PER SHARE

The basic earnings per share amounted to 111.2 cent in 2012 compared to 93.0 cent in 2011. On a diluted basis, our earnings per share in 2012 amounted to 108.3 cent compared to 91.1 cent in 2011.

On a pre-exceptional basis, our earnings per share in 2012 amounted to 108.3 cent compared to 100.1 cent in 2011.

The earnings per share figures are calculated on the basis of the weighted average number of ordinary shares in issue during the year, which was 223,812,000 in 2012 compared to 221,543,000 in 2011. Ordinary shares in issue at 31 December 2012 amounted to 227,746,000 (2011: 221,863,000).

FINANCIAL PERFORMANCE INDICATORS

Certain financial measures set out below, including EBITDA, are not defined under International Financial Reporting Standards ('IFRS'). These measures are presented because we believe that they and similar measures are widely used in the paper and packaging manufacturing industry as a means of evaluating a company's operating performance and financing structure, and in the case of EBITDA because we believe it presents a helpful comparison of financial performance between periods by excluding the distorting effect of non-recurring items. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered as substitutes for the information contained in our financial statements. EBITDA and our other non-IFRS measures and ratios have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our operating income or cash flows as reported under IFRS.

We consider the following measures to be important indicators of the underlying performance of our operations:

	2012	2011
EBITDA* (€ million)	**1,020**	1,015
EBITDA margin to revenue (%)	**13.9**	13.8
Net debt (€ million)	**2,792**	2,752
Net debt to EBITDA (times)	**2.7**	2.7
Free cash flow (€ million)	**282**	394
Return on average capital employed** (%)	**12.1**	12.5
Basic earnings per share (cent)	**111.2**	93.0
Pre-exceptional earnings per share (cent)	**108.3**	100.1

* *Earnings before exceptional items, share-based payment expense, net finance costs, income tax expense, depreciation and intangible assets amortisation.*

** *Pre-exceptional operating profit plus share of associates' profit / average capital employed (where capital employed is the sum of total equity and net debt at year-end).*

RECONCILIATION OF PROFIT TO EBITDA

	2012 €m	2011 €m
Profit for the year	**260**	218
Income tax expense	**71**	81
Exceptional items (credited)/charged in operating profit	**(18)**	34
Profit on disposal of associate	**-**	(2)
Share of associates' profit (after tax)	**(3)**	(2)
Net finance costs (after exceptional items)	**306**	295
Depreciation, depletion (net) and amortisation	**378**	376
Share-based payment expense	**26**	15
EBITDA	**1,020**	1,015

A selection from the range of products manufactured at our bag-in-box facilities

- **EBITDA and EBITDA Margin**

EBITDA increased by €5 million to €1,020 million in 2012 from €1,015 million in 2011. Allowing for the positive impact of currency, hyperinflation accounting, acquisitions and disposals, the underlying year-on-year move was a decrease of €14 million, the equivalent of over 1%. This decrease mainly reflected a combination of earnings growth in Europe and lower earnings in the Americas, primarily as a result of significant political and industrial unrest in both Venezuela and Argentina.

With revenue marginally lower in 2012, our EBITDA margin increased from 13.8% in 2011 to 13.9%. This strong performance is the product of our integrated model which maximises efficiencies throughout the system. As a result, the Group's paper system is capable of running efficiently through the cycle, and its packaging network benefits from an optimised product portfolio, a clear focus on sustainability and an efficient distribution system throughout its markets.

- **Net Debt to EBITDA**

We believe leverage (ratio of net debt to EBITDA) is an important measure of our overall financial position and one which we provide to investors as we believe they find it useful. Net debt comprises interest-bearing loans and borrowings net of cash and cash equivalents and we believe it enables investors to see the overall movement resulting from a company's operating and financial performance.

Net debt amounted to €2,792 million at December 2012 compared to €2,752 million at December 2011. Reflecting the Group's increasing ability to fund accretive acquisitions from operating cash flows, net debt has been maintained at 2.7 times EBITDA notwithstanding the acquisition of OCCG.

- **Free Cash Flow**

Free cash flow is shown in our summary cash flow, the format of which was developed by our management in order to show the cash generated by our operations and the overall change in our net debt. Free cash flow is the result of the cash inflows and outflows from our operating activities, and is before those arising from acquisition and disposal activities. We use free cash flow to assess and understand the total operating performance of the business and to identify underlying trends.

Our free cash flow amounted to €282 million in 2012 compared to €394 million in 2011. The year-on-year decrease of €112 million was driven mainly by a negative move in working capital from an inflow in 2011 to an outflow in 2012 and by higher capital outflows and higher tax payments, which more than offset the modest increase in EBITDA and the benefit of a lower cash interest expense.

- **Return on Capital Employed**

With both lower pre-exceptional operating profit and a higher average level of capital employed, our ROCE decreased from 12.5% in 2011 to 12.1% at December 2012. However this increases to 12.6% on a proforma basis for OCCG, demonstrating the Group's progress against its objective to consistently maximise shareholder returns. Our steadily appreciating underlying ROCE is driven by the Group's considered capital allocation decisions and the operational performance of our people. Internal investment opportunities have focused on increasing our innovative commercial offering to customers whilst maintaining an emphasis on enhancing our asset base to increase output and profitability.

- **Basic Earnings per Share ('EPS')**

Earnings per share serves as an indicator of a company's profitability and, in conjunction with other metrics such as return on capital employed, of a company's financial strength. Given the reduction in the Group's net debt level and, consequently, its leverage, EPS becomes an increasingly important measure for us. In order to more truly reflect our operational performance, we also report EPS on a pre-exceptional basis.

The Group's basic EPS increased to 111.2 cent in 2012 from 93.0 cent in 2011, with the increase reflecting primarily a year-on-year increase in our profit before income tax. This increase in turn, however, was the result of the benefit of a net exceptional gain in 2012 compared to net exceptional costs in 2011.

Pre-exceptional EPS in 2012 was 108.3 cent, representing an 8% increase on the 100.1 cent reported in 2011. The increased EPS in 2012 primarily reflects the benefit of a €23 million reduction in our pre-exceptional income tax expense, which more than offset the decrease of €2 million in pre-exceptional profit before income tax.

CASH GENERATION

SUMMARY CASH FLOW[1]

	2012 €m	2011 €m
EBITDA	**1,020**	1,015
Exceptional items	**(4)**	(6)
Cash interest expense	**(235)**	(245)
Working capital change	**(12)**	43
Current provisions	**(10)**	(11)
Capital expenditure	**(293)**	(309)
Change in capital creditors	**(35)**	26
Tax paid	**(113)**	(72)
Sale of fixed assets	**14**	3
Other	**(50)**	(50)
Free cash flow	**282**	394
Share issues	**27**	8
Ordinary shares purchased – own shares	**(13)**	-
Sale of businesses and investments	**(1)**	(4)
Purchase of investments	**(184)**	(10)
Dividends	**(56)**	(5)
Derivative termination payments	**(3)**	-
Early repayment of 2015 bonds	**(4)**	-
Net cash inflow	**48**	383
Net cash acquired/disposed	**2**	1
Acquired OCCG debt	**(85)**	-
Deferred debt issue costs amortised	**(26)**	(16)
Currency translation adjustments	**21**	(10)
(Increase)/decrease in net debt	**(40)**	358

[1] *The summary cash flow is prepared on a different basis to the cash flow statement under IFRS and is produced to further assist readers of the accounts.*

The principal differences are as follows:

a) The summary cash flow details movements in net debt. The IFRS cash flow details movements in cash and cash equivalents.

b) Free cash flow reconciles to cash generated from operations in the IFRS cash flow as shown in the table below. The main adjustments are in respect of cash interest, capital expenditure, tax payments and the sale of fixed assets and businesses.

c) The IFRS cash flow has different sub-headings to those used in the summary cash flow.

RECONCILIATION OF FREE CASH FLOW TO CASH GENERATED FROM OPERATIONS

	2012 €m	2011 €m
Free cash flow	**282**	394
Add back:		
Cash interest	**235**	245
Capital expenditure (net of change in capital creditors)	**328**	283
Tax payments	**113**	72
Less:		
Sale of fixed assets	**(14)**	(3)
Profit on sale of assets and businesses – non-exceptional	**(6)**	(15)
Receipt of capital grants (in 'Other' per summary cash flow)	**(1)**	(2)
Dividends from associates (in 'Other' per summary cash flow)	**(2)**	(1)
Non-cash financing activities	**(6)**	(8)
Exceptional finance income received	**-**	(6)
Cash generated from operations	**929**	959

The Group's reported free cash flow of €282 million in 2012 reflects our continued focus on cash management. The causes of the decrease relative to the €394 million delivered in 2011 are primarily a change in working capital of €55 million, higher capital outflows and increased cash tax of €41 million, partly offset by a decrease of €10 million in cash interest expense.

The working capital move in 2012 was an outflow of €12 million compared to an inflow of €43 million in 2011 and, as a result, the year-on-year move was a negative €55 million. This move arose in the fourth quarter, reflecting largely the different market conditions pertaining in the two years. While market conditions weakened over the course of 2011 resulting in downward pressure on paper prices, containerboard prices strengthened in the latter part of 2012. The overall increase in working capital in 2012 in turn resulted from an increase in debtors offset by a decrease in stocks and an increase in creditors.

Primarily as a result of the acquisition of OCCG, our working capital of €637 million at December 2012 was €120 million higher than at December 2011. On an unadjusted basis, the Group reported a working capital to revenue ratio at December 2012 of 8.7%, which decreases to 8.4% when taken pro-forma for OCCG. Working capital represented 7.1% of revenue at December 2011, reflecting the impact of lower end-market demand at the time.

Capital expenditure (fixed asset additions) amounted to €293 million in 2012 and equated to 82% of depreciation, compared to 89% in 2011. Although our capital expenditure was €16 million lower than in 2011, the outflow in respect of capital creditors was €61 million higher, reflecting the relatively large inflow in the fourth quarter of 2011. This inflow in turn was the result of the deferral to 2012 of elements of the amounts booked as fixed asset additions in 2011. As a result, capital outflows in total were €45 million higher at €328 million in 2012 compared to €283 million in 2011.

Cash interest amounted to €235 million in 2012 compared to €245 million in 2011, as a result of year-on-year debt pay-down and lower debt servicing costs.

At €113 million in 2012, our tax payments were €41 million higher than in 2011, reflecting mainly the effects of improving profitability, legislative changes in Europe restricting the annual use of tax losses and credits and the effects from changes to the geographical mix of earnings.

The proceeds from the sale of fixed assets, primarily land at our former Valladolid mill in Spain, amounted to €14 million in 2012, compared to €3 million in 2011. Other net outflows of €50 million relate mainly to employee benefits.

Investment and financing cash flows amounted to a net outflow of €234 million in 2012 compared to €11 million in 2011, with the year-on-year increase driven primarily by the acquisition of OCCG and the payment of the dividend of €50 million to Group shareholders. As a result, total dividend payments in 2012 amounted to €56 million compared to €5 million in 2011.

On 30 November 2012, we completed the acquisition of OCCG for a consideration of approximately €260 million which includes acquired debt of €85 million. Including OCCG, the outflow for the purchase of investments was €184 million compared to 2011's €10 million, which related mainly to the St. Petersburg South corrugated plant. Our other acquisition in 2012 was that of Baguin, an Argentinean bag-in-box producer. This acquisition was completed in January 2012 for a consideration of approximately €12 million, €5 million of which is deferred until 2013 and 2014.

Otherwise, the net impact of investment and financing cash flows was relatively modest with the outflow of €13 million in respect of share purchases under the Deferred Annual Bonus Plan being more than offset by the inflow from share issues, which at €27 million was €19 million higher than in 2011. Other outflows in 2012 related to the sale of businesses and investments, derivative termination payments and the premium of €4 million paid on the early repayment of the 2015 bonds, the charge for which was treated as an exceptional finance cost.

With our free cash flow of €282 million reduced by the net investment and financing outflows of €234 million, the result for 2012 was a net cash inflow of €48 million. This compares to an inflow of €383 million in 2011, which comprised the positive free cash flow of €394 million and a modest net investment and financing outflow of €11 million.

The reconciliation of the net cash inflow to the increase in net debt includes certain non-cash items. For 2012, these comprise acquired OCCG debt of €85 million and €26 million in respect of the amortisation of debt issue costs, partly offset by positive currency translation adjustments on net debt of €21 million and net cash acquired of €2 million. The amortisation of debt issue costs in 2012 included over €8 million, which was accelerated by the pay-down of the relevant debt and was treated as an exceptional finance cost.

The net positive currency translation adjustments related mainly to the US dollar and the Swedish krona, with a relative weakening of the euro resulting in a gain on our krona denominated cash. Conversely, we had a gain on our US dollar denominated debt as a result of a relative weakening of the US dollar against the euro. The net negative currency translation adjustments of €10 million in 2011 related mainly to our US dollar denominated debt.

In total, the Group's net debt increased by €40 million in 2012 to €2,792 million compared to €2,752 million at the start of the year. With net debt of €2,792 million at December 2012, our leverage (net debt as a multiple of EBITDA) was 2.7 times, broadly unchanged from December 2011 despite spending approximately €260 million on acquiring OCCG.

VENEZUELA

On 8 February 2013, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte. The official exchange rate was changed from VEF 4.3 per US dollar to VEF 6.3 per US dollar. As a result of the devaluation the Group will record a reduction in net assets of approximately €142 million in relation to these operations and a reduction in the euro value of the Group's cash balances of €28 million in the first quarter of 2013. The impact of the devaluation on the Group's 2013 pre-exceptional EBITDA is not expected to be material.

CAPITAL RESOURCES AND LIQUIDITY

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €3,812 million (2011: €4,148 million), of which €3,235 million (2011: €3,579 million) was utilised at December 2012. The weighted average period until maturity of the undrawn revolving credit facility is 3.4 years (2011: 1.8 years).

Over the course of 2012 the Group successfully re-financed a significant portion of existing debt improving its debt maturity profile and diversifying its funding base. Following an amendment and extension of its senior credit facility in March 2012, the Group successfully completed €690 million equivalent of bond issues in September 2012, using the proceeds to prepay a portion of the term loans outstanding under our senior credit facility. These issues comprised €200 million 5.125% and US$300 million 4.875% notes, issued on 12 September and maturing in 2018, together with a €250 million floating rate note with an interest cost of EURIBOR plus 3.50%, issued on 21 September and maturing in 2020.

On 23 January 2013, the Group successfully completed the pricing of an upsized offering of €400 million of senior secured notes due 2020 issued by its wholly owned subsidiary Smurfit Kappa Acquisitions. The net proceeds of the offering are being used to prepay a portion of the term loans outstanding under our senior credit facility and to pay certain fees and expenses related to the offering. The notes were offered in a private placement and at an interest rate of 4.125%. The closing of the sale of the notes was completed on 28 January 2013.

Our debt portfolio is well structured and has a relatively long-term maturity profile. The average maturity profile of our debt (as adjusted for the application of funds from our January 2013 bond issue) was 5.8 years (December 2011: 4.4 years). The increase in average maturity since the end of last year end is due to the extension of Term loans B and C of the senior credit facility by 2.5 years and 2.25 years respectively in the Amend and Extend transaction of March 2012 and the extra duration arising from our recent bond issues in September 2012 and January 2013.

The weighted average interest rate on our gross debt was 6.21% at December 2012, compared to 6.56% at December 2011. The year-on-year decrease reflects the benefit of generally lower interest rates as well as the savings following the repayment of the 2015 bonds with lower cost debt from the proceeds of the September 2012 bond issues.

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

MARKET RISK AND RISK MANAGEMENT POLICIES

The Board of Directors sets the Group's treasury policies and objectives, which include controls over the procedures used to manage financial market risks. These are set out in detail in Note 27 to the Consolidated Financial Statements.

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. Following the January 2013 issuance of €400 million 4.125% senior secured notes due 2020, the Group had fixed an average of 85% of its interest cost on borrowings over the following twelve months. At 31 December 2011, the Group had fixed an average of 75% of the interest cost on its borrowings over the following twelve months.

At 31 December 2012, our fixed rate debt comprised mainly €500 million 7.25% senior secured notes due 2017, €500 million 7.75% senior secured notes due 2019, €200 million 5.125% senior secured notes due 2018, US$300 million 4.875% senior secured notes due 2018 (US$50 million swapped to floating) and US$292.3 million 7.50% senior debentures due 2025. In addition, the Group also has €760 million in interest rate swaps with maturity dates ranging from June 2013 to July 2014.

Our earnings are affected by changes in short-term interest rates as a result of our floating rate borrowings. If LIBOR interest rates for these borrowings increase by one percent, our interest expense would increase, and income before taxes would decrease, by approximately €7 million over the following twelve months. Interest income on our cash balances would increase by approximately €5 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

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

SUSTAINABLE DEVELOPMENT REPORT

SKG regards sustainability as a central part of its business strategy. SKG's mission is to be a customer oriented, market-led company where the satisfaction of customers, the personal development of employees and respect for local communities and the environment are seen as being inseparable from the aim of optimising value for the shareholders.

Sustainability is concerned with ensuring that the human and natural environment with which SKG interacts are protected both today and into the future as it continues to use a wide range of such resources in meeting its business objectives. SKG is determined to manage its business in a way which recognises its responsibilities in all aspects of corporate social responsibility and the wider environment.

SKG published its fifth annual Sustainable Development Report in June 2012 and it is available on the Group's website, www.smurfitkappa.com. It includes details of the principles by which the Group abides in its interaction with key areas of the environment, social development (including health and safety) and business development. An overview of our performance in 2011 was included in the report. Also, an overview of SKG's long-term sustainability commitments was included outlining our commitment to continued progress and performance improvement in the areas which we have identified as specifically underpinning the concept of sustainability. Using the guidelines issued by the Global Reporting Initiative ('GRI') we maintained the transparency of our reporting with the application level of our reporting set to GRI A+. We also engaged KPMG for the third consecutive year to undertake external assurance and last year this

Employees at the Smurfit Kappa Medellin corrugated plant (Colombia) after taking part in a fire drill

High quality multipack box produced at Smurfit Kappa Olomouc (Czech Republic) which recently won a prestigious WorldStar Packaging Award

extended to limited assurance on the data and text of the report. SKG will continue to drive the sustainability agenda and its objective is to improve its performance every year. A further Sustainable Development Report will be issued later this year, which will advance SKG's commitments in this area.

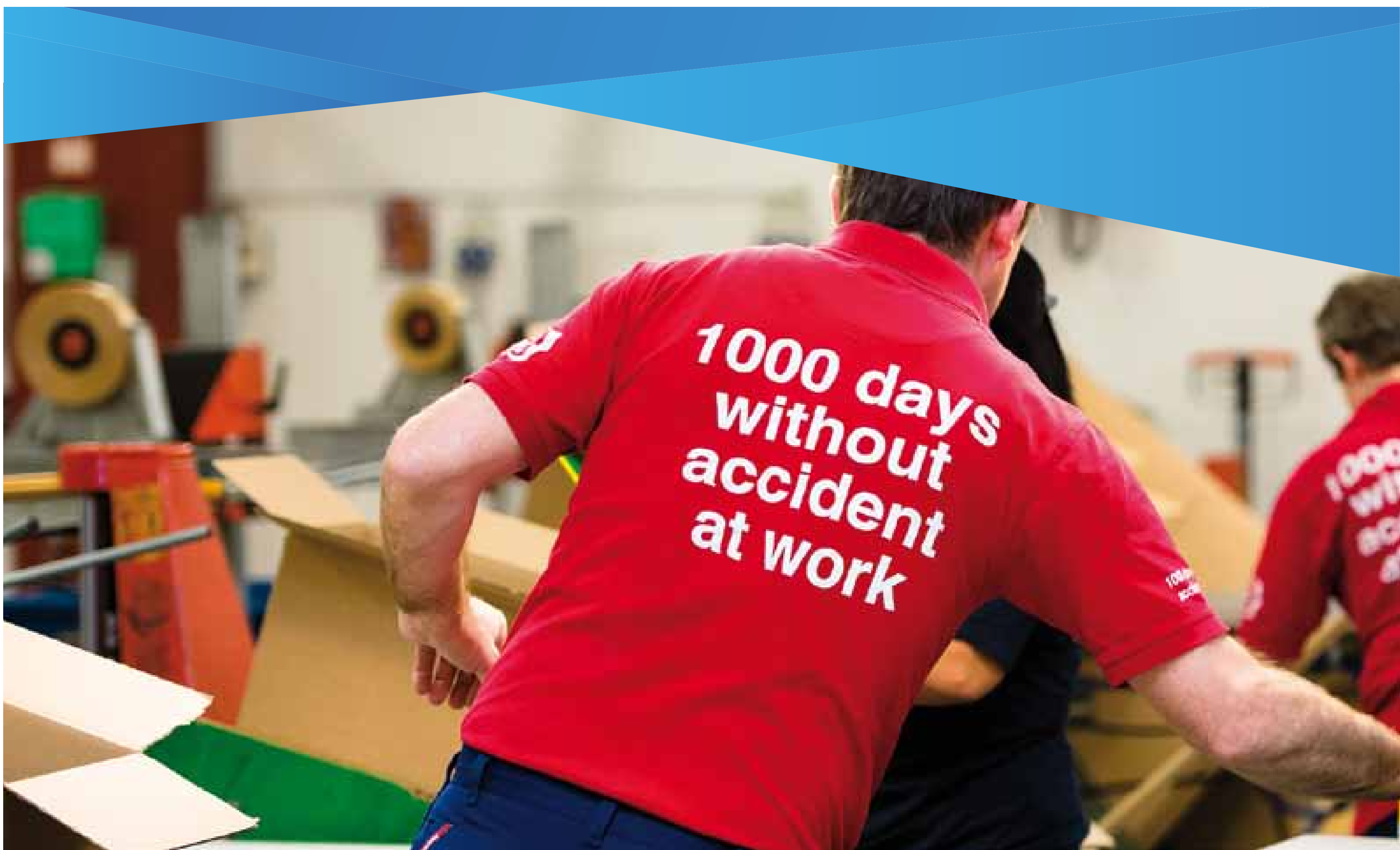
SKG has specific policy statements on key areas of sustainability and they are integral in the drive to improve the Group's performance going forward. These policy statements cover the Environment, Sustainable Forestry, Social Citizenship and Health and Safety. These policies have been added to those already in place covering Good Faith Reporting, a Code of Business Conduct, a Code of Ethics for Senior Financial Officers, a Group Financial Reporting Guide, a Group Treasury Policy, a Financial Monitoring Policy, a Treasury Compliance Programme, and a Competition Compliance Programme.

A report on Corporate Governance is detailed on pages 38 to 44 of this Annual Report and a short overview on SKG's performance in the other key areas now follows.

SOCIAL CITIZENSHIP

SKG conducts a large part of its commitment to corporate social responsibility under the heading of Social Citizenship. SKG is committed to managing its business in accordance with its declared values which recognise that good social citizenship, reflected in the manner in which it interacts with its employees, business partners and local communities, is an essential ingredient in creating and maintaining a sustainable future.

SKG applies the principles of respect for human rights, freedom of association, fair compensation, and diversity regardless of age, gender, sexual orientation, ethnic



origin, disability or nationality. Merit is the key determinant in recruitment and promotion.

SKG values open, constructive, regular and timely dialogue with its employees and their representatives, particularly in all matters affecting the business including safety, working conditions, profitability, business outlook, investment decisions or the terms and conditions of employment.

Implementing SKG's Social Citizenship Policy is the responsibility of line management who are supported by the Human Resource Managers at country, segment and Group level.

SKG trains and develops its employees through various programmes that vary from language skills training to horizontal knowledge sharing and from sales training to advanced management development programmes.

The European Works Council ('EWC'), which was created to assist in the development of an open two way communication process for all employees on all such matters, had one meeting during the year, with the Select Committee of the EWC meeting on four occasions. Matters typically discussed at the EWC include employment opportunities, financial status, projected developments, business conditions, relocation, curtailment or business closures and health and safety.

Community participation is encouraged by SKG and this very important element of social citizenship is practiced at local plant level where managers are best positioned to positively contribute and support worthy local causes. In Ireland the Group supports the CEO in his role as Chairman of the Barnardos "Leaving Poverty Through Learning" Campaign for seriously disadvantaged children.

HEALTH AND SAFETY

The SKG Policy states that:

"Smurfit Kappa Group will conduct its activities in a responsible manner, taking care of the health, safety and welfare of everyone affected by its activities and minimising the impact of the business on the environment. It will be an integral part of the business activities and will promote adherence to the highest standards of safety in the operation of our facilities."

SKG maintains management systems that help to protect employees, visitors to its sites, contractors and the public at large from injury.

All performance reviews at plant, country, division and regional level include safety performance as a key part of the reviews. A report and update on health and safety is given to the Board each quarter.

The Group has a written document covering an extensive list of Health and Safety Standards which together with the Policy document has been issued to every SKG site and made available to every employee via notice boards, intranet and other appropriate media.

Employees Smurfit Kappa Dyboflex (Denmark) advertising their impressive safety record

Special packaging manufactured at Smurfit Kappa Düsseldorf (Germany) for packs of frozen herbs

The implementation of these standards is audited on a continuous basis and health and safety committees exist at all operating sites with broad-based representation of individuals and employees.

ENVIRONMENT

The principles SKG applies in terms of the environment include:

- Complying with national and international environmental legislation and seeking to achieve best practice through benchmarking and the promotion of continuous improvement programmes.
- Developing appropriate environmental management systems that continue to question the status quo thereby helping to reduce any negative impacts on the environment.
- Continuing focus on the efficient use of natural resources.
- Meeting reasonable stakeholder expectations on environmental performance in forestry, product manufacture, distribution and end use.

Noteworthy highlights from 2012 were:

- A new water treatment plant was commissioned in the Bernal paper mill in Argentina.
- The Combined Heat and Power plant in the Barranquilla paper mill in Colombia became fully operational.
- The biomass boiler in the Navarra paper mill in Spain was installed and was at its planned capacity by the end of the year.
- FSC certification was obtained for the converting operations in Mexico, Argentina, Spain and Portugal.
- Chain of Custody ('CoC') certification was extended during the year: 86% of our paper and board is now CoC certified - up from 78% at the end of 2011 while 88% of converting operations operate under a CoC scheme - up from 44% at the end of 2011.

The Sustainable Development Report also discusses what we consider to be the key environmental challenges and risks for our Group and our industry. These concerns focus on the subjects of water, fibre availability and energy. All three areas are fundamental to our processes/products and we strongly support the sustainable deployment of these scarce resources provided a resource hierarchy and a global level playing field are guaranteed.

BOARD OF DIRECTORS

Liam O'Mahony – Chairman

Liam O'Mahony joined the Board upon the Company being admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. He was appointed Chairman in December 2008. He is Chairman of IDA Ireland and a Director of Project Management Limited. He was the Chief Executive Officer of CRH plc from January 2000 until his retirement in December 2008, prior to which he held a number of senior management positions within the CRH Group including Chief Executive of its US operations and Managing Director, Republic of Ireland and UK companies. He retired from the board of CRH plc in 2011. (Age 66)

Gary McGann – Group Chief Executive Officer

Gary McGann has served as a Director since 2000 and was appointed Group Chief Executive Officer in November 2002. He was previously President and Chief Operations Officer of the Smurfit Group since January 2000. He joined the Smurfit Group in 1998 as Chief Financial Officer. He had held a number of senior positions in both the private and public sectors over the previous 20 years, including Chief Executive of Gilbeys of Ireland Group and Aer Lingus Group plc. He is Chairman of Aon Ireland, a Director of United Drug plc and the Irish Business and Employers Confederation and a member of the European Round Table of Industrialists and vice chairman of the Confederation of European Paper Industries. (Age 62)

Anthony Smurfit – Group Chief Operations Officer

Anthony Smurfit has served as a Director since 1989 and was appointed Group Chief Operations Officer in November 2002. He has worked in various parts of the Smurfit Group both in Europe and the United States since he joined the Group. He was Chief Executive of Smurfit Europe from October 1999 to 2002 prior to which he was Deputy Chief Executive of Smurfit Europe and previously Chief Executive Officer of Smurfit France. He is a Director of C&C Group plc. (Age 49)

Ian Curley – Group Chief Financial Officer

Ian Curley has served as a Director since 2002. He was appointed Group Chief Financial Officer in January 2000. He joined the Group in 1989 having previously worked for a number of multinationals in Ireland. He was appointed Chief Financial Officer of Smurfit Europe in 1997, prior to which he served as Financial Controller of Smurfit Continental Europe for a number of years based in the UK and France. Mr Curley is a Fellow of the Institute of Chartered Management Accountants. (Age 50)

Irial Finan

Irial Finan joined the Board in February 2012. He is currently Executive Vice President of The Coca-Cola Company and President of the Bottling Investments Group. He is also responsible for the stewardship of The Coca-Cola Company's Equity Investments and leads the Commercial Product Supply organisation. He joined the Coca-Cola System in 1981. Prior to his appointment to his current role in 2004, Mr Finan served as Chief Executive Officer of Coca-Cola Hellenic Bottling Company SA. Mr Finan is a Fellow of the Institute of Chartered Management Accountants. (Age 55)

Christopher McGowan

Christopher McGowan has served as a Director of the Group since September 2002. He is currently the General Partner of CJM Ventures, LLC, a private investment firm. He was employed principally by Madison Dearborn from 1999 to 2011 where he served as a Managing Director. He has significant experience working with companies in a wide range of industrial sectors. He is a member of the Board of Directors of Opto International, Inc., Boise Cascade Company, the University of Chicago Laboratories School and serves as Chairman of the Limited Partner Advisory Committee for Hyde Park Venture Partners. (Age 41)

Samuel Mencoff

Samuel Mencoff has served as a Director of the Group since September 2002. He has been employed principally by Madison Dearborn since 1993 and currently serves as a co-Chief Executive Officer. From 1987 until 1993, he served as Vice President of First Chicago Venture Capital. He has extensive business experience due to his involvement with many investee companies. He is a member of the Board of Directors of Boise Cascade Company, Packaging Corporation of America, the Art Institute of Chicago, North Shore University Health System and World Business Chicago, and a member of the Board of Fellows of Brown University. (Age 56)

Roberto Newell

Roberto Newell joined the Board in June 2010. He is Vice Chairman of the Board of the Instituto Mexicano para la Competitividad, A.C. ('IMCO'), an independent think-tank in Mexico, established to develop policies to enhance Mexico's competitiveness. Prior to joining IMCO, Mr Newell served Mexico's Federal Government, most recently as Deputy Secretary for Agriculture. Between 1984 and 2001, Mr Newell worked for McKinsey & Co., where he served clients in North America and Latin America. At McKinsey, Mr Newell advised large corporations and national governments with a focus on the financial and telecommunications sectors. Mr Newell serves on the Board of a number of institutions in Mexico. (Age 65)

Frits Beurskens

Frits Beurskens has served as a Director of the Group since December 2005. He joined the Kappa Group in 1990 and held various Managing Director positions until his appointment as its President in 1996 which he held until the merger with Smurfit. He is a member of the board of Sappi Limited. He is a former Chairman of both the Confederation of European Paper Industries and the International Corrugated Cases Association. In December 2007 he was appointed by the Dutch Queen as Officer in the Order of Oranje Nassau. (Age 65)

Christel Bories

Christel Bories joined the Board in November 2012. Ms Bories was appointed Deputy Chief Executive Officer of Ipsen SA in March 2013. She was President and Chief Executive Officer of Constellium (formerly Engineered products, Rio Tinto) from 2007 to the end of 2011 prior to which she was a senior executive in both Pechiney and Alcan for fourteen years of which eight years was as the General Manager of the Packaging business. Ms Bories spent seven years in strategic consulting prior to her industrial experience. She is a non–executive director of Legrand SA and Natixis SA. (Age 48)

Thomas Brodin

Thomas Brodin joined the Board in April 2008. He was Head of Equities and Head of Equity Research and a member of the executive management team at Erik Penser Bankaktiebolag, an independent and privately owned Swedish bank from 2007 to 2011. He was previously a European paper & packaging research analyst and Managing Director at Citigroup between 1995 and 2007. Prior to that, he was a paper & packaging research analyst at Credit Suisse First Boston from 1992 to 1995 and at Svenska Handelsbanken from 1990 to 1992. Between 1998 and 2007 Mr Brodin was ranked as the leading European analyst covering the paper and packaging sector by Extel and Institutional Investor Surveys. (Age 48)

Nicanor Restrepo

Nicanor Restrepo joined the Board upon the Company being admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. He was previously the President and Chief Executive Officer of Suramericana de Inversiones S.A. He is a Director of Sofasa (Renault), Exito S.A. (Groupe Casino), Conconcreto S.A. and Carvajal Internacional S.A. He has extensive business experience having occupied several positions in the private sector and has received many awards both in Colombia and internationally. (Age 71)

Paul Stecko

Paul Stecko joined the Board in February 2008. He is Executive Chairman of Packaging Corporation of America ('PCA') since July 2010, prior to which he had served as Chairman and Chief Executive officer of PCA since 1999. Prior to 1999 he served as President and Chief Operating Officer of Tenneco Inc. and other senior positions within Tenneco including President and Chief Executive Officer of Tenneco Packaging Inc. which was the business that included PCA and was subsequently sold by Tenneco in 1999. Mr Stecko spent 16 years with International Paper Company. He is a member of the Board of Directors of Tenneco Inc. and State Farm Mutual Insurance Company. (Age 68)

Rosemary Thorne

Rosemary Thorne joined the Board in March 2008. She was most recently Group Finance Director for Ladbrokes plc from 2006 to April 2007. Prior to that she was Group Finance Director at Bradford and Bingley plc from 1999 to 2005 and at J Sainsbury plc from 1992 to 1999. Ms Thorne has extensive experience as a non-executive Director and currently serves as a non-executive Director with Santander UK plc. Ms Thorne is a Fellow of the Institute of Chartered Management Accountants and a Fellow of the Association of Corporate Treasurers (Age 61)

Board Committees

Audit

R. Thorne, Chairman (1)
C. Bories (1)
T. Brodin (1)
I. Finan (1)
C. McGowan (2)(4)
R Newell (1)
P. Stecko (1)

Compensation

P. Stecko, Chairman (1)
C. Bories (1)
I. Finan (1)
L. O'Mahony (1)
R. Newell (1)
N. Restrepo (3)
S. Mencoff (1)

Nominations

N. Restrepo, Chairman (3)
L. O'Mahony (1)
T. Brodin (1)
R. Thorne (1)
G. McGann (1)

Senior Independent Director

N. Restrepo

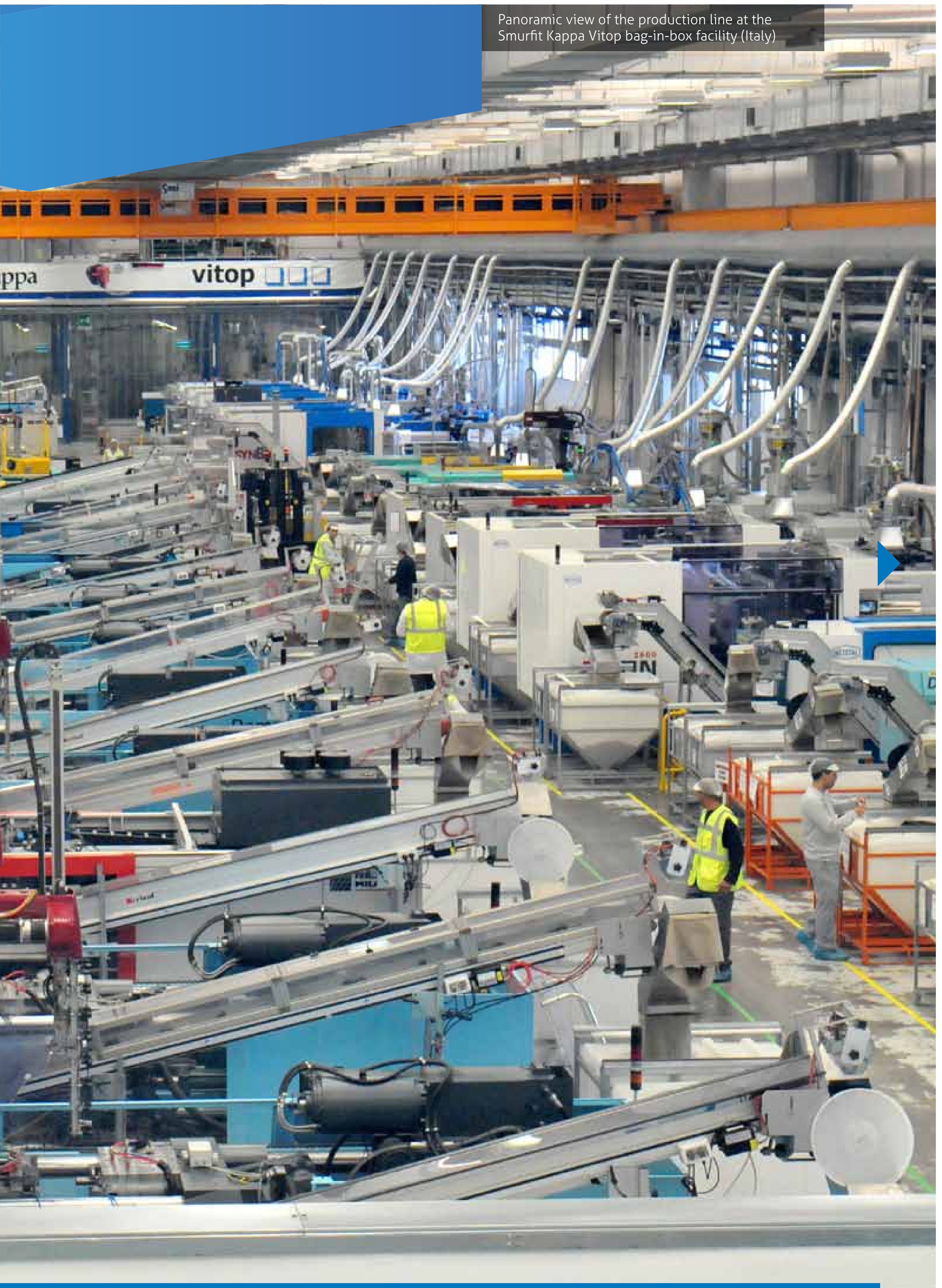
(1) Joined the Committee on IPO in 2007 or appointment date if later (See page 39)

(2) Joined the Audit Committee in 2008

(3) Joined the Nominations Committee in 2008 and the Compensation Committee in 2010

(4) Retiring from Board and Committee at AGM on 3 May 2012

Smurfit Ka



Panoramic view of the production line at the Smurfit Kappa Vitop bag-in-box facility (Italy)

Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance. This Corporate Governance Statement describes how Smurfit Kappa Group plc applied the principles of the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in June 2010 ('the Code') as adopted by the Irish Stock Exchange ('ISE') and London Stock Exchange ('LSE') throughout the financial year ended 31 December 2012 and the Irish Corporate Governance Annex ('the Annex') which supplements the Code with additional corporate governance provisions. Except where otherwise stated, the Directors believe that the Group has complied with the provisions of the Code and the Annex throughout the year under review. The Directors note that in September 2012 the FRC published an updated UK Corporate Governance Code which will apply to reporting periods beginning on or after 1 October 2012 (the '2012 Code'). The Board welcomes this corporate governance development. SKG will seek to apply the 2012 Code for the financial year beginning 1 January 2013.

A copy of the Code (June 2010) can be obtained from the FRC's website: www.frc.org.uk. A copy of the Annex can be obtained from the ISE's website: www.ise.ie.

Board of Directors

The Board is primarily responsible for the long-term success of the Company, for setting the Group's strategic aims, for the leadership and control of the Company and for reviewing the Group's system of internal control and risk management. There is a clear division of responsibilities within the Group between the Board and executive management, with the Board retaining control of strategic and other major decisions under a formal schedule of matters reserved to it which includes:

- Approval of the Group's strategy which is set out on page 13
- Board appointments including those of the Chairman and Group Chief Executive
- Agreement of terms of appointment of the Chairman, Group Chief Executive and other executive Directors
- Agreement of any fundamental changes to the Group management and control structure
- Approval of the annual financial budgets
- Approval of capital expenditure above fixed limits
- Approval of material acquisitions and disposals of businesses
- Approval of the Interim Report, the Annual Report and all Press Releases
- Establishment and review of corporate governance policy and practice
- Monitoring of the Group's risk management and internal control systems.

As recommended by the Code, the roles of Chairman and Group Chief Executive Officer are held by separate individuals and the division of responsibilities between them is clearly established and has been set out in writing and approved by the Board. The Board has delegated responsibility for the day-to-day management of the Group, through the Group Chief Executive Officer, to executive management. The Group Chief Executive Officer is responsible for implementing strategy and policy as approved by the Board. As discussed below, the Board has also delegated some of its responsibilities to Committees of the Board. The powers of Directors are determined by Irish legislation and the Articles of Association of the Company. The Directors have access to independent professional advice at the Group's expense, if and when required. No such advice was sought by any Director during the year. The Board Committees are provided with sufficient resources to undertake their duties.

Membership, Board Size and Independence

At present there are fourteen Directors on the Board, comprising: a non-executive Chairman, three executive Directors and ten non-executive Directors. A list of Directors is set out below and biographical details are set out on pages 34 and 35. The Board considers that the Board comprising fourteen Directors is not so large as to be unwieldy and that the Directors with a broad spread of nationalities, backgrounds and expertise bring the breadth and depth of skills, knowledge and experience that are required to lead the Group.

The Code recommends that, apart from the Chairman, at least half of the Board of Directors of a listed company should comprise non-executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Director's judgement. Since the 2012 AGM, following the retirement of two shareholder nominated Directors, the Company has complied with the Code recommendation on Board independence. In addition, a further independent director was co-opted to the Board in November 2012.

The Group has an effective Board to provide governance for an internationally diverse business whose interests span two continents and 32 individual countries. Each of the Group's non-executive Directors has broad-based international business expertise and many have gained significant and relevant industry specific expertise over a number of years. The composition of the Board reflects the need, as outlined by the Code, for an effective Board to maintain a balance of "skills, knowledge and experience". The experience of each Director is set out in their biographies which are detailed on pages 34 and 35.

The Board through the Nominations Committee reviews the composition of the Board on an annual basis. This review includes a review of refreshment and renewal, Board diversity, including gender diversity and the skills, knowledge and experience of the Directors.

The Board reviewed the composition of the Board and determined that Ms Bories, Mr Brodin, Mr Finan, Mr Newell, Mr Restrepo, Mr Stecko and Ms Thorne are independent. In reaching that conclusion the Board took into account the principles relating to independence contained in the Code and specifically whether any non-executive Director:

- has been an employee of the Group;
- has or had within the last three years, a material business relationship with the Group;
- receives remuneration from the Group other than a Director's fee;
- has close family ties with any of the Group's advisers, Directors or senior employees;
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the Board for more than nine years from the date of their first election.

The Board is satisfied that the independence of the relevant Directors is not compromised by these or any other factors.

Director	Role	Independent	Appointment Date *
Liam O'Mahony	Non-executive Chairman	**	2007
Gary McGann	Group Chief Executive Officer	No	2000
Anthony Smurfit	Group Chief Operating Officer	No	1989
Ian Curley	Group Chief Financial Officer	No	2002
Frits Beurskens	Non-executive Director – former Executive	No	2005
Christel Bories	Non-executive Director	Yes	2012
Thomas Brodin	Non-executive Director	Yes	2008
Irial Finan	Non-executive Director	Yes	2012
Christopher McGowan ***	Non-executive Director	No	2002
Samuel Mencoff	Non-executive Director	No	2002
Roberto Newell	Non-executive Director	Yes	2010
Nicanor Restrepo	Non-executive Director	Yes	2007
Paul Stecko	Non-executive Director	Yes	2008
Rosemary Thorne	Non-executive Director	Yes	2008

* *For Smurfit Kappa Group plc and predecessor companies. SKG returned to the ISE and LSE in March 2007*
** *On his appointment as Chairman in December 2008 Mr O'Mahony was independent*
*** *Retiring at AGM on 3 May 2013*

While Mr Beurskens was an employee of the Group and Mr Mencoff was previously a shareholder nominated Director under an entitlement in the Articles of Association of the Company which lapsed when the relevant shareholder disposed of shares during 2012, the Board does not believe these facts compromise either their independence of judgement, their contribution to the Board or the quality of their oversight.

Experience and Skills

Each of the executive Directors has extensive experience of the paper-based packaging industry. Their knowledge is backed up by the general business skills of the individuals involved, previous relevant experience and by the broadly based skills and knowledge of the non-executive Directors, six of whom have the additional benefit of many years exposure to paper-based packaging companies either as employees, directors or investors. The non-executive Directors use their skills and their individual business experiences and their international backgrounds in reviewing and assessing any opportunities or challenges facing the Group and play an important role in developing the Group's strategy and scrutinising the performance of management in meeting the Group's goals and objectives.

Appointments, Retirement and Re-election to the Board

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first AGM after their appointment and all Directors are subject to re-election at intervals of no more than three years. However, in compliance with the Code, all Directors are required to retire at each AGM and submit themselves for re-election.

The procedures governing the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

The standard letter of appointment of non-executive Directors will be available for inspection at the AGM and is available on request, from the Company Secretary.

The right under the Articles of Association of the Company, whereby two private equity shareholders could each nominate up to two persons for appointment as Directors, as long as they held a certain shareholding, lapsed during the year following the disposal of their shareholdings. As a result the Company now complies with the recommendations of the Code that the Nominations Committee should lead the process for all Board appointments, and make such recommendations to the Board.

Each of the Directors, other than Mr Christopher McGowan, are offering themselves for re-election at the 2013 AGM and their details are set out on page 45.

External Directorships

The Board believes that there is benefit for the Group if executive Directors hold non-executive directorships with other companies as it enhances their overall business experience. Consequently, the executive Directors are encouraged to accept a small number of external appointments as non-executive Directors or on industry associations. Directors are permitted to retain any payments received in respect of such appointments.

Remuneration

Details of remuneration paid to Directors (executive and non-executive) are set out in the Remuneration Report on pages 47 to 53. Non-executive Directors are paid fees for their services. None of their remuneration is performance related and they are not eligible to participate in the Group's annual bonus scheme or long-term incentive plans. Non-executive directors' fees are not pensionable. The Remuneration Report will be presented to shareholders for the purposes of a non-binding advisory vote at the AGM on 3 May 2013.

Corporate Governance Statement (continued)

Chairman

Mr Liam O'Mahony who joined the Board upon the Company being admitted to trading on the ISE and the LSE in March 2007 was appointed Chairman in December 2008. As recommended by the Code, the Chairman was independent at his time of appointment. The Chairman is responsible for the leadership of the Board and the efficient and effective working of the Board. He sets and manages the Board agenda in order that at appropriate times it addresses all matters reserved to the Board and ensures that adequate time is available for discussion on strategy and the strategic issues facing the Group. He ensures that the members of the Board receive accurate, timely and clear information, and that the members of the Board are updated periodically on the views or concerns of the major investors. He also ensures that a culture of openness and debate is fostered to facilitate the effective contribution of the non-executive Directors to the Board.

Senior Independent Director

Mr Nicanor Restrepo was appointed the Group's Senior Independent Director in December 2008. His duties include being available to shareholders if they have concerns which cannot be resolved through the Chairman or Group Chief Executive Officer. He is available to serve as an intermediary for other Directors where necessary. The Senior Independent Director also conducts an annual evaluation of corporate governance compliance, the operation and performance of the Board, the Directors, its Committees and the Chairman's performance in conjunction with the other non-executive Directors on an annual basis.

Group Secretary

The Directors have access to the advice and services of the Group Secretary who is responsible to the Board for ensuring that Board procedures are followed and applicable rules and regulations are complied with. The Group Secretary also acts as secretary to all of the Board Committees. The Group Secretary is responsible for ensuring Board procedures are followed including formal minuting of any unresolved concerns that any Director may have with the operation of the Company. During the year there were no such unresolved issues.

Meetings

The Board meets at least five times each year with additional meetings as required. The Board met six times in 2012. Details of the meetings held during the period, both of the Board and of the Board Committees, are contained in the schedule on page 44, which also includes information on individual attendance. The Board holds at least one of its meetings each year at a Group operation to give the Directors an opportunity to meet with a wider range of management and to see and remain familiar with the Group's operating activities. In 2012 the July Board meeting was held at the bag-in-box plant in Alessandria, Italy, which also included a visit to the Asti corrugated operation. The Board is supplied on a timely basis in advance of Board meetings with a Board Report comprising strategic updates, operational, financial and investor relations information together with Board papers on key issues in a form and of a quality to enable it to discharge its duties effectively. The Board papers also include the minutes of all Board Committee meetings and at each Board meeting the Chairman of each Committee gives a report on major agenda items discussed at Committee meetings held since the last Board meeting.

When Directors are unable to attend a meeting having been advised of the matters to be discussed they are given an opportunity to make their views known to the Chairman or the Group Chief Executive Officer prior to the meeting.

Induction and Development

On appointment, all non-executive Directors receive comprehensive briefing documents on the Group, its operations and their duties as a Director. They are also given presentations by the senior management team and are given the opportunity to visit sites and meet with the local management. During the year Directors meet with senior management at Board meetings, on individual site visits and at the annual visit by the Board to a Group operation. Directors also receive regular briefings and presentations on a wide range of the Group's activities together with all significant analyst and rating reports. All Directors are encouraged to go for training to ensure they are kept up to date on relevant legal developments or changes in best practice.

Performance Evaluation

The Senior Independent Director conducts an annual evaluation of corporate governance compliance, the operation and performance of the Board, the Directors, its Committees and the performance of the Chairman. The Chairman conducts an annual evaluation of the performance of the Senior Independent Director. This is achieved through the completion of a detailed questionnaire by each Director and separate discussions with each Director. The Committees undertake an annual evaluation of their performance and report back to the Board. At least once a year the Chairman meets with the non-executive Directors without the executive Directors to review the Board's performance. The Board discusses the results of its evaluations in order to identify and address areas in which the effectiveness of the Board might be improved.

As recommended by the Code, the Board is committed to undertake an externally facilitated evaluation at least once every three years. An external evaluator who is based in the UK and who has wide ranging experience and a long standing and extensive record of carrying out evaluations in listed companies in both Ireland and the UK, has been appointed to perform the first evaluation, and the terms of reference for the evaluation have been agreed. While the evaluator is part of an organisation that supplies some IT services to the Group, the annual value of the contract is not material to either party. The first evaluation is currently in progress.

Share Ownership and Dealing

Details of Directors' shareholdings are set out on page 51. The Group has a policy on dealing in shares that applies to all Directors and senior management. This policy adopts the terms of the Model Code as set out in the Listing Rules published by the UK Listing Authority and the ISE. Under this policy, Directors and senior management are required to obtain clearance from prescribed persons before dealing. Directors and senior management are prohibited from dealing in SKG plc shares during designated close periods and at any other time when the individual is in possession of Inside Information (as defined by the Market Abuse (Directive 2003/6/EC) Regulations 2005).

Board Committees

As recommended by the Code, the Board has established three Committees to assist in the execution of specific matters within its responsibility. These are the Audit Committee, the Nominations Committee and the Compensation Committee. The responsibilities of each of these Committees are set out clearly in written terms of reference, which have been approved by the Board and which are available on the Group's website. The Chairman of each Committee reports to the Board on the major agenda items discussed since the last meeting and the minutes of all Committee meetings are circulated to all of the Directors.

The current membership of each Committee is set out on page 35. The Code recommends that all of the members of the Audit Committee and the Compensation Committee should be independent non-executive Directors and, while this is not currently the case, following the retirement of Mr Christopher McGowan formerly a shareholder nominated Director, at the 2013 AGM, it is anticipated that this recommendation will be achieved this year in respect of the Audit Committee. Mr Samuel Mencoff, a member of the Compensation Committee, was previously a shareholder nominated Director under an entitlement in the Articles of Association of the Company which lapsed during 2012. The Board has asked Mr Mencoff to remain on the Board being satisfied that having been a shareholder nominated Director does not compromise his independence of judgement, contribution to the Board or the quality of his oversight. The Chairman of each of the Audit and Compensation Committee is an independent non-executive Director and a majority of each of the Committees comprises independent non-executive Directors.

Audit Committee

The Audit Committee, chaired by Ms Rosemary Thorne, currently comprises seven non-executive Directors. Of these, Ms Thorne and Mr Irial Finan have recent and relevant financial experience. Mr McGowan will leave the Committee following his retirement from the Board at the AGM. The Committee met six times during the year under review. The Group Chief Executive Officer, the Group Chief Financial Officer, the Group Internal Auditor, the Group Compliance Manager, and senior members of the Group finance team normally attend meetings of the Committee. The external auditors also attend all meetings and together with the Group Internal Auditor have direct access to the Committee Chairman at all times. The external auditor also meets with the Committee in the absence of management. In advance of every meeting the Committee Chairman meets individually with the Group finance team, the Group Compliance Manager, the Group Internal Auditor and the external auditor. Throughout each year, the Committee has presentations from the key finance areas.

The role and responsibilities of the Committee are set out in written terms of reference and are available on the Company's website, www.smurfitkappa.com. The terms of reference are reviewed each year by the Committee and they were last updated in February 2011 to reflect the change required by the Committee's increased responsibilities in relation to the monitoring of the Group's risk management and internal control systems.

In order to discharge the responsibilities as set out in the terms of reference in 2012, the Committee:

- Reviewed with management the Company's 2011 preliminary results announcement, its 2011 Annual Report, the 2012 first quarter results, the interim report 2012, the 2012 third quarter results and management's annual going concern report
- Reviewed the external auditor's year end audit report for December 2011, the limited procedures reports on the 2012 first and third quarter results, the limited procedures report on the 2012 interim report and their report on the hard-close audit 2012
- Reviewed the external auditors report on its review of the interim results for inclusion in the Offering Memorandum for the senior note offering in September 2012
- Reviewed the two Offering Memorandums for the senior note offerings on 5 and 18 September 2012 respectively
- Reviewed the external auditor's plan for the audit of the Group's 2012 accounts, which include considerations of the scope of the audit, key risks to the accounts, confirmation of auditor independence, the proposed audit fee and approval of the terms of engagement for the audit
- Addressed the annual fraud enquires carried out by the external auditor as part of its year-end audit
- Reviewed on a quarterly basis the external auditor services and fees
- Reviewed tax and accounting services and fees for firms other than the external auditor
- Reviewed the quarterly internal audit reports with the Group Internal Auditor and management and any consequent actions
- Approved the internal audit plan and the related resourcing of the function required to meet that plan
- Reviewed all reports submitted by the Group Compliance Manager which comprised an Internal Control Effectiveness Report, an Internal Control Questionnaire update for 2011, the Treasury Compliance Certifications, the Competition Law Policy Compliance Certification results and various Whistleblower and Code of Conduct updates
- Reviewed and approved a revised and updated Code of Business Conduct
- Reviewed and approved a revised and updated Group Treasury Policy
- Reviewed the control environment and ensured that the Code of Business Conduct, the Code of Ethics for Senior Financial Officers, the Good Faith Reporting Policy, the Group Financial Reporting Guide, the Group Treasury Policy, the Financial Monitoring Policy, the Treasury Compliance Programme and the Competition Compliance Programme are up to date and embedded in the Group's processes
- Had presentations from and discussions with the senior management of the Group treasury function and the Group finance function in relation to some of the Groups significant risks
- Reviewed and approved the Group's risk assessment framework (see Internal Control and Risk Management – page 43)
- Reviewed and approved each significant risk facing the Group together with the actions proposed by management to accept, avoid or mitigate risk
- Reviewed the Group's monitoring processes over internal control.

As noted above, one of the duties of the Committee is to make recommendations to the Board in relation to the appointment of the external auditor and for approving its remuneration and terms of engagement. The Committee also monitors the effectiveness of the audit process through regular contact with the auditors, review of the audit plan, the quality of the audit reports and their findings and the quality of the advice given. The Group external audit engagement partner rotates every five years and following the completion of the 2011 audit a new engagement partner was appointed.

The Committee assesses annually the independence and objectivity of the external auditor taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services.

Corporate Governance Statement (continued)

The Group has a policy governing the conduct of non-audit work by the external auditor. The engagement of the external auditor to provide any non-audit services must be pre-approved by the Committee or entered into pursuant to pre-approval policies and procedures established by the Committee. The policy exists to ensure that the external auditor does not audit its own work, participate in activities that would normally be undertaken by management, have a mutuality of financial interest with the Group or act in an advocacy role for the Group. Details of the amounts paid to the external auditor during the year for audit and other services are set out in Note 5 to the Consolidated Financial Statements on page 76.

The Nominations Committee

The Nominations Committee chaired by Mr Nicanor Restrepo currently comprises four non-executive Directors and the Group Chief Executive Officer. The Committee met five times during the year under review.

The role and responsibilities of the Committee are set out in written terms of reference and are available on the Company's website.

The Committee gives full consideration to succession planning for Directors and is responsible for proposing any new appointments to the Board. The Committee uses the services of an external advisor to facilitate the search for suitable candidates. The Committee evaluates the composition of the Board with respect to the balance of skills, knowledge, experience and diversity, including geographical and gender diversity on the Board and prepares descriptions of the requirements for appointments. When a pool of prospective candidates has been identified some of the Committee members will meet with them and if a candidate is agreed upon, the Committee will then recommend the candidate to the Board. All appointments to the Board are approved by the Board as a whole. Non-executive Directors are typically expected to serve two three-year terms although they may be invited to serve for a further period.

In 2011, the Committee instigated a search using the services of an external advisor, and in February 2012 recommended Mr Irial Finan for co-option to the Board. The Committee instigated a further search in 2012 using the services of an external advisor and following a process similar to that set out above recommended Ms Christel Bories for co-option to the Board in November 2012. Both candidates were recommended based on their skills, knowledge and experience across international markets.

The Compensation Committee

The Compensation Committee chaired by Mr Paul Stecko currently comprises seven non-executive Directors. The Directors' biographical details on pages 34 and 35 demonstrate that the members of the Committee bring to it a wide range of experience in the area of senior executive remuneration in comparable companies. The Committee receives advice from independent remuneration consultants to supplement their own knowledge and to keep the Committee updated on current trends and practices.

The Committee met twice during the year. The Group Chief Executive Officer normally attends the meetings and the Group V.P. Human Resources attends when appropriate.

The Compensation Committee has responsibility for setting the Group's overall remuneration policy and strategy, determining the level and structure of remuneration of all executive Directors, making recommendations in regard to the Chairman's and Directors' fees which are fixed by the Board on the authority of the shareholders, monitoring and approving the level and structure of remuneration for senior management and the succession planning for the senior management teams and administering the long-term incentive plans. The Committee as stated above seeks outside independent advice as appropriate.

The role and responsibilities of the Committee are set out in its written terms of reference and are available on the Company's website.

During the period under review, the Committee reviewed and approved the awards under the annual bonus scheme of the executive Directors having measured the results of the performance metrics against the 2012 performance targets. The Committee reviewed the salaries of the executive Directors and the senior management team. The Committee reviewed and approved the performance targets for the 2012 annual bonus scheme in light of the Budget for 2012 and the macroeconomic environment and also approved the breakdown of the performance targets by division and local entity. The Committee selected Return on Capital Employed and Free Cash Flow targets for the second three-year period under the 2011 Deferred Annual Bonus Plan (the 'DABP') which they lodged with the external auditor. The Committee made Deferred and Matching share awards under the DABP to the executive Directors and the senior management team. The Committee reviewed the Group's pension policy in light of changes in pension legislation and requirements in a number of jurisdictions. The Committee reviewed the succession plans for the senior management throughout the Group and approved a number of senior appointments required as a result of retirements.

Communication with Shareholders

The Board gives a high priority to effective communications with shareholders and recognises the need to understand the views of major investors. On a day-to-day basis, contact with institutional shareholders is the responsibility of the Group Chief Executive Officer, the Group Chief Financial Officer and the Investor Relations Manager. The Chairman, Senior Independent Director and any other member of the Board are available to meet major investors if required. Shareholder communications are given high priority and there is regular dialogue with individual shareholders, as well as general presentations, plant visits, attendance at relevant conferences and conference calls at the time of the release of the annual and quarterly results. The Group also hosted presentations over two days to institutional investors and analysts in September 2012, at our facilities in Epernay, France, which included presentations from senior managers from the Group's operations and plant visits to our corrugated and bag-in-box operations in the region. The Chairman, Group Chief Executive Officer and Chief Operations Officer also participated in these events.

The papers for each Board meeting include a comprehensive report summarising investor relations activity during the preceding period including contacts between executive management and current and prospective institutional shareholders. The views and issues highlighted by shareholders are also included in the report.

The Group issues its annual and quarterly results promptly to shareholders and also publishes them on the Group's website, www.smurfitkappa.com. The Group operates an investor relations section on the website, which in addition to the annual and quarterly reports, contains investor presentations and all press releases immediately after their release to the Stock Exchange.

The Company's AGM affords each shareholder the opportunity to question the Chairman of the Board, the Chairmen of all Committees and all other Board members. The Notice of the Annual General Meeting and related papers together with the Annual Report are sent to shareholders at least twenty working

days before the meeting. In addition, the Company responds throughout the year to numerous queries from shareholders on a broad range of issues.

Shareholder Meetings and Shareholder Rights

Shareholders' meetings are governed by the Articles of Association of the Company and the Companies Acts 1963-2012 (the 'Companies Acts').

The Company must hold an AGM each year in addition to any other meeting in that year and must specify that meeting as such in the notices calling it. The Directors may convene general meetings. Extraordinary general meetings may also be convened as provided by the Companies Acts. Notice of a general meeting must be provided as required by the Companies Acts.

At its general meetings the Company proposes a separate resolution on each substantially separate issue and does not bundle resolutions together inappropriately. Resolutions on the receipt of the Annual Report and the approval of the Directors' Remuneration Report are put to shareholders at the AGM.

The Chairman of the Board of Directors or, in his absence, another Director nominated by the Directors will preside as chairman of a general meeting. Ordinary Shares carry voting rights. Three members entitled to vote at the meeting present either in person or by proxy constitute a quorum. Votes may be given either personally or by proxy. On a show of hands, every member present in person and every proxy will have one vote and on a poll, every member shall have one vote for every share carrying voting rights of which he is the holder. The following persons may demand a poll: the Chairman of a general meeting, at least five members present in person or by proxy having the right to vote at the meeting, any member(s) present in person or by proxy representing at least one-tenth of the total voting rights of all the members having the right to vote at the meeting, or, a member(s) present in person or by proxy holding shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The Companies Acts provide for a number of key powers of general meetings, including the right to elect or re-elect a Director, the right to give authority to the Company to disapply pre-emption rights, the right to give authority to the Company to buy back shares and the right to amend the Memorandum and Articles of Association of the Company.

The Companies Acts also provide for a number of shareholder rights in respect of the general meeting and the methods of exercising of those rights, which are set out in the notes to the Notice of the Annual General Meeting, including the right a) to table agenda items and resolutions for inclusion on the agenda of an annual general meeting b) to table a draft resolution in respect of an item already on the agenda of the general meeting c) to ask questions in relation to an item on the agenda of a general meeting and d) to appoint a proxy electronically.

Code of Business Conduct

The Smurfit Kappa Code of Business Conduct was revised during the year to ensure it continued to comply with best practice in this area. The Code applies to our Board of Directors, officers and employees worldwide. We also require individuals, entities, agents or anyone acting on our behalf to comply with our Code. The revised Code is available on the Group's website, www.smurfitkappa.com and has been translated into 16 languages.

Sustainability

Sustainability is concerned with ensuring that the human and natural environment remains intact both today and into the future as we continue to use natural resources. SKG manages its business in a way which recognises its key responsibilities in all aspects of its corporate social responsibility especially in the areas of Environment, Sustainable Forestry, Social Citizenship and Health and Safety. The Group's principles are summarised on pages 30 to 33 and are described in detail in the Sustainable Development Report for 2011 which is available on the Group's website. The Sustainable Development Report for 2012 will be published later this year.

Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness, in order to safeguard shareholders' investments and the Group's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Directors confirm there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group which is in accordance with the Turnbull Guidance (Internal Control: Revised Guidance for Directors on the Combined Code) on internal control. This process has been in place throughout the accounting period and up to the date of approval of the Annual Report and accounts and is subject to regular review by the Board.

Group executive management is responsible for implementing strategy and for the continued development of the Group's operations within parameters set down by the Board. Day-to-day management of the Group's operations is devolved to operational management within clearly defined authority limits and subject to tight reporting of financial performance. Management at all levels is responsible for internal control over the respective operations that have been delegated to them. As such, the system of internal control throughout the Group's operations ensures that the organisation is capable of responding quickly to evolving operational and business risks and that significant internal control issues should they arise are reported promptly to appropriate levels of management.

The Board is responsible for determining the nature and extent of the significant risks it is willing to take to achieve its strategic objectives. Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified and evaluated, and appropriate risk management strategies are implemented at each level. The key business risks are identified by the senior management team. The Audit Committee and Board in conjunction with senior management review the major business risks faced by the Group and determine the appropriate course of action to manage these risks. The Internal Audit function monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee meets with the Group Compliance Manager and the Group Internal Auditor at least quarterly in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant issues considered by the Committee.

The Directors confirm that they have conducted an annual review of the effectiveness of the Group's risk management and system of internal control up to and including the date of approval of the Financial Statements. This had regard to the material risks that could affect the Group's business (as outlined in the Directors' Report on pages 45 to 46), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

Corporate Governance Statement (continued)

Financial Reporting

As part of its overall system of internal control the Group has in place control and risk management systems to govern the Group's financial reporting process and the process for the preparation of the Group's consolidated accounts. The requirements for producing financial information are governed by the Group's Financial Reporting Guide and Financial Monitoring Policy which gives guidance on the maintenance of records that accurately and fairly reflect transactions, provide reasonable assurance that transactions are recorded correctly to permit the preparation of financial statements in accordance with International Financial Reporting Standards and that require reported data to be reviewed and reconciled. These systems include the following financial reporting controls: access controls, reconciliations, verification controls, asset security controls and segregation of duties. Segment management and the Group's executive management team review the results of the operations on a monthly basis. The Group's executive management team receive detailed monthly reports from all operations and meet with the segment management at least on a quarterly basis to review the year to date results against budget and rolling forecasts enabling them to monitor and challenge any variance against the expected financial outcome for the period. Internal Audit review financial controls in different locations on a test basis each year and report quarterly to the Audit Committee. Each operation through to segment level is required to self-assess on the effectiveness of its financial control environment. This includes the completion of an Internal Control Questionnaire which is reviewed by the Group Financial Controller and audited on a test basis by Internal Audit.

Senior management representations with respect to the Group accounts showing a true and fair view are also required and supplied at year end.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, the Chief Executive's Review and the Operations Review on pages 6 to 19. The financial position of the Group, its cash generation, capital resources and liquidity and its market risk and risk management policies are described in the Finance Review on pages 20 to 29. In addition, Notes 20, 21, 22 and 27 to the Financial Statements detail cash and cash equivalents, capital and reserves, borrowings and financial instruments. Note 27 to the Financial Statements also highlights the Group's financial and credit risk management, hedging activities, liquidity risk and capital risk management.

After making enquiries, the Directors have a reasonable expectation that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

Directors' Report

The Change of Control, Capital Structure and Purchase of Own Shares information are set out on page 46 in the Directors' Report and form part of this Corporate Governance Statement.

Attendance at meetings during the year to 31 December 2012

Director	Board		Audit		Compensation		Nominations	
	A*	B*	A*	B*	A*	B*	A*	B*
L. O'Mahony	6	6			2	2	5	5
F. Beurskens	6	6						
C. Bories**	1	1			1	1		
T. Brodin	6	6	6	6			5	5
I. Finan**	6	5	5	4	2	2		
C. McGowan	6	6	6	6				
S. Mencoff	6	6			2	2		
G. Moore**	2	2	2	2				
R. Newell	6	6	6	6	2	2		
R. van Rappard**	2	0			1	0		
N. Restrepo	6	6			2	2	5	5
P. Stecko	6	6	6	6	2	2		
R. Thorne	6	6	6	6			5	5
G. McGann	6	6					5	5
A. Smurfit	6	6						
I. Curley	6	6						

* *Column A indicates the number of meetings held during the period the Director was a member of the Board or Committee and was eligible to attend and Column B indicates the number of meetings attended.*

** *Mr Finan and Ms Bories joined the Board in February 2012 and November 2012 respectively. Mr Moore and Mr van Rappard retired from the Board in May 2012*

Directors' Report

Report of the Directors

The Directors submit their Report and Financial Statements for the year ended 31 December 2012.

Principal Activity and Business Review

The Group is an integrated paper and paperboard manufacturer and converter whose operations are divided into Europe and the Americas. Geographically, the major economic environments in which the Group conducts its business are Europe (principally Eurozone, Sweden and the UK) and the Americas (principally Argentina, Colombia, Mexico and Venezuela).

The Chairman's Statement, the Chief Executive Review, the Strategy Statement, the Operations Review and the Finance Review (including financial risk management policies) on pages 6 to 29 report on the performance of the Group during the year, and Note 32 on page 114 on events since 31 December 2012 and on future developments.

Results for the Year

The results for the year are set out in the Consolidated Income Statement on page 56. The profit attributable to the owners of the parent amounted to €249 million (2011: €206 million).

Key financial performance indicators are set out in the Finance Review on pages 23 to 25. The Consolidated Financial Statements for the year ended 31 December 2012 are set out in detail on pages 56 to 116.

Dividends

The Board is recommending a final dividend of 20.5 cent per share for 2012. Subject to shareholders' approval at the AGM on 3 May 2013, it is proposed to pay a final dividend on 10 May 2013 to all ordinary shareholders on the share register at the close of business on 12 April 2013.

Research and Development

The Company's subsidiaries are engaged in on-going research and development aimed at providing innovative paper-based packaging solutions and improving products and processes and expanding product ranges. Expenditure on research and development in the year amounted to €4 million.

Books and Records

The Directors are responsible for ensuring that proper books and accounting records, as outlined in Section 202 of the Companies Act, 1990, are kept by the Company. The Directors are also responsible for the preparation of the Annual Report. The Directors have appointed professionally qualified accounting personnel with appropriate expertise and have provided adequate resources to the finance function in order to ensure that those requirements are met. The books and accounting records of the Company are maintained at the Group's principal executive offices located at Beech Hill, Clonskeagh, Dublin 4.

Directors

The members of the current Board of Directors are named on pages 34 and 35, together with a short biographical note on each Director.

Mr Irial Finan was appointed to the Board on 2 February 2012.

Mr Gordon Moore and Mr Rolly van Rappard retired from the Board at the AGM in May 2012.

Ms Christel Bories was appointed to the Board on 2 November 2012. In accordance with the provisions of Article 86 she retires at the AGM to be held on 3 May 2013 and, being eligible, offers herself for election.

Mr Christopher McGowan will retire from the Board at the AGM to be held on 3 May 2013.

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first AGM after their appointment and all Directors are subject to re-election at intervals of no more than three years. However, in compliance with the Code all Directors will retire at the 2013 AGM and, excluding Mr McGowan, will submit themselves for re-election.

To enable shareholders to make an informed decision, reference should be made to pages 34 to 35 which contain a biographical note on each Director offering themselves for re-election and to the Notice of the Annual General Meeting which explains why the Board believes the relevant Directors should be re-elected. The Directors intend to confirm at the AGM that the performance of each individual continues to be effective and demonstrates commitment to the role.

Shareholders are referred to the information contained in the Corporate Governance Statement on pages 38 to 44 concerning the operation of the Board and the composition and functions of the Committees of the Board.

Directors' and Secretary's Interests

Details of the Directors' and Company Secretary's interests in the share capital are set out in the Remuneration Report on pages 51 to 53 and are incorporated into this Directors' Report.

Principal Risks and Uncertainties

Under Irish company law (Regulation 37 of the European Communities (Companies: Group Accounts) Regulations 1992 (as amended)), the Group is required to give a description of the principal risks and uncertainties which it faces. These principal risks are set out below:

- If the current economic climate were to deteriorate and result in an increased economic slowdown which was sustained over any significant length of time, or the sovereign debt crisis (including its impact on the euro) were to intensify, it could adversely affect the Group's financial position and results of operations
- The cyclical nature of the packaging industry could result in overcapacity and consequently threaten the Group's pricing structure
- If operations at any of the Group's facilities (in particular its key mills) were interrupted for any significant length of time it could adversely affect the Group's financial position and results of operations
- Price fluctuations in raw materials and energy costs could adversely affect the Group's manufacturing costs
- The Group is exposed to currency exchange rate fluctuations and currency exchange controls in Venezuela and Argentina
- The Group may not be able to attract and retain suitably qualified employees as required for its business
- The Group is subject to a growing number of environmental laws and regulations, and the cost of compliance or the failure to comply with current and future laws and regulations may negatively affect the Group's business

Directors' Report (continued)

- The Group is exposed to potential risks in relation to its Venezuelan operations (see Note 3 to the Consolidated Financial Statements)
- The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates.

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

Corporate Governance

Under Statutory Instrument 450/2009 European Communities (Directive 2006/46/EC) Regulations 2009, the Group is required to produce a Corporate Governance Statement. The Directors' Statement on Corporate Governance is set out on pages 38 to 44 and forms part of this report. The Report on Directors' Remuneration is set out on pages 47 to 53. A copy of the Code (June 2010) can be obtained from the FRC's website: www.frc.org.uk. A copy of the Annex can be obtained from the ISE's website: www.ise.ie.

Purchase of Own Shares

Special resolutions will be proposed at the AGM to renew the authority of the Company, or any of its subsidiaries, to purchase up to 10% of the Company's ordinary shares in issue at the date of the AGM and in relation to the maximum and minimum prices at which treasury shares (effectively shares purchased and not cancelled) may be re-issued off-market by the Company. If granted, the authority will expire on the earlier of the date of the AGM in 2014 or 2 August 2014.

A similar authority was granted at the AGM in 2012, which is due to expire on the earlier of the date of the AGM in 2013 or 3 August 2013.

Change of Control

On a change of control following a bid, the Lenders under the Senior Credit Facility have the option to cancel the commitments under the facility and/or to declare all outstanding amounts immediately due and payable, and under the Senior Subordinated Notes Indenture and the Senior Secured Notes Indenture the Group is obliged to offer to repurchase the notes at 101% of the principal amount due.

Subsidiary and Associated Undertakings

A list of principal subsidiaries and associates as at 31 December 2012 is set out on in Note 34 to the Consolidated Financial Statements.

Capital Structure

Details of the structure of the Company's capital are set out in Note 21 to the Consolidated Financial Statements and are deemed to form part of this Directors' Report. Details of the Group's long-term incentive plans are set out in the Remuneration Report and Note 24 to the Consolidated Financial Statements and are incorporated into this Directors' Report.

Substantial Holdings

The table below shows all notified shareholdings in excess of 3% of the issued ordinary share capital of the Company as at 31 December 2012 and 7 March 2013.

	31 December 2012		7 March 2013	
	Number of shares	% of issued ordinary share capital	Number of shares	% of issued ordinary share capital
Norges Bank	20,025,712	8.8%	20,025,712	8.8%
GMT Capital Corp.	15,916,535	7.0%	15,916,535	7.0%
Morgan Stanley Securities Ltd	13,734,195	6.0%	*	*
Causeway Capital LLC	11,347,227	5.0%	9,010,473	3.9%
Cinven SK Feeder G P Limited	7,398,196	3.2%	*	*
Polaris Capital Management	7,164,494	3.1%	*	*

*Shareholding was below 3% as at 7 March 2013.

Auditor

The Auditor, PricewaterhouseCoopers, is willing to continue in office and a resolution authorising the Directors to fix their remuneration will be submitted to the AGM.

G. McGann

I. Curley

Directors

8 March 2013

Remuneration Report

Report on Directors' Remuneration

The Compensation Committee has responsibility for setting the Group's overall remuneration policy and strategy, determining the level and structure of remuneration of all executive Directors and the Chairman, monitoring the level and structure of remuneration for senior management and administering the Long-term Incentive Plans. The Committee receives independent advice from leading external pay consultants as appropriate. The Group Chief Executive Officer attends meetings except when his own remuneration is being discussed.

The remuneration of the non-executive Directors is determined by the Board within the limits set out in the Articles of Association.

A resolution to consider the Directors' Remuneration Report will be proposed at the forthcoming AGM and will be subject to an advisory shareholder vote. It is the Board's intention to continue with this practice in the future.

Remuneration Policy

The Remuneration policy is designed to attract, retain and motivate Directors and senior management of the highest calibre who are expected to deliver superior performance and to provide strong leadership to the Group. In return the Group aims to provide an attractive compensation package which ensures that management are focused on those corporate metrics which support the Group's business strategy and which support the objective of developing superior sustainable returns and value at acceptable levels of risk but with a clear and intelligible link to performance and the financial prosperity of the Group and consequently its shareholders. The key elements of the package comprise salary and benefits, a performance related annual bonus, a long-term equity based incentive plan and provision of pension benefits. As set out below, the performance related annual bonus forms a key part of executive Director remuneration. As the Group is multinational, remuneration packages in each geographical location must be competitive for that location and at a most senior level, on an international basis.

Executive Directors' Remuneration

Salary and Benefits

Base salaries for executive Directors reflect job responsibilities and are competitive having regard to comparable international companies. The base salaries are reviewed annually by the Compensation Committee having regard to personal performance, Group performance, step changes in responsibilities, prevailing market conditions and competitive market practice. Employment benefits relate principally to the use of company cars and life insurance.

The executive Directors are encouraged to accept a small number of external appointments as non-executive Directors or on industry associations. They are permitted to retain any payments received in respect of such appointments.

Annual Bonus

Executive Directors participate in an annual bonus scheme which is based on the achievement of clearly defined annual financial targets for some of the Group's Key Financial Performance Indicators ('KPI'), together with targets for Health and Safety. A further consideration is the comparison of the Group's financial performance compared to that of its peer group.

The annual bonus calculated over the key target areas was as follows:

	Potential %	Outcome 2012 %	Outcome 2011 %
EBITDA	40.0	24.4	11.2
FCF	20.0	11.4	20.0
ROCE	10.0	5.8	3.8
Peer Comparison	20.0	13.3	20.0
Health and Safety	10.0	10.0	10.0
	100.0	64.9	65.0

Targets and the weighting of targets are reviewed each year by the Compensation Committee in the context of the prior year performance, the position in the cycle, the annual budget and the strategic goals of the Group. EBITDA[1], Free Cash Flow ('FCF') and Return on Capital Employed ('ROCE') (see Finance Review pages 23 to 25) were the KPI's selected by the Committee and particularly reflected the Group's strategic focus on continued de-leveraging. The peer comparison ensures that results, especially in a cyclical industry, while market driven, are as a result of the ongoing relative performance of the Group's operations and management teams rather than some windfall benefits. The peer group used for the annual bonus comprises the companies used for the Long-term Incentive Plan as set out below. The Health and Safety targets ensure a continuing awareness that while driving the business, we continue to promote safe and healthy working conditions and conduct within the working environment throughout the organisation.

For members of the Deferred Annual Bonus Plan (see below) the maximum bonus is 1.5 times the bonus percentages in the schedule above, with half of the bonus paid in cash and the balance deferred into Company shares which vest after three years subject to the continuity of employment of the executive or in certain circumstances based on normal good leaver provisions.

Long-term Incentive Plans

In May 2011, the SKG AGM approved the adoption of the 2011 Deferred Annual Bonus Plan ('DABP') which replaced the 2007 Share Incentive Plan.

Deferred Annual Bonus Plan

The size of award to each participant under the DABP is subject to the level of annual bonus outcome in any year. The maximum annual bonus potential for participants in the DABP is 150% of salary. The actual bonus in any financial year is based on the achievement of clearly defined annual financial targets for some of the Group's KPI's as set out above. The structure of the plan is that 50% of any annual bonus earned for a financial year will be deferred into SKG plc shares ('Deferred Shares') to be granted in the form of a Deferred Share Award. The Deferred Shares will vest (i.e. become unconditional) after a three-year holding period based on continuity of employment or in certain circumstances based on normal good leaver provisions.

At the same time as the grant of a Deferred Share Award, a Matching Share Award can be granted up to the level of the Deferred Share Award. Following a three-year performance period, the Matching Shares may vest up to a maximum of three times the level of the Matching Share Award. Matching Share Awards will vest provided the Compensation Committee consider that the Company's ROCE and Total Shareholder Return ('TSR') are

1 *Earnings before exceptional items, share-based payment expense, net finance costs, income tax expense, depreciation and intangible asset amortisation.*

Remuneration Report (continued)

competitive against the constituents of a comparator group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Share Awards will be dependent on the achievement of the Company's cumulative FCF[2] and ROCE targets measured over the same three-year performance period on an inter-conditional basis.

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

The Compensation Committee shall be entitled to claw back some or all of the Shares the subject of a participant's Deferred Share Award or Matching Share Award at any time if, in the opinion of the Committee (acting fairly and reasonably) either the underlying performance of the Company or the occurrence of an event that causes or is likely to cause reputational damage to the Company, or serious misconduct by the participant warrants this.

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

In March 2012, Deferred Share Awards totalling 1,790,450 SKG shares were granted to eligible employees in respect of the year ended 31 December 2011. Matching Share Awards totalling 1,127,724 SKG shares were also granted which give a potential maximum of 3,383,172 SKG shares that may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2014.

Deferred Share Awards and Matching Share Awards will be granted in 2013 to eligible employees in respect of the year ended 31 December 2012. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2015.

Details of the executive Directors' awards are set out on pages 53.

2007 Share Incentive Plan

This scheme expired for the purpose of issuing invitations to subscribe for convertible shares, however a number of earlier convertible shares remain extant.

Invitations to subscribe under the 2007 Share Incentive Plan were in the form of new class B convertible shares and new class C convertible shares for which executives were invited to subscribe at a nominal value of €0.001 per share.

The maximum aggregate market value of the new class B and new class C convertible shares that could be issued in any year to an executive under the plan was 150 per cent of basic salary divided equally into new class B and new class C convertible shares. On satisfaction of specified performance conditions, the new class B convertible shares and the new class C convertible shares will automatically convert on a one-for-one basis into D convertible shares. The D convertible shares may be converted by the holder on a one-for-one basis into ordinary shares, upon payment of a conversion price. The conversion price for each D convertible share was the average of the market value of an ordinary share for the three consecutive dealing days immediately prior to the date the executive was invited to subscribe for the new class B or new class C convertible shares, less the nominal subscription price paid per share. The performance period for the new class B and new class C convertible shares is three financial years.

The performance conditions for the new class B and new class C convertible shares awarded under the 2007 Share Incentive Plan during and from 2009 are subject to a performance condition based on the Company's total shareholder return over the three-year period relative to the total shareholder return of a peer group of companies ('TSR condition'). Under that condition, 30% of the new class B and new class C convertible shares will convert into D convertible shares if the Company's total shareholder return is at the median performance level and 100% will convert if the Company's total shareholder return is at or greater than the upper quartile of the peer group. A sliding scale will apply for performance between the median and upper quartiles. However, notwithstanding that the TSR condition applicable to any such award may have been satisfied, the Compensation Committee retains an overriding discretion to disallow the vesting of the award, in full or in part, if, in its opinion the Company's underlying financial performance or total shareholder return (or both) has been unsatisfactory during the performance period. The peer group of companies are as follows:

Peer group of companies

	Company	Region
1	Billerud	Europe
2	Mondi	Europe
3	M-real	Europe
4	Norske Skog	Europe
5	Stora Enso	Europe
6	UPM-Kymmene	Europe
7	DS Smith plc	Europe
8	Cascades/Norampac	North America
9	International Paper	North America
10	Packaging Corporation of America	North America
11	Bio-PAPPEL	Latin America
12	Klabin	Latin America

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

The awards made in 2007 and 2008 lapsed in March 2010 and March 2011 respectively having failed to meet the required performance conditions and ceased to be capable of conversion to D convertible shares. The awards made in 2009 vested 100% in February 2012 with the TSR condition being in the upper quartile of the peer group. The awards made in 2010 vested 30% in February 2013 with the TSR condition being at the median. The Compensation Committee were of the opinion that the Company's underlying financial performance and total shareholder return had been satisfactory during the performance period and therefore confirmed the vesting.

Details of restrictions on transfer of shares are set out in Note 21 on page 88. Details of the executive Directors' holdings of convertible shares are set out on page 52.

2 *In calculating FCF, capital expenditure will be set at a minimum of 90% of depreciation for the three-year performance cycle.*

2002 Management Equity Plan

This scheme expired in 2007 for the purpose of issuing invitations to subscribe for convertible shares, however a number of earlier convertible shares remain extant. In March 2007 upon the IPO becoming effective, all of the then class A, E, F and H convertible shares and 80% of the class B convertible shares vested and were converted into D convertible shares. The class C, class G and 20% of the class B convertible shares did not vest and were re-designated as A1, A2 and A3 convertible shares.

The A1, A2 and A3 convertible shares vested in March 2008, March 2009 and March 2010 respectively.

The D convertible shares which result from the conversion of A, B, C, E, F, G, A1, A2 and A3 convertible shares are themselves convertible on a one-for-one basis into ordinary shares upon the payment by the holder of a conversion price of €4.28 per share. The D convertible shares which result from the conversion of H convertible shares are convertible on a one-for-one basis into ordinary shares upon the payment by the holder of a conversion price of €5.6924 per share.

The ordinary shares resulting from the conversion of D convertible shares which resulted from the conversion of E, F, and H convertible shares were only transferable/saleable in equal tranches on 31 December 2008, 31 December 2009 and 31 December 2010.

Details of restrictions on transfer of shares are set out in Note 21 on page 88. Details of the executive Directors' holdings of convertible shares are set out on pages 52.

As recommended by the Code, non-executive Directors are not eligible to participate in the Long-term Incentive Plans.

Pensions

Mr Smurfit and Mr Curley participate in a Group contributory defined benefit pension plan based on an accrual rate of 1/60th of pensionable salary for each year of pensionable service and is designed to provide two thirds of salary at retirement for full service. Mr McGann is a member of a defined contribution pension plan.

All pension benefits are determined solely in relation to basic salary. Fees paid to non-executive Directors are not pensionable.

The Irish Finance Act 2006 effectively established a cap on pension provision by introducing a penalty tax charge on pension assets in excess of the higher of €5 million or the value of individual prospective pension entitlements as at 7 December 2005. As a result of these legislative changes, the Compensation Committee of SKG decided that Irish based executive Directors should have the option once they reached the cap of continuing to accrue pension benefits as previously, or of choosing an alternative arrangement with a similar overall cost to the Group.

Effective 1 January 2009 Mr Smurfit and Mr Curley who both exceeded the cap, chose the alternative arrangement which involves capping their individual pension in line with the provisions of the Finance Act and receiving a supplementary taxable non-pensionable cash allowance, in lieu of prospective pension foregone. This is calculated based on actuarial advice as the equivalent of the reduction in SKG's liability to the individual and spread over the term to retirement as annual compensation allowances. Effective 1 January 2009, Mr McGann also chose the alternative arrangement and is receiving a proportion of his pension contribution as a supplementary taxable non-pensionable cash allowance.

Directors' Service Contracts

As recommended by the Code, no executive Director has a service contract with a notice period in excess of twelve months.

The information below forms an integral part of the audited Consolidated Financial Statements as described in the Basis of Preparation on page 64.

Directors' Remuneration

	2012 €'000	2011 €'000
Executive Directors		
Basic salary	**2,882**	2,882
Annual cash bonus	**1,322**	1,409
Pension	**1,085**	1,114
Benefits	**96**	117
Executive Directors' remuneration	**5,385**	5,522
Average number of executive Directors	**3**	3
Non-executive Directors		
Fees	**1,147**	1,165
Non-executive Directors' remuneration	**1,147**	1,165
Average number of executive Directors	**11**	11
Directors' Remuneration	**6,532**	6,687

Remuneration Report (continued)

Individual Remuneration for the Year Ended 31 December 2012

	Basic salary and fees	Annual cash bonus	Pension[1]	Benefits	Total 2012	Total 2011
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Executive Directors						
G. McGann	1,262	567	625	34	**2,488**	2,541
A. Smurfit	874	392	255	22	**1,543**	1,582
I. Curley	746	363	205	40	**1,354**	1,399
	2,882	1,322	1,085	96	**5,385**	5,522
Non-executive Directors						
L. O'Mahony	300				**300**	300
F. Beurskens [2]	100				**100**	100
C. Bories [3]	12				**12**	-
T. Brodin	70				**70**	70
I. Finan [3]	64				**64**	-
G. Moore [3]	23				**23**	70
S. Mencoff	70				**70**	70
C. McGowan	70				**70**	70
R. Newell	70				**70**	70
N. Restrepo	125				**125**	125
R. van Rappard [3]	23				**23**	70
P. Stecko	110				**110**	110
R. Thorne	110				**110**	110
	1,147				**1,147**	1,165

During 2012 Mr McGann acted as a non-executive Director of United Drug plc and Aon Ireland Limited and retained gross fees totalling €137,000 in respect of these appointments. Mr Smurfit acted as a non-executive Director of C&C Group plc and received €46,000 in respect of the appointment.

1 *Pension: The Irish Finance Act 2006 effectively established a cap on pension provision by introducing a penalty tax charge on pension assets in excess of the higher of €5 million or the value of individual prospective pension entitlements as at 7 December 2005. As a result of these legislative changes, the Compensation Committee of SKG in 2007 decided that Irish based executive Directors should have the option once they reached the cap of continuing to accrue pension benefits as previously, or of choosing an alternative arrangement with a similar overall cost to the Group.*

Effective 1 January 2009 Mr Smurfit and Mr Curley who both exceeded the cap, chose the alternative arrangement and received a supplementary taxable non-pensionable cash allowance in lieu of contributions to a pension fund in the amount of €211,000 (2011: €216,000) and €167,000 (2011: €193,000) respectively. Effective 1 January 2009 Mr McGann also chose the alternative arrangement and is receiving a proportion of his pension contribution in the amount of €325,000 (2011: €325,000) as a supplementary taxable non-pensionable cash allowance.

2 *Mr Beurskens entered into a letter of appointment in December 2007 under which he receives a fee at the rate of €50,000 per annum for serving as a Director of the Company and an additional fee of €50,000 (2011: €50,000) for services as a Director of a Group subsidiary.*

3 *Mr Finan and Ms Bories joined the Board in February 2012 and November 2012 respectively. Mr Moore and Mr van Rappard retired from the Board in May 2012.*

Share-based Payment

In addition to the above the executive Directors receive Deferred Share Awards and Matching Share Awards details of which are outlined on page 53 of this report. The share-based payment expense recognised in the Consolidated Income Statement for the executive Directors in the year totalled €3,964,000 (2011: €1,865,000).

Pension Entitlements – Defined Benefit

	Increase/(decrease) in accrued pension during year[1]	Transfer value of increase/(decrease) in accrued pension[2]	2012 Total accrued pension[3]
Executive Directors	**€'000**	**€'000**	**€'000**
A. Smurfit	(5)	(36)	270
I. Curley	(3)	(21)	264

1 *Increases are after allowing for inflation over the year if applicable.*

2 *In the case of Mr Smurfit and Mr Curley retirement benefits payable on death in retirement continue to accrue in accordance with scheme rules so transfer values have been included and calculated on the basis of actuarial advice. These transfer values do not represent sums paid or due, but are the amounts that the pension scheme would transfer to another pension scheme in relation to the benefits accrued in 2012 in the event of the member leaving service.*

3 *Accrued pension benefit is that which would be paid annually on normal retirement date. The defined benefit entitlements of both Mr Smurfit and Mr Curley were amended during the year following the reduction in the Standard Fund Threshold on 7 December 2010. This resulted in a fall in the level of accrued benefits for Mr Smurfit within the pension fund. The defined benefit accrued pensions for Mr Smurfit and Mr Curley have been set at their Personal Fund Threshold levels.*

Directors' Interests in Share Capital at 31 December 2012

The interests of the Directors and Secretary in the shares of the Company as at 31 December 2012 which are beneficial unless otherwise indicated are shown below. The Directors and Secretary have no beneficial interests in any of the Group's subsidiary or associated undertakings.

	31 December 2012	31 December 2011
Ordinary Shares		
Directors		
L. O'Mahony	**19,830**	19,830
F. Beurskens	**25,000**	25,000
T. Brodin	**30,000**	30,000
S. Mencoff	**272,871**	-
– Non-Beneficial	**118,068**	-
C. McGowan	**65,167**	-
P. Stecko	**6,000**	6,000
R. Thorne	**10,000**	10,000
G. McGann	**375,792**	325,792
A. Smurfit	**1,030,568**	572,621
I. Curley	**204,267**	193,767
Secretary		
M. O'Riordan	**72,152**	47,151

There were no changes in the above Directors' and Secretary's interests between 31 December 2012 and 8 March 2013.

Mr Beurskens has a beneficial interest in the Company, through his interest in Stichting Senior Management Kappa, a Dutch Foundation which holds 32,348 shares in the Company.

Remuneration Report (continued)

Convertible Shares

		Note	31 December 2011	Exercised	31 December 2012	Conversion price	Expiry date
Directors							
G. McGann	D (converted from E, F)	I	128,298	128,298[3]		4.28	Dec 2012
	D (converted from H)	I	140,332	140,332[3]		5.69	Dec 2012
	D (converted from B[1])	II	48,100		**48,100**	4.36	Sep 2019
	D (converted from C[1])	II	48,100		**48,100**	4.36	Sep 2019
	B[2]	II	47,480		**47,480**	6.50	Mar 2020
	C[2]	II	47,480		**47,480**	6.50	Mar 2020
A. Smurfit	D (converted from E, F)	I	321,558	321,558[4]		4.28	Dec 2012
	D (converted from H)	I	420,996	420,996[3]		5.69	Dec 2012
	D (converted from A1)	I	26,796	26,796[5]		4.28	Mar 2014
	D (converted from A2)	I	26,796	26,796[5]		4.28	Mar 2014
	D (converted from A3)	I	26,797	26,797[5]		4.28	Mar 2014
	D (converted from B[1])	II	33,280		**33,280**	4.36	Sep 2019
	D (converted from C[1])	II	33,280		**33,280**	4.36	Sep 2019
	B[2]	II	32,860		**32,860**	6.50	Mar 2020
	C[2]	II	32,860		**32,860**	6.50	Mar 2020
I. Curley	D (converted from E, F)	I	100,690	100,690[3]		4.28	Dec 2012
	D (converted from H)	I	140,332	140,332[3]		5.69	Dec 2012
	D (converted from B[1])	II	28,440		**28,440**	4.36	Sep 2019
	D (converted from C[1])	II	28,440		**28,440**	4.36	Sep 2019
	B[2]	II	28,080		**28,080**	6.50	Mar 2020
	C[2]	II	28,080		**28,080**	6.50	Mar 2020
Secretary							
M. O'Riordan	D (converted from E, F)	I	68,210	68,210[3]		4.28	Dec 2012
	D (converted from H)	I	105,249	105,249[3]		5.69	Dec 2012
	D (converted from A1)	I	5,684		**5,684**	4.28	Mar 2014
	D (converted from A2)	I	5,684		**5,684**	4.28	Mar 2014
	D (converted from A3)	I	5,684		**5,684**	4.28	Mar 2014
	D (converted from B[1])	II	11,050		**11,050**	4.36	Sep 2019
	D (converted from C[1])	II	11,050		**11,050**	4.36	Sep 2019
	B[2]	II	10,910		**10,910**	6.50	Mar 2020
	C[2]	II	10,910		**10,910**	6.50	Mar 2020

1 *These shares were classified as B and C convertible shares at 31 December 2011 and having vested 100% in February 2012 converted to D Shares.*

2 *These shares vested 30% in February 2013.*

3 *The market price at date of exercise was €8.44.*

4 *The market price at date of exercise was €7.00.*

5 *The market price at date of exercise was €9.10.*

I. *Issued under the 2002 Management Equity Plan. The D convertible shares are convertible on a one-to-one basis into ordinary shares upon the payment by the holder of the conversion price.*

II. *Issued under the 2007 Share Incentive Plan – see note on page 48. The shares will automatically convert into D convertible shares to the extent that the performance conditions are achieved at the end of three years.*

Deferred Annual Bonus Plan Awards

The Conditional Matching Share Awards shown in the table below were granted in 2011. They may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2013.

Conditional Matching Share Awards

	31 December 2011	31 December 2012	Market price on award date	Performance period
Directors				
G. McGann	41,855	41,855	8.27	01/01/2011- 31/12/2013
A. Smurfit	28,963	28,963	8.27	01/01/2011- 31/12/2013
I. Curley	24,749	24,749	8.27	01/01/2011- 31/12/2013
Secretary				
M. O'Riordan	9,614	9,614	8.27	01/01/2011- 31/12/2013

Deferred Share Awards and Matching Share Awards were granted to eligible employees in 2012 in respect of the year ended 31 December 2011. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2014.

Deferred Share Awards and Matching Share Awards

	Granted in 2012		Market price on award date	Performance period
	Deferred	Matching		
Directors				
G. McGann	82,468	82,468	7.49	01/01/2012- 31/12/2014
A. Smurfit	57,068	57,068	7.49	01/01/2012- 31/12/2014
I. Curley	48,764	48,764	7.49	01/01/2012- 31/12/2014
Secretary				
M. O'Riordan	18,944	18,944	7.49	01/01/2012- 31/12/2014

The market price of the Company's shares at 31 December 2012 was €9.00 and the range during 2012 was €4.77 to €9.55.

End of information in the Remuneration Report that forms an integral part of the audited Consolidated Financial Statements.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable laws and regulations.

Irish law requires the Directors to prepare an Annual Report including Financial Statements for each financial year giving a true and fair view of the state of affairs of the Group and the Company and of the Group's profit or loss for the financial year. The Directors have prepared the Group and the Company Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and as regards the Company's Financial Statements, in accordance with the provisions of the Companies Acts 1963 to 2012.

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state that the Financial Statements comply with IFRS as adopted by the European Union; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are also required by Irish law and the Listing Rules issued by the Irish Stock Exchange to prepare a Directors' Report and reports relating to Directors' remuneration and corporate governance. In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the 'Transparency Regulations'), the Directors are required to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors confirm that they have complied with the above requirements in preparing the 2012 Annual Report and the Consolidated Financial Statements.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2012 and, as regards the Group Consolidated Financial Statements, Article 4 of the International Accounting Standards ('IAS') Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Transparency Regulations

Each of the Directors, whose names and functions are listed on page 34 and 35, confirms that, to the best of each person's knowledge and belief:

- the Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the Company and the Group and of the profit of the Group; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

G. McGann
Director and Group Chief Executive Officer

I. Curley
Director and Group Chief Financial Officer

8 March 2013

Independent Auditors' Report

to the Members of Smurfit Kappa Group plc

We have audited the financial statements of Smurfit Kappa Group plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Cash Flows, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2012.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 54, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2012, of the state of the parent Company's affairs as at 31 December 2012 and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2012 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Matters on which we are required to report by the Companies Acts 1963 to 2012

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the parent Company.
- The Company Balance Sheet is in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.
- The net assets of the parent Company, as stated in the Company Balance Sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the parent Company.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Acts 1963 to 2012 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Under the Listing Rules of the Irish Stock Exchange we are required to review:

- the directors' statement, set out on page 44, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review; and
- the six specified elements of disclosures in the report to shareholders by the Board on directors' remuneration.

Andrew Craig
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin, Ireland

8 March 2013

Consolidated Income Statement

For the Year Ended 31 December 2012

		2012			2011		
		Pre-exceptional	Exceptional	Total	Pre-exceptional	Exceptional	Total
	Note	€m	€m	€m	€m	€m	€m
Revenue	4	**7,335**	**-**	**7,335**	7,357	-	7,357
Cost of sales		**(5,238)**	**-**	**(5,238)**	(5,290)	(15)	(5,305)
Gross profit		**2,097**	**-**	**2,097**	2,067	(15)	2,052
Distribution costs	5	**(579)**	**-**	**(579)**	(552)	-	(552)
Administrative expenses	5	**(938)**	**-**	**(938)**	(897)	-	(897)
Other operating income	5	**36**	**28**	**64**	6	-	6
Other operating expenses	5	**-**	**(10)**	**(10)**	-	(19)	(19)
Operating profit		**616**	**18**	**634**	624	(34)	590
Finance costs	8	**(387)**	**(12)**	**(399)**	(405)	-	(405)
Finance income	8	**93**	**-**	**93**	104	6	110
Profit on disposal of associate	6	**-**	**-**	**-**	2	-	2
Share of associates' profit (after tax)	6	**3**	**-**	**3**	2	-	2
Profit before income tax		**325**	**6**	**331**	327	(28)	299
Income tax expense	9			**(71)**			(81)
Profit for the financial year				**260**			218
Attributable to:							
Owners of the parent				**249**			206
Non-controlling interests				**11**			12
Profit for the financial year				**260**			218
Earnings per share							
Basic earnings per share - cent	10			**111.2**			93.0
Diluted earnings per share - cent	10			**108.3**			91.1

G. McGann
I. Curley

Directors

8 March 2013

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2012

	Note	2012 €m	2011 €m
Profit for the financial year		**260**	218
Other comprehensive income:			
Foreign currency translation adjustments:			
- Arising in the year		**56**	(9)
- Recycled to Consolidated Income Statement on disposal of subsidiary		**(17)**	-
Defined benefit pension plans:			
- Actuarial loss		**(108)**	(88)
- Movement in deferred tax	9	**19**	20
Effective portion of changes in fair value of cash flow hedges:			
- Movement out of reserve		**24**	21
- New fair value adjustments into reserve		**(13)**	(10)
- Movement in deferred tax	9	**(2)**	(1)
Net change in fair value of available for sale financial assets		**1**	-
Total other comprehensive expense		**(40)**	(67)
Total comprehensive income for the financial year		**220**	151
Attributable to:			
Owners of the parent		**202**	136
Non-controlling interests		**18**	15
Total comprehensive income for the financial year		**220**	151

G. McGann
I. Curley

Directors

8 March 2013

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

Consolidated Balance Sheet

At 31 December 2012

	Note	2012 €m	2011 €m
ASSETS			
Non-current assets			
Property, plant and equipment	12	**3,076**	2,973
Goodwill and intangible assets	13	**2,336**	2,210
Available-for-sale financial assets	14	**33**	32
Investment in associates	15	**16**	14
Biological assets	16	**127**	114
Trade and other receivables	19	**4**	5
Derivative financial instruments	27	**1**	6
Deferred income tax assets	17	**191**	177
		5,784	5,531
Current assets			
Inventories	18	**745**	690
Biological assets	16	**6**	10
Trade and other receivables	19	**1,422**	1,326
Derivative financial instruments	27	**10**	7
Restricted cash	20	**15**	12
Cash and cash equivalents	20	**447**	845
		2,645	2,890
Total assets		**8,429**	8,421
EQUITY			
Capital and reserves attributable to the owners of the parent			
Equity share capital	21	**-**	-
Share premium		**1,972**	1,945
Other reserves	21	**444**	391
Retained earnings		**(160)**	(341)
Total equity attributable to the owners of the parent		**2,256**	1,995
Non-controlling interests		**212**	191
Total equity		**2,468**	2,186
LIABILITIES			
Non-current liabilities			
Borrowings	22	**3,188**	3,450
Employee benefits	23	**737**	655
Derivative financial instruments	27	**65**	54
Deferred income tax liabilities	17	**211**	210
Non-current income tax liabilities		**15**	10
Provisions for liabilities and charges	25	**59**	55
Capital grants		**12**	13
Other payables	26	**9**	10
		4,296	4,457
Current liabilities			
Borrowings	22	**66**	159
Trade and other payables	26	**1,534**	1,504
Current income tax liabilities		**4**	36
Derivative financial instruments	27	**43**	59
Provisions for liabilities and charges	25	**18**	20
		1,665	1,778
Total liabilities		**5,961**	6,235
Total equity and liabilities		**8,429**	8,421

G. McGann
I. Curley

Directors

8 March 2013

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

Company Balance Sheet

At 31 December 2012

	Note	2012 €m	2011 €m
ASSETS			
Non-current assets			
Financial assets	14	**2,012**	1,980
		2,012	1,980
Current assets			
Amounts receivable from Group companies	19	**27**	31
Cash and cash equivalents	20	**2**	-
		29	31
Total assets		**2,041**	2,011
EQUITY			
Capital and reserves attributable to the owners of the parent			
Equity share capital		**-**	-
Share premium		**1,972**	1,945
Share-based payment reserve		**66**	48
Retained earnings		**2**	(2)
Total equity		**2,040**	1,991
LIABILITIES			
Current liabilities			
Amounts payable to Group companies	26	**1**	20
Total liabilities		**1**	20
Total equity and liabilities		**2,041**	2,011

G. McGann
I. Curley

Directors

8 March 2013

The Notes to the Financial Statements are an integral part of these Financial Statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2012

	Attributable to owners of the parent						
	Equity share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m
At 1 January 2012	-	1,945	391	(341)	1,995	191	2,186
Profit for the financial year	-	-	-	249	249	11	260
Other comprehensive income							
Foreign currency translation adjustments	-	-	30	-	30	9	39
Defined benefit pension plans	-	-	-	(87)	(87)	(2)	(89)
Effective portion of changes in fair value of cash flow hedges	-	-	9	-	9	-	9
Net change in fair value of available-for-sale financial assets	-	-	1	-	1	-	1
Total other comprehensive income for the financial year	-	-	40	162	202	18	220
Shares issued	-	27	-	-	27	-	27
Hyperinflation adjustment	-	-	-	69	69	9	78
Dividends paid	-	-	-	(50)	(50)	(6)	(56)
Share-based payment	-	-	26	-	26	-	26
Shares acquired by SKG Employee Trust	-	-	(13)	-	(13)	-	(13)
At 31 December 2012	**-**	**1,972**	**444**	**(160)**	**2,256**	**212**	**2,468**
At 1 January 2011	-	1,937	378	(552)	1,763	173	1,936
Profit for the financial year	-	-	-	206	206	12	218
Other comprehensive income							
Foreign currency translation adjustments	-	-	(12)	-	(12)	3	(9)
Defined benefit pension plans	-	-	-	(68)	(68)	-	(68)
Effective portion of changes in fair value of cash flow hedges	-	-	10	-	10	-	10
Total other comprehensive income/(expense) for the financial year	-	-	(2)	138	136	15	151
Shares issued	-	8	-	-	8	-	8
Hyperinflation adjustment	-	-	-	73	73	8	81
Dividends paid	-	-	-	-	-	(5)	(5)
Share-based payment	-	-	15	-	15	-	15
At 31 December 2011	-	1,945	391	(341)	1,995	191	2,186

An analysis of the movements in Other reserves above is provided in Note 21.

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

Company Statement of Changes in Equity

For the Year Ended 31 December 2012

	Equity share capital	Share premium	Share-based payment reserve	Retained earnings	Total equity
	€m	€m	€m	€m	€m
At 1 January 2012	-	1,945	48	(2)	1,991
Profit for the financial year	-	-	-	54	54
Dividends paid to shareholders	-	-	-	(50)	(50)
Shares issued	-	27	-	-	27
Share-based payment	-	-	18	-	18
At 31 December 2012	**-**	**1,972**	**66**	**2**	**2,040**
At 1 January 2011	-	1,937	36	(1)	1,972
Loss for the financial year	-	-	-	(1)	(1)
Shares issued	-	8	-	-	8
Share-based payment	-	-	12	-	12
At 31 December 2011	-	1,945	48	(2)	1,991

The Notes to the Financial Statements are an integral part of these Financial Statements.

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2012

	Note	2012 €m	2011 €m
Cash flows from operating activities			
Profit for the financial year		**260**	218
Adjustment for:			
Income tax expense	9	**71**	81
Profit on sale of assets and businesses		**(30)**	(17)
Amortisation of capital grants	5	**(2)**	(3)
Impairment of property, plant and equipment	12	**-**	15
Share-based payment expense	24	**26**	15
Amortisation of intangible assets	13	**21**	30
Share of associates' profit (after tax)	6	**(3)**	(2)
Profit on disposal of associate	6	**-**	(2)
Depreciation charge	12	**332**	346
Net finance costs	8	**306**	295
Change in inventories		**2**	(53)
Change in biological assets		**25**	-
Change in trade and other receivables		**(23)**	(46)
Change in trade and other payables		**2**	136
Change in provisions		**3**	4
Change in employee benefits		**(65)**	(57)
Other		**4**	(1)
Cash generated from operations		**929**	959
Interest paid		**(246)**	(253)
Income taxes paid: Overseas corporation tax (net of tax refunds) paid		**(113)**	(72)
Net cash inflow from operating activities		**570**	634
Cash flows from investing activities			
Interest received		**7**	8
Exceptional finance income received		**-**	6
Business disposals		**(1)**	-
Purchase of property, plant and equipment and biological assets		**(316)**	(277)
Purchase of intangible assets		**(11)**	(5)
Receipt of capital grants		**1**	2
Increase in restricted cash		**(2)**	(5)
Disposal of property, plant and equipment		**20**	18
Disposal of associates		**-**	4
Dividends received from associates	15	**2**	1
Purchase of subsidiaries and non-controlling interests		**(179)**	(11)
Deferred consideration paid		**(1)**	(6)
Net cash outflow from investing activities		**(480)**	(265)
Cash flows from financing activities			
Proceeds from issue of new ordinary shares		**27**	8
Proceeds from bond issuance		**688**	-
Ordinary shares purchased – own shares		**(13)**	-
Increase in interest-bearing borrowings		**-**	57
Repayment of finance lease liabilities		**(8)**	(9)
Repayments of interest-bearing borrowings		**(1,099)**	(87)
Derivative termination payments		**(3)**	-
Deferred debt issue costs		**(30)**	-
Dividends paid to shareholders		**(50)**	-
Dividends paid to non-controlling interests		**(6)**	(5)
Net cash outflow from financing activities		**(494)**	(36)
(Decrease)/increase in cash and cash equivalents		**(404)**	333
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**825**	481
Currency translation adjustment		**2**	11
(Decrease)/increase in cash and cash equivalents		**(404)**	333
Cash and cash equivalents at 31 December	20	**423**	825

Included in repayments of interest-bearing borrowings is acquired debt of €86 million (Note 31). An analysis of cash and cash equivalents and restricted cash is presented in Note 20.

The Notes to the Consolidated Financial Statements are an integral part of these Financial Statements.

Company Statement of Cash Flows

For the Year Ended 31 December 2012

	Note	2012 €m	2011 €m
Cash flows from operating activities			
Profit/(loss) for the financial year		**54**	(1)
Adjustment for:			
Dividends received		**(55)**	-
Cash generated from operations		**(1)**	(1)
Dividends received		**55**	-
Net cash inflow/(outflow) from operating activities		**54**	(1)
Cash flows from investing activities			
Purchase of subsidiaries and non-controlling interests		**(14)**	-
Net cash outflow from investing activities		**(14)**	-
Cash flows from financing activities			
Group loan movements		**(15)**	(7)
Proceeds from share issues		**27**	8
Dividends paid to shareholders		**(50)**	-
Net cash (outflow)/inflow from financing activities		**(38)**	1
Increase in cash and cash equivalents		**2**	-
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**-**	-
Increase in cash and cash equivalents		**2**	-
Cash and cash equivalents at 31 December	20	**2**	-

An analysis of cash and cash equivalents is presented in Note 20 to the Financial Statements.

The Notes to the Financial Statements are an integral part of these Financial Statements.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2012

1. General information

Smurfit Kappa Group plc ('SKG plc' or 'the Company') and its subsidiaries (together 'SKG' or 'the Group') manufacture, distribute and sell containerboard, corrugated containers and other paper-based packaging products such as solidboard and graphicboard. The Company is a public limited company whose shares are publicly traded. It is incorporated and tax resident in Ireland. The address of its registered office is Beech Hill, Clonskeagh, Dublin 4, Ireland.

The Consolidated Financial Statements of the Group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 8 March 2013.

2. Summary of significant accounting policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and adopted by the European Union ('EU'); and, in accordance with Irish law. IFRS adopted by the EU differ in certain respects from IFRS issued by the IASB. References to IFRS hereafter refer to IFRS adopted by the EU.

Basis of preparation

The Consolidated Financial Statements are presented in euro rounded to the nearest million. They have been prepared under the historical cost convention except for the following which are recognised at fair value: derivative financial instruments; available-for-sale financial assets; biological assets; share-based payments and; pension plan assets. Pension obligations are measured at the present value of the future estimated cash flows of benefits earned. The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit currency at the end of the reporting period. This is the case for the Group's subsidiaries in Venezuela.

The preparation of financial statements in accordance with IFRS and Irish law requires the use of accounting judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgement and areas where assumptions and estimates are significant are discussed in the '*Significant accounting judgements, estimates and assumptions*' note.

The Notes to the Consolidated Financial Statements include the information in the Remuneration Report that is described as being an integral part of the Consolidated Financial Statements.

New and amended standards effective during 2012

The accounting policies adopted in these Consolidated Financial Statements are consistent with those of the previous financial year. No new standards, amendments or interpretations which became effective in 2012 have had a material effect on the financial statements.

Standards issued but not yet effective

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 is the standard to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It is being completed in a number of phases. The first phase of the project, IFRS 9 (2009), addressed only financial assets. The second phase, IFRS 9 (2010), added the requirements for financial liabilities. EU endorsement of this standard has been postponed. The new standard is likely to affect the Group's accounting for some financial instruments. Subject to EU endorsement, the Group will apply IFRS 9 from its effective date on 1 January 2015. The Group will quantify the effect of IFRS 9 when the complete standard is issued.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities

IFRS 10, *Consolidated Financial Statements*, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. It replaces IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 11, *Joint Arrangements*, establishes principles for financial reporting by the parties to a joint arrangement. It supersedes IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 12, *Disclosure of Interests in Other Entities*, combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. These new standards will be adopted by the Group for the 2013 financial year. The Group does not expect these standards to have a material effect on the Consolidated Financial Statements.

IFRS 13 Fair Value Measurement

IFRS 13, *Fair Value Measurement* defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. It applies when other IFRS's require or permit fair value measurements. It does not introduce new requirements to measure an asset or a liability at fair value; change what is measured at fair value in IFRS, or; address how to present changes in fair value. IFRS 13 will be adopted by the Group from 1 January 2013. The Group does not expect any material effect on the Consolidated Financial Statements on adoption.

IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures

As a consequence of the issuance of IFRS 10 and IFRS 12, both IAS 27 and IAS 28 have been revised. IAS 27 as amended deals with the requirements for separate financial statements. Entities preparing separate financial statements are required to account for investments in subsidiaries, associates, and jointly controlled entities either at cost, or in accordance with IFRS 9, *Financial Instruments*. IAS 28 describes the application of the equity method to investments in joint ventures and associates. The revised standards will be adopted by the Group from 1 January 2013. The Group does not expect any material change to the Consolidated Financial Statements to arise from their adoption.

2. Summary of significant accounting policies (continued)

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amended IAS 1 requires the grouping of items of other comprehensive income that may be reclassified to profit or loss at a future point in time separately from those items which will never be reclassified. The amendment affects presentation only and will have no impact on the Group's financial position or performance. The amendment becomes effective for the Group from 1 January 2013.

IAS 19 Employee Benefits (Revised)

The IASB has issued a number of amendments to IAS 19 which become effective for the Group from 1 January 2013. The main changes are the removal of the corridor approach and the concept of expected return on plan assets. The Group does not apply the corridor approach so no adjustment is expected in that regard. The interest cost and expected return on plan assets will be replaced with a net interest amount. The difference between the implied return and the actual return on assets will be recognised in other comprehensive income. The Group has assessed that replacing the expected return on plan assets with the discount rate applied in determining the present value of plan liabilities, and other minor changes, would have the effects shown in the table below on the reported results for 2012 included in this Annual Report. The amendments will be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, resulting in the adjustment of prior year financial information. These adjustments will be recognised in the 2013 financial year.

	€m Reported	€m Adjustment	€m Adjusted
Consolidated Income Statement			
Current service cost	29	4	33
Finance costs – Interest cost on plan liabilities	101	-	101
Finance income – Expected return on plan assets	80	(8)	72
Consolidated Balance Sheet			
Pension liabilities as at 1 January 2012	655	2	657

There are a number of other changes to IFRS which have been issued but are not yet effective however, they either do not have an effect on the Consolidated Financial Statements or they are not currently relevant for the Group.

Basis of consolidation

The Consolidated Financial Statements include the annual Financial Statements of the Company and all of its subsidiaries and associates, drawn up to 31 December. The Group does not have investments in joint ventures as defined in IFRS.

Subsidiaries

The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control over the operating and financial decisions is obtained; they cease to be consolidated from the date on which control is lost. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining whether control exists. All significant subsidiaries have coterminous financial year ends. Where necessary, the accounting policies of subsidiaries have been modified to ensure consistency with the policies adopted by the Group. Intragroup transactions, intragroup balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the Consolidated Financial Statements except to the extent that such losses provide evidence of impairment. The Company's investments in subsidiaries are carried at cost less impairment.

Non-controlling interests represent the portion of a subsidiary's equity which is not attributable to the Group. They are presented separately in the Consolidated Financial Statements. Changes in ownership of a subsidiary which do not result in a change of control are treated as equity transactions.

Associates

Associates are entities in which the Group has a participating interest and is in a position to exercise significant influence over their operating and financial policies. Investments in associates are initially recognised at cost and accounted for using the equity method. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. Associates are included in the Consolidated Financial Statements from the date on which significant influence arises until the date on which such influence ceases to exist. When an associate reports losses the Group's carrying value of the associate is not reduced below zero. Further losses are only recognised to the extent that the Group has incurred obligations in respect of the associate.

Under the equity method, the Group's profit or loss includes its share of each associate's profit or loss after tax. The Group's share of other post-acquisition movements in the equity of each associate is recognised in the Consolidated Statement of Comprehensive Income. Investments in associates are carried at cost adjusted for the Group share of post-acquisition changes in the associate's net assets, less any impairment in value. Where indicators of impairment arise, the carrying amount of the associate is tested for impairment by comparing its recoverable amount with its carrying amount. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are similarly eliminated to the extent that they do not provide evidence of impairment. The financial statements of associates are modified to ensure consistency with Group policies.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

2. Summary of significant accounting policies (continued)

Business combinations

The Group uses the acquisition method in accounting for business combinations. Under the acquisition method, the assets and liabilities of an acquired business are initially recognised at their fair value at the date of acquisition. The cost of a business combination is measured as, the aggregate of the fair value at the date of exchange of assets transferred, liabilities incurred or assumed and equity instruments issued in exchange for control. To the extent that settlement of all or any part of a business combination is deferred, the fair value of the deferred component is determined by discounting the amounts payable to their present value at the date of exchange. The discount component is unwound as an interest expense in the Consolidated Income Statement over the life of the obligation.

Where a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the contingent consideration is measured at fair value. Any subsequent remeasurement of the contingent amount is recognised in profit or loss. When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated to the identifiable assets and liabilities are made within twelve months of the acquisition date. On an acquisition by acquisition basis any non-controlling interest in an acquiree is measured at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Acquisition related costs are expensed as incurred.

Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions in foreign currencies are translated into the functional currency of the entity at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities carried at cost are not subsequently retranslated. Non-monetary assets carried at fair value are subsequently remeasured at the exchange rate at the date of valuation.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss with the exception of differences on foreign currency borrowings that qualify as a hedge of the Group's net investment in foreign operations. The portion of exchange gains or losses on foreign currency borrowing used to provide a hedge against a net investment in a foreign operation and that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss.

The assets and liabilities of entities that do not have the euro as their functional currency, including goodwill arising on consolidation, are translated to euro at the foreign exchange rates ruling at the balance sheet date. Their income, expenses and cash flows are translated to euro at average exchange rates during the year. However, if a Group entity's functional currency is the currency of a hyperinflationary economy, that entity's financial statements are first restated in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies* (see 'Reporting in hyperinflationary economies' below). Under IAS 29 income, costs and balance sheet amounts are translated at the exchange rates ruling at the balance sheet date.

Foreign exchange differences arising on translation of net investments including those arising on long-term intragroup loans deemed to be quasi equity in nature are recognised in other comprehensive income. On disposal of a foreign operation, accumulated currency translation differences are reclassified to profit or loss as part of the overall gain or loss on disposal.

Reporting in hyperinflationary economies

When the economy of a country in which we operate is deemed hyperinflationary and the functional currency of a Group entity is the currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non-monetary items in the balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at the period end using a general price index from the date when they were first recognised. Any gain or loss on the net monetary position for the year is included in finance costs or income. The restated income, expenses and balance sheets are translated to euro at the closing rate at the end of the reporting period. Differences arising on translation to euro are recognised in other comprehensive income. As the Group financial statements are prepared in euro the IAS 29 requirement to restate prior period comparatives does not apply.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment charges. Cost includes expenditure that is directly attributable to the acquisition of the assets. Software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Other repair and maintenance expenditure that does not meet the asset recognition criteria is expensed to profit or loss as incurred. Land is not depreciated. Depreciation on other assets is calculated to write off the carrying amount of property, plant and equipment, other than freehold land, on a straight-line basis at the following annual rates:

Freehold and long leasehold buildings:	2 - 5%
Plant and equipment:	3 - 33%

The estimated residual value and the useful lives of assets are reviewed at each balance sheet date.

2. Summary of significant accounting policies (continued)

Goodwill and impairment

Goodwill is the excess of the cost of an acquisition over the Group share of the fair value of the identifiable assets and liabilities acquired. When the fair value of the identifiable assets and liabilities acquired exceeds the cost of a combination the values are reassessed and any remaining gain is recognised immediately in profit or loss. Goodwill is allocated to the groups of cash-generating units ('CGUs') that are expected to benefit from the synergies of the combination. This is the lowest level at which goodwill is monitored for internal management purposes. After initial recognition goodwill is measured at cost less any accumulated impairment losses.

Goodwill is subject to impairment testing on an annual basis, at a consistent time each year and, at any time an impairment indicator is considered to exist. Impairment is determined by comparing the carrying amount to the recoverable amount of the groups of CGUs to which the goodwill relates. The recoverable amount is the greater of; fair value less costs to sell, and value-in-use. When the recoverable amount of the groups of CGUs is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a group of CGUs and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the group of CGUs retained.

In the year in which a business combination occurs, and the goodwill arising affects the goodwill allocation to CGUs, the groups of CGUs are tested for impairment prior to the end of that year. Impairment losses on goodwill are recognised in profit or loss and are not reversed following recognition.

Intangible assets (other than goodwill)

These include software development costs as well as marketing and customer related intangible assets arising from business combinations. They are initially recognised at cost which, for those arising in a business combination, is their fair value at the date of acquisition. Subsequently intangible assets are carried at cost less any accumulated amortisation and impairment. Cost is amortised on a straight-line basis over their estimated useful lives which vary from two to ten years. Carrying values are reviewed for indicators of impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable. Further information is provided in the *Goodwill and intangible assets* note.

Impairment of non-financial assets (other than goodwill)

Long-term tangible and intangible assets that are subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. When assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date.

Research and development

Expenditure on research and development activities is generally recognised in profit or loss as an expense when incurred. Costs incurred on development projects are recognised as intangible assets only if the criteria for capitalisation of internally generated intangible assets in IAS 38, *Intangible Assets*, are met. No expenditure has been capitalised to date on the basis that management do not regard those criteria as having been met.

Biological assets

The Group holds standing timber which is classified as a biological asset and is stated at fair value less estimated costs to sell. Changes in value are recognised in profit or loss. The fair value of standing timber is calculated using weighted average prices for similar transactions with third parties, where available. Where this is not practical, the Group uses the discounted cash flow method, based on a model which takes into account assumptions including the expected yield of the forests, timber selling prices reduced by costs relating to harvest and transportation, plantation and maintenance costs and an appropriate discount rate. At the time of harvest, wood is recognised at fair value less estimated costs to sell and transferred to inventory.

Financial instruments

A financial instrument is recognised when the Group becomes a party to its contractual provisions. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire, are extinguished or transferred to a third party. Financial liabilities are derecognised when the Group's obligations specified in the contracts expire, are discharged or cancelled.

Cash and cash equivalents comprise; cash balances held to meet short-term cash commitments, and; investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Where investments are categorised as cash equivalents, the related balances have a maturity of three months or less from the date of acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Consolidated Cash Flow Statement. Cash and cash equivalents are carried at amortised cost.

Restricted cash comprises cash held by the Group but which is ring fenced or used as security for specific financing arrangements, and to which the Group does not have unfettered access. Restricted cash is measured at amortised cost.

Short-term bank deposits of greater than three months maturity which do not meet the definition of cash and cash equivalents are classified as financial assets within current assets and stated at amortised cost.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

2. Summary of significant accounting policies (continued)

Equity and debt investments are classified as available-for-sale and are stated at fair value. Changes in fair value are recognised directly in other comprehensive income, however impairment losses are recognised in profit or loss. On disposal the cumulative gain or loss recognised in other comprehensive income is reclassified to profit or loss as part of the gain or loss arising. When applicable, interest is recognised in profit or loss using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs and are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

The Group has entered into a series of securitisation transactions involving certain of its trade receivables and the establishment of certain special purpose entities to effect these transactions. These special purpose entities are consolidated as they are considered to be controlled by the Group. The related securitised assets continue to be recognised in the Consolidated Balance Sheet.

Trade and other receivables are recognised initially at fair value and are thereafter measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of trade receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Impairments are recognised in profit or loss once identified.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to manage certain foreign currency, interest rate and commodity price exposures. All derivatives are recognised at fair value. The treatment of changes in fair value depends on whether the derivative is designated as a hedging instrument, the nature of the item being hedged and the effectiveness of the hedge. The Group designates certain derivatives as either:

- hedges of a particular risk associated with a recognised floating rate asset or liability or a highly probable forecast transaction (cash flow hedges) or
- hedges of net investments in foreign operations (net investment hedges).

At inception the Group documents the relationship between the hedging instrument and hedged items, its risk management objectives and the strategy for undertaking the transaction. The Group also documents its assessment of whether the derivative is highly effective in offsetting changes in fair value or cash flows of hedged items, both at inception and in future periods.

The fair values of various derivative instruments used for hedging purposes are disclosed in the *Financial instruments* note. Movements on the cash flow hedging reserve in shareholders' equity are shown in the *Capital and reserves* note. The full fair value of a hedging derivative is classified as a non-current asset or liability when its remaining maturity is more than one year; it is classified as a current asset or liability when its remaining maturity is less than one year. Non-hedging derivative assets and liabilities are classified as current or non-current based on expected realisation or settlement dates.

Cash flow hedges

Changes in the fair value of derivative hedging instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. Amounts accumulated in other comprehensive income are reclassified to profit or loss in the same periods that the hedged items affect profit or loss. The reclassified gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance costs. The gain or loss relating to the ineffective portion is recognised in profit or loss within finance income or expense respectively. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs.

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a similar manner to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within finance income or expense respectively. Gains and losses accumulated in other comprehensive income are reclassified to profit or loss when the foreign operation is sold.

Derivatives not designated as hedges

Changes in the fair value of derivatives which are not designated for hedge accounting are recognised in profit or loss.

Embedded derivatives

Derivatives embedded in host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and, the host contracts are not carried at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

2. Summary of significant accounting policies (continued)

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on its estimated future cash flows, or for equity securities, there is a significant or prolonged decline in value below its carrying amount. Impairment of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses are recognised in profit or loss including any cumulative loss in respect of an available-for-sale financial asset previously recognised in other comprehensive income. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For available-for-sale financial assets that are equity securities the reversal is recognised directly in other comprehensive income. For other financial assets the reversal is recognised in profit or loss.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the first-in, first-out basis and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. For finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. The cost of wood is its fair value less estimated costs to sell at the date of harvest, determined in accordance with the policy for biological assets. Any change in value at the date of harvest is recognised in the Consolidated Income Statement. Net realisable value is the estimated proceeds of sale less costs to completion and any costs to be incurred in selling and distribution. Full provision is made for all damaged, deteriorated, obsolete and unusable materials.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Own shares

Ordinary shares acquired by the Company or purchased on behalf of the Company are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's ordinary shares.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance expense.

Income taxes

The income tax expense recognised in each financial year comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is similarly recognised in other comprehensive income or in equity.

Current tax

Current tax consists mainly of the expected tax payable or recoverable in respect of the taxable income or loss for the year using the applicable tax rates during the year and any adjustment to tax payable in respect of previous years.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. If the temporary difference arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect accounting nor taxable profit or loss, it is not recognised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with any related conditions. Grants that compensate the Group for expenses are offset against the related expense in profit or loss in the same accounting periods. Grants related to the cost of an asset are recognised in profit or loss as other operating income over the useful life of the asset.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

2. Summary of significant accounting policies (continued)

Leases

Arrangements which transfer substantially all of the risks and rewards of ownership of an asset to the Group are classified as finance leases. They are capitalised at inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease obligations, net of finance costs, are included in borrowings. The interest element of lease payments is expensed in profit or loss over the lease period so as to produce a constant periodic rate of interest. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Arrangements in which substantially all of the risks and rewards of ownership of an asset are retained by the lessor are classified as operating leases. Operating lease rentals are expensed in profit or loss on a straight-line basis over the lease term.

Arrangements comprising transactions that do not take the legal form of a lease but convey the right to use an asset in return for payment, or a series of payments, are assessed to determine whether the arrangement contains a lease.

Retirement benefits

The Group operates both defined benefit and defined contribution pension plans and other long-term benefit plans throughout its operations in accordance with local conditions and practice. The larger plans are generally of the defined benefit type and are funded by payments to separately administered funds or insurance companies. The majority of the defined benefit schemes are funded but in certain countries, in accordance with local practices, scheme liabilities are unfunded and recognised as liabilities in the Consolidated Balance Sheet.

For defined contribution plans, once the contributions have been paid, the Group has no further payment obligations. The contributions are recognised as an employee benefit expense as service from employees is received. Prepaid contributions are recognised as an asset only to the extent that a cash refund or a reduction in future payments is available.

The defined benefit pension asset or liability in the Consolidated Balance Sheet comprises the total for each plan of the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets from which the obligations are to be settled.

The liabilities and costs associated with the Group's defined benefit pension plans (both funded and unfunded) are assessed on the basis of the projected unit credit method by professionally qualified actuaries and are arrived at using actuarial assumptions based on market expectations at the balance sheet date. The discount rates employed in determining the present value of plan liabilities are determined by reference to market yields at the balance sheet date on high-quality corporate bonds of a currency and term consistent with those of the benefit obligations. The expected increase in the present value of plan liabilities arising from employee service in the current or prior periods is recognised in arriving at operating profit or loss. Plan assets are valued at their market value at the balance sheet date using bid values. The expected returns on plan assets and the increase during the period in the present value of plan liabilities arising from the passage of time are recognised as components of finance income and finance costs respectively. Differences between the expected and the actual return on plan assets, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in other comprehensive income. Past service costs are recognised immediately as an expense in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case the past service costs are amortised on a straight-line basis over the vesting period.

Settlements and curtailments trigger immediate recognition of the consequent change in obligations and related assets or liabilities in profit or loss.

The net surplus or deficit arising on the Group's defined benefit pension plans, including the liabilities for the unfunded plans, is shown either within non-current assets or non-current liabilities. When recognising a surplus the Group considers the guidance in IFRIC 14 to determine the limit on the amount of any surplus which can be recognised as an asset. The deferred tax impact of pension plan surpluses and deficits is disclosed separately within deferred income tax assets or liabilities, as appropriate.

Share-based payments

The Group grants equity settled share-based payments to certain employees as part of their remuneration, there are no cash-settled share-based payments. The fair value of grants is determined at the date of grant and is expensed to profit or loss over the vesting period with a corresponding increase in equity. Fair value incorporates the effect of market-based conditions. Non-market-based vesting conditions are only taken into account when assessing the number of awards expected to vest such that the cumulative expense recognised equates to the number of grants that actually vest. The periodic expense recognised in profit or loss is calculated as the difference between the cumulative expense as estimated at the start and end of the period.

The cumulative expense is reversed when an employee in receipt of share options terminates service prior to completion of the vesting period or when a non-market based performance condition is not expected to be met. No reversal of the cumulative charge is made where awards do not vest due to a market-based vesting condition.

Where the Group receives a tax deduction for share-based payments, deferred tax is provided on the basis of the difference between the market price of the underlying equity at the date of the financial statements and the exercise price of the option. As a result, the deferred tax impact will not directly correlate with the expense reported.

Proceeds received from the exercise of options, net of any directly attributable transaction costs, are credited to the share capital and share premium accounts.

2. Summary of significant accounting policies (continued)

Emissions rights and obligations

As a result of the European Union Emission Trading Scheme the Group receives free emission rights in certain countries. Rights are received annually and the Group is required to surrender rights equal to its actual emissions. A provision is only recognised when actual emissions exceed the emission rights granted. Any additional rights purchased are recognised at cost and they are not subsequently remeasured. Where excess certificates are sold to third parties the Group recognises the consideration receivable in profit or loss.

Revenue

Revenue comprises the fair value of the consideration receivable for goods sold and services supplied to third party customers in the ordinary course of business. It excludes sales based taxes and is net of allowances for discounts and rebates. Revenue is recognised when delivery to the customer has taken place according to the terms of the sale, at which point the significant risks and rewards of ownership of the goods have passed to the customer. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group.

Finance costs and income

Finance costs comprise interest expense on borrowings (including amortisation of deferred debt issue costs), certain foreign currency translation losses related to financing, unwinding of the discount on provisions, impairment losses recognised on certain financial assets, borrowing extinguishment costs and losses on derivative instruments that are not designated as hedging instruments and are recognised in profit or loss. Finance costs are recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense.

Finance income comprise interest income on funds invested, certain foreign currency translation gains related to financing, gains on derivative instruments that are not designated as hedging instruments and are recognised in profit or loss, dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Earnings per share

Earnings per share represents the profit or loss in cent attributable to the owners of the parent. It is calculated by dividing the Group profit or loss attributable to the owners of the parent by the weighted average number of equity shares in issue during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares.

Exceptional items

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. The Group believes this format is useful as it highlights one-off items, where significant, such as reorganisation and restructuring costs, profit or loss on disposal of operations, foreign exchange losses on currency devaluations, profit or loss on early extinguishment of debt, profit or loss on disposal of assets and impairment of assets. Judgement is used by the Group in assessing the particular items, which by virtue of their size and nature, are disclosed as exceptional items.

Dividend distributions

Dividend distributions to the Company's shareholders are recognised as liabilities in the period in which the dividends are approved by the Company's shareholders.

3. Significant accounting judgements, estimates and assumptions

Preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. These judgements, estimates and assumptions are subject to continuing re-evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Actual outcomes may differ significantly from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are set out below.

Consolidation of special purpose entities

The Group is a party to an arrangement involving securitisation of certain of its trade receivables. The arrangement required the establishment of certain special purpose entities ('SPEs') which are not owned by the Group. However, the SPEs are consolidated as management consider them to be controlled by the Group. The securitised receivables and the borrowings of the SPEs are recognised in the Consolidated Balance Sheet.

The Group has established a trust which facilitates the operation of the Deferred Annual Bonus Plan. While the Group does not hold any of the equity of the trust, the Directors believe that the Group controls its activities and therefore the financial statements of the trust are included in the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

3. Significant accounting judgements, estimates and assumptions (continued)

Estimated impairment of goodwill and other non-current assets

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of groups of CGUs have been determined based on value-in-use calculations. The principal assumptions used to determine value-in-use relate to future cash flows and the time value of money. Further information is detailed in the *Goodwill and intangible assets* note. Impairment tests in respect of property, plant and equipment are also performed on a CGU basis. Further information is contained in the *Property, plant and equipment* note.

Income taxes

Provisions for taxes require judgement and estimation in interpreting tax legislation, current case law and the uncertain outcomes of tax audits and appeals. Where the final outcome of these matters differs from the amounts recognised, differences will impact the tax provisions once the outcome is known. In addition, the Group recognises deferred tax assets, mainly relating to unused tax losses, when it is probable that the assets will be recovered through future profitability and tax planning. The assessment of recoverability involves judgement.

Measurement of defined benefit obligations

The cost of defined benefit pension plans and the present value of pension obligations are determined using actuarial valuations. These valuations involve making various assumptions that may differ significantly from actual developments in the future. The assumptions include determination of appropriate discount rates, future salary increases, inflation, mortality rates and future pension increases. Due to the complex nature of the valuations the Group employs an international network of professional actuaries to perform these valuations. The critical assumptions and estimates applied along with a sensitivity analysis are provided in the *Employee benefits* note.

Provisions

The amount recognised for a provision is management's best estimate of the expenditure to be incurred. Provisions are remeasured at each balance sheet date based on the best estimate of the expected settlement amount. Changes to the best estimate of the settlement amount may result from changes in the amount or timing of the outflows or changes in discount rates (when applicable).

Establishing lives for depreciation of property, plant and equipment

The annual depreciation charge depends primarily on the estimated lives of each type of asset. Asset lives are reviewed annually and adjusted if necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets. Changes in asset lives could have a significant impact on depreciation charges.

Establishing lives for amortisation of intangible assets

The amortisation charge is dependent on the estimated lives of each intangible asset. These lives are regularly reviewed and changed if necessary to reflect the expected period of consumption of future economic benefits. Changes in asset lives could have a significant impact on amortisation charges. Further details are included in the *Goodwill and intangible assets* note.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date. The Group uses discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets. Fair value disclosures are set out in the *Financial instruments* note.

Measurement of share-based payment expense

The Group operates certain share-based incentive plans which, subject to the occurrence of stated future events, grant the right to qualifying employees to acquire shares in the Company. Estimating the number and value of these grants, and the periods over which it will be recognised in the Consolidated Income Statement, requires various management estimates and assumptions. Further details are provided in the *Share-based payment* note.

Venezuela

Exchange control

The government of Venezuela operates exchange controls including a fixed official exchange rate against the US dollar with the purchase and sale of foreign currency regulated by CADIVI (the Venezuelan commission for the administration of foreign currencies). Approved transactions are completed at the official fixed rate of exchange of VEF 4.3 per US dollar. Since June 2010, SITME (the Venezuelan transaction system for foreign currency denominated securities) exchanges up to US$350,000 per month at VEF 5.3 per US dollar. The old parallel market of exchange became illegal at that date. These fixed rates applied at 31 December 2012 and 2011. At each balance sheet date the Group assesses which rate to use for translation of the results and net assets of its Venezuelan operations. The Group has concluded that the official rate is the appropriate rate to use as it believes it has the ability to access funds at that rate. On this basis, in accordance with IFRS, the financial statements of the Group's operations in Venezuela were translated using the official rate of VEF 4.3 per US dollar and the closing euro/US dollar rate of 1 euro = US$ 1.32.

On 8 February 2013, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte and the termination of the SITME transaction system. The official exchange rate was changed from VEF 4.3 per US dollar to VEF 6.3 per US dollar. As a result of the devaluation the Group will record a reduction in net assets of approximately €142 million in relation to these operations and a reduction in the euro value of the Group's cash balances of €28 million in the first quarter of 2013. The impact of the devaluation on the Group's 2013 pre-exceptional EBITDA is not expected to be material.

3. Significant accounting judgements, estimates and assumptions (continued)

Control

The nationalisation of foreign owned companies by the Venezuelan government continues and would suggest that the risk of similar such action against the Group's operations in Venezuela remains. In July 2011, the Venezuelan authorities issued precautionary measures over a further 7,253 hectares of the Group's forestry land, with a view to acquiring it and converting its use to food production and related activities. Market value compensation is either negotiated or arbitrated under applicable laws or treaties in these cases. However, the amount and timing of such compensation is necessarily uncertain.

The Group continues to control operations in Venezuela and, as a result, continues to consolidate all of the results and net assets of these operations at year end in accordance with the requirement of IAS 27.

In 2012, the Group's operations in Venezuela represented approximately 7% (2011: 6%) of its total assets and 18% (2011: 17%) of its net assets. In addition, cumulative foreign translation losses arising on our net investment in these operations amounting to €198 million (2011: €190 million) are included in the foreign exchange translation reserve.

Hyperinflation

Venezuela was deemed hyperinflationary under IFRS in 2009. As a result, the Group has applied the hyperinflationary accounting requirements of IAS 29 to its Venezuelan operations with effect from 1 January 2009. To adjust income and expenses for the effects of hyperinflation, IAS 29 requires restatement (indexation) of income and expenses from the start of the reporting period. It also requires restatement of non-monetary assets, such as property, plant and equipment and inventories, from the date they were first recognised. The gain or loss on the net monetary position is included in finance costs or income. Comparative amounts are not restated. The restated financial statements are translated to euro at the closing rate, average rates are not used. Differences arising on translation to euro are recognised in other comprehensive income.

The index used to reflect current values is derived from a combination of Banco Central de Venezuela's National Consumer Price Index from its initial publication in December 2007 and the Consumer Price Index for the metropolitan area of Caracas for earlier periods. The level of and movement in the price index at December 2012 and 2011 are as follows:

	2012	**2011**	**2010**
Index at year end	**318.9**	265.6	208.2
Movement in year	**20.1%**	27.6%	27.2%

Applying IAS 29 has the following impact: Revenue €27 million increase (2011: €70 million increase); EBITDA[1] €4 million decrease (2011: €11 million increase) and profit after taxation €48 million decrease (2011: €32 million decrease). A net monetary loss of €18 million (2011: €15 million loss) was recorded in the Consolidated Income Statement. The impact on net assets and total equity is an increase of €33 million (2011: €41 million increase).

4. Segmental reporting

The Group has determined reportable operating segments based on the manner in which reports are reviewed by the chief operating decision maker ('CODM'). The CODM is determined to be the executive management team in assessing performance, allocating resources and making strategic decisions. Prior to the acquisition of Orange County Container Group ('OCCG') the two business segments identified were Europe and Latin America. Because of the high level of integration between OCCG and our existing operations in Mexico, OCCG is included with our existing Latin American operations which have been renamed as the Americas.

The Europe segment is highly integrated. It includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. The Americas segment comprises all forestry, paper, corrugated and folding carton activities in a number of Latin American countries and the operations of OCCG. Inter-segment revenue is not material. No operating segments have been aggregated for disclosure purposes.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period. Additionally, there are central costs which represent corporate governance costs, including executive costs, and costs of the Group's legal, company secretarial, pension administration, tax, treasury and controlling functions and other administrative costs.

Segment profit is measured based on EBITDA. Segment assets consist primarily of property, plant and equipment, biological assets, goodwill and intangible assets, inventories, trade and other receivables, deferred income tax assets and cash and cash equivalents. Group centre assets are comprised primarily of available-for-sale financial assets, derivative financial assets, deferred income tax assets, cash and cash equivalents and restricted cash. Segment liabilities are principally comprised of operating liabilities. Group centre liabilities are comprised of items such as borrowings, employee benefits, derivative financial instruments, deferred income tax liabilities and certain provisions.

Capital expenditure comprises additions to property, plant and equipment (Note 12), goodwill and intangible assets (Note 13) and biological assets (Note 16), including additions resulting from acquisitions through business combinations.

Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties. Inter-segment transactions are not material.

[1] *For ease of reference, EBITDA before exceptional items and share-based payment expense is denoted as EBITDA throughout this Annual Report. A reconciliation of EBITDA, as defined, to Profit for the financial year is set out in Note 4.*

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

4. Segmental reporting (continued)

	Europe 2012 €m	The Americas 2012 €m	Total 2012 €m	Europe 2011 €m	The Americas 2011 €m	Total 2011 €m
Revenue and results						
Revenue	**5,928**	**1,407**	**7,335**	6,068	1,289	7,357
EBITDA before exceptional items	**844**	**212**	**1,056**	812	237	1,049
Segment exceptional items	**24**	**(6)**	**18**	(19)	-	(19)
EBITDA after exceptional items	**868**	**206**	**1,074**	793	237	1,030
Unallocated centre costs			**(36)**			(34)
Share-based payment expense			**(26)**			(15)
Depreciation and depletion (net)			**(357)**			(346)
Amortisation			**(21)**			(30)
Impairment of assets			**-**			(15)
Finance costs			**(399)**			(405)
Finance income			**93**			110
Profit on disposal of associate			**-**			2
Share of associates' profit (after tax)			**3**			2
Profit before income tax			**331**			299
Income tax expense			**(71)**			(81)
Profit for the financial year			**260**			218
Assets						
Segment assets	**6,099**	**1,933**	**8,032**	6,142	1,488	7,630
Investments in associates	**2**	**14**	**16**	1	13	14
Group centre assets			**381**			777
Total assets			**8,429**			8,421
Liabilities						
Segment liabilities	**1,472**	**347**	**1,819**	1,562	287	1,849
Group centre liabilities			**4,142**			4,386
Total liabilities			**5,961**			6,235
Other segmental disclosures:						
Capital expenditure, including additions to goodwill, intangible assets and biological assets:						
Segment expenditure	**215**	**285**	**500**	249	70	319
Group centre expenditure			**9**			2
Total expenditure			**509**			321
Depreciation:						
Segment depreciation	**279**	**53**	**332**	301	45	346
Amortisation:						
Segment amortisation	**16**	**1**	**17**	25	1	26
Group centre amortisation			**4**			4
Total amortisation			**21**			30
Other significant non-cash charges:						
Impairment of property, plant and equipment included in cost of sales	**-**	**-**	**-**	15	-	15

4. Segmental reporting (continued)

Information about geographical areas

The following is a geographical analysis presented in accordance with IFRS 8, which requires disclosure of information about country of domicile (Ireland) and countries with material revenue and non-current assets.

	Revenue 2012 €m	Non-current assets 2012 €m	Revenue 2011 €m	Non-current assets 2011 €m
Ireland	**105**	**65**	108	62
France	**961**	**363**	1,009	375
Germany	**1,224**	**458**	1,287	482
Other	**5,045**	**2,383**	4,953	2,237
	7,335	**3,269**	7,357	3,156

Revenue is derived almost entirely from the sale of goods and is disclosed based on the location of production. No one customer represents greater than 10% of Group revenues. Non-current assets include marketing and customer-related intangible assets, software, investment in associates, biological assets and property, plant and equipment and are disclosed based on their location.

While the Group does not allocate goodwill by geographic area, if it were to ascribe goodwill to Ireland we estimate the amount would be less than 2% of the total goodwill of the Group of €2,286 million.

5. Operating costs and income

	2012 €m	2011 €m
Other operating costs:		
Distribution costs	**579**	552
Administrative expenses	**938**	897
Other operating expenses	**10**	19
	1,527	1,468
Other operating income:		
Capital grants amortisation	**2**	3
Gain on acquisition	**-**	3
Gain on disposal of assets and operations	**28**	-
Insurance proceeds	**34**	-
	64	6

The insurance proceeds of €34 million were in respect of the collapse of the black liquor tank in the Group's mill in Facture, France. The costs of the collapse and the related downtime are included in the appropriate cost headings within operating profit.

Other operating income of €6 million in 2011 included a gain of €3 million on the acquisition of a box plant in Russia.

	2012 €m	2011 €m
Exceptional items included in operating profit:		
Impairment loss on property, plant and equipment	**-**	15
Reorganisation and restructuring costs	**3**	19
Gain on disposal of assets and operations	**(27)**	-
Business acquisition costs	**6**	-
	(18)	34

In 2012, we reported an exceptional gain of €27 million in relation to the disposal of assets and operations. This comprised €10 million in respect of the sale of land at SKG's former Valladolid mill in Spain (operation closed in 2008), together with €18 million relating to the disposal of a company in Slovakia. This gain primarily relates to the reclassification (under IFRS) of the cumulative translation differences from the Consolidated Statement of Comprehensive Income to the Consolidated Income Statement. These gains were offset by a €1 million post disposal adjustment in respect of the paper sack plants sold to Mondi in 2010.

The business acquisition costs for 2012 of €6 million relate to SKG's acquisition of OCCG.

Reorganisation and restructuring costs of €3 million in 2012 primarily relate to additional costs in the recycled containerboard mill in Nanterre, France which was closed in 2011.

In June 2011, SKG closed its recycled containerboard mill in Nanterre, France. This resulted in an impairment loss on property, plant and equipment of €15 million for the year and reorganisation and restructuring costs of €20 million. Also included in the reorganisation and restructuring costs was a release of an over-provision of €1 million in respect of the closure of the Sturovo mill, the exceptional costs in relation to which had been booked in 2009.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

5. Operating costs and income (continued)

	2012 €m	2011 €m
Expenses by nature:		
Raw materials and consumables	**2,512**	2,701
Employee benefit expense excluding redundancy	**1,818**	1,699
Energy	**487**	475
Maintenance and repairs	**418**	393
Transportation and storage costs	**578**	554
Depreciation, amortisation and depletion	**378**	376
Impairment loss on property, plant and equipment	**-**	15
Reorganisation and restructuring costs	**16**	31
Operating lease rentals	**79**	79
Foreign exchange gains and losses	**(3)**	3
Research and development costs	**4**	3
Other expenses	**478**	444
	6,765	6,773
Directors' statutory disclosures:		
Directors' remuneration – other services	**5**	6
Directors' remuneration – services as a Director	**1**	1

Auditors' Remuneration

Auditors' remuneration for the year, payable to PwC Ireland and other network firms in respect of the audit, was €8 million (2011: €8 million). Fees for audit related, non-audit related services and tax advisory services provided by the auditors in the year amounted to €1 million, nil and nil respectively (2011: nil, nil and nil respectively). The audit fee for the parent Company was €50,000 (2011: €50,000) which is payable to PwC Ireland, the statutory auditor.

6. Share of associates' profit after tax

	2012 €m	2011 €m
Profit before tax	**3**	3
Income tax expense	**-**	(1)
Profit after tax	**3**	2

In 2011 the Group disposed of its shareholding in AVR Rietveld, a reclamation business in the Netherlands. The disposal generated a profit of €2 million.

7. Employee benefit expense

	2012 Number	2011 Number
Average number of persons employed by the Group by geographical area (full time equivalents):		
Europe	**27,733**	27,818
The Americas	**11,363**	10,250
	39,096	38,068

The employee benefit expense comprises:	Note	2012 €m	2011 €m
Wages and salaries		**1,386**	1,346
Social welfare		**348**	273
Share-based payment expense	24	**26**	15
Expenses related to defined benefit plans and long-term employee benefits	23	**20**	28
Defined contribution benefit		**38**	37
Reorganisation and restructuring costs – redundancy		**12**	11
Charged to operating profit – pre-exceptional		**1,830**	1,710
Charged to operating profit – exceptional		**1**	2
Charged to finance income and costs	23	**21**	24
Actuarial loss on pension schemes recognised in other comprehensive income	23	**109**	87
Total employee benefit cost		**1,961**	1,823

8. Finance income and costs

	Note	2012 €m	2011 €m
Finance cost:			
Interest payable on bank loans and overdrafts		**119**	136
Interest payable on finance leases and hire purchase contracts		**1**	2
Interest payable on other borrowings		**139**	131
Exceptional finance costs associated with debt restructuring		**12**	-
Unwinding discount element of provisions	25	**1**	1
Foreign currency translation loss on debt		**8**	15
Fair value loss on derivatives not designated as hedges		**-**	4
Interest cost on employee benefit plan liabilities	23	**101**	101
Net monetary loss – hyperinflation		**18**	15
Total finance cost		**399**	405
Finance income:			
Other interest receivable		**(7)**	(8)
Exceptional finance income		**-**	(6)
Foreign currency translation gain on debt		**(3)**	(7)
Fair value gain on derivatives not designated as hedges		**(3)**	(12)
Expected return on employee benefit plan assets	23	**(80)**	(77)
Total finance income		**(93)**	(110)
Net finance cost		**306**	295

Exceptional finance costs of €12 million in 2012 relates mainly to the accelerated amortisation of debt issue costs resulting from debt paid down with bond issue proceeds and to the call premium payable on the early repayment of the 2015 bonds.

The exceptional finance income of €6 million in 2011 relates to the partial recovery of an investment held in a Spanish company which went into liquidation in 1993, but was the subject of a legal case.

9. Income tax expense

Income tax expense recognised in the Consolidated Income Statement

	2012 €m	2011 €m
Current tax:		
Europe	**51**	44
The Americas	**34**	65
	85	109
Deferred tax	**(14)**	(28)
Income tax expense	**71**	81
Current tax is analysed as follows:		
Ireland	**5**	8
Foreign	**80**	101
	85	109

The income tax expense of €71 million (2011: €81 million) includes the effects of improving profitability, legislative changes, tax rate reductions and non-cash benefits related to tax losses and credits. The income tax expense in 2012 also includes approximately €1 million associated with OCCG in the Americas.

The current tax expense in the Americas in 2011 includes €23 million arising from the implementation of a new equity tax law in Colombia in January 2011 which, although payable over four years, was required to be expensed fully in 2011. The net movement in deferred tax in 2012 includes a €10 million non-recurring credit for a reduction in the tax rate in Sweden and the recognition of additional deferred tax assets net of impairments on tax losses in Europe. In 2012 the net tax associated with exceptional items is not material whereas in 2011 it included a net tax credit of €13 million.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

9. Income tax expense (continued)

Reconciliation of the effective tax rate

The following table relates the applicable Republic of Ireland statutory tax rate to the effective tax rate (current and deferred) of the Group:

	2012 €m	2011 €m
Profit before income tax	**331**	299
Profit before income tax multiplied by the standard rate of tax of 12.5% (2011: 12.5%)	**41**	37
Effects of:		
Income subject to different rates of tax	**53**	50
Other items (including non-deductible expenditure)	**15**	33
Adjustment to prior period tax	**6**	(1)
Effect of previously unrecognised losses	**(44)**	(38)
	71	81

Income tax recognised within equity

	2012 €m	2011 €m
Recognised in the Consolidated Statement of Comprehensive Income:		
Arising on actuarial losses on defined benefit plans	**(19)**	(20)
Arising on qualifying derivative cash flow hedges	**2**	1
Total recognised in the Consolidated Statement of Comprehensive Income	**(17)**	(19)
Arising on hyperinflation	**7**	7
Total recognised within equity	**(10)**	(12)

Factors that may affect the future tax expense and other disclosure requirements

Unremitted earnings in subsidiaries and associates

The Group has not made a provision for deferred tax in relation to temporary differences applicable to investments in subsidiaries on the basis that the Group can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The aggregate amount of this temporary timing difference is approximately €537 million. The Group is not committed to remit earnings from its subsidiaries but due to the absence of control in the context of associates (significant influence by definition) deferred tax liabilities are recognised where necessary in respect of the Group's investment in these entities.

The total tax expense in future periods will be affected by changes to the corporation tax rates in force and legislative changes that broaden the tax base or introduce other minimum taxes in the countries in which the Group operates. The tax expense may also be impacted by changes in the geographical mix of earnings.

The current tax expense will also be impacted, inter alia, by changes in the excess of tax depreciation (capital allowances) over accounting depreciation, the use of tax credits and the crystallisation of unrecognised deferred tax assets.

There are no income tax consequences for the Company in respect of dividends which were proposed prior to the issuance of the Consolidated Financial Statements for which a liability has not been recognised.

10. Earnings per share

Basic

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

	2012	2011
Profit attributable to owners of the parent (€ million)	**249**	206
Weighted average number of ordinary shares in issue (million)	**224**	222
Basic earnings per share (cent)	**111.2**	93.0

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares which comprise convertible shares issued under the management equity plans and matching shares issued under the Deferred Annual Bonus Plan.

	2012	2011
Profit attributable to owners of the parent (€ million)	**249**	206
Weighted average number of ordinary shares in issue (million)	**224**	222
Potential dilutive ordinary shares assumed (million)	**6**	4
Diluted weighted average ordinary shares (million)	**230**	226
Diluted earnings per share (cent)	**108.3**	91.1

Pre-exceptional

	2012	2011
Profit attributable to owners of the parent (€ million)	**249**	206
Exceptional items included in profit before income tax (€ million)	**(6)**	28
Income tax on exceptional items (€ million)	**-**	(13)
Pre-exceptional profit attributable to owners of the parent (€ million)	**243**	221
Weighted average number of ordinary shares in issue (million)	**224**	222
Pre-exceptional basic earnings per share (cent)	**108.3**	100.1
Diluted weighted average ordinary shares (million)	**230**	226
Pre-exceptional diluted earnings per share (cent)	**105.6**	98.1

11. Dividends

During the year, the final dividend for 2011 of 15 cent per share was paid to the holders of ordinary shares. In October, an interim dividend for 2012 of 7.5 cent per share was paid to the holders of ordinary shares.

The Board is recommending a final dividend of approximately 20.5 cent per share (approximately €47 million) for 2012, subject to the approval of shareholders at the AGM. It is proposed to pay the final dividend on 10 May 2013 to all ordinary shareholders on the share register at the close of business on 12 April 2013. The interim and final dividends are paid in October and May in each year in the approximate proportions of one third to two thirds respectively.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

12. Property, plant and equipment

	Land and buildings €m	Plant and equipment €m	Total €m
At 31 December 2010			
Cost or deemed cost	1,542	4,198	5,740
Accumulated depreciation and impairment losses	(414)	(2,318)	(2,732)
Net book amount	1,128	1,880	3,008
Year ended 31 December 2011			
Opening net book amount	1,128	1,880	3,008
Reclassifications	19	(25)	(6)
Additions	4	282	286
Acquisitions	2	7	9
Depreciation charge for the year	(50)	(296)	(346)
Impairments	(5)	(10)	(15)
Retirements and disposals	(2)	(1)	(3)
Hyperinflation adjustment	21	23	44
Foreign currency translation adjustment	(2)	(2)	(4)
At 31 December 2011	1,115	1,858	2,973
At 31 December 2011			
Cost or deemed cost	1,582	4,393	5,975
Accumulated depreciation and impairment losses	(467)	(2,535)	(3,002)
Net book amount	1,115	1,858	2,973
Year ended 31 December 2012			
Opening net book amount	1,115	1,858	2,973
Reclassifications	10	(15)	(5)
Additions	13	247	260
Acquisitions	1	118	119
Depreciation charge for the year	(44)	(288)	(332)
Retirements and disposals	(5)	(2)	(7)
Hyperinflation adjustment	17	19	36
Foreign currency translation adjustment	12	20	32
At 31 December 2012	**1,119**	**1,957**	**3,076**
At 31 December 2012			
Cost or deemed cost	1,626	4,756	6,382
Accumulated depreciation and impairment losses	(507)	(2,799)	(3,306)
Net book amount	**1,119**	**1,957**	**3,076**

Land and buildings

Included in land and buildings is an amount for land of €436 million (2011: €421 million).

Plant and equipment

Included in plant and equipment is an amount for construction in progress of €134 million (2011: €132 million).

Capitalised leased assets

Included in the net book amount of property, plant and equipment is an amount for capitalised leased assets of €16 million (2011: €21 million). The depreciation charge for capitalised leased assets was €5 million (2011: €9 million) and the related finance charges amounted to €1 million (2011: €2 million). The net carrying amount by class of assets at each balance sheet date is as follows:

	Note	2012 €m	2011 €m
Cogeneration facilities	29	**8**	12
Other plant and equipment		**1**	1
Plant and equipment		**9**	13
Buildings		**7**	8
		16	21

12. Property, plant and equipment (continued)

Capital commitments

The following capital commitments in relation to property, plant and equipment were authorised by the Directors, but have not been provided for in the consolidated financial information:

	2012 €m	2011 €m
Contracted for	**134**	93
Not contracted for	**238**	98
	372	191

Impairments

Impairment tests for items of property, plant and equipment are performed on a cash-generating unit basis when impairment triggers arise. In 2012, there were no impairment costs recognised for the Group (2011: €15 million). The recoverable amounts in property, plant and equipment are based on the higher of fair value less costs to sell and value-in-use. Value-in-use calculations are based on cash flow projections and discount rates for items of property, plant and equipment. Impairment charges are recognised within cost of sales in the Consolidated Income Statement.

The impairment charge of €15 million booked in 2011 arose in the Europe segment and related entirely to the closure of the paper mill in Nanterre, France.

13. Goodwill and intangible assets

		Intangible assets			
	Goodwill €m	Marketing related €m	Customer related €m	Software assets €m	Total €m
At 31 December 2010					
Cost or deemed cost	2,309	35	176	124	2,644
Accumulated amortisation and impairment losses	(171)	(19)	(155)	(90)	(435)
Net book amount	2,138	16	21	34	2,209
Year ended 31 December 2011					
Opening net book amount	2,138	16	21	34	2,209
Additions	-	-	-	5	5
Acquisitions	-	-	3	-	3
Amortisation charge	-	(4)	(13)	(13)	(30)
Reclassifications	-	-	-	6	6
Hyperinflation adjustment	20	-	-	-	20
Foreign currency translation adjustment	(3)	-	-	-	(3)
Closing net book amount	2,155	12	11	32	2,210
At 31 December 2011					
Cost or deemed cost	2,326	35	179	135	2,675
Accumulated amortisation and impairment losses	(171)	(23)	(168)	(103)	(465)
Net book amount	2,155	12	11	32	2,210
Year ended 31 December 2012					
Opening net book amount	2,155	12	11	32	2,210
Additions	-	-	3	8	11
Acquisitions	97	-	-	-	97
Amortisation charge	-	(3)	(5)	(13)	(21)
Reclassifications	-	-	1	4	5
Hyperinflation adjustment	20	-	-	-	20
Foreign currency translation adjustment	14	-	-	-	14
Closing net book amount	**2,286**	**9**	**10**	**31**	**2,336**
At 31 December 2012					
Cost or deemed cost	2,457	35	184	146	2,822
Accumulated amortisation and impairment losses	(171)	(26)	(174)	(115)	(486)
Net book amount	**2,286**	**9**	**10**	**31**	**2,336**

13. Goodwill and intangible assets (continued)

The useful lives of intangible assets other than goodwill are finite and range from two to ten years. Amortisation is recognised as an expense within cost of sales and administrative expenses in the Consolidated Income Statement.

Marketing related intangible assets relate to the Kappa Packaging trade name acquired as a result of the merger of Jefferson Smurfit Group and Kappa Packaging on 1 December 2005 and have an estimated useful life of ten years for amortisation purposes. Customer related intangible assets relate to customer relationships which arise from business combinations or as a result of servicing new business. They are amortised over their estimated useful lives of two to eight years. Software assets relate to computer software, other than software for items of machinery that cannot operate without it; such software is regarded as an integral part of the related hardware and is classified as property, plant and equipment. Computer software assets have estimated useful lives of three to five years for amortisation purposes.

In 2012 goodwill of €97 million arose on the acquisition of OCCG, a corrugated and containerboard manufacturer in Mexico and the United States and Baguin, a bag-in-box packaging solutions company in Argentina (Note 31).

Impairment testing of goodwill

Goodwill arising as part of a business combination is allocated to groups of cash-generating units ('CGUs') for the purpose of impairment testing based on the Group's existing business segments or, where appropriate, recognition of a new CGU. Prior to the acquisition of OCCG, the two business segments identified were Europe and Latin America. Due to the high level of integration between OCCG and our existing operations in Mexico, OCCG is included with our existing Latin American operations which have been renamed as the Americas (Note 4). The CGU groups represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, *Operating Segments*. A total of 15 groups (2011: 14) of CGUs have been identified and these are analysed as follows:

	2012	**2011**
	Number	**Number**
Eurozone	**7**	7
Eastern Europe	**1**	1
Scandinavia	**1**	1
UK	**1**	1
Europe	**10**	10
The Americas	**5**	4
	15	14

A summary of the allocation of the carrying value of goodwill by operating segment is as follows:

	2012	**2011**
	€m	**€m**
Europe	**1,888**	1,869
The Americas	**398**	286
	2,286	2,155

No impairment arose in 2012 as the recoverable amount of the groups of CGUs, based on value-in-use and estimated using the methodology outlined below, exceeded the carrying amounts.

Impairment testing methodology and results

The recoverable amount of each CGU is based on a value-in-use calculation. The cash flow forecasts for the purposes of these calculations are based on a nine year plan approved by senior management. Cash flow forecasts use growth factors consistent with historical growth rates as adjusted for the cyclical nature of the business and are validated by reference to external data. The terminal value is estimated based on using an appropriate earnings multiple on the average of cash flows for years one to nine. The Group believes a nine year forecast is more appropriate to use for the impairment test, due to the cyclical nature of the business in which the Group operates and the long-term lives of its assets.

Forecasts are generally derived from a combination of internal and external factors based on historical experience and take into account the cyclicality of cash flows typically associated with these groups of CGUs. The cash flows, including terminal value estimations, are discounted using appropriate pre-tax discount rates consistent with the Group's estimated weighted average cost of capital.

Key assumptions include management's estimates of future profitability, replacement capital expenditure requirements, trade working capital investment needs and discount rates. Key assumptions in determining terminal value include earnings multiples.

13. Goodwill and intangible assets (continued)

Of the goodwill allocated to each of the 15 groups of CGUs, three units individually account for between 10% and 20% of the total carrying amount of €2,286 million and are summarised in the table below. All other units account individually for less than 10% of the total carrying amount and are not regarded as individually significant. The additional disclosures required under IAS 36, *Impairment of Assets* in relation to significant goodwill amounts arising in each of the three groups of CGUs are as follows:

	Europe France		Europe Benelux		Europe Germany, Austria and Switzerland	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Carrying amount of goodwill (€ million)	276	276	378	378	395	394
Basis of recoverable amount	Value-in-use	Value-in-use	Value-in-use	Value-in-use	Value-in-use	Value-in-use
Discount rate applied (pre-tax)	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Earnings multiple used for terminal value	7.1	7.1	7.1	7.1	7.1	7.1
Excess of value-in-use (€ million)	269	273	347	294	493	472

The key assumptions used for these three CGUs are consistent with those addressed above. The values applied to each of the key assumptions are derived from a combination of internal and external factors based on historical experience and take into account the cyclicality of cash flows typically associated with these groups of CGUs.

Management has determined forecast profitability based on past performance and its expectation of the current market conditions taking into account the cyclical nature of the business.

If management's estimates of future profitability were reduced by 5% per annum over the nine year forecast, or; if the estimated discount rates applied to the cash flows were increased by 0.5%, or; if terminal value multiples were reduced by 0.5, there would be no goodwill impairment.

The Group recognises that it is exposed to greater business risks in Venezuela than in some other countries. However, in terms of materiality, the goodwill relating to our operations in Venezuela represents approximately 5% of the Group's total goodwill. The Group takes account of country risks in its impairment calculation.

14. Financial assets

Available-for-sale financial assets – Group

	Listed[1] €m	Unlisted €m	Total €m
At 31 December 2011	1	31	32
Change in fair value	-	1	1
At 31 December 2012	**1**	**32**	**33**

(1) *Listed on a recognised stock exchange*

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other things, the duration and extent to which the fair value of an investment is less than cost, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flows. At 31 December 2012, there are available-for-sale assets amounting to €23 million on which impairments have been recorded in prior years.

Investment in subsidiaries – Company

	2012 €m	2011 €m
At 1 January	**1,980**	1,968
Capital contribution	**32**	12
At 31 December	**2,012**	1,980

15. Investment in associates

	2012 €m	2011 €m
At 1 January	**14**	16
Share of profit for the year	**3**	2
Dividends received from associates	**(2)**	(1)
Disposal	**-**	(2)
Foreign currency translation adjustment	**1**	(1)
At 31 December	**16**	14

16. Biological assets

	2012 €m	2011 €m
At 1 January	**124**	95
Increases due to new plantations	**22**	18
Harvested timber transferred to inventories	**(19)**	(9)
Change in fair value less estimated costs to sell	**1**	18
Foreign currency translation adjustment	**5**	2
At 31 December	**133**	124
Current	**6**	10
Non-current	**127**	114
At 31 December	**133**	124
Approximate harvest by volume (tonnes '000)	**902**	846

The Group's biological assets consist of 104,000 hectares of forest plantations in Colombia and Venezuela which are held for the production of paper and packaging products. These plantations provide the Group's mills in that region with a significant proportion of their total wood fibre needs.

The Group is exposed to a number of risks related to its plantations:

Political risks in Venezuela
The risk of nationalisation of foreign owned companies and assets by the Venezuelan government is disclosed in Note 3.

Regulatory and environmental risks
The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk
The Group is exposed to risks arising from market fluctuations in the price and sales volume of similar wood. Where possible the Group manages this risk by aligning its harvest volume to demand for its manufactured products. Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and other risks
The Group's forests are exposed to the risk of damage from climatic changes, diseases, fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where they relate to income taxes levied by the same tax authority on either a taxable entity or different taxable entities where their intention is to settle the balances on a net basis. This is set out below:

	2012 €m	2011 €m
Deferred tax assets	**419**	424
Deferred tax assets/liabilities available for offset	**(228)**	(247)
	191	177
Deferred tax liabilities	**439**	457
Deferred tax assets/liabilities available for offset	**(228)**	(247)
	211	210

17. Deferred tax assets and liabilities (continued)

Deferred tax assets have been recognised in respect of deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax assets have been recognised in respect of tax losses available for carry forward when the Group considers it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Where the Group considers that the recovery of such losses is not probable no asset is recognised.

The movement in deferred tax during the year:

	Note	2012 €m	2011 €m
At 1 January		**(33)**	(72)
Movement recognised in the Consolidated Income Statement	9	**14**	28
Movement recognised in the Consolidated Statement of Comprehensive Income	9	**17**	19
Acquisitions and disposals		**(10)**	-
Transfer between current and deferred tax		**-**	(1)
Hyperinflation adjustment	9	**(7)**	(7)
Foreign currency translation adjustment		**(1)**	-
At 31 December		**(20)**	(33)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction is as follows:

Deferred Tax Assets	Retirement benefit obligations €m	Tax losses €m	Temporary differences €m	Derivative fair values €m	Other €m	Total €m
At 1 January 2011	69	220	35	6	72	402
Recognised in the Consolidated Income Statement	(9)	22	(1)	-	(1)	11
Recognised in the Consolidated Statement of Comprehensive Income	20	-	-	(1)	-	19
Recognised in equity	-	-	-	-	(7)	(7)
Other movements	-	-	-	-	(1)	(1)
At 31 December 2011	80	242	34	5	63	424
Reclassifications	-	-	71	-	(63)	8
Recognised in the Consolidated Income Statement	(9)	(10)	(16)	-	-	(35)
Recognised in the Consolidated Statement of Comprehensive Income	19	-	-	(2)	-	17
Acquisitions and disposals	-	-	2	-	-	2
Other movements	-	-	-	-	3	3
At 31 December 2012	**90**	**232**	**91**	**3**	**3**	**419**

Deferred Tax Liabilities	Accelerated tax depreciation €m	Intangible assets fair values €m	Biological assets fair values €m	Derivative fair values €m	Temporary differences on provisions €m	Temporary differences on debt costs €m	Other €m	Total €m
At 1 January 2011	381	29	3	1	31	2	27	474
Recognised in the Consolidated Income Statement	(9)	(1)	-	(1)	(4)	(1)	(1)	(17)
At 31 December 2011	372	28	3	-	27	1	26	457
Reclassifications	(5)	(23)	-	-	34	-	2	8
Recognised in the Consolidated Income Statement	(29)	(1)	-	-	(19)	-	-	(49)
Acquisitions and disposals	-	-	-	-	12	-	-	12
Recognised in equity	-	-	-	-	-	-	7	7
Other movements	-	-	-	-	-	-	4	4
At 31 December 2012	**338**	**4**	**3**	**-**	**54**	**1**	**39**	**439**

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

17. Deferred tax assets and liabilities (continued)

Deferred tax assets have not been recognised in respect of the following (tax effects):

	2012 €m	2011 €m
Tax losses	**85**	127
Deferred interest	**39**	17
	124	144
Pension/employee benefits	**13**	9
Derivative financial instruments	**1**	3
	138	156

No deferred tax asset is recognised in respect of the above on the grounds that there is insufficient evidence that the assets will be recoverable. In the event that sufficient profits are generated in the relevant jurisdictions in the future these assets may be recovered.

No deferred tax assets have been recognised in respect of gross tax losses amounting to €318 million (2011: €541 million) that can be carried forward against future taxable income. The expiry dates in respect of these losses are as follows:

Expiry dates	Tax losses 2012 €m
1 January 2013 to 31 December 2013	**2**
1 January 2014 to 31 December 2014	**50**
1 January 2015 to 31 December 2015	**2**
1 January 2016 to 31 December 2016	**4**
Other expiry	**135**
Indefinite	**125**
	318

18. Inventories

	2012 €m	2011 €m
Raw materials	**187**	189
Work in progress	**56**	34
Finished goods	**337**	324
Consumables and spare parts	**165**	143
	745	690

19. Trade and other receivables

	Group 2012 €m	Group 2011 €m	Company 2012 €m	Company 2011 €m
Amounts falling due within one year:				
Trade receivables	**1,246**	1,213	**-**	-
Less: provision for impairment of receivables	**(43)**	(41)	**-**	-
Trade receivables – net	**1,203**	1,172	**-**	-
Amounts receivable from associates	**5**	4	**-**	-
Other receivables	**173**	109	**-**	-
Prepayments and accrued income	**41**	41	**-**	-
Amounts due from Group companies	**-**	-	**27**	31
	1,422	1,326	**27**	31
Amounts falling due after more than one year:				
Other receivables	**4**	5	**-**	-
	1,426	1,331	**27**	31

The carrying amounts of trade and other receivables equate to their fair values due to their short-term maturities.

The Group has securitised €294 million (2011: €321 million) of its trade receivables. The securitised receivables have not been derecognised as the Group remains exposed to certain related credit risk. As a result, both the underlying trade receivables and the associated borrowing are shown in the Consolidated Balance Sheet.

Included in other receivables is an amount of €23 million related to an insurance claim in Facture.

19. Trade and other receivables (continued)

Impairment losses

The movement in the provision for impairment of receivables is as follows:

	2012 €m	2011 €m
At 1 January	**41**	41
Provision for impaired receivables during the year	**9**	7
Receivables written off as uncollectable during the year	**(7)**	(7)
At 31 December	**43**	41

The provision for impaired receivables is included in administrative expenses in the Consolidated Income Statement. Receivables written off as uncollectable are generally eliminated from receivables and the provision for impairment of receivables when there is no expectation of recovering additional cash.

Receivable balances are continuously monitored and reviewed for indicators of impairment at each reporting date. Examples of the factors considered include evidence of financial difficulty of the customer, payment default, major concessions being sought by the customer or breach of contract. Significant balances are reviewed individually while smaller balances are grouped and assessed collectively. The concentration of risk associated with any one customer is low and historically, instances of material single customer related bad debts are rare.

Trade receivables that are less than three months past due are generally not considered impaired unless specific evidence of impairment is identified. At 31 December 2012 trade receivables of €216 million (2011: €207 million) were past due but not impaired. These relate to customers for which there is no recent history of default. The aged analysis of these receivables was as follows:

	2012 €m	2011 €m
Past due 0 – 30 days	**150**	140
Past due 30 – 60 days	**46**	48
Past due 60 – 90 days	**11**	11
Past due 90+ days	**9**	8
	216	207

At 31 December 2012 specifically identified trade receivable balances of €40 million (2011: €37 million) were considered impaired and provided for. The ageing of this provision was as follows:

	2012 €m	2011 €m
Not past due	**1**	1
Past due 0 – 30 days	**-**	-
Past due 30 – 60 days	**-**	-
Past due 60 – 90 days	**2**	2
Past due 90+ days	**37**	34
	40	37

In addition to the specific provision above, a portfolio provision of €3 million is held in the current year which is calculated based on historical data (2011: €4 million).

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

20. Cash and cash equivalents and restricted cash

Cash and cash equivalents

	Group 2012 €m	Group 2011 €m	Company 2012 €m	Company 2011 €m
Cash and current accounts	**114**	140	**-**	-
Short-term deposits	**333**	705	**2**	-
Cash and cash equivalents	**447**	845	**2**	-
Cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows				
Cash and cash equivalents	**447**	845	**2**	-
Bank overdrafts and demand loans used for cash management purposes	**(24)**	(20)	**-**	-
Cash and cash equivalents in the Consolidated Statement of Cash Flows	**423**	825	**2**	-
Restricted cash	**15**	12	**-**	-

At 31 December 2012, cash of €11 million (2011: €11 million) was held in restricted securitisation bank accounts which was not available for transfer to other Group subsidiaries or for use outside the Group. A further €4 million (2011: €1 million) of restricted cash was held in other Group subsidiaries.

21. Capital and reserves

Share capital

The authorised share capital of the Company comprises ordinary shares and various classes of convertible shares.

Restriction on transfer of shares

The Directors, at their absolute discretion and without assigning any reason therefore, may decline to register any transfer of a share which is not fully paid or any transfer to or by a minor or person of unsound mind but this shall not apply to a transfer of such a share resulting from a sale of the share through a stock exchange on which the share is listed.

The Directors may also refuse to register any instrument of transfer (whether or not it is in respect of a fully paid share) unless it is: a) lodged at the Registered Office or at such other place as the Directors may appoint; b) accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; c) in respect of only one class of shares; and d) in favour of not more than four transferees.

All convertible shares (classes B, C and D convertible shares) are subject to restrictions as to their transferability. Generally they are not transferable either at all or without consent of the Directors, save by transmission on the death of a holder.

Ordinary shares

Subject to the Articles of Association of SKG plc, the holders of ordinary shares are entitled to share in any dividends in proportion to the number of shares held by them and are entitled to one vote for every share held by them at a general meeting. On a return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall firstly be distributed amongst the holders of ordinary shares, in proportion to the number of ordinary shares held by them, of the nominal value of their ordinary shares, secondly (to the extent available) distributed amongst the holders of convertible shares, in proportion to the number of convertible shares held by them, of the nominal value of their convertible shares and the balance (if any) shall be distributed amongst the holders of ordinary shares in proportion to the number of ordinary shares held by them.

Convertible shares

The holders of convertible shares have no right to participate in the profits of SKG plc and are not entitled to receive notice of, attend or vote at general meetings or to vote on any members' resolution (save for any resolution with regard to the rights of convertible shares). On return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall, subject first to the rights of the holders of ordinary shares be distributed amongst the holders of convertible shares, in proportion to the number of convertible shares held by them, of the nominal value of their convertible shares.

21. Capital and reserves (continued)

Restriction of rights

If the Directors determine that a Specified Event as defined in the Articles of Association of SKG plc has occurred in relation to any share or shares, the Directors may serve a notice to such effect on the holder or holders thereof. Upon the expiry of fourteen days from the service of any such notice, for so long as such notice shall remain in force no holder or holders of the share or shares specified in such notice shall, in relation to such specified shares, be entitled to attend, speak or vote either personally, by representative or by proxy at any general meeting of the Company or at any separate general meeting of the class of shares concerned or to exercise any other right conferred by membership in relation to any such meeting.

The Directors shall, where the shares specified in such notice represent not less than 0.25 per cent of the class of shares concerned, be entitled: to withhold payment of any dividend or other amount payable (including shares issuable in lieu of dividend) in respect of the shares specified in such notice; and/or to refuse to register any transfer of the shares specified in such notice or any renunciation of any allotment of new shares or debentures made in respect thereof unless such transfer or renunciation is shown to the satisfaction of the Directors to be a bona fide transfer or renunciation to another beneficial owner unconnected with the holder or holders or any person appearing to have an interest in respect of which a notice has been served.

The instruments governing the Group's indebtedness, including the senior credit facility and the indentures governing the senior and senior subordinated notes, contain financial and other covenants that restrict, among other things, the ability of the Group to pay dividends.

Authorised	**2012 €m**	**2011 €m**
Ordinary shares		
9,910,931,085 Ordinary shares of €0.001 each	**10**	10
Convertible shares of €0.001 each		
2,356,472 Class A1	**-**	-
2,356,471 Class A2	**-**	-
2,355,972 Class A3	**-**	-
30,000,000 Class B	**-**	-
30,000,000 Class C	**-**	-
75,000,000 Class D	**-**	-
	10	10

Called up, issued and fully paid share capital of the Company

	Numbers of shares of €0.001 each						**€m**
	Convertible shares				**Ordinary**	**Total**	
	Class B	**Class C**	**Class D**	**Total**	**Shares**	**shares**	
At 1 January 2011	3,763,760	3,763,760	8,100,565	15,628,085	220,064,463	235,692,548	-
Class D shares converted to ordinary shares	-	-	(1,795,924)	(1,795,924)	1,795,924	-	-
Issued on exercise of warrants	-	-	-	-	2,596	2,596	-
At 31 December 2011	3,763,760	3,763,760	6,304,641	13,832,161	221,862,983	235,695,144	-
At 1 January 2012	3,763,760	3,763,760	6,304,641	13,832,161	221,862,983	235,695,144	-
Conversion of Class B and Class C convertible shares	(1,283,670)	(1,283,670)	2,567,340	-	-	-	-
Class D shares converted to ordinary shares	-	-	(5,882,936)	(5,882,936)	5,882,936	-	-
At 31 December 2012	**2,480,090**	**2,480,090**	**2,989,045**	**7,949,225**	**227,745,919**	**235,695,144**	**-**

At 31 December 2012 ordinary shares represented 96.6% and convertible shares represented 3.4% of issued share capital (2011: 94.1% and 5.9% respectively). The called up, issued and fully paid share capital of the Company at 31 December 2012 was €235,000 (2011: €235,000). The instruments governing the Group's indebtedness, including the senior credit facility and the indentures governing the senior secured notes, contain financial and other covenants that restrict, among other things, the ability of the Group to pay dividends.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

21. Capital and reserves (continued)

Other reserves

Other reserves included in the Consolidated Statement of Changes in Equity are comprised of the following:

	Reverse acquisition reserve €m	Cash flow hedging reserve €m	Foreign currency translation reserve €m	Share-based payment reserve €m	Own shares €m	Available -for-sale reserve €m	Total €m
At 1 January 2012	575	(35)	(228)	79	-	-	391
Other comprehensive income							
Foreign currency translation adjustments	-	-	30	-	-	-	30
Effective portion of changes in fair value of cash flow hedges	-	9	-	-	-	-	9
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	1	1
Total other comprehensive income	-	9	30	-	-	1	40
Share-based payment	-	-	-	26	-	-	26
Shares acquired by SKG Employee Trust	-	-	-	-	(13)	-	(13)
At 31 December 2012	**575**	**(26)**	**(198)**	**105**	**(13)**	**1**	**444**
At 1 January 2011	575	(45)	(216)	64	-	-	378
Other comprehensive income							
Foreign currency translation adjustments	-	-	(12)	-	-	-	(12)
Effective portion of changes in fair value of cash flow hedges	-	10	-	-	-	-	10
Total other comprehensive income /(expense)	-	10	(12)	-	-	-	(2)
Share-based payment	-	-	-	15	-	-	15
At 31 December 2011	575	(35)	(228)	79	-	-	391

Share Premium

The share premium of €1,972 million relates to the share premium arising on share issues.

Reverse acquisition reserve

This reserve arose on the creation of a new parent of the Group prior to listing which was accounted for as a reverse acquisition.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (net of tax) related principally to floating rate debt which has been swapped to fixed interest using interest rate swaps.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency translation adjustments arising from the translation of the Group's net investment in foreign operations, as well as from the translation of liabilities that hedge those net assets.

Share-based payment reserve

This reserve represents the amounts credited to equity in relation to the share-based payments expense recognised in the Consolidated Income Statement.

Available-for-sale reserve

This reserve includes the cumulative gains and losses arising on changes in the fair value of available-for-sale financial assets recognised in other comprehensive income. Net gains or losses are reclassified to the Consolidated Income Statement when the related assets are derecognised.

21. Capital and reserves (continued)

Own shares

This represents ordinary shares purchased by the SKG Employee Trust under the terms of the Deferred Annual Bonus Plan.

	2012 €m	2011 €m
At 1 January	**-**	-
Shares acquired by SKG Employee Trust	**13**	-
At 31 December 2012	**13**	-

As at 31 December 2012 the number of own shares held was 1,790,450 (2011: nil); their nominal value was €1,790 (2011: nil). The own shares were purchased in February 2012 and March 2012 at an average price of €7.49 per share. No own shares were purchased during the year ended 31 December 2011. The number of own shares held represents less than 1% of the total called up share capital of the Company.

22. Borrowings

Analysis of total borrowings

	2012 €m	2011 €m
Senior credit facility		
- Revolving credit facility[1]—interest at relevant interbank rate +3.25% on RCF[10][11]	**(7)**	(6)
- Tranche A term loan[2a]—interest at relevant interbank rate +2.5%[10][11]	**-**	94
- Tranche B term loan[2b]—interest at relevant interbank rate +3.625%[10][11]	**550**	822
- Tranche C term loan[2c]—interest at relevant interbank rate +3.875%[10][11]	**556**	819
US Yankee bonds (including accrued interest)[3][11]	**222**	226
Bank loans and overdrafts	**65**	71
2015 receivables securitisation variable funding notes[4][11]	**197**	206
2015 cash pay subordinated notes (including accrued interest)[5][12]	**-**	376
2017 senior secured notes (including accrued interest)[6][11]	**492**	490
2018 senior secured notes (including accrued interest)[7][11]	**423**	-
2019 senior secured notes (including accrued interest)[8][11]	**494**	492
2020 senior secured notes (including accrued interest)[9][11]	**247**	-
Finance leases	**8**	13
Total borrowings	**3,247**	3,603
Balance of revolving credit facility reclassified to debtors	**7**	6
Total borrowings after reclassification	**3,254**	3,609
Analysed as follows:		
Current	**66**	159
Non-current	**3,188**	3,450
	3,254	3,609

(1) *Revolving credit facility ('RCF') of €525 million (available under the senior credit facility) to be repaid in full in 2016. (Revolver loans - nil, drawn under ancillary facilities and facilities supported by letters of credit - €0.1 million)*

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

(2b) *€558 million term loan B due to be repaid in full in 2016 (maturity date extended from 2013 on 1 March 2012)*

(2c) *€565 million term loan C due to be repaid in full in 2017 (maturity date extended from 2014 on 1 March 2012)*

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

(4) *Receivables securitisation variable funding notes due 2015*

(5) *€217.5 million 7.75% senior subordinated notes due 2015 and US$200 million 7.75% senior subordinated notes due 2015. Prepaid in October 2012*

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

(7) *€200 million 5.125% senior secured notes due 2018 and US$300 million 4.875% senior secured notes due 2018*

(8) *€500 million 7.75% senior secured notes due 2019*

(9) *€250 million senior secured floating rate notes due 2020. Interest at EURIBOR + 3.5%*

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

22. Borrowings (continued)

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

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

(11) *Secured loans and long-term obligations*

(12) *Unsecured long-term obligations*

Included within the carrying value of borrowings are deferred debt issue costs of €60 million (2011: €51 million), all of which will be recognised in finance costs in the Consolidated Income Statement using the effective interest method over the remaining life of the borrowings.

Security over the secured loans and long-term obligations comprises fixed and floating charges over the assets of certain subsidiaries and pledges over the Group's shareholding in certain of its subsidiaries. Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €3,812 million (2011: €4,148 million) of which €3,235 million (2011: €3,579 million) was utilised at 31 December 2012. The weighted average period until maturity of undrawn committed facilities is 3.4 years (2011: 1.8 years).

Maturity of undrawn committed facilities

	2012 €m	2011 €m
Within 1 year	-	154
Between 1 and 2 years	1	373
More than 2 years	576	42
	577	569

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

Certain subsidiaries are party to a senior credit facility, the details of which are set out in this note.

The following table sets out the average interest rates at 31 December 2012 and 2011 for each of the drawings under the term loans.

	Currency	2012 Interest rate	2011 Interest rate
Term loan A	EUR	-	3.71%
Term loan B	EUR	3.76%	4.48%
	US$	3.98%	3.52%
Term loan C	EUR	4.03%	4.62%
	US$	4.23%	3.77%

Borrowings under the revolving credit facility are available to fund the Group's working capital requirements, capital expenditure and other general requirements. In March 2012, the two revolving credit facility tranches totalling €525 million, of which €152 million was due to terminate in December 2012 and €373 million in December 2013, were replaced by one €525 million tranche which is due to terminate in June 2016.

The Group's borrowing agreements contain certain covenants that restrict the Group's flexibility in certain areas such as incurrence of additional indebtedness, payment of dividends, incurrence of liens and also contain financial covenants, the primary ones being maximum borrowings to EBITDA and a minimum EBITDA to net interest.

In November 2010, the Group completed a €250 million five year trade receivables securitisation programme. Proceeds were used to refinance the Group's existing €210 million securitisation programme which had a September 2011 maturity. Receivables generated by certain of its operating companies in the UK, Germany and France are sold to special purpose subsidiaries and entities to support the funding provided by Lloyds Banking Group. The sale of the securitised receivables is not intended to, and does not meet the requirements for derecognition under IAS 39, with the result that the sold receivables continue to be shown on the face of the Consolidated Balance Sheet and the notes issued which fund the purchase of these receivables continue to be shown as liabilities. The gross amount of receivables collateralising the receivables securitisation at 31 December 2012 was €294 million (2011: €321 million). As the group retains a subordinated interest in the securitised receivables, the Group remains exposed to the credit risk of the underlying securitised receivables. Further details are set out in Note 27. In accordance with the contractual terms, Lloyds Banking Group only has recourse to the securitised receivables. Given the short-term nature of the securitised receivables and the variable floating notes, the carrying amount of the securitised receivables and the associated liabilities reported on the Consolidated Balance Sheet is estimated to approximate to fair value. At 31 December 2012, cash of €11 million (2011: €11 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

Certain other maturity, interest rate repricing and key terms relating to the Group's borrowings have been set out in Note 27.

23. Employee benefits

The Group operates a number of pension plans and other long-term benefit plans throughout the world, devised in accordance with local conditions and practice. The larger plans are generally of the defined benefit type and are funded by payments to separately administered funds or insurance companies.

The principal plans are in the UK, the Netherlands, Ireland and Germany. The most recent formal valuations of the significant funded defined benefit plans are as follows: the UK on 31 March 2011; the Netherlands on 31 December 2011; Ireland on 1 January 2010.

The majority of the defined benefit schemes are funded but in certain countries – e.g. Germany, Austria and France, in accordance with local practices, the scheme's liabilities are unfunded and recognised in the Consolidated Balance Sheet. In these countries, a full actuarial valuation of the unfunded liabilities is undertaken by independent actuaries on an annual basis. These schemes' liabilities are also included in the figures presented below.

The following is a summary of the Group's employee benefit obligations and their related funding status:

	2012 €m	2011 €m	2010 €m	2009 €m	2008 €m
Present value of funded or partially funded obligations	**(1,832)**	(1,715)	(1,548)	(1,447)	(1,210)
Fair value of plan assets	**1,598**	1,486	1,357	1,208	1,080
Deficit in funded or partially funded plans	**(234)**	(229)	(191)	(239)	(130)
Present value of wholly unfunded obligations	**(503)**	(426)	(404)	(414)	(387)
Net pension liability	**(737)**	(655)	(595)	(653)	(517)

In determining the pension costs presented below, all valuations were performed by independent actuaries using the projected unit credit method.

Financial assumptions

The main actuarial assumptions used to calculate scheme liabilities under IAS19 at 31 December 2012 and 31 December 2011 are as follows:

	Eurozone		Rest of Europe		The Americas	
	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Rate of increase in salaries	2.12 – 5.00	1.70 – 5.00	1.20 – 3.30	1.20 – 4.00	3.00 – 16.25	2.40 – 4.75
Rate of increase to pensions in payment	Nil – 2.00	Nil – 2.00	Nil – 3.00	Nil – 2.91	Nil – 3.26	Nil – 3.53
Discount rate for plan liabilities	3.60	4.70	1.70 – 4.40	2.20 – 4.80	4.00 – 16.25	4.75 – 8.50
Inflation	1.75 – 2.00	1.75 – 2.00	1.00 – 2.80	1.00 – 3.00	2.00 – 16.25	2.00 – 3.53

The expected long-term rates of return on the assets of the significant plans used for the current year calculation are set out in the table below:

	Eurozone %	Rest of Europe %	The Americas %
Equities	6.50 – 7.10	7.50	8.00 – 12.20
Bonds	2.65 – 3.85	2.10 – 4.00	3.00 – 8.40
Property	5.90	7.00	n/a
Other	1.40 – 4.00	0.50 – 4.80	2.30 – 3.50

No expected return on asset assumptions are required at 31 December 2012, due to the revision of IAS19 which is effective from 1 January 2013 as described in Note 2.

Mortality assumptions

In assessing the Group's post retirement liabilities, the mortality assumptions chosen for the principal plans above are based on the country's population mortality, large pension scheme mortality experience and the plan's own mortality experience. In 2011, a mortality investigation was carried out in the UK, and this review concluded assumptions set out below make sufficient allowance for future improvements in mortality rates. These will be reviewed in subsequent actuarial valuations. In the Netherlands, the assumption was updated in 2012 to take account of the latest national longevity statistics which showed improvements. In Ireland, the assumptions used were those in the latest 2010 actuarial valuation and allow for increasing life expectancies. In Germany, the mortality table chosen is the appropriate one laid down by statutory authorities and also allows for future improvements.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

23. Employee benefits (continued)

The current life expectancies underlying the value of the scheme liabilities for the principal plans are as follows:

	Ireland		UK		Netherlands		Germany	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Longevity at age 65 for current pensioners								
Males	**20.6**	20.6	**20.3**	20.2	**20.5**	20.0	**18.6**	18.4
Females	**22.9**	22.9	**22.6**	22.5	**22.9**	22.9	**22.7**	22.5
Longevity at age 65 for current member aged 45								
Males	**22.6**	22.6	**21.2**	21.2	**22.5**	21.8	**21.3**	21.1
Females	**24.9**	24.9	**23.7**	23.7	**23.9**	23.8	**25.2**	25.1

The mortality assumptions for other plans around the world are based on relevant standard mortality tables in each country.

Sensitivity analysis

The following table illustrates the key sensitivities to the amounts included in the Consolidated Financial Statements which would arise from adjusting certain key actuarial assumptions. In each case all of the other assumptions remain unchanged:

	Increase / (decrease) in pension liabilities	
	2012	**2011**
Change in assumption	**€m**	**€m**
Increase discount rate by 0.25%	**(85)**	(78)
Decrease discount rate by 0.25%	**90**	83
Increase inflation rate by 0.25%	**41**	40
Decrease inflation rate by 0.25%	**(40)**	(39)

	Increase / (decrease) in annual expense	
	2012	**2011**
Change in assumption	**€m**	**€m**
Increase expected rate of return on assets by 0.25%	**(4)**	(4)
Decrease expected rate of return on assets by 0.25%	**4**	4

Furthermore, the impact of increasing the expected longevity for pension members by one year would result in an increase in the Consolidated Balance Sheet liability of €56 million as at 31 December 2012.

Analysis of plan assets and liabilities

Plan assets are comprised as follows:

	2012	2012	2011	2011
	€m	**%**	**€m**	**%**
Equities	**828**	**51.8**	727	48.9
Bonds	**714**	**44.7**	688	46.3
Property	**40**	**2.5**	42	2.8
Other	**16**	**1.0**	29	2.0
	1,598	**100.0**	1,486	100.0

At 31 December 2012 pension scheme asset of €1.4 million, included within property, relates to the Gosport plant in the UK.

The actual return on plan assets for the year ended 31 December 2012 was a gain of €107 million (2011: a gain of €117 million).

23. Employee benefits (continued)

The fair value of plan assets and the present value of plan liabilities were as follows:

31 December 2012	Eurozone €m	Rest of Europe €m	The Americas €m	Total €m
Assets:				
Equities	349	448	31	**828**
Bonds	453	224	37	**714**
Property	21	19	-	**40**
Other	7	9	-	**16**
Fair value of plan assets	830	700	68	**1,598**
Present value of plan liabilities	(1,340)	(861)	(134)	**(2,335)**
Net pension liability	(510)	(161)	(66)	**(737)**

31 December 2011	Eurozone €m	Rest of Europe €m	The Americas €m	Total €m
Assets:				
Equities	316	386	25	**727**
Bonds	408	246	34	**688**
Property	22	20	-	**42**
Other	19	10	-	**29**
Fair value of plan assets	765	662	59	**1,486**
Present value of plan liabilities	(1,208)	(831)	(102)	**(2,141)**
Net pension liability	(443)	(169)	(43)	**(655)**

Analysis of the amount charged in the Consolidated Income Statement

The following tables set out the components of the defined benefit cost:

	2012 €m	2011 €m
Current service cost	**29**	27
Past service cost	**1**	2
Recognition of net loss	**2**	-
Gain on curtailment	**(12)** [1]	(1)
Charged to operating profit	**20**	28
Expected return on plan assets	**(80)**	(77)
Interest cost on plan liabilities	**101**	101
	41	52

[1] *The gain on curtailment of €12 million was due to the restructuring of the UK defined benefit pension plan.*

The defined benefit cost for 2012 includes €7 million (2011: €4 million) relating to other long-term employee benefits.

The expense recognised in the Consolidated Income Statement is charged to the following line items:

	2012 €m	2011 €m
Cost of sales	**9**	14
Distribution costs and administrative expenses	**11**	14
Finance costs	**101**	101
Finance income	**(80)**	(77)
	41	52

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

23. Employee benefits (continued)

Movement in present value of defined benefit obligation	2012 €m	2011 €m
At 1 January	**(2,141)**	(1,952)
Current service cost	**(29)**	(27)
Past service cost	**(1)**	(2)
Contributions by plan participants	**(7)**	(7)
Benefits paid by plans	**104**	102
Increase arising on settlements	**-**	(4)
Reduction arising on curtailments	**12**	1
Interest cost on plan liabilities	**(101)**	(101)
Actuarial gains and losses	**(138)**	(127)
Reclassifications from provisions	**(11)**	-
Acquisitions	**(1)**	-
Foreign currency translation adjustments	**(22)**	(24)
At 31 December	**(2,335)**	(2,141)

Movement in fair value of plan assets	2012 €m	2011 €m
At 1 January	**1,487**	1,358
Contributions by employer	**85**	85
Contributions by plan participants	**7**	7
Expected return on plan assets	**80**	77
Benefits paid by plans	**(104)**	(102)
Increase arising on settlements	**-**	4
Actual return less expected return on plan assets	**27**	40
Foreign currency translation adjustments	**16**	18
Value of plan assets as at 31 December before IFRIC14 adjustment	**1,598**	1,487
IFRIC14 adjustment for unrecoverable surplus	**-**	(1)
At 31 December	**1,598**	1,486

Analysis of actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income	2012 €m	2011 €m
Actuarial gain arising on plan assets	**27**	40
Actuarial (loss)/gain arising on experience of plan liabilities	**(15)**	21
Loss arising from changes in assumptions	**(121)**	(148)
Total loss recognised in the Consolidated Statement of Comprehensive Income	**(109)**	(87)
Cumulative statement of comprehensive income amount at 1 January	**(191)**	(101)
Recognised during the year	**(109)**	(87)
Foreign currency translation adjustments	**(1)**	(3)
Cumulative statement of comprehensive income amount at 31 December	**(301)**	(191)

History of experience gains and losses

	2012	2011	2010	2009	2008
Actuarial gain/(loss) on plan assets:					
Amount (€ million)	**27**	40	68	29	(269)
Percentage of plan assets	**1.7%**	2.7%	5.0%	2.4%	24.9%
Experience (loss)/gain on plan liabilities:					
Amount (€ million)	**(15)**	21	9	14	19
Percentage of plan liabilities	**0.6%**	1.0%	0.5%	0.8%	1.2%
Total actuarial (loss)/gain recognised in the Consolidated Statement of Comprehensive Income:					
Amount (€ million)	**(109)**	(87)	32	(159)	(82)
Percentage of plan liabilities	**4.7%**	4.1%	1.6%	8.5%	5.2%

23. Employee benefits (continued)

Most of the schemes are closed schemes and therefore under the projected unit method the current service cost would be expected to increase as the members of the scheme approach retirement and reduce as members retire or leave service. The expected employee and employer contributions for the year ending 31 December 2013 for the funded schemes are €7 million and €55 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2013 are €41 million. The defined contribution pension scheme expense for the year ended 31 December 2012 was €38 million (2011: €37 million).

24. Share-based payment

Share-based payment expense recognised in the Consolidated Income Statement

	2012 €m	2011 €m
Charge arising from the Deferred Annual Bonus Plan	**23**	12
Charge arising from the 2007 Share Incentive Plan	**3**	3
	26	15

The Group grants equity settled share-based payments to employees as part of their remuneration; there are no cash-settled share-based payments.

Deferred Annual Bonus Plan

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

The size of the awards to each eligible employee under the DABP is subject to the level of annual bonus earned by the employee in any year. The maximum annual potential bonus for eligible employees in the DABP is 150% of salary. The actual bonus earned in any financial year is based on the achievement of clearly defined annual financial targets for some of the Group's Key Performance Indicators ('KPI') being EBITDA, Return on Capital Employed ('ROCE') and Free Cash Flow ('FCF'), together with targets for health and safety and a comparison of the Group's financial performance to that of a peer group.

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

At the same time as the grant of a Deferred Share Award, a Matching Share Award can be granted up to the level of the Deferred Share Award. Following a three year performance period, the Matching Shares may vest up to a maximum of three times the level of the Matching Share Award. Matching Share Awards will vest provided that the Compensation Committee considers the Group's ROCE and Total Shareholder Return ('TSR') to be competitive when compared to the constituents of a peer group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Share Awards is dependent on the achievement of the Group's FCF(1) and ROCE targets measured over the same three year performance period on an inter-conditional basis.

The accounting for a deferred bonus payable in shares falls under IFRS 2, *Share-based Payment*. Under IFRS 2 when share awards are subject to vesting conditions the related expense is recognised in profit or loss over the vesting period.

Under the DABP each eligible employee is granted a variable number of awards that has two elements a) an amount that becomes known and fixed after one year but does not vest for another three years due to a service condition (Deferred Share Award) and b) a variable number of equity instruments that vest in four years subject to a performance condition (Matching Share Award).

The total DABP charge for the year comprises three elements; a) a charge in respect of the conditional Matching Share Awards granted in June 2011, b) a charge in respect of the Deferred Share Awards granted in respect of 2011 and to be granted in respect of 2012 and c) a charge in respect of the Matching Share Awards granted in respect of 2011 and to be granted in respect of 2012.

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

A summary of the activity under the DABP, for the period from 1 January 2011 to 31 December 2012 is presented below.

	Number outstanding	
	Deferred Share Award	Matching Share Award
At 1 January 2011	-	-
Granted in the year	-	654,814
Forfeited in the year	-	(21,369)
At 31 December 2011	-	633,445
Granted in the year	1,790,450	1,127,724
Forfeited in the year	-	(4,288)
At 31 December 2012	**1,790,450**	**1,756,881**

(1) *In calculating FCF, capital expenditure will be set at a minimum of 90% of depreciation for the three year performance cycle.*

24. Share-based payment (continued)

The fair value of the awards granted in 2012 was €7.49 (2011: €8.27) which was the market value on the date of the allocation.

Deferred Share Awards and Matching Share Awards were granted in March 2012 to eligible employees in respect of the year ended 31 December 2011. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three year period ending on 31 December 2014. In June 2011 conditional Matching Share Awards were granted to eligible employees that may vest based on the achievement of the relevant performance targets for the three year period ending on 31 December 2013.

Deferred Share Awards and Matching Share Awards will be granted in 2013 to eligible employees in respect of the year ended 31 December 2012. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three year period ending on 31 December 2015.

2007 Share Incentive Plan

This scheme has expired for the purpose of issuing invitations to subscribe for convertible shares. However a number of convertible shares issued under this plan have not yet been converted to ordinary shares. Further details are provided below.

In March 2007, SKG plc adopted the 2007 Share Incentive Plan (the '2007 SIP'). The 2007 SIP was amended in May 2009. Incentive awards under the 2007 SIP were in the form of new class B and new class C convertible shares issued in equal proportions to Participants at a nominal value of €0.001 per share. On satisfaction of specified performance criteria the new class B and new class C convertible shares automatically convert on a one-to-one basis into class D convertible shares. The class D convertible shares may be converted by the holder into ordinary shares upon payment of the agreed conversion price. The conversion price for each D convertible share was set at the average market value of an ordinary share for the three dealing days immediately prior to the date that the Participant was invited to subscribe less the nominal subscription price. Each award has a life of ten years from the date of issuance of the new class B and new class C convertible shares. The performance period for the new class B and new class C convertible shares was three financial years.

The performance conditions for the new class B and new class C convertible shares awarded under the 2007 SIP prior to 2009 were as follows. The new class B convertible shares automatically convert into D convertible shares if the growth in the Group's earnings per share over the performance period is a percentage equal to at least five per cent per annum plus the annual percentage increase in the Consumer Price Index of Ireland, compounded. The new class C convertible shares were subject to that same performance condition. In addition, the new class C convertible shares were subject to a performance condition based on the Group's total shareholder return over the three year period relative to the total shareholder return of a peer group of companies ('TSR condition'). Under that condition, 30% of the new class C convertible shares would convert into D convertible shares if the Group's total shareholder return is at the median performance level and 100% convert if the Group's total shareholder return is at or greater than the upper quartile of the peer group. A sliding scale applies for performance between the median and upper quartiles.

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

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

All new class B and new class C convertible shares automatically convert to class D convertible shares upon the occurrence of a change of control, and thereupon a time limit can be specified by the Board for the conversion by the holders of such class D convertible shares to ordinary shares. Failing conversion within the specified time limit the class D convertible shares cease to be convertible and become redeemable at their subscription prices.

A binomial lattice approach was used to calculate the value of convertible shares awarded prior to 2009, other than new class C, at each grant date. The Monte Carlo simulation approach was used to calculate the value of new class B convertible shares awarded from 2009 and all new class C convertible shares at grant date. The expected volatility rates applied were based upon the weighted average historical volatility of the Group's business sector for a period equivalent to the expected life of the grants. The risk-free interest rates used were based upon euro-denominated government bonds with similar lives. The fair value of the convertible shares at the valuation dates was determined based upon the market price at that date.

The awards made in 2007 and 2008 lapsed in March 2010 and March 2011 respectively having failed to meet the required performance conditions and ceased to be capable of conversion to D convertible shares. The awards made in 2009 vested 100% in February 2012 with the TSR condition being in the upper quartile of the peer group. The awards made in 2010 vested 30% in February 2013 with the TSR condition being at the median. The Compensation Committee were of the opinion that the Group's underlying financial performance and total shareholder return had been satisfactory during the performance period and therefore confirmed the vesting.

2002 Management Equity Plan

This scheme expired in 2007 for the purpose of issuing invitations to subscribe for convertible shares. However, a number of convertible shares issued under this plan have not yet been converted to ordinary shares. The right to convert these shares expires on 20 March 2014. Further details are provided below.

24. Share-based payment (continued)

A summary of the activity under the 2007 SIP, as amended, and the 2002 Plan, as amended, for the period from 1 January 2011 to 31 December 2012 is presented below.

	2012		2011	
	Number of convertible shares	Weighted average exercise price (€ per share)	Number of convertible shares	Weighted average exercise price (€ per share)
Outstanding at beginning of year	**10,653,943**	**4.97**	14,947,107	5.53
Forfeited in the year	**(150,686)**	**6.39**	(231,500)	5.55
Lapsed in the year	**-**	**-**	(2,265,740)	9.08
Exercised in the year	**(5,882,936)**	**4.60**	(1,795,924)	4.36
Outstanding at end of year	**4,620,321**	**5.40**	10,653,943	4.97
Exercisable at end of year	**2,356,163**	**4.34**	5,867,163	4.60

The weighted average market price on the dates the convertible shares were exercised in the year ended 31 December 2012 was €7.86 (2011: €8.81).

	2012	2011
2007 SIP, as amended, convertible shares outstanding at end of year (number)	**4,072,692**	4,786,780
Weighted average exercise price (€ per share)	**5.55**	5.44
Weighted average remaining contractual life (years)	**7.0**	8.0
2002 Plan, as amended, convertible shares outstanding at end of year (number)	**547,629**	5,867,163
Weighted average exercise price (€ per share)	**4.28**	4.60
Weighted average remaining contractual life (years)	**1.2**	1.2

25. Provisions for liabilities and charges

	2012 €m	2011 €m
Current	**18**	20
Non-current	**59**	55
	77	75

	Deferred consideration €m	Restructuring €m	Environmental €m	Legal €m	Other €m	Total €m
At 1 January 2011	10	16	7	3	42	78
Made during year	3	21	1	2	26	53
Released during year	-	(3)	-	(1)	(2)	(6)
Utilised during year	(10)	(18)	-	(1)	(22)	(51)
Reclassifications	-	-	1	-	(1)	-
Unwinding of discount	-	-	-	-	1	1
At 31 December 2011	3	16	9	3	44	75
Made during year	5	9	-	3	40	57
Released during year	-	(1)	(2)	(1)	(3)	(7)
Utilised during year	(1)	(12)	(1)	(1)	(23)	(38)
Reclassifications	-	-	-	-	(11)	(11)
Unwinding of discount	-	-	-	-	1	1
At 31 December 2012	**7**	**12**	**6**	**4**	**48**	**77**

Deferred consideration

Deferred consideration represents the deferred element of acquisition and disposal consideration payable. The balance at 31 December 2012 relates to the acquisition of Baguin, a bag-in-box packaging solutions company in Argentina, and to the acquisition of Oakland Packaging, a solidboard merchant in the United Kingdom, in 2011. The balance at 31 December 2011 related to Oakland Packaging.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

25. Provisions for liabilities and charges (continued)

Restructuring

These provisions relate to irrevocable commitments in respect of restructuring programmes throughout the Group. The provisions made in 2012 relate mainly to the closure of the Nanterre mill in France and to the restructuring of the Piteå mill in Sweden. The provisions made in 2011 relate to the closure of the Nanterre mill in France and the reorganisation of our former specialties operations. The Group expects that the majority of the provision balance remaining at 31 December 2012 will be utilised during 2013.

Environmental

Provisions for environmental costs mainly relate to the reinstatement of landfill sites and other remediation and improvement costs incurred in compliance with either local or national environmental regulations together with constructive obligations stemming from established practice. The timing of settlement of these provisions is not certain particularly where provisions are based on past practice and there is no legal obligation.

Legal

Legal represents provisions for certain legal claims brought against the Group by various parties in the ordinary course of business. Provisions are expensed in the Consolidated Income Statement within administrative expenses. Legal provisions are uncertain as to timing and amount as they are the subject of ongoing cases.

Other

Other comprises a number of provisions including: liabilities arising from onerous contracts, mainly relating to property leases amounting to €14 million; employee compensation in certain countries in which we operate amounting to €6 million and various other items which are not individually material and are not readily grouped together. The property leases generally have lives ranging from five to ten years.

26. Trade and other payables

	Group 2012 €m	Group 2011 €m	Company 2012 €m	Company 2011 €m
Amounts falling due within one year:				
Trade payables	**929**	915	**-**	-
Amounts owed to associates - trading balances	**2**	4	**-**	-
Payroll taxes	**31**	30	**-**	-
Value added tax	**37**	49	**-**	-
Social welfare	**60**	53	**-**	-
Accruals and deferred income	**423**	372	**-**	-
Capital payables	**34**	61	**-**	-
Other payables	**18**	20	**-**	-
Amounts due to Group companies	**-**	-	**1**	20
	1,534	1,504	**1**	20
Amounts falling due after more than one year:				
Other payables	**9**	10	**-**	-
	1,543	1,514	**1**	20

The fair values of trade and other payables are not materially different from their carrying amounts.

27. Financial instruments

Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

31 December 2012	Loans and receivables €m	Assets at fair value through Consolidated Income Statement €m	Derivatives used for hedging €m	Available-for-sale €m	Total €m
Assets per Consolidated Balance Sheet:					
Available-for-sale financial assets	-	-	-	33	**33**
Derivative financial instruments	-	7	4	-	**11**
Trade and other receivables	1,311	-	-	-	**1,311**
Cash and cash equivalents	447	-	-	-	**447**
Restricted cash	15	-	-	-	**15**
	1,773	7	4	33	**1,817**

The financial assets of the Company of €29 million consist of loans and receivables (€27 million) and cash (€2 million).

27. Financial instruments (continued)

31 December 2012	Liabilities at fair value through Consolidated Income Statement €m	Derivatives used for hedging €m	Other financial liabilities €m	Total €m
Liabilities per Consolidated Balance Sheet:				
Borrowings	-	-	3,254	**3,254**
Derivative financial instruments	59	49	-	**108**
Trade and other payables	-	-	1,242	**1,242**
	59	49	4,496	**4,604**

The financial liabilities of the Company of €1 million consist of other financial liabilities.

31 December 2011	Loans and receivables €m	Assets at fair value through Consolidated Income Statement €m	Derivatives used for hedging €m	Available-for-sale €m	Total €m
Assets per Consolidated Balance Sheet:					
Available-for-sale financial assets	-	-	-	32	32
Derivative financial instruments	-	3	10	-	13
Trade and other receivables	1,229	-	-	-	1,229
Cash and cash equivalents	845	-	-	-	845
Restricted cash	12	-	-	-	12
	2,086	3	10	32	2,131

The financial assets of the Company of €31 million consist of loans and receivables.

31 December 2011	Liabilities at fair value through Consolidated Income Statement €m	Derivatives used for hedging €m	Other financial liabilities €m	Total €m
Liabilities per Consolidated Balance Sheet:				
Borrowings	-	-	3,609	3,609
Derivative financial instruments	69	44	-	113
Trade and other payables	-	-	1,230	1,230
	69	44	4,839	4,952

The financial liabilities of the Company of €20 million consist of other financial liabilities.

Exposure to credit, interest rate, liquidity, energy and currency risks arise in the normal course of the Group's business. Derivatives are generally used to economically hedge exposure to fluctuations in these risks.

Key financial risks and financial risk management resulting from the use of financial instruments and related sensitivity analysis

Financial and credit risk management

The operating parameters and policies of the Group's treasury management function are established under formal Board authority. The Treasury Policy covers the areas of funding, counterparty risk, foreign exchange, controls and derivatives. Risk arising on counterparty default is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. The Group uses financial instruments, including fixed and variable rate debt to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including derivative instruments are used to hedge exposure to interest rate, commodity and foreign currency risks. The Group does not use financial instruments for trading purposes. The Group mitigates the risk that counterparties to derivatives will fail to perform by contracting with major financial institutions having high credit ratings and considers the likelihood of counterparty failure to be low. Trade debtors arise from a wide and varied customer base. There is no significant concentration of credit risk amongst any of the Group's most significant financial assets. The Group also holds no collateral in respect of its principal credit exposures.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

27. Financial instruments (continued)

The successful management of the Group's currency and interest rate exposure depends on a variety of factors, some of which are outside its control. 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 foreign currencies. The Group manages interest rate exposure to achieve what management consider to be an appropriate balance of fixed and variable rate funding. To achieve this objective the Group enters into interest rate swaps, options and forward rate agreements. Interest rate swap agreements are primarily used to change the interest payable on its underlying borrowings from variable to fixed rate. The impact of any such swaps on the Group's financial instruments has been set out in the table below.

The Group manages its Balance Sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges currency exposure through the use of currency swaps, options and forward contracts. The impact of these derivatives on the currency profile of the Group's financial instruments has been set out in the tables below.

Further details on certain specific financial risks encountered have been set out below.

Interest rate risk

The Group is exposed to changes in interest rates, primarily changes in Euribor. The senior credit facility is variable rate debt, as is the Group's securitisation facility and the €250 million senior secured floating rate notes due 2020. Interest rate changes therefore generally do not affect the market value of such debt but do impact the amount of the Group's interest payments and, therefore, its future earnings and cash flows, assuming other factors are held constant. Following the January 2013 issuance of €400 million 4.125% senior secured notes due 2020, the Group had fixed an average of 85% (2011: 75%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2012 a one percentage point increase in variable interest rates would have an estimated impact on pre-tax interest expense of approximately €7 million (including the effect of interest rate swaps) over the following 12 months. Interest income on our cash balances would increase by approximately €5 million, assuming a one percent increase in interest rates earned on such balances over the following twelve months.

The Group has entered into one or more interest rate protection agreements (principally interest rate swaps and cross currency interest rate swaps), which establish a fixed interest rate with respect to certain of its borrowings. During 2012 the Group entered into a cross currency interest rate swap to swap fixed rate debt into variable rate debt. A table setting out the fixed and variable rate debt together with the impact of the related interest and cross currency swaps has been set out below.

Currency sensitivity

The Group operates in the following principal currency areas (other than euro): Swedish Krona, Sterling, Latin America (comprising mainly Mexican Peso, Colombian Peso and Venezuelan Bolivar Fuerte), US Dollar and Eastern Europe (comprising mainly the Polish Zloty, the Czech Koruna and the Russian Rouble). At the end of 2012 approximately 95% (2011: 94%) of its non euro denominated net assets consisted of the Swedish Krona 24% (2011: 26%), Sterling 8% (2011: 9%), Latin American currencies 47% (2011: 49%), US Dollar 8% (2011: 0%) and Eastern European currencies 8% (2011: 10%). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2012 rate would reduce shareholders' equity by approximately €30 million (2011: €26 million).

Commodity price risk

Containerboard

The Group is exposed to commodity price risks through its dependence on recovered paper, the principal raw material used in the manufacture of recycled containerboard. The price of recovered paper is dependent on both demand and supply conditions. Demand conditions include the production of recycled containerboard in Europe and the demand for recovered paper for the production of recycled containerboard outside of Europe, principally in Asia. Supply conditions include the rate of recovery of recovered paper, itself dependant on historic pricing related to the cost of recovery, and some slight seasonal variations.

Just over 1.05 metric tonnes of recovered paper are required to manufacture 1.0 metric tonne of recycled containerboard. Consequently, an increase in the price of recovered paper of, for example, €20 per tonne would increase the cost of production of recycled containerboard by approximately €21 per tonne. Historically, increases in the cost of recovered paper, if sustained, have led to a rise in the price of recycled containerboard, with a lag of one to two months.

The price of recovered paper can fluctuate significantly within a given year, affecting the operating results of the Group's paper processing facilities. The Group seeks to manage this risk operationally rather than by entering into financial risk management derivatives. Accordingly, at each of 31 December 2012 and 2011 there were no derivatives held to mitigate such risks.

In addition, developing policy changes in the EU with regard to renewable energy sources have created an additional demand for wood, the principal raw material used in the manufacture of kraftliner. This has the effect of potentially increasing the price of wood and consequently the cost of the Group's raw materials. The Group has entered into a limited level of wood pulp swap contracts to hedge a portion of its wood pulp cost in France and Germany.

Energy

The cost of producing the Group's products is also sensitive to the price of energy. The Group's main energy exposure is to the cost of gas and electricity. These energy costs have experienced significant price volatility in recent years, with a corresponding effect on Group production costs. Natural gas prices, relevant to the Group, started the year at €21.80 per megawatt-hour, peaked at €28.52 per megawatt-hour in early December and ended the year at €26.20 per megawatt-hour. The Group has entered into a limited level of energy derivative contracts to economically hedge a portion of its energy costs in Sweden. The Group has also fixed a certain level of its energy costs through contractual arrangements directly with its energy suppliers. As a result, the Group's energy costs were broadly stable compared to 2011.

27. Financial instruments (continued)

The Group's energy derivatives have been further detailed in the tables below.

Liquidity risk

The Group is exposed to liquidity risk which arises primarily from the maturing of short-term and long-term debt obligations and derivative transactions. The Group's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facilities, to ensure all obligations can be met as they fall due. To achieve this objective, the Group:

- maintains cash balances and liquid investments with highly-rated counterparties
- limits the maturity of cash balances
- borrows the bulk of its debt needs under committed bank lines or other term financing and by policy maintains a minimum level of undrawn committed facilities.

The Group has entered into a series of borrowing arrangements in order to facilitate its liquidity needs in this regard and the key terms of those arrangements are described within Note 22 and within certain tables set out below. At each year end, the Group's rolling liquidity reserve (which comprises cash and undrawn committed facilities and which represents the amount of available cash headroom in the Group's funding structure) was as follows:

	2012 €m	2011 €m
Cash and cash equivalents	447	845
Committed undrawn facilities	577	569
Liquidity reserve	1,024	1,414
Current liabilities – borrowings due within one year	(249)	(385)
Net position	775	1,029

Management monitors rolling cash flow forecasts on an ongoing basis to determine the adequacy of the liquidity position of the Group. This process also incorporates a longer term liquidity review to ensure refinancing risks are adequately catered for as part of the Group's strategic planning. The Group has considered the impact of the current sovereign debt crisis (including its impact on the euro). The Group continues to benefit from its existing financing package and debt profile. In addition, the Group's operating activities are cash generative and expect to be so over the foreseeable future; the Group has committed undrawn facilities of €577 million at 31 December 2012; and the Group has cash and cash equivalents of €447 million at 31 December 2012. The maturity dates of the Group's main borrowing facilities as set out in Note 22, together with the liquidity analysis as set out in this note, more fully describes the Group's longer term financing risks.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

In managing its capital structure, the primary focus of the Group is the ratio of net debt as a multiple of EBITDA (earnings before exceptional items, share-based payment expense, net finance costs, income tax expense, depreciation and intangible asset amortisation). Maximum levels for this ratio are set under Board approved policy. At 31 December 2012 the net debt to EBITDA ratio of the Group was 2.7 times (net debt of €2,792 million) which compares to 2.7 times (net debt of €2,752 million) at the end of 2011. This gives the Group continuing headroom compared to the actual covenant level at 31 December 2012 of 4.0 times.

On the basis of pre-exceptional operating profit, the Group's return on capital employed was 12.1% compared to 12.5% in 2011. The return on capital employed comprises pre-exceptional operating profit plus share of associates' profit as a percentage of average capital employed (where capital employed is the sum of total equity and net debt at year end; 2012: €5,260 million, (2011: €4,938 million)). The post-exceptional return on capital employed was 12.5% in 2012 (2011: 11.8%).

The capital employed of the Company at 31 December 2012 was €2,012 million (2011: €1,980 million).

Credit risk

Credit risk arises from credit exposure to trade debtors, cash and cash equivalents including deposits with banks and financial institutions, derivative financial instruments and investments. The Group has no sovereign exposures and no material debtors with Government agencies.

Trade debtors arise from a wide and varied customer base spread throughout the Group's operations and as such there is no significant concentration of credit risk. Credit evaluations are performed on all customers over certain thresholds and all customers are subject to continued monitoring at operating company level.

Risk of counterparty default arising on cash and cash equivalents and derivative financial instruments is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. Of the Group's total cash and cash equivalents (including restricted cash) at 31 December 2012 of €462 million, 56% was with financial institutions in the A rating category of Standard and Poor's or Moody's and 15% was with financial institutions in the AA/Aa rating category. The remaining 29% was represented mainly by cash held with banks in Latin America which fell outside the A and AA/Aa ratings categories. At 31 December 2012 derivative transactions were with counterparties with ratings ranging from BB to AA- with Standard & Poor's or Ba2 to Aa2 with Moody's.

27. Financial instruments (continued)

At each reporting date, there were no significant concentrations of credit risk which individually represented more than 10% of the Group's financial assets. A geographical analysis of the Group's segment assets has been provided in Note 4.

Market risk – available-for-sale securities

The Group's available-for-sale securities principally comprise an investment in an unlisted entity which operates in a similar paper processing market to the Group in Europe and which has a similar underlying risk profile to the general operational risks encountered by the Group in this market. This investment is being carried at its estimated fair value and the Group's maximum exposure to risk associated with this investment is represented by its carrying amount.

Investments are occasionally made in listed and unlisted entities of strategic importance to the Group and the policy for assessing impairment thereon is set out in Note 14.

Derivative positions

Derivative financial instruments recognised as assets and liabilities in the Consolidated Balance Sheet both as part of cash flow hedges and other economic hedges which do not meet the criteria for hedge accounting under IAS 39, have been set out below:

	2012 €m	2011 €m
Non-current derivative assets		
Cash flow hedges :		
Foreign currency forwards	**1**	-
Cross currency swaps	**-**	6
Total non-current derivative assets	**1**	6
Current derivative assets		
Cash flow hedges :		
Foreign currency forwards	**3**	4
Not designated as hedges:		
Foreign currency forwards	**3**	1
Cross currency swaps	**4**	2
Total current derivative assets	**10**	7
Total derivative assets	**11**	13
Non-current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	**(8)**	(20)
Cross currency swaps	**(18)**	-
Fair value hedges:		
Cross currency swaps	**(2)**	-
Not designated as hedges:		
Cross currency swaps	**(37)**	(34)
Total non-current derivative liabilities	**(65)**	(54)
Current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	**(20)**	(24)
Cross currency swaps	**(1)**	-
Not designated as hedges:		
Foreign currency forwards	**(1)**	(1)
Cross currency swaps	**(21)**	(33)
Energy hedging contracts	**-**	(1)
Total current derivative liabilities	**(43)**	(59)
Total derivative liabilities	**(108)**	(113)
Net liability on derivative financial instruments	**(97)**	(100)

27. Financial instruments (continued)

Fair value hierarchy

Fair value measurement at 31 December 2012	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets (Note 14):				
Listed	1	-	-	**1**
Unlisted	-	7	25	**32**
Derivative financial instruments:				
Assets at fair value through Consolidated Income Statement	-	7	-	**7**
Derivatives used for hedging	-	4	-	**4**
Derivative financial instruments:				
Liabilities at fair value through Consolidated Income Statement	-	(59)	-	**(59)**
Derivatives used for hedging	-	(49)	-	**(49)**
	1	(90)	25	**(64)**

Fair value measurement at 31 December 2011	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets (Note 14):				
Listed	1	-	-	1
Unlisted	-	6	25	31
Derivative financial instruments:				
Assets at fair value through Consolidated Income Statement	-	3	-	3
Derivatives used for hedging	-	10	-	10
Derivative financial instruments:				
Liabilities at fair value through Consolidated Income Statement	-	(69)	-	(69)
Derivatives used for hedging	-	(44)	-	(44)
	1	(94)	25	(68)

The fair value of the derivative financial instruments set out above has been measured in accordance with level 2 of the fair value hierarchy. All are plain derivative instruments, valued with reference to observable foreign exchange rates, interest rates or broker prices. Further details of the available-for-sale financial assets are set out in Note 14.

Cash flow hedging

As more fully set out in the table above, the Group principally utilises interest rate swaps to swap its variable rate debt into fixed rates. These swaps are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying debt being hedged. They have accordingly been determined by the Group to be highly effective in achieving offsetting cash flows for its variable rate debt, and no material level of ineffectiveness has been recorded in the Consolidated Income Statement in relation to these hedges in 2012 and 2011. Amounts accounted for in the cash flow hedging reserve in respect of these swaps during the current and preceding periods have been set out in the Consolidated Statement of Comprehensive Income. These fair value gains and losses are expected to impact on profit and loss over the period from 2013 to 2014, in line with the underlying debt being hedged. In addition, certain subsidiaries use foreign currency forward contracts to hedge forecast foreign currency sales and purchases. Such forward contracts are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying cash flows and have been highly effective in achieving offsetting cashflows with no ineffectiveness recorded. These fair value gains and losses are expected to impact on profit and loss over the period from 2013 to 2015. During 2012, the Group has entered into a limited level of wood pulp swap contracts (1,500 tonnes per month for three years with a minimal fair value in 2012) to hedge a portion of its wood pulp cost in France and Germany, which are designated as cash flow hedges.

Fair value hedging

During 2012 the Group entered into a cross currency interest rate swap to swap fixed rate debt into variable rate debt. This swap is designated as a fair value hedge and is set so as to closely match the critical terms of the underlying debt being hedged. It has accordingly been determined by the Group to be highly effective in offsetting the fair value of the fixed rate debt and no material level of ineffectiveness has been recorded in the Consolidated Income Statement in relation to this hedge in 2012. The fair value gains and losses are expected to impact on profit and loss over the period from 2013 to 2018, in line with the underlying debt being hedged.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

27. Financial instruments (continued)

Derivatives not designated as hedges

The Group utilises a combination of foreign currency forward contracts and cross currency swaps in order to economically hedge on balance sheet debtor, creditor and borrowing exposures which are denominated in currencies other than the euro. Formal hedge accounting as permitted by IAS 39 is not applied to these derivative instruments because a natural offset is effectively already achieved through fair valuing the derivatives through the Consolidated Income Statement as required by IAS 39, while also retranslating the related balance sheet foreign currency denominated monetary assets or liabilities at appropriate closing rates at each balance sheet date, as required by IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

The Group has also entered into certain energy hedging contracts to mitigate the associated price risks which occur as a result of the Group's normal operations. These have not been designated as hedges in accordance with IAS 39 and are recognised at fair value through the Consolidated Income Statement as required by that standard.

The principal terms of the Group's material derivative contracts have been set out further below.

Outstanding interest rate swap agreements at 31 December 2012 are summarised as follows:

Currency	Notional principal (million)	Termination dates	% Fixed payable	% Variable receivable
EUR	150	2013	4.650-4.798	Euribor[1]
EUR	610	2014	2.630-4.435	Euribor

[1] *European Interbank Offered Rate*

Outstanding interest rate swap agreements at 31 December 2011 are summarised as follows:

Currency	Notional principal (million)	Termination dates	% Fixed payable	% Variable receivable
EUR	350	2012	3.730-4.094	Euribor
EUR	150	2013	4.650-4.798	Euribor
EUR	610	2014	2.630-4.435	Euribor

Foreign exchange risk management

The Group manages its balance sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges a portion of its currency exposure through the use of currency swaps and forward contracts. At 31 December 2012 the Group had entered into €240 million (2011: €220 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2012 the Group had also entered into further short-term currency swaps of €466 million equivalent (2011: €254 million) as part of its short-term liquidity management.

The narrative above deals with short-term currency derivatives only. The Group also enters into longer term cross currency swap arrangements in respect of its US dollar debt, which are set out in more detail in the tables below.

Outstanding currency swap agreements at 31 December 2012 are summarised as follows:

Currency swapped (million)	Currency received (million)	Maturity date	Interest rate paid	Interest rate received
US$ 88	EUR 84	2013	Euribor +3.105	Libor[2] +3.250
US$ 88	EUR 83	2014	6.563	7.500
US$ 50	EUR 47	2015	7.300	7.500
US$ 154	EUR 131	2016	7.109	7.500
US$ 50	EUR 40	2018	Euribor +3.480	4.875
US$ 250	EUR 198	2018	4.805	4.875

[2] *London Interbank Offered Rate*

Outstanding currency swap agreements at 31 December 2011 are summarised as follows:

Currency swapped (million)	Currency received (million)	Maturity date	Interest rate paid	Interest rate received
US$ 21	EUR 15	2012	Euribor	Libor
US$ 204	EUR 183	2012	9.978	9.649
US$ 88	EUR 84	2013	Euribor +3.105	Libor +3.250
US$ 200	EUR 149	2014	7.197	7.750
US$ 88	EUR 83	2014	6.563	7.500

27. Financial instruments (continued)

Energy risk management

The Group had the following energy hedging contracts outstanding at the end of 2012 and 2011. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

	2012		2011	
	Notional	**Maturity**	**Notional**	**Maturity**
Energy contracts	**€6 million**	**Q1 2013 - Q4 2014**	€6 million	Q1 2012 - Q4 2013

Effective interest rates and repricing analysis

In respect of income earning financial assets and interest bearing financial liabilities, the following tables indicate their average effective interest rates at the reporting date and the periods in which they reprice:

31 December 2012 **Fixed rate instruments**	**Average effective interest rate**	**6 months or less €m**	**6-12 months €m**	**1-2 years €m**	**2-5 years €m**	**More than 5 years €m**	**Total €m**
Liabilities:							
US Yankee bonds	7.59%	-	-	-	-	222	222
2015 cash pay notes	-	-	-	-	-	-	-
2017 secured notes	7.94%	-	-	-	492	-	492
2018 secured notes	5.56%	-	-	-	-	423	423
2019 secured notes	8.27%	-	-	-	-	494	494
Bank loans/overdrafts	3.03%	2	1	4	5	6	18
Effect of interest rate swaps		150	610	-	-	-	760
Effect of fair value cross currency swap		-	-	-	-	(38)	(38)
Total		152	611	4	497	1,107	2,371
Finance leases	5.74%	-	2	2	1	1	6
Total fixed rate liabilities		**152**	**613**	**6**	**498**	**1,108**	**2,377**
Floating rate instruments							
Assets:							
Cash and cash equivalents	0.69%	447	-	-	-	-	447
Restricted cash	0.06%	15	-	-	-	-	15
Total floating rate assets		**462**	**-**	**-**	**-**	**-**	**462**
Liabilities:							
Senior credit facility	4.64%	1,099	-	-	-	-	1,099
Receivables securitisation	2.13%	197	-	-	-	-	197
2020 secured notes	4.15%	247	-	-	-	-	247
Bank loans/overdrafts	10.04%	47	-	-	-	-	47
Effect of interest rate swaps	3.13%	(760)	-	-	-	-	(760)
Effect of fair value cross currency swap	(0.68%)	40	-	-	-	-	40
Total		870	-	-	-	-	870
Finance leases	1.32%	2	-	-	-	-	2
Total floating rate liabilities		**872**	**-**	**-**	**-**	**-**	**872**
Total net position		**(562)**	**(613)**	**(6)**	**(498)**	**(1,108)**	**(2,787)**

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

27. Financial instruments (continued)

31 December 2011 Fixed rate instruments	Average effective interest rate	6 months or less €m	6-12 months €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:							
US Yankee bonds	7.59%	-	-	-	-	226	226
2015 cash pay notes	8.08%	-	-	-	376	-	376
2017 secured notes	7.98%	-	-	-	-	490	490
2019 secured notes	8.30%	-	-	-	-	492	492
Bank loans/overdrafts	3.45%	-	-	-	10	5	15
Effect of interest rate swaps		100	250	150	610	-	1,110
Total		100	250	150	996	1,213	2,709
Finance leases	7.44%	3	4	2	1	1	11
Total fixed rate liabilities		103	254	152	997	1,214	2,720
Floating rate instruments							
Assets:							
Cash and cash equivalents	0.83%	845	-	-	-	-	845
Restricted cash	0.25%	12	-	-	-	-	12
Total floating rate assets		857	-	-	-	-	857
Liabilities:							
Senior credit facility	5.26%	1,729	-	-	-	-	1,729
Receivables securitisation	2.83%	206	-	-	-	-	206
Bank loans/overdrafts	7.14%	56	-	-	-	-	56
Effect of interest rate swaps	2.11%	(1,110)	-	-	-	-	(1,110)
Total		881	-	-	-	-	881
Finance leases	1.81%	-	-	1	1	-	2
Total floating rate liabilities		881	-	1	1	-	883
Total net position		(127)	(254)	(153)	(998)	(1,214)	(2,746)

Liquidity analysis

The following table sets out the maturity or liquidity analysis of the Group's financial liabilities and net settled derivative financial liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

31 December 2012	Weighted average period until maturity	No fixed term €m	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:							
Trade and other payables		-	1,242	-	-	-	1,242
Senior credit facility	3.9 yrs	-	45	45	1,207	-	1,297
Receivables securitisation	2.9 yrs	-	3	3	202	-	208
Bank loans/overdrafts	1.0 yrs	24	29	6	6	2	67
US Yankee bonds	12.8 yrs	-	17	17	49	354	437
2015 cash pay notes	-	-	-	-	-	-	-
2017 secured notes	4.8 yrs	-	36	36	609	-	681
2018 secured notes	5.6 yrs	-	21	21	64	449	555
2019 secured notes	6.8 yrs	-	39	39	116	577	771
2020 secured notes	7.7 yrs	-	10	10	28	278	326
		24	1,442	177	2,281	1,660	5,584
Finance leases	2.3 yrs	-	5	2	1	1	9
		24	1,447	179	2,282	1,661	5,593
Derivative liabilities		-	21	9	-	-	30
Total liabilities		**24**	**1,468**	**188**	**2,282**	**1,661**	**5,623**

27. Financial instruments (continued)

31 December 2011	Weighted average period until maturity	No fixed term €m	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:							
Trade and other payables		-	1,230	-	-	-	1,230
Senior credit facility	2.3 yrs	-	172	906	869	-	1,947
Receivables securitisation	3.9 yrs	-	5	5	218	-	228
Bank loans/overdrafts	1.2 yrs	20	35	6	9	4	74
US Yankee bonds	13.8 yrs	-	17	17	51	377	462
2015 cash pay notes	3.2 yrs	-	29	29	408	-	466
2017 secured notes	5.8 yrs	-	36	36	109	532	713
2019 secured notes	7.8 yrs	-	39	39	116	611	805
		20	1,563	1,038	1,780	1,524	5,925
Finance leases	2.0 yrs	-	8	4	2	2	16
		20	1,571	1,042	1,782	1,526	5,941
Derivative liabilities		-	25	15	5	-	45
Total liabilities		20	1,596	1,057	1,787	1,526	5,986

The financial liabilities of the Company of €1 million (2011: €20 million) are repayable on demand.

The following table sets out the liquidity analysis with regard to derivatives which do not net settle in the normal course of business (primarily foreign exchange contracts and currency swaps). The table shows the estimated timing of cash flows on the liability side of the contracts only:

31 December 2012	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:					
Cross currency swaps	580	112	234	253	**1,179**
Foreign currency forwards	189	42	3	-	**234**
Total	769	154	237	253	**1,413**

31 December 2011	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:					
Cross currency swaps	490	104	244	-	838
Foreign currency forwards	172	46	2	-	220
Total	662	150	246	-	1,058

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

27. Financial instruments (continued)

Currency analysis

The table below sets out the Group's financial assets and liabilities according to their principal currencies. Currency risk related to financial assets and liabilities denominated in currencies other than the Group's functional currency (euro) represents both transactional and translation risk. As at 31 December 2012 and 2011 the Company had no financial assets or liabilities denominated in foreign currencies.

31 December 2012	Euro	Sterling	Latin America[(1)]	US dollar	Other	Total
	€m	€m	€m	€m	€m	€m
Trade and other receivables	816	107	184	96	108	1,311
Available-for-sale financial assets	33	-	-	-	-	33
Cash and cash equivalents	212	29	103	24	79	447
Restricted cash	8	3	-	3	1	15
Total assets	**1,069**	**139**	**287**	**123**	**188**	**1,806**
Trade and other payables	784	119	142	83	114	1,242
Senior credit facility	1,050	-	-	49	-	1,099
Receivables securitisation	125	72	-	-	-	197
Bank loans/overdrafts	31	-	24	10	-	65
US Yankee bonds	-	-	-	222	-	222
2015 cash pay notes	-	-	-	-	-	-
2017 secured notes	492	-	-	-	-	492
2018 secured notes	192	-	-	231	-	423
2019 secured notes	494	-	-	-	-	494
2020 secured notes	247	-	-	-	-	247
	3,415	191	166	595	114	4,481
Finance leases	4	2	-	1	1	8
Total liabilities	**3,419**	**193**	**166**	**596**	**115**	**4,489**
Impact of foreign exchange contracts	518	130	3	(433)	(160)	58
Total (liabilities)/assets	**(2,868)**	**(184)**	**118**	**(40)**	**233**	**(2,741)**

31 December 2011	Euro	Sterling	Latin America[(1)]	US dollar	Other	Total
	€m	€m	€m	€m	€m	€m
Trade and other receivables	796	105	180	38	110	1,229
Available-for-sale financial assets	32	-	-	-	-	32
Cash and cash equivalents	420	52	100	44	229	845
Restricted cash	5	6	-	-	1	12
Total assets	1,253	163	280	82	340	2,118
Trade and other payables	846	108	119	45	112	1,230
Senior credit facility	1,645	-	-	84	-	1,729
Receivables securitisation	132	74	-	-	-	206
Bank loans/overdrafts	43	-	23	5	-	71
US Yankee bonds	-	-	-	226	-	226
2015 cash pay notes	218	-	-	158	-	376
2017 secured notes	490	-	-	-	-	490
2019 secured notes	492	-	-	-	-	492
	3,866	182	142	518	112	4,820
Finance leases	7	5	-	-	1	13
Total liabilities	3,873	187	142	518	113	4,833
Impact of foreign exchange contracts	446	90	-	(464)	(25)	47
Total (liabilities)/assets	(3,066)	(114)	138	28	252	(2,762)

(1) *Latin America includes currencies such as the Mexican Peso, Colombian Peso and Venezuelan Bolivar Fuerte. These have been grouped together principally owing to their size and impact on the currency analysis tables within this note.*

27. Financial instruments (continued)

Fair value

The following table sets out the fair value of the Group's principal financial assets and liabilities. The determination of these fair values is based on the descriptions set out within Note 2.

	2012		2011	
	Carrying value €m	**Fair value €m**	**Carrying value €m**	**Fair value €m**
Trade and other receivables[1]	**1,311**	**1,311**	1,229	1,229
Available-for-sale financial assets[2]	**33**	**33**	32	32
Cash and cash equivalents[3]	**447**	**447**	845	845
Derivative assets[4]	**11**	**11**	13	13
Restricted cash	**15**	**15**	12	12
	1,817	**1,817**	2,131	2,131
Trade and other payables [1]	**1,242**	**1,242**	1,230	1,230
Senior credit facility[5]	**1,099**	**1,110**	1,729	1,740
Receivables securitisation[3]	**197**	**197**	206	206
Bank overdrafts[3]	**65**	**65**	71	71
US Yankee bonds[5]	**222**	**233**	226	216
2015 cash pay notes[5]	**-**	**-**	376	385
2017 secured notes[5]	**492**	**535**	490	508
2018 secured notes[5]	**423**	**441**	-	-
2019 secured notes[5]	**494**	**552**	492	515
2020 secured notes[5]	**247**	**250**	-	-
	4,481	**4,625**	4,820	4,871
Finance leases	**8**	**8**	13	13
	4,489	**4,633**	4,833	4,884
Derivative liabilities[4]	**108**	**108**	113	113
	4,597	**4,741**	4,946	4,997
Total net position	**(2,780)**	**(2,924)**	(2,815)	(2,866)

(1) *The fair value of trade and other receivables and payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.*

(2) *The fair value of listed available-for-sale financial assets is determined by reference to their bid price at the reporting date. Unlisted available-for-sale financial assets are valued using recognised valuation techniques for the underlying security including discounted cash flows and similar unlisted equity valuation models.*

(3) *The carrying amount reported in the Consolidated Balance Sheet is estimated to approximate to fair value because of the short-term maturity of these instruments and, in the case of the receivables securitisation, the variable nature of the facility and re-pricing dates.*

(4) *The fair value of forward foreign currency and energy contracts is based on their listed market price if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.*

(5) *Fair value is based on broker prices at the balance sheet date.*

The fair value of the Company's financial assets and financial liabilities approximates to their carrying values.

28. Contingent liabilities

In October 2006, a notice of claim was received by a former subsidiary of Smurfit Kappa Group from a local County Administrative Board in Sweden requiring it to investigate and remediate an adjacent lake. This lake was polluted by local industry over a very long period of time. The subsidiary was in dialogue with the County Administrative Board over the past 30 years as some of its operations require operating permits under the Environmental Code. The investigation is at a preliminary stage and meetings are ongoing with the County Administrative Board and other interested parties.

No provision has been recognised in relation to the above matter, as the Directors do not believe that it is probable that there will be a material outflow of economic benefits.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

29. Lease obligations

Operating leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2012 €m	2011 €m
Within one year	**69**	62
Within two to five years	**141**	109
Over five years	**33**	39
	243	210

The Group leases a number of properties under operating leases. The leases typically run for a period of three to ten years. Rents are generally reviewed every five years. The Group also leases vehicles under various agreements that typically run for a period of between two and five years. The agreements do not include extension options.

Finance leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2012		2011	
	Minimum payments €m	Present value of minimum payments €m	Minimum payments €m	Present value of minimum payments €m
Within one year	**5**	**5**	8	7
Within two to five years	**2**	**2**	6	5
Over five years	**1**	**1**	1	1
Total minimum lease payments	**8**	**8**	15	13
Less: amounts allocated to future finance costs	**-**	**-**	(2)	-
Present value of minimum lease payments	**8**	**8**	13	13

The Group has a number of arrangements in place in relation to cogeneration facilities that do not take the legal form of leases but convey the right to use the underlying assets in return for a series of payments. These arrangements have been assessed as having the substance of finance lease arrangements. See Note 12 for the capitalised values of these finance leases.

The cogeneration plants consist of gas turbines, steam turbines and boilers for the recuperation of exhaust fumes. In exchange for a third party vendor constructing such a plant on, or near, a Group paper mill, the Group generally commits to purchasing the recouped steam output and a minimum amount of electricity produced by the plant. Payment terms generally include both fixed elements and variable elements determined on output consumed by the Group and certain market indices. The terms of these arrangements cover minimum periods ranging from 6 to 20 years, and generally include a bargain purchase option and renewal provisions at the end of the term.

30. Related party transactions

The principal related party relationships requiring disclosure under IAS 24, *Related Party Disclosures* pertain to the existence of subsidiaries and associates and transactions with these entities entered into by the Group and the identification and compensation of key management personnel as addressed in greater detail below.

Transactions with subsidiaries

The Consolidated Financial Statements include the Financial Statements of the Company and its subsidiaries and associates as documented in the accounting policies on page 65. A listing of the principal subsidiaries is provided on pages 114 to 116 of this document.

Sales to and purchases from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IAS 27, *Consolidated and Separate Financial Statements.*

Transactions with associates

The Group conducts certain transactions with associates in the normal course of business which are summarised as follows:

Sales and purchase of goods and services

	2012 €m	2011 €m
Sale of goods	**15**	12
Purchase of goods	**(6)**	(10)
Receiving of services	**(1)**	(3)

These transactions are undertaken and settled at normal trading terms. No guarantees are given or received by either party.

30. Related party transactions (continued)

The receivables from related parties arise mainly from sale transactions and are due two months after the date of sale. The receivables are unsecured in nature and do not bear interest.

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables do not bear interest.

No provision has been made in 2012 and 2011 relating to balances with related parties.

Transactions with other related parties

In 2012, the Group purchased, in the normal course of business, approximately 28,000 metric tonnes (2011: 35,000 metric tonnes) of paper amounting to approximately €15 million (2011: €18 million) from Savon Sellu, a company controlled by Dermot Smurfit together with his brothers Dr. Michael Smurfit, former Chairman of the Group and Alan Smurfit. An amount of €4 million (2011: €5 million) was owed by the Group to Savon Sellu at 31 December 2012.

Transactions with key management personnel

For the purposes of the disclosure requirements of IAS 24, the term 'key management personnel' (i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the Company) comprises the Board of Directors and Secretary who manage the business and affairs of the Company.

	2012	**2011**
	€m	**€m**
Short-term employee benefits	**6**	7
Post employment benefits	**1**	1
Share-based payment expense	**4**	2
	11	10

Information on the parent Company

The parent Company is an investment holding company and as a result, holds investments in the Group subsidiaries as financial assets. The Company also has receivables and payables with its subsidiaries entered into in the normal course of business. These balances are repayable on demand. The notes to the Company Balance Sheet disclose these various balances.

31. Business Combinations

The two acquisitions completed by the Group during the year, together with percentages acquired and completion dates were as follows:

- Orange County Container Group ('OCCG'), (100%, 30 November 2012), a corrugated and containerboard manufacturer in Mexico and the United States;
- Baguin (100%, 26 January 2012), a bag-in-box packaging solutions company in Argentina.

The primary reason for the OCCG acquisition is to complement our existing Mexican business and substantially increase our position in the higher growth Mexican market. As part of the ongoing fair value exercise of OCCG, stock has been increased by €1 million and deferred tax liabilities have been increased by €11 million. In accordance with IFRS 3 (Revised) and given the timing of the closure of this transaction and its proximity to the year-end, management is currently assessing the fair value of the remaining assets and liabilities acquired and will finalise the accounting for the business combination in 2013 within the allowed measurement period of IFRS 3 (Revised).

OCCG	**Book value**	**Fair value adjustments**	**Fair value**
	€m	**€m**	**€m**
Non-current assets	119	-	119
Inventories	49	1	50
Trade and other receivables	59	-	59
Cash and cash equivalents	7	-	7
Total non-current liabilities	(89)	(11)	(100)
Trade and other payables	(47)	-	(47)
Net assets acquired	98	(10)	88
Goodwill			88
Consideration			**176**

Settled by:	
Cash	**176**

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

31. Business Combinations (continued)

The principal factors contributing to the recognition of goodwill is the realisation of cost savings and other synergies with existing entities in the Group which do not qualify for separate recognition as intangible assets.

The gross contractual value of trade and other receivables as at the date of acquisition of OCCG amounted to €59 million. The fair value of these receivables is also estimated at €59 million (all of which is expected to be recoverable) and is inclusive of an aggregate allowance for impairment of €1 million.

As part of the acquisition of OCCG, business acquisition costs of €6 million were incurred which included post acquisition restructuring costs and are included as exceptional items in the Consolidated Income Statement. SKG also repaid the acquired debt of €86 million following the completion of the acquisition.

OCCG has contributed €31 million to revenue and €4 million of a loss to profit before tax. The revenue and profit of the Group for the year ended 31 December 2012 would have been €7,723 million and €344 million respectively had the acquisition taken place at the start of the current reporting period.

The acquisition of Baguin is immaterial to the Group.

None of the goodwill recognised in respect of acquisitions during the financial year is deductible for tax purposes.

No contingent liability was recognised on the acquisitions.

32. Events after the balance sheet date

On 23 January 2013, the Group successfully completed the pricing of an upsized offering of €400 million of senior secured notes due 2020 issued by its wholly owned subsidiary Smurfit Kappa Acquisitions. The net proceeds of the offering were used to prepay a portion of the term loans outstanding under SKG's senior credit facility and to pay certain fees and expenses related to the offering. The notes were offered in a private placement, and there was no public offering of the notes. The notes were issued at a price of 100 percent and carry a coupon of 4.125%. The sale of the notes was completed on 28 January 2013.

On 8 February 2013, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte and the termination of the SITME transaction system. The official exchange rate was changed from VEF 4.3 per US dollar to VEF 6.3 per US dollar. As a result of the devaluation the Group will record a reduction in net assets of approximately €142 million in relation to these operations and a reduction in the euro value of the Group's cash balances of €28 million in the first quarter of 2013. The impact of the devaluation on the Group's 2013 pre-exceptional EBITDA is not expected to be material. In accordance with IAS 10, *Events After the Reporting Period*, this is a non-adjusting event after the reporting period and, therefore, is not reflected in the Group's 2012 financial statements.

The Board has recommended a final dividend of 20.5 cent per share for 2012 payable on 10 May 2013 subject to the approval of shareholders at the AGM.

33. Profit dealt with in the parent Company

In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual Income Statement to the Annual General Meeting and from filing it with the Registrar of Companies. A profit of €54 million (2011: a loss of €1 million) has been dealt with in the Income Statement of the Company.

34. Principal subsidiaries

Each of Smurfit Kappa Group plc, Smurfit Kappa Investments Limited, Smurfit Kappa Holdings Limited, Smurfit Kappa Corporation Limited, Smurfit Kappa Funding plc and Smurfit Kappa Acquisitions are holding companies with no operations of their own. Smurfit Kappa Acquisitions is an unlimited public company with an address at Beech Hill, Clonskeagh, Dublin 4. A listing of the principal subsidiaries is set out below:

Subsidiaries[1]	Principal activities	Country of incorporation[2]	Holding %
Cartón de Colombia, S.A. Apartado Aereo 219, Cali, Colombia	Manufacture and sale of paperboard and packaging products	**Colombia**	70
Cartón de Venezuela, S.A. Apartado Aereo 609, Caracas, Venezuela	Manufacture and sale of paperboard and packaging products	**Venezuela**	88
Grupo Smurfit México, S.A. de C.V. World Plaza, Av. Santa Fe 481, Piso 15 Col. Cruz Manca, México, D.F. 05349	Manufacture and sale of paperboard and packaging products	**Mexico**	100
Nettingsdorfer Papierfabrik AG & Co KG Nettingsdorfer Straße 40, 4053 Haid bei Ansfelden, Austria	Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board	**Austria**	100
Smurfit International B.V. Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Principal international holding company	**Netherlands**	100

34. Principal subsidiaries (continued)

Subsidiaries[1]	Principal activities	Country of incorporation[2]	Holding %
Smurfit Kappa B.V. Warandelaan 2, 4904 PC Oosterhout, The Netherlands	International holding company	**Netherlands**	100
Smurfit Kappa de Argentina, S.A. Paque Saenz Pena 308 – 8th Floor, Buenos Aires, Argentina	Manufacture and sale of paperboard and packaging products	**Argentina**	100
Smurfit Kappa Deutschland GmbH Tilsiter Straße 144, 22047 Hamburg, Germany	Holding company for German operations which manufacture and sell paperboard and packaging products	**Germany**	100
Smurfit Kappa Holdings Italia, S.p.A. Strada Serravalle 30, 15067 Novi Ligure (AL), Italy	Holding company for Italian operations whose principal activities are the manufacture and sale of paperboard and packaging products	**Italy**	100
Smurfit Kappa Holdings US Inc. 1000 Sawgrass Corporate Parkway Suite 120, Sunrise, Florida 33323, USA	Holding company for US and certain Mexican operations whose principal activities are the manufacture and sale of paperboard and packaging products	**USA**	100
Smurfit Kappa Investments UK Limited Cunard Building, Pier Head, Liverpool, LS3 1SF, UK	Holding company for UK operations whose principal activities are the manufacture and sale of paperboard and packaging products	**England**	100
Smurfit Kappa Ireland Limited Beech Hill, Clonskeagh, Dublin 4, Ireland	Manufacture and sale of paperboard and packaging products	**Ireland**	100
Smurfit Kappa Kraftliner Piteå AB SE – 941 86, Piteå, Sweden	Manufacture and sale of containerboard and holding company for operations in Sweden and other countries which manufacture packaging products	**Sweden**	100
Smurfit Kappa Nederland B.V. Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Holding company for Dutch operations which manufacture containerboard, solidboard and packaging products	**Netherlands**	100
Smurfit Kappa Nervión, S.A. B Arriandi s/n, 48215 Iurreta, Vizcaya, Spain	Manufacture and sale of sack paper and holding company for Spanish and Portuguese operations whose principal activities are the manufacture and sale of paperboard and packaging	**Spain**	100
Smurfit Kappa Participations SAS 5 Avenue du Général de Gaulle, 94160 Saint Mandé, France	Holding company for French operations whose activities are the manufacture and sale of paperboard and packaging products	**France**	100
Smurfit Kappa Treasury Beech Hill, Clonskeagh, Dublin 4, Ireland	Finance company	**Ireland**	100

(1) *A full list of subsidiaries and associates will be annexed to the Annual Return of the Company to be filed with the Irish Registrar of Companies.*

(2) *The companies operate principally in their countries of incorporation.*

Section 17 Guarantees

Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, Smurfit Kappa Group plc has irrevocably guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the filing provisions of Section 7, Companies (Amendment) Act, 1986. These Irish subsidiaries are as follows - Alvecrow Limited, Badcall Limited, Belgray Holdings, Bishopbriggs Limited, Brenchley Limited, Central Waste Paper Company Limited, Chacala Limited, Chambers Edwards Limited, Claystoke Limited, Crayside Limited, Damous Limited, Daoura Limited, DLRS (Holdings) Limited, DLRS Limited, Doovane Limited, G H Sales Limited, Gorda Limited, Gourdas Limited, Gweebara Limited, Headley Holdings, Iona Print Limited, Irish Carton Printers Limited, Irish Nursery and Landscape Company Limited, Irish Paper Products Limited, iVenus Limited, J.S. Publications Limited, Jefferson Smurfit & Sons Limited, Killeen Corrugated Products Limited, King Robert Limited, Margrave Investments Limited, New Educational Technologies Limited, Queen Mathilda Limited, Smurfit Corporate Services Limited, Smurfit Corrugated Cases (Cork) Limited, Smurfit Corrugated Ireland, Smurfit Corrugated Research Limited, Smurfit Holdings Limited, Smurfit International Limited, Smurfit Investments (Ireland) Limited, Smurfit Kappa Corporation Limited, Smurfit Kappa Holdings Limited, Smurfit Kappa Investments Limited, Smurfit Kappa Ireland Limited, Smurfit Kappa Irish Paper Sacks Limited, Smurfit Kappa Leasing, Smurfit Kappa News Press Limited, Smurfit Kappa Packaging Limited, Smurfit Kappa Recycling Ireland Limited, Smurfit Kappa Services Limited, Smurfit Kappa Treasury, Smurfit Kappa Treasury Funding Limited, Smurfit Kappa Treasury Receivables Limited, Smurfit Natural Resources Limited, Smurfit Publications Limited, Smurfit Securities Limited, Smurfit Web Research Limited, T.P. Properties Limited, TMG Limited, Trans-Pack Cases Limited, Waterford Castle Golf & Country Club Limited, Woodfab Cork Limited, Woodfab Limited, Woodfab Packaging Limited.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2012

34. Principal subsidiaries (continued)

Article 403 Guarantees

Smurfit Kappa Group plc has, in accordance with Article 403, Book 2 of the Dutch Civil Code, guaranteed the debts of its following Dutch subsidiaries - Adavale (Netherlands) B.V., Smurfit International B.V., Smurfit Corrugated B.V., Smurfit Holdings B.V., Smurfit Investments B.V., Packaging Investments Netherlands (PIN) B.V., Packaging Investments Holdings (PIH) B.V., Packaging Investments International (PII) B.V., Smurfit Kappa B.V., Kappa Packaging International B.V., CE International B.V., Kappa Packaging Nederland Holding B.V., Smurfit Kappa Nederland B.V., Smurfit Kappa Solid Board B.V., Smurfit Kappa Shared Services B.V., Smurfit Kappa Sourcing Services B.V., Kappa Packaging Insurances B.V., Smurfit Kappa Corrugated Division B.V., Smurfit Kappa Corrugated Benelux B.V., Smurfit Kappa TWINCORR B.V., Smurfit Kappa MNL Golfkarton B.V., Smurfit Kappa Van Dam Golfkarton B.V., Smurfit Kappa Vandra B.V., Cobra Golfkarton B.V., Smurfit Kappa Orko-Pak B.V., Smurfit Kappa ELCORR B.V., Kappa Quama International B.V., Smurfit Kappa Trobox Kartonnages B.V., Smurfit Kappa Trobox Verpakkingen B.V., Smurfit Kappa Zedek B.V., Smurfit Kappa European Paper Services B.V., Smurfit Nederland Holding B.V., Smurfit Kappa Specialties Division B.V., Smurfit Kappa Attica B.V., Smurfit Kappa Triton B.V., Kartonfabriek Brittania B.V., Smurfit Kappa GSF B.V., Smurfit Kappa Recycling B.V., Kappa Graphic Board USA B.V., Smurfit Kappa Development Centre B.V., Smurfit Kappa Trimbach B.V., Steijn Vastgoed B.V., Smurfit Kappa Paper Services B.V., Smurfit Kappa Roermond Papier B.V., Kappa Holding (Nederland) B.V., Smurfit Kappa RapidCorr Eindhoven B.V., Smurfit Kappa Paper Sales Benelux B.V., Smurfit Kappa Group IS Nederland B.V., Smurfit Kappa Finance B.V.

Shareholder Information

CREST

Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

Ordinary shareholdings

On 31 December 2012, the ordinary shares of the Company in issue were held as follows:

Number of shares	Number of Shareholders	% of total	Number of shares held '000	% of total
1 - 1,000	503	37.0	254	0.1
1,001 – 5,000	391	28.8	937	0.4
5,001 – 10,000	88	6.5	662	0.3
10,001 – 50,000	169	12.4	3,970	1.7
50,001 – 100,000	58	4.3	4,269	1.9
100,001 – 500,000	82	6.0	20,237	8.9
Over 500,000	67	4.9	197,417	86.7
	1,358	100.0	227,746	100.0

Stock Exchange listings

The Company's shares are listed on the following exchanges:

Exchange	City	Symbol
ISE	**Dublin**	**SK3**
LSE	**London**	**SKG**

Financial Calendar

AGM	3 May 2013
Interim results announcement	31 July 2013

Website

The Investors section on the Group's website, www.smurfitkappa.com, provides the full text of the financial results and copies of presentations to analysts and investors. Press releases are also made available in this section of the website immediately after release to the stock exchanges.

Registrars

Enquiries concerning shareholdings should be directed to the Company's Registrars:

Capita Registrars (Ireland) Limited,
P.O. Box 7117,
Dublin 2.

Tel: +353 (0)1 553 0050
Fax: +353 (0)1 224 0700
www.capitaregistrars.ie

CREST proxy voting

CREST members wishing to appoint a proxy via the CREST system should refer to the CREST Manual and the notes to the Notice of the Annual General Meeting.

Notes

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Front cover (L to R):
Customised packaging produced at Smurfit Kappa Chelmsford (UK) for underfloor heating elements
Employees reviewing operations at Smurfit Kappa Dyboflex (Denmark)
Point of sale display manufactured by Smurfit Kappa Nord at Lauenburg (Germany)