Smurfit Kappa

packaging solutions

Annual Report **2013**

mission

Design: Anup Champaneri and Richard Gannon
at Smurfit Kappa Chelmsford, United Kingdom

CONTENTS

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.

Group Profile

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)
229 Converting plants
51 Recovered fibre facilities/wood procurement
30 Other production facilities

We own
103,000
Hectares of Latin American forest plantations

Smurfit Kappa Group plc ('SKG plc' or 'the Company') and its subsidiaries (together '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. 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. In addition to other types of paper, such as solidboard and sack kraft paper, and paper-based packaging, such as solidboard packaging and folding cartons, this segment includes the Group's bag-in-box operations. The Americas segment comprises all the Group's forestry, paper, corrugated, paper sack and folding carton activities in a number of Latin American countries and all the operations of Smurfit Kappa Orange County ('SKOC'). SKOC, formerly Orange County Container Group, was acquired on 30 November 2012.

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 the Group's 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.

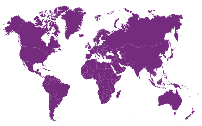
Given the high degree of integration between the mills and its conversion plants, particularly in terms of containerboard, the Group's end customers are primarily in the corrugated packaging market, which uses the packaging for product protection and product marketing and merchandising purposes.

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 2013, the Group's Europe and Americas segments accounted for approximately 75% and 25% of revenue respectively.

At the date of this report, the Group owns 38 mills (27 of which produce containerboard), 229 converting plants (most of which convert containerboard into corrugated boxes), 49 recovered fibre facilities and two wood procurement operations (which together provide raw material for the Group's mills) and 30 other production facilities carrying on other related activities. In addition, the Group owns approximately 103,000 hectares of forest plantations in Latin America.

2013 Financial Performance Overview



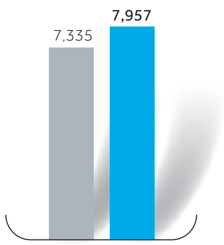
World market position

2 for the production of corrugated packaging

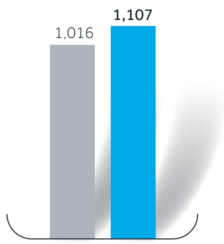
European market position

1 in corrugated packaging, containerboard, solidboard and solidboard packaging

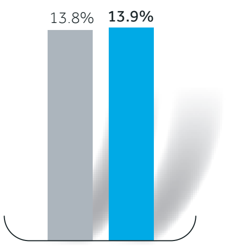
2013	
2012*	



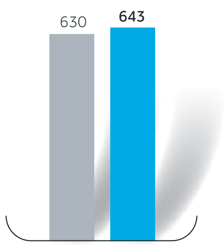
Revenue
(€ million)



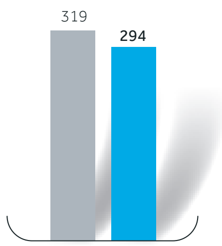
EBITDA before exceptional items and share-based payment expense ('EBITDA')
(€ million)



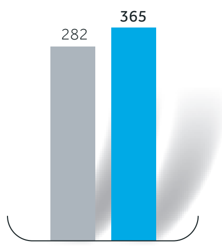
EBITDA margin



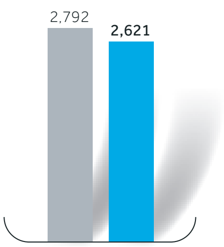
Operating profit
(€ million)



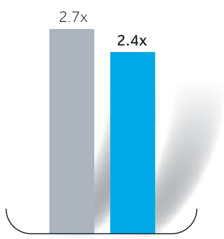
Profit before income tax
(€ million)



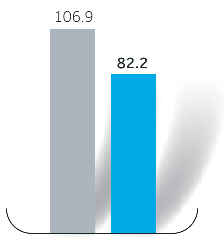
Free cash flow
(€ million)



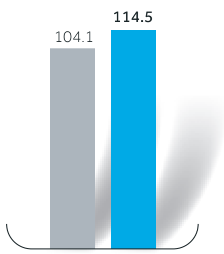
Net debt
(€ million)



Net debt to EBITDA



Basic earnings per share (cent)



Pre-exceptional basic earnings per share (cent)

* *Comparative figures reflect the restatement to employee benefits under the revision of IAS 19, Employee Benefits, as set out in Note 32 in the Notes to the Consolidated Financial Statements.*

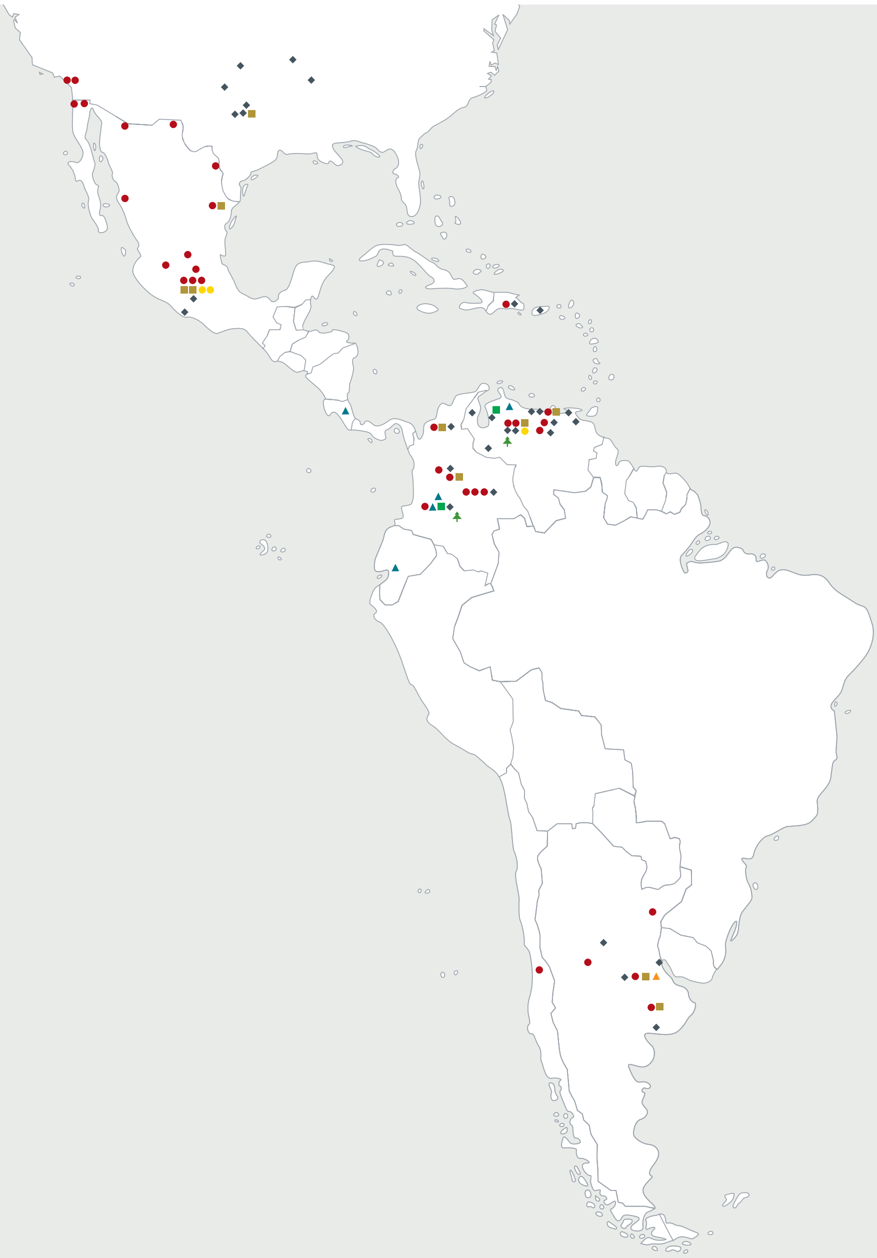
Group Operations

The Americas

OPERATIONS	
Virgin Mills	2
Recycled Paper and Board Mills	10
Corrugated	33
Cartons	3
Paper Sacks	5
Recovered Fibre	33
Other	4

SALES	
Volumes	(million tonnes)
Containerboard	1.1
Other Paper & Board	0.3
Corrugated	1.0

- VIRGIN MILLS
- RECYCLED MILLS
- CORRUGATED
- CARTONS
- PAPER SACKS
- BAG-IN-BOX
- RECOVERED FIBRE
- FORESTRY



Europe

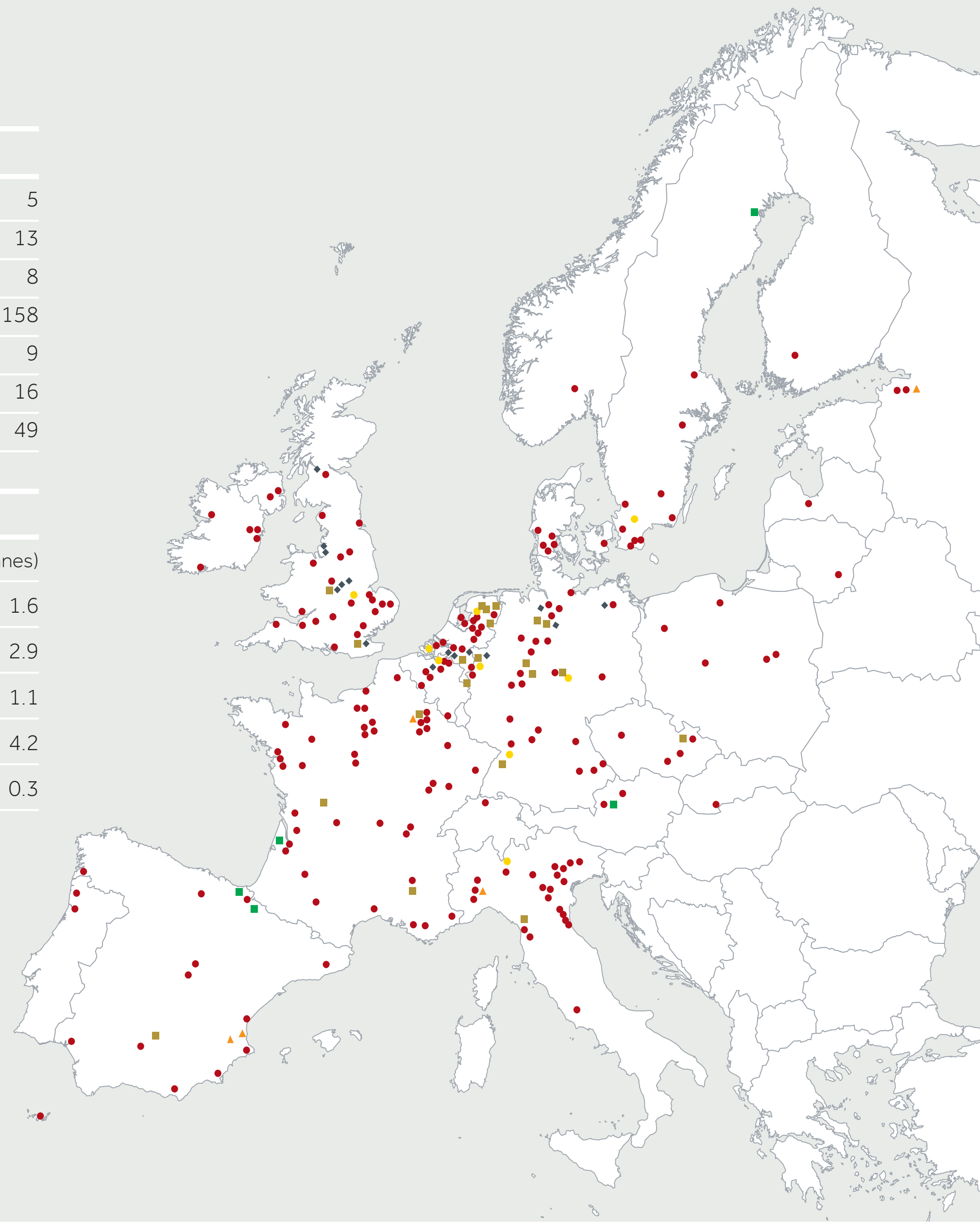
OPERATIONS

Virgin Mills	5
Recycled Containerboard Mills	13
Other Recycled Paper and Board Mills	8
Corrugated	158
Cartons and Solidboard Packaging	9
Recovered Fibre	16
Other	49

SALES

Sales Volumes	(million tonnes)
Kraftliner	1.6
Recycled Containerboard	2.9
Other Paper & Board	1.1
Corrugated	4.2
Solidboard Packaging	0.3

VIRGIN MILLS
RECYCLED MILLS
CORRUGATED
CARTONS AND SOLIDBOARD PACKAGING
BAG-IN-BOX
RECOVERED FIBRE



Chairman's Statement

Year in Review

The Group is pleased to announce a full year EBITDA performance of over €1.1 billion and a return on capital employed of over 13%. With a weaker though improving year-on-year performance in Europe, the Americas has been a strong source of earnings growth in 2013 and continues to provide the Group with geographic diversity and exposure to higher growth markets. During 2013 the Group has completed its main financial restructuring activity moving from being a leveraged company to achieving a corporate credit profile. As a consequence, the profile of the Group has fundamentally changed and the progress made offers the company a wider range of strategic and financial options. On behalf of the Board, I would like to acknowledge the on-going commitment of all of our employees in contributing to the significant progress made during the year.

LIAM O'MAHONY
CHAIRMAN

Governance and Board

The Board and Management of SKG support the highest standards of Corporate Governance and ethical business conduct. We believe 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 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. 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 2013, we were pleased to announce that Mr John Moloney was co-opted to the Board as an independent non-executive Director. Mr Moloney, the recently retired CEO of Glanbia plc, brings significant experience of international markets and we believe he will make a valuable contribution to the Board and the continuing development of SKG.

As reported last year, Mr Christopher McGowan retired from the Board at the 2013 Annual General Meeting ('AGM'). We would like to sincerely thank him 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 Colombia and visited our Cali, Bogota and Medellin operations as well as our Forestry operations in Restrepo. The Board was also pleased to visit El Caracolí on the outskirts of Cali, an early childhood development centre created by the Fundación Smurfit Cartón de Colombia in close cooperation with other foundations in the country. In October, the Board visited our Townsend Hook mill site in the UK to view progress on the building to accommodate the 250,000 tonnes refurbished paper machine which is expected to come on-stream in early 2015. These visits are extremely valuable in giving the members of the Board 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 2013, I personally made additional visits to facilities in Colombia, the Netherlands, Poland, Russia, Sweden and the UK, covering mills, corrugated plants and other operations.

Innovation

Smurfit Kappa continually strives to develop innovative products in partnership with its customers in order to meet the demands of a rapidly changing global market. With 750 designers worldwide, a library of over 5,500 unique designs, an array of design and logistical tools and unparalleled breadth of experience we are uniquely equipped to make the difference for our customers. In that context, in September I was delighted to attend our 2013 Innovation and Sustainability Awards event in the Netherlands, where we showcased our best innovations in design and sustainability for 2013 to over 175 of our customers. This was followed by a function where the winners of the Innovation and Sustainability Awards, as judged by a jury consisting of our customers, were announced.

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 very pleased to acknowledge the third party recognition of our work in this area and especially the awards which we have received from key customers and industry groups. This is covered in greater detail in our sixth Sustainable Development Report which was produced in June 2013 and is available on our website: www.smurfitkappa.com. A summary of this report is contained on pages 32 and 33 of this Annual Report. A further such report will be issued in 2014.

Acquisitions

SKOC was acquired in November 2012 and has been successfully integrated into the Group with synergies well ahead of expectations. In March 2013, we expanded our bag-in-box operations in Spain through the acquisition of MT Plastics. In the UK the Group acquired a specialist display and litho-laminated business called CRP in October 2013. This business is very compatible with our overall UK business and assists in enhancing the breadth of the offering to our international and local customers.

Dividends and Dividend Policy

The Group regards dividends as an important part of its investment proposition, providing shareholders value through the cycle. Following a strong performance in 2013, the successful re-positioning of the Group's capital structure, and confidence in its future earnings and cash flow the Board is recommending a final dividend of 30.75 cent, a 50% increase on last year, reflecting confidence in the business. It is our intention to continue a progressive dividend policy within the context of the Group's ongoing earnings profile.

It is the Directors' intention that the final dividend for 2013 and the interim dividend for 2014 will be paid in May and October 2014 respectively in the approximate proportions of two thirds and one third.

Outlook

For 2014, based on the current macroeconomic conditions, the Group expects to achieve continued earnings growth. This will be delivered in the context of the fundamental financial, strategic and differentiation initiatives commenced in 2013 and as the European packaging business progressively secures the recovery of input cost increases through higher box prices. Today, the Group is in a good position to further optimise its integrated European operations and to increase its unique Americas exposure through the use of its strong balance sheet and its proven management, thereby continuing to deliver earnings growth and improved returns to our shareholders.

Liam O'Mahony

Liam O'Mahony
Chairman

ingenuity

Innovation: Maria Elisa Llano and Simone Zancarli
at Smurfit Kappa Italia, Pastrengo, Italy.

Smurfit Kappa's success is built on constantly delivering original and inventive solutions that unlock opportunities for our forward-thinking customers. Applying our ingenuity requires that we constantly approach every challenge and opportunity from multiple perspectives and apply our best thinking. In a world that is constantly changing our customers will continue to look for us to be original and inventive.

Chief Executive's Review

2013 Overview

The Group has delivered 9% EBITDA growth year-on-year with a full year EBITDA of €1,107 million. The Americas made a considerable contribution to the material earnings growth including a strong performance from its Venezuelan operations and major progress in SKOC following its acquisition in 2012. Europe, down year-on-year, delivered EBITDA of €772 million, having experienced a weaker performance earlier in the year which improved in the second half of the year.

GARY McGANN
GROUP CHIEF EXECUTIVE OFFICER

The Group remains strongly committed to its integrated model which has been proven to deliver consistently higher earnings whilst reducing volatility. SKG's business offering involves increasing differentiation compared to its competitors in areas such as a dynamic product portfolio, innovative packaging designs, security of supply, efficiency of distribution and optimal chain of custody control.

In the early part of 2013 SKG's European corrugated pricing was under pressure following the downward trend in testliner prices in the latter part of 2012. This downward pressure was alleviated by the successful implementation of a €40 per tonne price increase in recycled containerboard in February 2013. Further price increases in August and November 2013 provided the Group with a renewed platform and necessity to seek corrugated price recovery. Initial progress in this recovery was evidenced in the fourth quarter and is continuing into the first quarter 2014 with a total price recovery to January 2014 of 2% from the low point in 2013. The Group's objective is to recover increased input costs in box prices with the usual time lag.

European corrugated box volumes grew by 2% year-on-year and reflect steady underlying growth across the region combined with a number of new customer wins. The Group's Eastern European operations continued to perform strongly, with a full year volume increase of 9% including a particularly strong result in Poland. Sheet feeding, which accounts for approximately 13% of the Group's volumes, improved in the fourth quarter as rising input costs resulted in an increase in price levels to a point at which it was economically viable for SKG to become more active in the sheet feeding market.

Over the course of 2013, the European testliner industry implemented three price increases with a net uplift of €85 per tonne. This was achieved as a result of solid fundamentals that have persisted into 2014, including evidence of some macroeconomic growth, improving corrugated demand, consistently high Old Corrugated Containers ('OCC') pricing and the absence of material additional capacity announcements.

The Group delivered a strong performance in its kraftliner operations in 2013 due to improved production levels and a 7% increase in prices. SKG is the number one European producer of kraftliner and maintains a net long position of approximately 500,000 tonnes in a European market which is structurally short of kraftliner. This provides security of supply to the Group's packaging operations and exposure to typically higher margins through third party sales. It also provides a strategic hedge against any extreme volatility in raw material costs or availability. Recent weakness in the grade is abating with possible upside later in the year to restore the economically logical spread between kraftliner and testliner prices.

The Americas segment performed well during the year with EBITDA of €357 million. The performance of the various countries within the region was generally positive, particularly in Venezuela and SKOC, delivering average volume growth of 2% in spite of extensive bottom slicing in SKOC's customer portfolio. SKOC has been successfully integrated into the Group at all levels and its progress has materially exceeded expectations. The Group's Mexican business reported flat year-on-year volumes on slower demand but successfully delivered a 6% price recovery as a result of rising paper prices in the first half. The Group's Colombian business is progressing well following a temporary slowdown during the year, partially caused by an excessively strong currency.

In spite of economic headwinds and very challenging operating conditions, the Group's Venezuelan business has continued to perform strongly year-on-year with a 3% underlying growth in volume, having adjusted for one-off issues in 2012. The Group's Venezuelan business is the leading supplier of paper-based packaging in Venezuela and is an important part of the industrial infrastructure. Due to recent developments in relation to the foreign currency exchange system which may impact the exchange rate at which US dollars are to be made available to its Venezuelan operations, the Group has updated its Principal Risks and Uncertainties on page 43.

Capital Structure

In July 2013, the Group completed the refinancing of its €1.375 billion Senior Credit Facility at significantly reduced rates which had the effect of moving the entire Group's capital structure to an unsecured basis. This marked the completion of the transition of the Group from a leveraged company status to a corporate credit profile. This refinancing was followed in November by the redemption of the Group's €500 million 7.25% bonds which was funded by existing credit facilities and approximately €220 million of cash resources. These two transactions resulted in a one-off exceptional charge to the Consolidated Income Statement of €51 million. As a result, the Group will have reduced its annualised cash interest costs by approximately €43 million, the full effects of which will be seen in 2014.

SKG delivered free cash flow of €365 million in 2013, up 30% year-on-year. This higher free cash flow enabled debt paydown of €171 million and a reduction in net debt to EBITDA to just under 2.4 times at the year-end. Reflecting the Group's focus on maximising returns for shareholders, return on capital employed ('ROCE') increased to 13.1% and the plan to deploy extra resources on growth-focused capital expenditure will support a continuation in the trend of increasing ROCE.

Customers

SKG continues to be the best positioned supplier of innovative, paper-based packaging solutions in its chosen markets of Europe and the Americas. We provide customers with innovative, consumer focused, sustainable and cost efficient packaging and logistical solutions that support the sale of our customers' products.

The Group seeks to differentiate itself in the market through superior service, quality, delivery and customer relationships. SKG is clearly established as a committed partner to many of our key customers, working in their industries and in many cases within their operations to define and meet their increasingly complex packaging needs. This is evidenced by the sizeable market share that SKG has with the major international branded companies. Customer partnering is an area in which SKG is continuing to give significant focus and which will be the beneficiary of further developments over the next couple of years.

I would like to thank all our customers, both large and small on both continents for the continuing confidence and trust they placed in us and we look forward to continuing to work with them to enhance their success in their marketplace.

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 support and service our diverse customer base. I would like to acknowledge the effort and commitment of our approximately 41,000 employees in the 32 countries in which we operate for their significant contribution to the results achieved in 2013. We look forward to facing the challenges and opportunities of 2014 together and to continuing our efforts to make SKG the safest and most customer focused company in which to work in our industry.

Corporate Social Responsibility

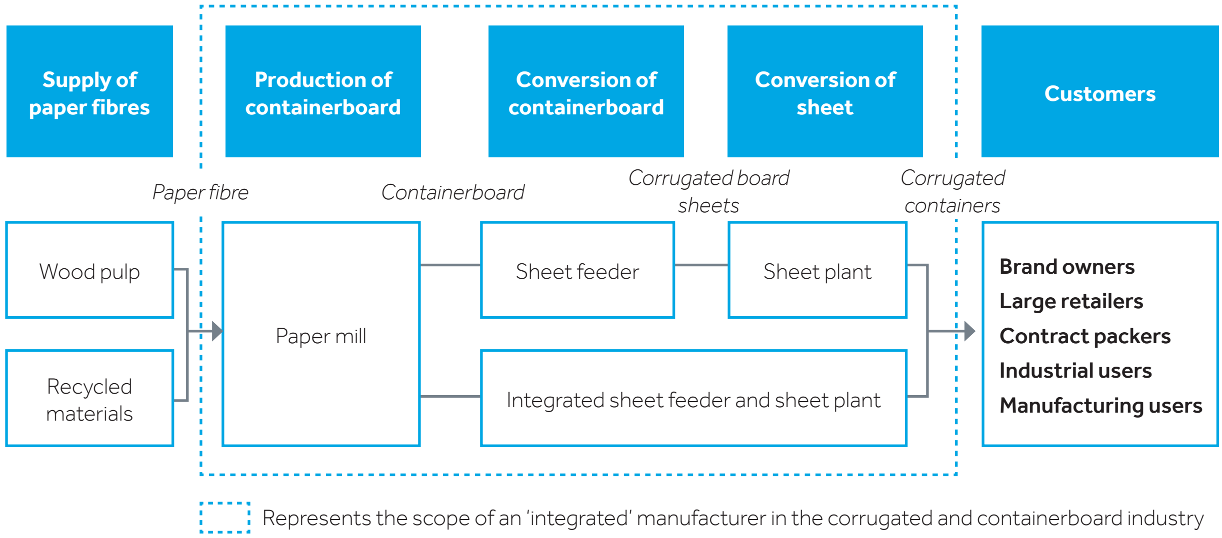
In its sixth annual Sustainable Development Report, released in June 2013, SKG highlighted its continued progress and commitment to social and environmental best practices and cited tangible evidence of this. This continues to be a high priority for the Group in fulfilling its obligation to its customers, 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

Business Model

The Group generates a significant portion of its revenue from packaging products for FMCG (including food, beverages and household consumables). Demand for consumer staples, and by extension demand for SKG's products, is resilient especially during periods of economic downturn. While the Group is involved at all levels of the supply chain, the Group's final products are designed to transport, protect and assist in the promotion and marketing of the Group's customers' products to their end consumers. We believe that an integrated model, from the sources of fibre to end products, is the most cost effective and efficient way to provide innovative packaging, logistical solutions and high quality service to the Group's customers.

Production Process and Supply Chain for Corrugated Containers



The Group's recycling, wood procurement and forestry operations provide raw material to its mills, which process these into paper for its corrugated converting plants. Similarly, the Group's solidboard, recycled boxboard and sack kraft mills are integrated with its respective solidboard packaging, folding carton and paper sack operations. The benefits of this integration in the Group's main business area includes:

- security of paper supply during periods of market fluctuation where major producers decrease utilisation or implement closures;
- the ability to offer products tailored to the requirements of end customers (such as quality, grades and innovation) through the Group's control of the supply chain;
- the capability to innovate in a sustainable manner through the whole supply chain in areas such as original fibre, paper recipes technology advances, structural and graphic design;
- lower exposure to volatility in containerboard prices and, in regions in which SKG owns forests, to recovered paper prices;
- achieving efficiencies in the supply chain, including through paper machine optimisation, management of logistics; and
- the ability to provide better service to corrugated container customers through innovation and tailored services.

Strategy

The Group's objective is to develop long-term customer relationships by providing customers with differentiated packaging solutions that enhance the customer's prospects of success in their end markets. In that context, by generating strong sustainable revenue and profitability, together with judicious capital allocation decisions we expect to deliver an increasingly strong return on capital through the cycle. This objective is underpinned by the Group's clearly stated ambition to maintain its premier position in the industry by delivering superior customer satisfaction; pursuing cost and operating efficiencies; maintaining proactive environmental awareness; and reinforcing its commitment to continuous improvement in the areas of health and safety and corporate social responsibility.

The Group's objectives and strategies are:

- to expand its market positions in Western Europe, Eastern Europe and the Americas through selective focused growth, including:
  - organic growth from increased market share through consolidating, and where appropriate, extending its leadership position. This will be achieved by deepening the Group's customer relationships at an international and local level through a relentless pursuit of innovative initiatives that assist the customers' market impact and optimises their supply chain activities; and
  - the pursuit of accretive acquisitions in higher growth markets such as Eastern Europe and Latin America.

- to become the supplier/partner of choice of its customers by:
  - deepening the understanding of its customers' world and developing proactive initiatives to improve their offering;
  - constantly innovating its products, service, quality and delivery in order to develop and/or maintain preferred supplier status; and
  - pursuing superior performance measured against clearly defined metrics in all aspects of its business and at all levels in its organisation.

- to focus on enhancing its operational excellence, from the forests or recycling depots to the customers' end markets by relentlessly pursuing the continuous upgrade of its customers' offering. This will be facilitated by:
  - improving the output from the Group's high quality asset base through judicious capital investment, continuous improvement programmes, transfer of best practice, industrial engineering, and other progressive initiatives emanating from its technical and scientific experts;
  - increasing the proportion of differentiated ideas, products and services on offer to its customers through the use of the Group's development and technology centres and its innovation tools, and delivering the results to customers operating in its widely based international footprint; and
  - ensuring that the driving force behind all its operations, whether in the converting operations, the mill divisions or the support areas is one of customer satisfaction and excellence in the marketplace.

- to recruit, retain, develop, and motivate the best people who will excel in a dynamic progressive company, thereby achieving their full potential. We will do this through:
  - high quality graduate and other recruitment initiatives, progressive goal setting, and performance appraisal programme;
  - focused job training and coaching;
  - cross divisional in-house development programmes; and
  - selective executive development programmes.

- to maintain a disciplined approach to capital allocation and maintain the focus on cash generation as a fundamental measure of the success of its strategy.

experience

Know-how: Peter Kramp and Dirk Schneider
at Smurfit Kappa Zülpich, Germany

Our experiences have helped us refine our skills and build a strong and respected reputation. Our experience lets us approach each new challenge with confidence and offers our customers the reassurance they need to move forward.

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. The 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.

In 2013, the Group increased the proportion of capital expenditure attributed to growth targeted customer facing investments, in the expectation of improving prospects across our markets. Positioning itself ahead of the market, the Group is investing throughout its packaging system with a focus on increasing colour and executing complex designs, whilst reducing costs. SKG's €28 million greenfield bag-in-box plant in Ibi, Spain, is on schedule for completion in the third quarter of 2014 and will significantly enhance the Group's delivery capabilities in this high growth, profitable market.

The Group is progressing well with its mill renovations in Townsend Hook (the UK) and Roermond (the Netherlands) having completed the re-build of its Hoya recycled containerboard mill (Germany) in June. These two remaining projects with costs of €115 million and €40 million respectively and completion dates of first quarter of 2015 and first quarter of 2016 will greatly enhance the Group's lightweight capabilities whilst materially reducing on-going operating costs.

The Group continues to invest in its operations in the Americas, which were expanded in late 2012 through the acquisition of SKOC. Major projects planned include the installation of the paper machine from our former mill at Valladolid in Spain at the Los Reyes mill in Mexico and a waste water treatment plant at SKOC's Forney mill. These two projects have a combined cost of approximately €40 million.

TONY SMURFIT
GROUP CHIEF OPERATIONS OFFICER

Europe

The Europe segment is the larger of the Group's two segments, accounting for 75% of revenue in 2013. It comprises primarily our integrated containerboard mills and corrugated operations as well as the bag-in-box and solidboard businesses.

The Group has facilities in 21 countries, in both Western and Eastern Europe. The operations consist of 26 mills, 17 of which produce containerboard, 188 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 approximately 1.6 million tonnes of brown and white kraftliner in 2013, 13 recycled containerboard mills which produced approximately 2.9 million tonnes of recycled containerboard 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 650,000 tonnes of solidboard and boxboard and 200,000 tonnes of graphicboard in 2013. 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 over 4.2 million tonnes (7.8 billion square metres) of corrugated packaging in 2013 and 50 sheet plants. In addition, we have 30 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 seven plants located in Europe, Canada and Argentina.

Revenue for the Europe segment in 2013 was approximately €6.0 billion compared to €5.9 billion in 2012, with underlying growth of €71 million driven primarily by good trading conditions for containerboard over the course of the year. Segmental EBITDA decreased by €68 million to €772 million, representing 70% of the total for the Group. Packaging margins experienced downward pressure due to the usual lag in the implementation of higher containerboard costs into box prices, resulting in a decrease in EBITDA margins from 14.2% in 2012 to 12.9% in 2013.

In volume terms, the Group's European packaging operations performed reasonably well in 2013, with growth of 2% in corrugated box volume as a result of improving markets for both corrugated boxes and sheet feeding operations. Our Eastern European operations continued to perform strongly, with year-on-year volume growth of 9%, including a particularly strong result in Poland. Reflecting our sizeable market share with the major internationally branded companies, the Group's pan-European volumes continued to perform strongly with 4% growth in 2013.

Corrugated packaging prices were under substantial pressure in early 2013 following the downward trend in testliner prices in the latter part of 2012. This downward pressure was alleviated by the successful implementation in February 2013 of a testliner price increase of €40 per tonne, which helped to underpin the corrugated price. Further testliner price increases in August and November of €45 per tonne in total have made it necessary for the Group to start raising prices in order to recover these increased input costs. The recovery achieved in the fourth quarter of 2013 has continued into 2014, with a total price recovery of 2% to January 2014 from the low point in 2013. The Group's objective is to recover the recent paper price increases through higher box prices subject to the usual time lag.

Throughout 2013, OCC pricing remained flat with average European prices remaining in a narrow band around €120 per tonne. Underpinning this stability was improving European demand for OCC as corrugated consumption increased and some incremental testliner capacity commenced production. This was complemented by steady global market activity from Chinese players despite the country's selective drive for quality OCC (the 'Green Fence' initiative) which ended in November. As the European recovered fibre market is expected to continue to tighten, SKG's strong control over its own fibre needs will become increasingly important.

Supported by solid fundamentals, the recycled containerboard market achieved a net increase of €85 per tonne in pricing in 2013. This went some way to addressing the unsustainable margins which had prevailed in recent years. However, in spite of relatively high price levels, margins have not recovered to their previous peaks as a result of consistently higher input costs. With improving demand based on modest macroeconomic growth and a stable supply side outlook, the European recycled containerboard market is expected to remain strong throughout 2014.

The refurbished machine at Townsend Hook will commence output in early 2015, and its 250,000 tonnes of lightweight paper will be introduced in an orderly manner into the market.

Overall, the Group's kraftliner operations performed well during the year as a result of strong volumes and a 7% increase in the average price when compared to 2012. However, kraftliner pricing has been under pressure since September, dropping approximately €45 per tonne over the period. This negative trend in pricing is abating and the Group is confident that the strong testliner market and macroeconomic growth should support a recovery in the price of the grade during 2014, thereby restoring the economically logical spread between kraftliner and testliner prices.

Looking ahead, the Group's European packaging volumes will continue to benefit from corrugated price increases as it progresses with the recovery of higher input costs with the usual time lag.

The Americas

The Group's operations in the Americas consist of 12 paper mills in five 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 2013. The mills are supported by 33 recovered fibre plants in seven countries and forestry operations in Colombia and Venezuela. We also have 33 corrugated plants in seven countries with a 2013 production of approximately 1.0 million tonnes (1.6 billion square metres), eight other converting plants in five countries producing either paper sacks or folding cartons, a preprint facility and three foam packaging plants in Mexico.

Revenue for the Americas segment in 2013 was €2.0 billion compared to €1.4 billion in 2012, with the year-on-year increase largely the result of the presence of SKOC for a full year as well as good volume growth. Comparable corrugated volumes were 2% higher overall year-on-year, despite extensive bottom slicing in SKOC's customer portfolio. Segmental EBITDA was €357 million, representing 32% of the total for the Group, compared to €211 million in 2012 while the EBITDA margin was 18.0% compared to 15.0% in 2012. The improvement in margin reflected the successful integration of SKOC and the benefit of our cost take-out programme as well as the absence of the negative impact of labour issues in Venezuela and Argentina which occured in 2012.

SKOC significantly out-performed earnings expectations for its first full year within the Group as a result of the double benefit of higher linerboard and corrugated prices together with productivity improvements and other synergy benefits throughout the organisation. Having exited unprofitable business earlier in the year, as US demand improves SKOC expects to deliver good growth in 2014 as a result of key account wins and organic growth with its existing customers.

Despite weakening fundamentals in Argentina, the Group's operations performed satisfactorily with a 7% increase in volumes which included the recovery of much of the lost volumes due to one-off issues in 2012. However, price increases of 4% did not match inflation over the period. The Group has actively managed its US dollar exposure as the currency has devalued during the year.

The recovery of the Colombian economy continues to gain traction and is experiencing strong GDP growth. The Group achieved 3% volume growth year-on-year although it experienced some pricing pressure throughout the year. This is expected to be recovered in 2014 following the announcement of pricing initiatives in January. The country's effective cost take-out programme continues to provide tangible benefits and to deliver consistently strong EBITDA margins.

Following somewhat difficult market dynamics in 2013, the Mexican market is expected to improve its pace of growth in 2014 with GDP growth of 3% forecast for the year. As a result of rising paper prices in the first half of the year, corrugated prices in the country were increased by 6% during 2013 and further increases will be necessary in 2014 to recover rising input costs.

In spite of Venezuela continuing to experience significant inflationary pressures, and shortages of basic goods, the business performed well in 2013, due to its strong position in this market, and a lack of one-off issues which affected the corrugated operations in 2012. Adjusting for these one-off issues, the underlying year-on-year growth in corrugated volumes was 3%.

The Americas is an important driver of geographic diversity and earnings growth for the Group and SKG will continue to actively invest in driving the region's performance through targeted capital expenditure and accretive acquisitions. Improved macroeconomic expectations for the remainder of the region should further support SKG's drive to grow the business in 2014 and maximise returns for shareholders.

Commercial Offering and Innovation

As the European market leader and the largest pan-regional supplier in the Americas, SKG is uniquely placed to provide our customers with first class packaging solutions tailored to their increasingly demanding needs. The Group seeks to differentiate itself in the market through superior service, quality, delivery and customer relationships. Reflective of this, the Group's pan-European packaging business continues to experience significant progress with 4% volume growth in the year. The Group's service culture supports consistent product innovation and the provision of tangible added value for our 64,000 customers worldwide, and SKG's ability to drive cost reduction and retailing impact are increasingly regarded as key differentiators in the marketplace.

With approximately 60% of our customers in the FMCG space, we have enhanced our product range to increasingly provide high quality retail ready packaging and merchandising displays, as well as standard transport packaging. In the case of retail ready packaging, approximately 75% of buying decisions by end consumers are made at the point of purchase and, therefore, high quality packaging has a significant role to play in this regard. With 750 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.

On 26 September 2013, the Group hosted 175 customers at its fourth European Innovation Day in the Netherlands. The event is an important opportunity for SKG to showcase its premier designs and innovative packaging solutions from around the Group with Innovation and Sustainability Awards adjudicated by our customers and sustainability experts. A similar event was held in Mexico City on 3 October which was attended by 60 customers from throughout the Americas region. The European event was also used to formally launch SKG's new 3D Store Visualiser which allows access to thousands of interchangeable optimisation scenarios, pictures, movies and live demos of customer specific packaging challenges on the shelf. The ability to study consumer behaviour in this controlled environment is a step further in the Group's leadership in researching the optimisation of packaging design for our customers.

In October, the Group was recognised as Sweden's best packaging supplier at the Packaging Industry Awards, winning the top prize in the Packaging Converter category, and took first prize at the Scanstar Awards. Scanstar is arranged by the Scandinavian Packaging Association, a coordinating body for the five Nordic countries' national packaging organisations. Recognised for its commitment to sustainability, the Group was awarded top prize for Bio Strategy of the Year and Mill Manager of the Year at the PPI Awards ceremony which took place on 11 December in Dubai. The two awards reinforce the Group's global position as a leading player in the paper-based packaging sector, and once again show the Group's continuous strive for excellence.

Synergy/Cost Take-out Programme

The Group is pleased to announce the achievement of its 2013 cost take-out target with the delivery of €101 million of incremental cost take-out in the year. The Group views this programme as an essential tool in combating the industry's inflating cost base and consistently applies improving technologies in combination with its industry leading technical expertise to improve process efficiencies and raw material usage.

Having successfully delivered cost savings of €597 million since the start of 2008, SKG has identified a further €100 million cost take-out opportunities for 2014. These will be achieved across the business segments and will continue to underpin the Group's improving earnings.

Capability: Guido González and John Jairo Amaya at Smurfit Kappa Cartón de Colombia, Cali, Colombia

Our expertise in forestry, recovery, paper, packaging and related systems is recognised as industry leading and sets the standard for efficiency, sustainability, quality and innovation. Our focus on training and innovation ensures that our expertise continues to evolve and expand to meet the needs of our customers and the environment.

Finance Review

Over the course of 2013 the Group has continued its successful debt refinancing, thereby improving the maturity profile, diversifying the funding base and completing the transition of the Group from a leveraged to a corporate credit status.

IAN CURLEY
GROUP CHIEF FINANCIAL OFFICER

Results

Comparative figures for 2012 reflect the restatement to employee benefits under the revision of IAS 19. This reduced our EBITDA by €4 million to €1,016 million from the previously reported €1,020 million. The full impact on the Financial Statements is set out in Note 32.

Revenue increased by 8% to approximately €8.0 billion in 2013 from €7.3 billion in 2012. Although revenue was boosted by €409 million from net acquisitions, primarily SKOC, currency movements and hyperinflationary adjustments reduced comparable revenue by €185 million. As a result, the underlying move was an increase of €398 million, with higher revenue in the Americas and, to a lesser extent, in Europe.

Driven mainly by strong growth in Venezuela, comparable revenue in the Americas was €327 million higher year-on-year. Corrugated volumes were 3% higher than in 2012, although conditions varied from country to country with relatively strong growth in Venezuela and Argentina.

Allowing for negative currency movements and the contribution from net acquisitions, mainly CRP and MT Plastics, comparable European revenue increased by €71 million. This increase, which equated to over 1%, arose mainly on the mill side with the benefit of higher average selling prices more than compensating for a 1% decrease in containerboard volumes. Although kraftliner shipments were higher, the temporary closure of the Group's Townsend Hook mill resulted in lower shipments of recycled grades. Despite a slippage in kraftliner prices in the second half of the year, average containerboard prices were higher year-on-year. On the corrugated side, box volumes grew by 2% year-on-year and reflect steady underlying growth across the region combined with a number of new customer wins.

With the benefit of relatively strong growth in the fourth quarter, EBITDA for the full year increased by €91 million (the equivalent of 9%) from €1,016 million in 2012 to €1,107 million in 2013. Allowing for currency movements, hyperinflationary adjustments and a contribution of €60 million from net acquisitions (primarily SKOC); comparable EBITDA increased by €42 million with higher earnings in the Americas and lower Group Centre costs, partly offset by a shortfall in Europe.

At €772 million for the year, European EBITDA was €68 million lower than 2012's €840 million. The underlying move was a year-on-year decrease of over €60 million with the remainder coming mainly from negative currency movements. The overall decline reflected a relatively good performance on the mill side more than offset by lower earnings in the corrugated operations. Despite the benefit of a 2% increase in box volumes, earnings in the European corrugated operations declined through the combination of lower average box prices and the higher containerboard prices.

The Americas business segment comprises the Group's operations in Latin America and the United States. Aided by the presence of SKOC for a full year, these operations reported EBITDA in 2013 of €357 million, representing 32% of the total for the Group, compared to €211 million in 2012. Allowing for currency movements, hyperinflationary adjustments and a contribution of over €60 million from SKOC, comparable EBITDA increased by €90 million with a generally positive performance in the various countries within the region.

The year-on-year increase of €91 million in EBITDA was partly offset by a higher overall charge for depreciation, depletion and amortisation, which was €24 million higher than in 2012. The largest increase was in depreciation, which amounted to €346 million compared to €332 million in 2012, and resulted mainly from the presence of SKOC for a full year. The charge for depletion was €5 million higher, reflecting an increase in the fair value of our biological assets in Venezuela. The amortisation of intangible assets in SKOC resulted in an increase of €5 million in the charge compared to 2012. With an unchanged share-based payment expense, our pre-exceptional operating profit (EBITDA less depreciation, depletion and amortisation and the share-based payment expense) increased by €67 million to €679 million compared to €612 million in 2012.

Our pre-exceptional net finance costs amounted to €308 million (costs of €329 million less income of €21 million) in 2013, compared to €302 million in 2012. The year-on-year increase of €6 million resulted from the combination of lower cash interest costs and higher non-cash finance costs.

Pre-exceptional cash interest amounted to €197 million in 2013 compared to €235 million in 2012, with the €38 million decrease reflecting primarily the benefit of our refinancing activities in 2012 and 2013. At €111 million, pre-exceptional non-cash interest costs were €44 million higher than in 2013 mainly as a result of a higher hyperinflationary net monetary loss.

Including the net profit of €2 million from our share of associates' earnings, the Group's pre-exceptional profit before income tax was €373 million in 2013 compared to €313 million in 2012.

Exceptional Items

Exceptional items charged within operating profit in 2013 amounted to a net charge of €36 million, €15 million of which (including a fixed asset impairment charge of approximately €9 million) related to the temporary closure of the Townsend Hook mill. A further €18 million related to a currency trading loss as a result of the devaluation of the Venezuelan Bolivar in February 2013, comprising the €12 million booked in the first quarter and its subsequent adjustment by €6 million for hyperinflation and re-translation at the year-end exchange rate.

This original loss reflected the higher cost to our Venezuelan operations of discharging their non-Bolivar denominated payables following the devaluation. The remaining €3 million was in respect of SKOC related acquisition costs and the closure of the Juarez plant in Mexico.

Exceptional items charged within operating profit in 2012 amounted to a net gain of €18 million, comprising gains of €28 million and charges 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 charges mainly comprised acquisition costs relating to SKOC and restructuring costs in Europe.

Exceptional finance costs in 2013 amounted to €51 million and resulted from the early repayment during the year of the Senior Credit Facility and the €500 million 7.25% bonds due in 2017. Of the €51 million, €29 million was booked in the fourth quarter and related entirely to the repayment of the 2017 bonds in November. The total comprised costs of €23 million, primarily the redemption premium, and €6 million in respect of the accelerated amortisation of debt issue costs. The remaining €22 million was entirely in respect of the accelerated amortisation of debt issue costs relating to the Senior Credit Facility. Exceptional finance income amounted to €8 million and related entirely to the increased value of US dollar denominated intra-Group loans receivable in Venezuela.

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 redemption premium payable on the early repayment of the 2015 bonds.

Profit before Income Tax

After exceptional items, our total profit before income tax amounted to €294 million in 2013, comprising the pre-exceptional profit of €373 million and a net exceptional charge of €79 million. In 2012, the total profit before income tax was €319 million comprising the pre-exceptional profit of €313 million and net exceptional gains of €6 million. With pre-exceptional profit €60 million higher than in 2012, the year-on-year decrease of €25 million in our total profit before income tax reflected the move in exceptional items from a net gain in 2012 to a net charge in 2013.

Income Tax Expense

The income tax expense in 2013 was €98 million (comprising a current tax charge of €122 million net of a deferred tax credit of €24 million) compared to €68 million (comprising a current tax charge of €85 million net of a deferred tax credit of €17 million) in 2012.

The increase reflects changes in the geographical mix of earnings. This arose largely in the Americas which included SKOC for a full year and higher earnings in Venezuela. The income tax expense in Europe is broadly unchanged although in addition to changes in the earnings mix in the region there were lower asset sales and an increase in exceptional items with a €5 million associated tax effect. The Group also recorded net deferred tax benefits related to timing differences and for losses on the basis that it is probable that these would be used before they expire.

Earnings per Share

The basic earnings per share amounted to 82.2 cent in 2013 compared to 106.9 cent in 2012. On a diluted basis, our earnings per share in 2013 amounted to 80.8 cent compared to 104.2 cent in 2012.

The year-on-year decrease in our basic earnings per share resulted from the large net exceptional charge in 2013, which more than offset the strong increase in our pre-exceptional profit for the financial year. On a pre-exceptional basis, our basic earnings per share in 2013 amounted to 114.5 cent compared to 104.1 cent in 2012.

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 228,640,000 in 2013 compared to 223,812,000 in 2012. Ordinary shares in issue at 31 December 2013 amounted to 229,403,000 (2012: 227,746,000).

Financial Performance Indicators

Certain financial measures set out below, including pre-exceptional 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 pre-exceptional EBITDA because we believe it presents a helpful comparison of the most appropriate measure of recurring financial performance between periods. 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:

	2013	Restated 2012
EBITDA* (€ million)	**1,107**	1,016
EBITDA margin to revenue (%)	**13.9**	13.8
Net debt (€ million)	**2,621**	2,792
Net debt to EBITDA (times)	**2.4**	2.7
Free cash flow (€ million)	**365**	282
Return on capital employed** (%)	**13.1**	12.0
Basic earnings per share (cent)	**82.2**	106.9
Pre-exceptional basic earnings per share (cent)	**114.5**	104.1

* *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 each year-end).*

Reconciliation of Profit to EBITDA

	2013 €m	Restated 2012 €m
Profit for the financial year	**196**	251
Income tax expense	**98**	68
Exceptional items charged/(credited) in operating profit	**36**	(18)
Share of associates' profit (after tax)	**(2)**	(3)
Net finance costs (after exceptional items)	**351**	314
Depreciation, depletion (net) and amortisation	**402**	378
Share-based payment expense	**26**	26
EBITDA	**1,107**	1,016

EBITDA and EBITDA Margin

EBITDA increased by €91 million to €1,107 million in 2013 from €1,016 million in 2012. Allowing for currency movements, hyperinflation accounting and a contribution of €60 million from net acquisitions (primarily SKOC), comparable EBITDA increased by €42 million, the equivalent of 4%. This increase reflected a combination of earnings growth in the Americas and lower Group Centre costs, partly offset by a shortfall in Europe where packaging margins experienced downward pressure due to the usual lag in the implementation of higher containerboard costs into box prices.

With a slightly stronger increase in EBITDA than in revenue, our EBITDA margin increased from 13.8% in 2012 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 €2,621 million at December 2013 compared to €2,792 million at December 2012. The year-on-year decrease of €171 million reflects our resolve to use the increased cash flow from operations in 2013 to pay down debt in the absence of more accretive uses of cash. With higher EBITDA and lower net debt, our leverage fell from 2.7 times at December 2012 to less than 2.4 times at December 2013.

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 €365 million in 2013, equating to a year-on-year increase of 30% on €282 million in 2012. The increase of €83 million was driven mainly by higher EBITDA, a working capital inflow rather than an outflow and materially reduced cash interest, partly offset by higher capital and other outflows.

ROCE

With the benefit of a considerably higher level of pre-exceptional operating profit, partly offset by a slightly higher average level of capital employed, our ROCE increased from 12.0% (12.5% on a proforma basis for SKOC) in 2012 to 13.1% at December 2013, reflecting the Group's focus on maximising returns to shareholders. The plan to deploy extra resources on growth-focused capital expenditure will support a continuation in the trend of increasing ROCE.

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 ROCE, 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 it. In order to more truly reflect the Group's operational performance, EPS is also reported on a pre-exceptional basis.

Driven by a net exceptional charge in 2013 compared to a credit in 2012, the Group's basic EPS decreased to 82.2 cent in 2013 from 106.9 cent in 2012, with the drop reflecting both a lower profit before income tax and a higher income tax expense.

On a pre-exceptional basis, however, our EPS in 2013 was 114.5 cent, representing a 10% increase on 2012's 104.1 cent. The increased pre-exceptional EPS in 2013 primarily reflects the benefit of a €60 million increase in our pre-exceptional profit before income tax, the benefit of which more than offset the higher pre-exceptional income tax expense.

Cash Generation

Summary Cash Flow[1]

	2013 €m	Restated 2012 €m
EBITDA	**1,107**	1,016
Exceptional items	**(27)**	(4)
Cash interest expense	**(197)**	(235)
Working capital change	**28**	(12)
Current provisions	**(6)**	(10)
Capital expenditure	**(369)**	(293)
Change in capital creditors	**10**	(35)
Tax paid	**(112)**	(113)
Sale of fixed assets	**3**	14
Other	**(72)**	(46)
Free cash flow	**365**	282
Share issues	**7**	27
Purchase of own shares	**(15)**	(13)
Sale of businesses and investments	**-**	(1)
Purchase of investments	**(26)**	(184)
Dividends	**(76)**	(56)
Derivative termination payments	**(16)**	(3)
Early repayment of bonds	**(23)**	(4)
Net cash inflow	**216**	48
Net debt/cash acquired/disposed	**(8)**	2
Acquired Orange County debt	**-**	(85)
Deferred debt issue costs amortised	**(40)**	(26)
Currency translation adjustments	**3**	21
Decrease/(increase) in net debt	**171**	(40)

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 Financial Statements.*
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 on page 27. 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

	2013 €m	Restated 2012 €m
Free cash flow	**365**	282
Add back:		
Cash interest	**197**	235
Capital expenditure (net of change in capital creditors)	**359**	328
Tax payments	**112**	113
Financing activities	**3**	-
Less:		
Sale of fixed assets	**(3)**	(14)
Profit on sale of assets and businesses - non-exceptional	**(5)**	(6)
Dividends from associates (in 'Other' per summary cash flow)	**(1)**	(2)
Receipt of capital grants (in 'Other' per summary cash flow)	**(2)**	(1)
Non-cash financing activities	**(7)**	(6)
Cash generated from operations	**1,018**	929

At €365 million, our free cash flow in 2013 was €83 million higher than in 2012 with the increase reflecting mainly higher EBITDA, a working capital inflow rather than an outflow and lower cash interest, partly offset by higher capital and other outflows. Our free cash flow in 2013 was reduced also by an outflow of €27 million in respect of exceptional items. This outflow represents the impact of the amounts charged in the year, comprising primarily the restructuring costs at the Group's Townsend Hook mill and, following the devaluation of the Venezuelan Bolivar, losses of €18 million on the translation of non-Bolivar denominated payables.

Cash interest at €197 million in 2013 was €38 million lower than in 2012, reflecting primarily the benefit of our refinancing activities in 2012 and 2013. As a result of these refinancing activities, the Group both reduced its gross debt and changed its composition, whereby higher cost debt was refinanced at lower rates.

The working capital move in 2013 was an inflow of €28 million, compared to an outflow of €12 million in 2012. The inflow of €28 million resulted from a decrease in debtors and an increase in creditors partly offset by an increase in stocks. Working capital amounted to €536 million at December 2013, representing 6.6% of annualised revenue. Reflecting the Group's continued focus on working capital management, the ratio of working capital to revenue has improved year-on-year, moving from 8.5% (8.2% adjusting for SKOC) at December 2012 to 6.6% at December 2013 mainly due to improved debtors and inventory days.

Capital expenditure (fixed asset additions) amounted to €369 million in 2013 and equated to 98% of depreciation, compared to 82% in 2012. Although our capital expenditure was €76 million higher than in 2012, the cash impact was partly offset by an inflow in respect of capital creditors of €10 million where the move in 2012 had been an outflow of €35 million, of which €27 million was in the first quarter. This inflow in turn was the result of the deferral to 2012 of elements of the amounts booked as fixed asset additions in 2011.

At €112 million in 2013, our tax payments were broadly unchanged from 2012, with a reduction in Europe largely offset by an increase in the Americas, partly due to the presence of SKOC for the full year. In Europe, the year-on-year reduction reflected changes in profitability, including the absence of asset sales in 2013.

Other net outflows amounted to €72 million in 2013 compared to €46 million in 2012, with the increase largely reflecting a higher hyperinflationary adjustment. This adjustment is broadly the reversal of the non-cash hyperinflationary uplift recorded within Venezuela's pre-exceptional EBITDA. The larger adjustment in 2013 in turn reflects the strengthening inflationary pressures within the country and the consequent increase in the underlying local currency numbers.

Investment and financing cash flows in 2013 amounted to a net outflow of €149 million compared to €234 million in 2012. At €26 million, the outflow for the purchase of investments related mainly to CRP, a UK company specialising in litho-laminating and other specialised packaging. While the outflow for the purchase of investments was considerably lower than in 2012 when we acquired SKOC, dividends were higher in 2013 while the early repayment of the 2017 bonds resulted in an outflow of €23 million (primarily the redemption premium paid to the bondholders). The termination of derivatives in 2013 resulted in an outflow of €16 million where they were in a net loss position at maturity. These were largely euro/US dollar swaps, which are no longer required since the acquisition of SKOC has given us a natural hedge against our US dollar denominated debt.

With our free cash flow of €365 million partly offset by the net investment and financing outflows of €149 million, the result for the year to December 2013 was a net cash inflow of €216 million. This compares to an inflow of €48 million in 2012, which comprised the free cash flow of €282 million and the net investment and financing outflows of €234 million.

The reconciliation of the net cash inflow to the decrease in net debt includes certain non-cash items. For 2013, these amounted to a net negative €45 million and comprised net debt acquired of €8 million and €40 million in respect of the amortisation of debt issue costs, (€28 million of which was accelerated by the pay down of the relevant debt) partly offset by positive currency translation adjustments on net debt of €3 million. As a result, our net debt decreased by €171 million from €2,792 million at December 2012 to €2,621 million at December 2013.

The net positive currency translation adjustments of €3 million reflected the relative strengthening of the euro during 2013 against a range of currencies, including the US dollar. The resulting gains more than offset a reduction of €28 million in the euro value of our Bolivar denominated cash. The net positive currency translation adjustments of €21 million in 2012 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.

In total, the Group's net debt decreased by €171 million in 2013 to €2,621 million compared to €2,792 million at the start of the year. With net debt of €2,621 million at December 2013, our leverage (net debt as a multiple of EBITDA) was 2.4 times compared to 2.7 times at December 2012.

Venezuela

Venezuela became hyperinflationary during 2009 when its cumulative inflation rate for the past three years exceeded 100%. As a result, the Group applied the hyperinflationary accounting requirements of IAS 29, *Financial Reporting in Hyperinflationary Economies* to its Venezuelan operations at 31 December 2009 and for all subsequent accounting periods.

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the Consolidated Income Statement is impacted as follows: Revenue €81 million increase (2012: €27 million increase), pre-exceptional EBITDA €19 million increase (2012: €4 million decrease) and profit after taxation €91 million decrease (2012: €48 million decrease). In 2013, a net monetary loss of €67 million (2012: €18 million loss) was recorded in the Consolidated Income Statement. The impact on our net assets and our total equity is an increase of €104 million (2012: €33 million increase).

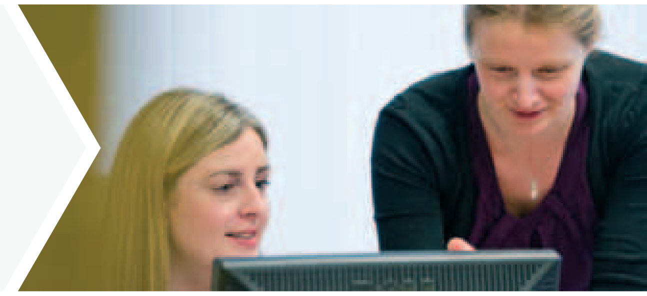
On 8 February 2013, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte ('VEF') and the termination of the SITME transaction system. The official exchange rate was changed from VEF 4.3 per US dollar to VEF 6.3 per US dollar. As a result of the devaluation the Group recorded 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.

The nationalisation of foreign owned companies or assets by the Venezuelan government remains a risk. 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, *Consolidated and Separate Financial Statements*.

Capital Resources and Liquidity

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €3,592 million (2012: €3,812 million), of which €3,068 million (2012: €3,235 million) was utilised at December 2013. The weighted average period until maturity of the undrawn committed facilities is 4.4 years (2012: 3.4 years).

Over the course of 2013 the Group has continued its successful debt refinancing, thereby improving the maturity profile, diversifying the funding base and completing the transition of the Group from a leveraged to a corporate credit status. Following the issue of €400 million seven-year senior secured notes on 23 January 2013, the Group successfully completed a new five-year unsecured €1,375 million refinancing of its senior credit facility comprising a €750 million term loan with a margin of 2.25% and a €625 million



revolving credit facility with a margin of 2.00%, on 24 July 2013. The term loan is repayable in instalments of €125 million on 24 July 2016, €125 million on 24 July 2017 with the balance of €500 million repayable on the maturity date. In connection with the refinancing, the collateral securing the obligations under the Group's various outstanding senior notes and debentures was also released and the senior notes and debentures are therefore now unsecured. The new unsecured senior credit facility is supported by substantially the same guarantee arrangements as the old senior credit facility. The existing senior notes and debentures likewise continue to have substantially similar guarantee arrangements as supported those instruments prior to the refinancing.

In addition, on 3 July 2013, the Group put in place a new five-year trade receivables securitisation programme of up to €175 million utilising the Group's receivables in Austria, Belgium, Italy and the Netherlands. The programme, which has been arranged by Rabobank and carries a margin of 1.70%, complements the Group's existing €250 million securitisation programme.

On 4 November 2013, the Group completed the redemption of its €500 million 7.25% senior notes due 2017, utilising cash and existing credit facilities arranged as part of the senior credit facility and trade receivables securitisation transactions.

The successful refinancing of our debt at lower interest rates highlights the recognition in the credit market of the Group's consistently robust operational performance and sustained strong free cash flow. On 15 February 2013, Standard & Poor's changed the outlook on the Group's BB credit rating from stable to positive while, on 12 November 2013, Moody's changed the outlook on the Group's Ba2 credit rating from stable to positive "reflecting the company's continued track record in reducing its financial leverage through a mix of debt repayments and improvements in operating profitability".

Our debt portfolio is well structured and has a relatively long-term maturity profile. At 31 December 2013, the average maturity profile of our debt was 5.2 years (December 2012: 5.8 years - as adjusted for the application of funds from our January 2013 bond issue).

The weighted average interest rate on debt at 31 December 2013 was 5.06% (December 2012: 6.21%). The year-on-year decrease in the average interest rate is due to a combination of the refinancing of our €500 million 7.25% bonds due 2017 with a mix of lower cost debt and cash in November 2013, a fall off of €150 million of higher cost interest rate swaps in June 2013 and the lower margin being charged on the new senior credit facility.

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 28 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. At 31 December 2013, the Group had fixed an average of 69% of the interest cost on its borrowings over the following twelve months.

At 31 December 2013, our fixed rate debt comprised mainly €500 million 7.75% senior notes due 2019, €200 million 5.125% senior notes due 2018, US$300 million 4.875% senior notes due 2018 (US$50 million swapped to floating), €400 million 4.125% senior notes due 2020 and US$292.3 million 7.50% senior debentures due 2025. In addition the Group had €859 million in interest rate swaps with maturity dates ranging from January 2014 to January 2021, €610 million of which mature during the course of 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 €11 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.

forward-thinking

Collaboration: Poul Mathiesen, Tina Engholm Jensen, Thomas Kruse Hansen and Eva Leth at Smurfit Kappa Kolding, Denmark

Collaboration is about sharing a vision and working to achieve it, both with forward-thinking customers and each other. This belief reflects the way we work with our customers and each other across disciplines, divisions and countries. We recognise the real value of the different experiences, expertise, cultures and ideas that are found in Smurfit Kappa. We recognise that when we work together to open up opportunities for our customers we make anything possible.

Sustainability

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 sixth annual Sustainable Development Report in June 2013 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 the Group's performance in 2012 was included in the report. Also, an overview of SKG's long-term sustainability commitments were included outlining the Group's 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 the Group's reporting with the application level of its reporting set to GRI A+. We also engaged KPMG for the fourth consecutive year to undertake external assurance and to provide 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 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 42 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 two meetings during the year, with an additional two meetings with the Select Committee of the EWC. 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 practised at local plant level where managers are best positioned to positively contribute and support worthy local causes.

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 its facilities."

SKG maintains management systems designed 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 provided to the Board each quarter.

The Group maintains Health and Safety Standards which together with the Policy document have been issued to every SKG site and made available to employees via notice boards, intranet and other appropriate media.

Health and Safety Committees exist at all operating sites with broad-based representation of individuals and employees.

The safety of every member of the Group's workforce is a key priority. It devotes considerable time and effort to promoting an awareness of health and safety so that the Group's employees and subcontracted workers follow the appropriate protective procedures. It is with great regret, therefore, that the Group reports two fatalities during 2013: a contractor sustained fatal injuries while performing a tree felling task on behalf of its Colombian forestry operations and an employee sustained fatal injuries while performing roof maintenance in the Group's Chilean operations.

During 2013, SKG appointed a Group Director of Health and Safety whose priority has been the development of processes that ensure the global adoption of proven health and safety practices and their verification through a comprehensive audit process.

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 2013 include:

- The completion of a new lime kiln in the Cali paper mill in Colombia in March 2013 minimising the environmental impact of waste material from the pulping process.
- ISO 14001 (environmental management) certification was obtained for the paper mills in Bernal and Coronel Suarez (Argentina) and Valencia (Venezuela) and ISO 50001 (energy management) for the Group's converting operation in Atlacomulco (Mexico).
- Achievement of two long-term sustainable development commitments.
    - In February 2013 over 90% of the Group's converting operations in Europe and the Americas were certified Chain of Custody.
    - In December 2013 the relative fossil CO_2 emissions of the Group's paper and board mill system was 20% lower than in 2005, its base year.
- Following the review of the Group's Code of Business Conduct, a Group wide awareness campaign was started in the last quarter of 2013.

The Sustainable Development Report also discusses what we consider to be the key environmental challenges and risks for the Group and its industry. These concerns focus on several subjects including water, fibre availability and energy. All three areas are fundamental to the Group's 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














1	2	3	4
5	6	7	8
9	10	11	12
13	14		

1 Liam O'Mahony
2 Gary McGann
3 Anthony Smurfit
4 Ian Curley
5 Frits Beurskens
6 Christel Bories
7 Thomas Brodin
8 Irial Finan
9 Samuel Mencoff
10 John Moloney
11 Roberto Newell
12 Nicanor Restrepo
13 Paul Stecko
14 Rosemary Thorne

BOARD COMMITTEES

AUDIT
R. Thorne, Chairman (1)
C. Bories (1)
T. Brodin (1)
I. Finan (1)
R. Newell (1)
J. Moloney (4)
P. Stecko (1)

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

NOMINATION
N. Restrepo, Chairman (3)
F. Beurskens (2)
T. Brodin (1)
L. O'Mahony (1)
S. Mencoff (2)
R. Thorne (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 Nomination Committee in 2013*

(3) *Joined the Nomination Committee in 2008 and the Compensation Committee in 2010*

(4) *Joined the Audit Committee in 2014*

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 a Director of Project Management Limited and was previously Chairman of IDA Ireland. He was the Chief Executive Officer of CRH plc from January 2000 until his retirement in December 2008, prior to which in a 37 year executive career within the CRH Group he held a number of senior management positions 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 67)

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 and Aer Lingus Group. He is Chairman of Aon Ireland, a Director of United Drug plc and the Irish Business and Employers' Confederation, a member of the European Round Table of Industrialists and Chairman of the Confederation of European Paper Industries. (Age 63)

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 non-executive Director of C&C Group plc. (Age 50)

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 51)

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 66)

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 Packaging 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 49)

Thomas Brodin

Thomas Brodin joined the Board in April 2008. He is a partner at Swedish investment management firm Cliens Kapitalförvaltning since November 2013. He was Head of Equities and Head of Equity Research and a member of the executive management team at Erik Penser Bankaktiebolag, a privately owned Swedish bank from 2007 to 2011. He was previously a European paper and packaging research analyst and Managing Director at Citigroup between 1995 and 2007. Prior to that, he was a paper and 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 49)

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 56)

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 Forest Product Holdings, LLC (d.b.a. Boise Cascade Company), Packaging Corporation of America, Nuveen Investments, Inc., 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 57)

John Moloney

John Moloney joined the Board in December 2013. He is the former Group Managing Director of Glanbia plc, a global performance nutrition and ingredients company. He served as Group Managing Director of Glanbia plc from 2001 until he retired from this position in November 2013. He joined Glanbia plc in 1987 and held a number of senior management positions before he was appointed Deputy Group Managing Director in 2000. He is Chairman of Coillte and a non-executive Director of DCC plc and of Greencore Group plc. (Age 59)

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 66)

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 72)

Paul Stecko

Paul Stecko joined the Board in February 2008. He is Chairman of Packaging Corporation of America ('PCA') since December 2013. He was executive Chairman of PCA from 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 69)

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 62)

relentless

Commitment: Thomas Bannat at Smurfit Kappa Wellpappenwerk, Brühl, Germany

We never stop until we have delivered on our promise and achieved the best possible solution for our customers, our community and our business. This relentless desire for excellence is driven by a passion for paper and packaging and by a pride in our company’s heritage and vision.

Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance. This Corporate Governance Statement describes how, throughout the financial year ended 31 December 2013, Smurfit Kappa Group plc applied the principles of the UK Corporate Governance Code, published by the Financial Reporting Council ('FRC') in September 2012 ('the Code') as adopted by the Irish Stock Exchange ('ISE') and London Stock Exchange ('LSE') 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.

A copy of the Code 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 Management Statements, the Interim Report, the Preliminary Results Release and the Annual Report
- Establishment and review of corporate governance policy and practice
- Monitoring of the Group's risk management and internal control systems
- Confirming the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the performance of the Group, its business model and strategy.

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 on page 39 and biographical details are set out on page 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. During the year under review the Company complied with the Code recommendation on Board independence and in addition, a further independent Director was co-opted to the Board in December 2013. The Chairman was independent on appointment.

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 page 35.

The Board through the Nomination 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 Moloney, 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.

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.

Director	Role	Independent	Appointment Date *
Liam O'Mahony	Non-executive Chairman	**	2007
Gary McGann	Group Chief Executive Officer	No	2000
Anthony Smurfit	Group Chief Operations 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
Samuel Mencoff	Non-executive Director	No	2002
John Moloney	Non-executive Director	Yes	2013
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*

Executive and Non-executive Directors – 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 and previous relevant experience. The non-executive Directors use their broad based skills, their diverse range of business and financial 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. Six of the non-executive Directors have the additional benefit of many years exposure to paper-based packaging companies either as employees, directors or stakeholders which complements the experiences of the executive Directors.

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, pursuant to the Articles of Association of the Company, 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 offer 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.

All of the Directors are offering themselves for re-election at the 2014 AGM and their details are set out on page 43.

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 48 to 60. 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 ('LTIP'). Non-executive Directors' fees are not pensionable. The Remuneration Policy and the Remuneration Report will be presented to shareholders for the purposes of non-binding advisory votes at the AGM on 2 May 2014.

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 except in the year when an external evaluation takes place.

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, applicable rules and regulations are complied with and that the Board is advised on its corporate governance obligations and developments in best practice. 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. The Group Secretary also acts as secretary to all of the Board Committees.

Meetings

The Board meets at least five times each year with additional meetings as required. The Board met eight times in 2013. Details of the meetings held during the period are contained in the schedule on page 42, 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 2013 the July Board meeting was held in Cali, Colombia, and the November meeting was held in conjunction with a plant visit to the Group's Townsend Hook mill in the UK. 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 they are advised of the matters to be discussed and 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.

Succession Planning and Diversity

The Board believes that appointing the best people to the Group's Board is critical to the success of the Company and as a result all appointments are made purely on merit regardless of gender, race, religion, age or disability. The Board believes diversity is an essential cornerstone for building long-term business success and ensures different perspectives are introduced into Board discussion. The Board considers gender and a wide geographical experience base to be essential aspects of diversity for a company with business in 32 countries worldwide. This policy plays a key role in the Group's succession planning when considering new appointments to the Board.

External Board Evaluation

An external Board evaluation was carried out during the year by a UK company, ICSA Board Evaluation ('ICSA'), a division of the Institute of Chartered Secretaries and Administrators. ICSA has carried out evaluations of listed companies in Ireland and the UK. ICSA is part of an organisation that supplies some IT services to the Group; however the annual value of the contract is not material to either party.

During the year ICSA conducted one-on-one interviews with all Board members. The discussion during the interviews focused on the following aspects of Board performance:

- Board role and responsibilities
- Oversight
- Board meetings
- Support for the Board
- Board composition
- Working together
- Outcome and achievements

The findings were presented at the November Board meeting by ICSA. The overall outcome was very positive and indicated the Board is operating effectively and cohesively with the performance being rated in the upper quartile of a seven point scale.

ICSA made three recommendations;

- The Board is to review the roles of each of the Board Committees to ensure their respective contribution to overall performance is maximised.
- The Board is to revisit the system of assessing the performance of each of the Board Committees to see can it be improved.
- Management is to revisit the Board Report to assess whether it could be streamlined and further improved.

Internal Board Evaluation

Except in years when an external evaluation is carried out, 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.

Share Ownership and Dealing

Details of Directors' shareholdings are set out on page 58. 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 Compensation Committee and the Nomination 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, details of attendance and each member's tenure are set out in the individual Committee reports.

The Code recommends that all of the members of the Audit Committee and the Compensation Committee should be independent non-executive Directors. Following the retirement of Mr Christopher McGowan from the Audit Committee at the 2013 AGM and the resignation of Mr Samuel Mencoff from the Compensation Committee in May 2013 the recommendation on independence with respect to the two Committees was achieved.

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 to institutional investors and analysts in London and New York in September 2013, which included presentations from senior managers from the Group's operations. Investors and analysts also attended the Group's Innovation and Sustainability Awards exhibition during the year. The Chairman, Group Chief Executive Officer, Chief Operations Officer and Chief Financial 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 Group'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 Group 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 1963-2013 (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 2012 to ensure it continued to comply with best practice in this area. The Code applies to the Group's Board of Directors, officers and employees worldwide. We also require individuals, entities, agents or anyone acting on the Group's behalf to comply with its Code. The revised Code is available on the Group's website: www.smurfitkappa.com and is 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 32 and 33 and are described in detail in the Sustainable Development Report for 2012 which is available on the Group's website. The Sustainable Development Report for 2013 will be published later in June 2014.

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 Consolidated Financial Statements 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 Annual Report and Consolidated Financial Statements. This had regard to the material risks that could affect the Group's business (as outlined in the Directors' Report on pages 43 and 44), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

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 22 to 29. In addition, Notes 21, 22, 23, and 28 to the Financial Statements detail cash and cash equivalents, capital and reserves, borrowings and financial instruments. Note 28 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 44 in the Directors' Report and form part of this Corporate Governance Statement.

Attendance at Meetings during the Year to 31 December 2013

	A*	B*
L. O'Mahony	8	8
F. Beurskens	8	8
C. Bories	8	6
T. Brodin	8	8
I. Finan	8	8
C. McGowan**	2	2
S. Mencoff	8	8
J. Moloney**	1	1
R. Newell	8	8
N. Restrepo	8	7
P. Stecko	8	7
R. Thorne	8	8
G. McGann	8	8
A. Smurfit	8	8
I. Curley	8	8

* *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 Moloney joined the Board in December 2013. Mr McGowan retired from the Board in May 2013.*

Directors' Report

Report of the Directors

The Directors submit their Report and Financial Statements for the year ended 31 December 2013.

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, Venezuela and the United States).

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 on future developments.

Results for the Year

The results for the year are set out in the Consolidated Income Statement on page 66. The profit attributable to the owners of the parent amounted to €188 million (2012: €240 million).

Key financial performance indicators are set out in the Finance Review on pages 24 to 26. The Consolidated Financial Statements for the year ended 31 December 2013 are set out in detail on pages 66 to 129.

Dividends

The Board is recommending a final dividend of 30.75 cent per share for 2013. Subject to shareholders' approval at the AGM on 2 May 2014, it is proposed to pay a final dividend on 9 May 2014 to all ordinary shareholders on the share register at the close of business on 11 April 2014.

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 €8 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 Christopher McGowan retired from the Board at the AGM on 3 May 2013.

Mr John Moloney was appointed to the Board on 5 December 2013.

In accordance with the provisions of Article 86 Mr Moloney retires at the AGM to be held on 2 May 2014 and, being eligible, offers himself for election.

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, pursuant to the Articles of Association of the Company, 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 2014 AGM and will offer themselves for re-election.

To enable shareholders to make an informed decision, reference should be made to page 35 which contains 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 42 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 58 to 60 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 and uncertainties 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.
- The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates.
- The Group is exposed to potential risks in relation to its Venezuelan operations which are set out on page 44 and in Note 3 to the Consolidated Financial Statements.

Venezuela Risk

- The Group is exposed to currency exchange rate fluctuations and exchange controls in Venezuela. In February 2013, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte, ('VEF') from VEF 4.3 per US dollar to VEF 6.3 ('Official rate') per US dollar. The Group currently consolidates its Venezuelan operations ('SKCV') at the Official rate. Contrary to general market expectations, in January 2014 the Government announced that it would not be devaluing the Official rate but access to the Official rate would only be available to certain priority sectors. Those not in these priority sectors would access dollars through the Complimentary System of Foreign Currency Acquirement ('Sicad'). The most recent Sicad rate is VEF 11.0 per US dollar and it is expected that this rate is likely to vary over time. The Group is awaiting clarification on whether it will be part of the priority sector, the non-priority sector or both sectors and is therefore assessing the most appropriate rate at which to consolidate its Venezuelan operations for 2014. Should the Group conclude that the Sicad rate is the most appropriate rate the effect would be to record a reduction in its net assets and cash balances during 2014. Based on the Group's balance sheet as at 31 December 2013, and using the most recent Sicad rate (VEF 11.0 per US dollar), the Group would record a reduction in its net assets of approximately €174 million in relation to these operations and a reduction in the euro value of its cash balances of €73 million.
- The Venezuelan government have also announced that companies can only seek price increases if they have clearance that their margins are within certain guidelines. There is a risk that if SKCV cannot implement price increases in a timely manner to cover the cost of its increasing raw material and labour costs as a result of inflation and the devaluing currency it would have an adverse effect on its results of operations. In this volatile environment the Group continues to closely monitor developments, assess evolving business risks and actively manage its investments.

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 Irish company law (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 42 and forms part of this report. The Audit Committee Report, the Remuneration Report and the Nomination Committee Report are set out on pages 45 to 61. A copy of the Code (September 2012) 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 by the Company 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 2015 or 2 August 2015.

A similar authority was granted at the AGM in 2013, which is due to expire on the earlier of the date of the AGM in 2014 or 2 August 2014.

Change of Control

On a change of control following a bid, the Lenders under the Senior Credit Facility would 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 Notes Indentures 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 2013 is set out in Note 34 to the Consolidated Financial Statements.

Capital Structure

Details of the structure of the Company's capital are set out in Note 22 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 25 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 2013 and 7 March 2014.

	31 December 2013		7 March 2014	
	Number of shares	**% of issued ordinary share capital**	**Number of shares**	**% of issued ordinary share capital**
Norges Bank	20,025,712	8.7%	20,025,712	8.7%
The Capital Group Companies, Inc.**	16,350,000	7.1%	8,925,502	3.9%
Growth Fund of America, Inc.**	11,350,000	4.9%	*	*
GMT Capital Corp.	15,916,535	6.9%	15,916,535	6.9%
HSBC Holdings plc	-	-	12,155,203	5.3%

**Shareholding was below 3% as at 7 March 2014.*
***Growth Fund of America is part of the Capital Group Companies, Inc.*

Auditor

The Auditor, PricewaterhouseCoopers ('PwC'), 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
7 March 2014

Audit Committee Report

As Chairman of the Audit Committee it is my pleasure to report to you on our activities in relation to the year ended 31 December 2013.

Role of the Audit Committee

The Audit Committee ('the Committee') is responsible for providing oversight and assurance to the Board regarding: the integrity of the Group's financial reporting; risk management and internal control processes; internal audit function; external audit arrangements; governance framework and; whether the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The role and responsibilities of the Committee are set out in its Terms of Reference which is available on the Group's website: www.smurfitkappa.com. The Terms of Reference are reviewed each year by the Committee and were last updated in May 2013 to reflect the changes required by revisions to the UK Corporate Governance Code (September 2012). Under the revised Code the Committee must now formally advise the Board on whether the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the performance of the Group, its business model and strategy.

Membership of the Committee

The Board has reviewed the composition of the Committee during the year and is satisfied that the mix of business and financial experience enables the Committee to effectively fulfil its responsibilities. The Committee is currently comprised of seven non-executive Directors. Of these Mr Irial Finan and I, the Committee Chairman, have recent and relevant financial experience. The Committee met five times during the year under review. Details of the Committee members and meetings attended are provided in the table below. 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. 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.

Attendance record	A*	B*	Appointment Date
R. Thorne (Chairman)	5	5	2008
C. Bories	5	4	2012
T. Brodin	5	5	2008
I. Finan	5	5	2012
C. McGowan**	2	2	2002
R. Newell	5	5	2010
P. Stecko	5	4	2008
J. Moloney**	-	-	2014

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

** *Mr McGowan retired from the Board at the AGM in 2013. Mr Moloney joined the Board in December 2013 and joined the Committee in February 2014.*

Financial Reporting and Significant Financial Issues

The Group's Financial Statements are prepared by finance personnel with the appropriate level of qualifications and expertise. The Committee review any published financial information including the Annual Report and quarterly financial reports, and any other published information for statutory and regulatory compliance. We report our views to the Board to assist in its approval of the results announcements and the Annual Report.

The Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements. For example in the current year the Committee considered a number of accounting papers in relation to developing matters in Venezuela and the impact the increasingly difficult operating environment with respect to matters such as exchange control has on the Group.

The Committee also reviews reports by the external auditors on the hard-close and year-end audit procedures which highlight any issues with respect to the work undertaken on the audit.

The two significant issues considered in the year are detailed below.

1. Goodwill Impairment Review

The Committee considered the risk of impairment in respect of the carrying value of goodwill held by the Group and reviewed the annual impairment test prepared by management. In particular it considered the judgements around the assumptions underlying the calculation of the value-in-use of the businesses being tested; including the reasonableness of the business plan and the overall macroeconomic assumptions underlying the valuation process including the determination of an appropriate discount rate and the determination of an appropriate terminal value.

Management have developed what the Committee considers to be an extensive, detailed and robust process to identify any potential impairment of goodwill at a cash–generating unit ('CGU') level. This is performed annually or where an impairment indicator has been separately identified. The business plan used in the impairment review was approved by the Board. The annual impairment test includes the engagement of independent experts to assist management with the development of an appropriate discount rate and considers other macroeconomic assumptions included in the forecasts, as well as the terminal value multiple used.

The Committee addressed these matters using reports received from management outlining the basis for assumptions used and by reviewing the independent expert's report. The Committee reviewed the methodology applied including ensuring the discount rate used was within an acceptable range and that the terminal value multiple used was appropriate. The Committee also considered a number of different scenarios to test the sensitivity of the model to changes in its key drivers and to understand the level of headroom available at a CGU level.

Following this process the Committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the Financial Statements. The Committee concluded that the goodwill is not impaired and approved the disclosures in Note 13 to the Consolidated Financial Statements.

2. Venezuela

The Committee has considered the recent developments in Venezuela and their potential impact on the Group's Financial Statements. The principal risks and uncertainties regarding our Venezuelan operations are outlined in the Directors' Report on pages 43 and 44 and the significant accounting judgements, estimates and assumptions are disclosed in detail in Note 3 to the Consolidated Financial Statements. The Committee has considered these developments as follows:

Exchange control

The Committee has reviewed accounting papers prepared by management which detail the exchange control developments during the year, including the devaluation of the Bolivar and its impact in January 2013 and the recent developments with the establishment of the Sicad exchange mechanism. The Committee has discussed these matters in detail throughout the year with management and our external auditors and considered the appropriate rate to consolidate the Venezuelan operations. Based on the facts and circumstances, the Committee considered that the Official rate was the appropriate rate to consolidate our Venezuelan operations for the year ended 31 December 2013. The Committee also considered the impact of exchange control on the net assets of its operations and its cash balances in Venezuela. The Committee consider the disclosures in Note 3 to the Consolidated Financial Statements to be appropriate. Further developments in the area of exchange control are expected in 2014 and the Committee will continue to monitor this area closely.

Control

The Committee has considered and discussed with management as to whether the Group maintains control of our Venezuelan operations, particularly as the risk of nationalisation of foreign owned companies and assets by the Venezuelan government remains a risk. After due consideration and discussion with management, the Committee is satisfied that the Group continues to control its operations in Venezuela and, as a result, continues to consolidate the results and net assets of these operations at year-end in accordance with the requirements of IAS 27, *Consolidated and Separate Financial Statements*.

Price control

The Committee has considered the recent announcements by the Venezuelan government that companies in Venezuela can only seek price increases if they have clearance that their margins are within certain guidelines. The Committee has considered the risk that if its Venezuelan operations cannot implement price increases in a timely manner to cover the increasing costs of raw material and labour as a result of inflation, that this may have an adverse impact on the results of the operations. Based on discussions with management and our consideration of these matters, the Committee is satisfied that these developments do not have an impact on the Group's operations at 31 December 2013. The Committee will continue to monitor developments in this area with management.

Developments in IFRS

The Committee has received reports from management and discussed future accounting developments which are likely to affect the presentation of the Group's Financial Statements.

Review of Annual Report

We reviewed the Annual Report and Consolidated Financial Statements and were able to confirm to the Board that, in our view, taken as a whole, they were fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Internal Controls and Risk Management

The Internal Audit function monitors compliance and considers the effectiveness of internal control throughout the Group. The Committee meets with the Group Compliance Manager, the Group Internal Auditor and the external auditors at least quarterly in order to satisfy itself on the adequacy of the Group's internal control system.

Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified and evaluated and are assessed in the light of the risk profile that is acceptable in order to achieve the Group's strategic objectives. Appropriate risk management strategies are implemented at each level. The key business risks including risks relating to IT security, fraud and related matters are identified by the senior management team. The 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 Chairman of the Committee reports to the Board on all significant issues considered by the Committee.

Whistleblowing

We receive reports from the Group Compliance Manager on the processes for dealing with complaints received by the company regarding accounting, internal controls or auditing matters. This includes the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters and we ensure through the Group Compliance Manager that arrangements are in place for the proportionate, independent investigation and appropriate follow up of such matters.

Internal Audit

The Group operates an internally resourced Internal Audit function which reports directly to the Committee. We review internal audit and monitor its relationship with the external auditors, including plans and performance. We review and assess the quarterly Internal Audit reports together with management's actions on findings to gain assurance as to the effectiveness of the internal control framework throughout the Group. A third party review of the effectiveness of the Internal Audit function was carried out in 2012 and all recommendations have been implemented.

External Auditor

The Committee is responsible to the Board for recommendations on the appointment, re-appointment and removal of the external auditor. As part of this process 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. The Committee monitors the auditors' performance, behaviour and effectiveness during the exercise of their duties, which informs the Committee's decision to recommend re-appointment on an annual basis.

The Committee continues to be satisfied with the work of PwC and that they continue to remain objective and independent. The Committee has therefore recommended to the Board that a resolution be put to shareholders for the re-appointment of the auditor, and their remuneration and terms of engagement, at the AGM of the Company.

The external auditor attends all meetings of the Committee. The Committee discusses and agrees the scope of the annual audit plan with the auditors before they commence. The external auditors provide reports at each Committee meeting on topics such as the control environment, key accounting matters and mandatory communications. It is standard practice for the external auditors to meet privately with the Committee without any member of management or the Executive Directors being present so as to provide a forum to raise any matters of concern in confidence.

Audit Tendering

The Committee has noted the changes to the Code, the recent findings of the Competition Commission and the Guidance for Audit Committees issued by the Financial Reporting Council, each in the context of tendering for the external audit contract at least every ten years. The Group's external audit was last tendered in 2006, resulting in a change of external auditors in 2006 to PwC. Since 2006, there have been three different senior statutory auditors in line with the required rotation timetable. Having previously conducted a full tender exercise the Committee will continue to give consideration to the timing of the next formal tender in light of the regulatory requirements, the transitional arrangements and any further changes in the regulatory framework. In any event, we do not anticipate that this will be earlier than the date of the rotation of the current senior statutory auditor. There are no contractual obligations that restrict the choice of external auditors.

External Auditor Non-audit Services

The Committee has agreed the types of permitted and non-permitted non-audit services and those which require explicit prior approval.

The Group has a policy governing the conduct of non-audit work by the external auditor. All contracts for non-audit services in excess of €50,000 must be notified to and approved by the Chairman of the Committee. 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 on page 86. The value of non-audit services provided by PwC amounted to €0.2 million (2012: €0.1 million). Non-audit services relates to the provision of tax compliance services. These services provided by the Group auditor are considered by the Committee to be necessary in the interests of the business and, by their nature, these services could not easily be provided by another professional auditing firm.

The provision of tax advisory services, due diligence/transaction services and litigation services may be permitted with the Committee's prior approval. The provision of internal audit services, valuation work and any other activity that may give rise to any possibility of self-review are not permitted under any circumstance. During the year there were no circumstances where PwC was engaged to provide services which might have led to a conflict of interests.

How the Committee has Addressed its Responsibilities

In order to discharge the responsibilities set out in the Terms of Reference, the Committee:

- Reviewed with management the Group's 2012 preliminary results announcement, its 2012 Annual Report, the 2013 first and third quarter results, the 2013 interim report and management's annual going concern report
- Reviewed the external auditor's year-end audit report for December 2012, the limited procedures reports on the 2013 first and third quarter results and the limited procedures report on the 2013 interim report
- Reviewed the external auditors report on its review of the third quarter 2012 results for inclusion in the Offering Memorandum for the senior note offering in January 2013
- Reviewed the Offering Memorandum for the senior note offering completed in January 2013
- Reviewed details of the €175 million Securitisation completed in July 2013
- Reviewed details of the €1.375 billion Senior Credit Facility refinancing completed in July 2013
- Reviewed the external auditor's plan for the audit of the Group's 2013 Financial Statements, which included consideration of the scope of the audit, key risks to the Financial Statements, 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 from 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 2013, the Treasury Compliance Certifications, the Competition Law Policy Compliance Certification results and various Whistleblower and Code of Conduct updates
- 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 tax function and the Group finance function in relation to some of the Group's risks
- Reviewed and approved the Group's risk assessment framework (see Internal Control and Risk Management - page 42)
- 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
- Reviewed the external auditor's report on the 2013 hard-close audit procedures and the 2013 year-end audit and also reviewed the confirmation of auditor independence

Audit Committee Effectiveness

During the year an externally facilitated review of the effectiveness of the Board and its Committees was conducted by ICSA in accordance with provision B.6.2 of the Code which concluded it was working effectively.

Rosemary Thorne
Chairman of the Audit Committee

7 March 2014

Remuneration Report

Dear Shareholder

As Chairman of SKG's Compensation Committee, I am pleased to present our Remuneration Report for the year ended 31 December 2013.

In order to maintain the highest standards of good corporate governance practice, although not a legal requirement for SKG which is an Irish incorporated company, the Compensation Committee ('the Committee') has chosen to present this year's report in accordance with the main elements of the disclosure requirements relating to remuneration reports issued by the UK Department for Business, Innovation and Skills ('BIS') as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. In addition to the proposed resolution on Directors' remuneration at the forthcoming AGM on 2 May 2014 it is proposed to put a further resolution to consider the Remuneration Policy to the AGM and both will be subject to advisory shareholder votes.

Remuneration Policy and Strategy

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 and monitoring the level and structure of remuneration for senior management. The operation of each of the individual remuneration components is reviewed on an on-going basis to ensure they are aligned with the strategic direction of the business, that performance targets are appropriate and stretching and that they continue to attract, retain and motivate executives to deliver superior performance.

The Committee receives independent advice from leading external remuneration consultants as appropriate. The Group Chief Executive Officer attends meetings except when his own remuneration is being discussed.

The Group's remuneration policy is set out on pages 49 to 51 and the Committee does not foresee any fundamental changes to its remuneration policy this year.

2013 Review

During the period the Committee reviewed fees and salaries paid to the non-executive and executive Directors respectively. In late 2012 the Committee requested that Deloitte, as an independent consultant, review the fees paid to the non-executive Directors as no changes had been made since the Initial Public Offering in March 2007. Following this review the Committee recommended to the Board that with effect from 1 January 2013 non-executive Director fees (excluding the Chairman) be increased by €10,000 per annum.

Following the annual review of base salaries of the executive Directors in early 2013, the salaries paid to the Chief Operations Officer and the Chief Financial Officer were increased by 2.00% with effect from 1 January 2013 the first such increase since 1 January 2008.

2013 was a strong year for the Group and the executive Directors and the broader SKG team delivered against key operating and financial metrics. In February 2014 the Committee reviewed the performance metrics against the performance targets under the annual bonus plan for 2013 as set out on page 52. Following this review the Committee approved the awards under the annual bonus plan for the executive Directors as set out on page 52.

In addition the Committee recognising the Group's move from a leveraged group to one with a corporate credit profile replaced the EBITDA target for 2014 with an EPS target.

The Deferred Annual Bonus plan is a long-term incentive arrangement which is intended to align the interests of executive Directors with shareholders and focus the creation of value over a medium to long-term time horizon. Over the past three years, the team has successfully repositioned the Group's capital structure, deleveraged the balance sheet and generated an EBITDA of over €1 billion for three consecutive years for the first time in the Group's history, and as a result ROCE and FCF for the three-year period to December 2013 amounted to 37% and €1,041 million respectively. Based on these results, the Conditional Matching Shares which were awarded in 2011 under the Deferred Annual Bonus Scheme would have resulted in a maximum three times match. However, the Committee were of the view that the Venezuelan devaluation and cash effect needed to be reflected in the result and reduced the match to 2.8 times which was approved at the February 2014 meeting.

At the same meeting following the annual review of salaries, the salaries paid to the Chief Operations Officer and the Chief Financial Officer were increased by 0.2% with effect from 1 January 2014.

Paul Stecko
Chairman of the Compensation Committee

7 March 2014

The Compensation Committee

The Compensation Committee chaired by Mr Paul Stecko currently comprises six non-executive Directors. The Directors' biographical details on page 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 three times during the year. Details of Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer normally attends the meetings and the Group V.P. Human Resources attends when appropriate.

Attendance record	A*	B*	Appointment date
P. Stecko (Chairman)	3	3	2008
C. Bories	3	3	2012
I. Finan	3	3	2012
S. Mencoff **	1	1	2002
L.O'Mahony	3	3	2007
R. Newell	3	3	2010
N. Restrepo	3	3	2010

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

** *Mr Mencoff resigned from the Committee in May 2013.*

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.

It is intended that the Remuneration Policy set out in this report will cover the three years from 1 January 2014.

Component	Purpose and link to strategy	Operation	Metrics	Opportunity
(i) Basic Salary	Competitive salaries and benefits are set to attract, retain and motivate executives to deliver superior performance in line with the Group's business strategy.	Reviewed annually; changes are generally effective on 1 January. Set by reference to competitive market practice and prevailing market conditions.	Consideration is given to: i. scope of role and responsibility; ii. personal performance; iii. Group performance; iv. step changes in responsibilities; v. remuneration trends across the Group; and vi. competitive market practice.	Set at a level which will be sufficient to attract, retain and motivate directors of the required quality and which the Committee considers appropriate taking into consideration both the individual's skills, experience and performance and the Group's position against peers.
(ii) Benefits	Competitive benefits taking into account market value of role.	Benefits relate principally to the use of company cars.	Not applicable.	The level of benefit provision is fixed.
(iii) Annual Bonus Plan	To incentivise the executives to achieve clearly defined stretching annual targets which are aligned with the Group strategy. A deferral element in shares provides a retention element and aligns executives with shareholder interests.	Targets and weighting of targets are reviewed each year by the Committee to ensure continued alignment with the Group strategy. Payouts are determined by the Committee after the year-end based on performance against targets.	The key target areas are EPS, FCF, ROCE, Peer Comparison and Health and Safety. See table on page 52 for prior year weightings. This plan covers the top 400 managers within the Group with the target metrics covering divisional and plant performance.	Maximum payout of 150% of basic salary, half of which is deferred (see below).

Component	Purpose and link to strategy	Operation	Metrics	Opportunity
(iv) Deferred Annual Bonus Plan ('DABP')	To incentivise executives to achieve certain targets over a three-year time frame which are aligned with the Group Strategy, to help attract and retain key executives and to further align executives with shareholder interests.	Involves half of the annual bonus earned being deferred into SKG plc shares ('Deferred Share Award'). At the same time a Matching Share Award can be granted up to the level of the Deferred Share Award. The vesting period for the DABP awards is three years. Awards are made annually after the final results announcement. Clawback provisions are in place. The percentage of share capital which can be issued complies with institutional guidelines.	The Deferred Share Award is based on continuity of employment over three years. The Matching Share Award vests based on achievement of cumulative targets for FCF and ROCE over the three-year period. In addition ROCE and TSR must be competitive against peers. This plan covers over the top 200 managers within the Group.	The Matching Shares may vest up to a maximum of three times the level of the Matching Share Award.
(v) Pension	To provide a market competitive package to attract and retain executives.	Executive Directors participate in a defined benefit scheme or a defined contribution pension plan.	Not applicable.	Two thirds of pensionable salary at retirement for full service or cash in lieu of pension accrual calculated by actuaries or defined contribution amount.

Share Ownership Requirements

The Chief Executive Officer is required to build a shareholding equivalent to 150% of base salary, and other executive Directors a shareholding equivalent to at least 100% of base salary, over a period of not more than three years from the date of appointment. As at 31 December 2013, all executive Directors had more than the shareholding requirements.

Current Shareholdings of the Executive Directors

	Times salary*
G. McGann	4.2
A. Smurfit	16.1
I. Curley	3.8

* The calculation above is based on an average share price for 2013 of €13.96 per share and shareholdings at year-end.

Executive Directors' Service Contracts

Details of the service contracts of the executive Directors are as follows:

	Effective date of contract	Notice period
G. McGann	9 March 2007	12 months notice
A. Smurfit	9 March 2007	12 months notice
I. Curley	9 March 2007	12 months notice

In the event of early termination the payment in lieu of notice would equal annual salary, the highest annual bonus for the most recent three years, the regular pension contribution in respect of the annual salary and the cash value of any benefits.

Non-executive Directors and the Chairman

All non-executive Directors have letters of appointment for a period of three years which are renewable but generally for no more than three terms in aggregate, however, in compliance with the Code, all Directors will retire at the 2014 AGM and offer themselves for re-election. A copy of the letter of appointment is available for inspection at the registered office and prior to and during the AGM. Non-executive Directors are not eligible to participate in the annual bonus plan or the long-term incentive plans and their service as a non-executive Director is not pensionable.

Following a comprehensive review concluded in 2013, the base fee for the non-executive Directors was increased by €10,000 with effect from 1 January 2013. This was the first increase since Directors' fees were set at the IPO in 2007. There was no change in the Chairman's fee or to fees paid for Committee membership. The fee review benchmarked market practice in comparable companies.

A summary of the non-executive Directors' fees is as follows:

	Annual fee
Chairman	€300,000
Non-executive Director base fee	€60,000
Additional fees:	
Senior Independent Director fee	€75,000
Audit Committee Chairman fee	€60,000
Remuneration Committee Chairman fee	€60,000
Committee fee	€20,000

Executive Directors do not receive Directors' fees.

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

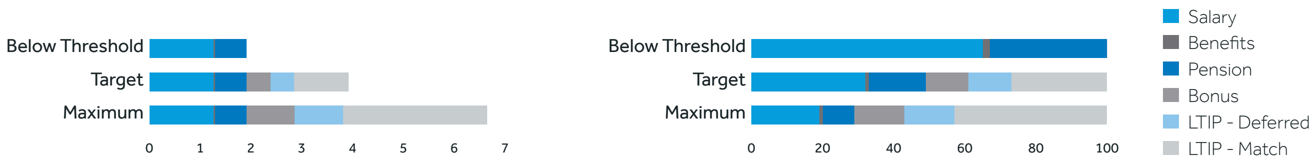
Value and Composition of Remuneration Packages

The Committee believes it is important for executive Directors and the senior management that a significant portion of the package is performance related and a significant portion is delivered in shares to align their interests with shareholders. The potential value and composition of the executive Directors' remuneration packages for 2014 at below threshold, target and maximum scenarios under the SKG remuneration policy are set out in the charts below.

G. McGann

VALUE OF PACKAGE (€m)

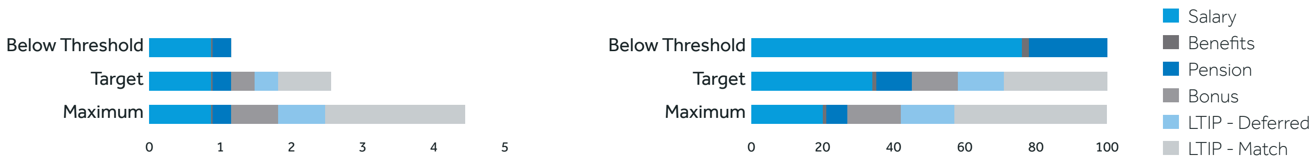
COMPOSITION OF OVERALL PACKAGE (%)



A. Smurfit

VALUE OF PACKAGE (€m)

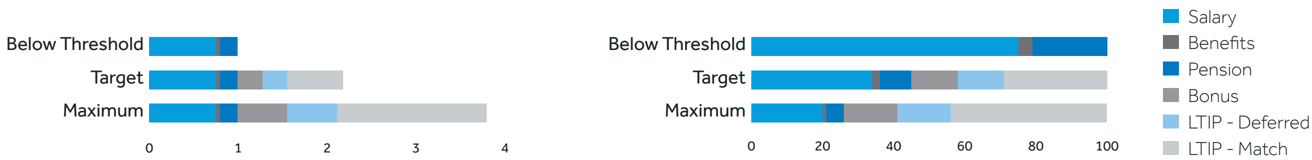
COMPOSITION OF OVERALL PACKAGE (%)



I. Curley

VALUE OF PACKAGE (€m)

COMPOSITION OF OVERALL PACKAGE (%)



In developing the scenarios the following assumptions have been made and exclude the effect of share price movements:

Salary: Latest known salary.

Benefits: Estimate based on benefits received in 2013.

Pension: Cash in lieu rate applied to latest known salary.

Below Threshold: No pay-outs under any incentive plan.

Target: 50% of the maximum potential under the annual bonus plan and Deferred Share Award is earned and a multiplier of 2.25 times is applied to the Matching Share Awards.

Maximum: The maximum potential under the incentive plans is earned.

Salary and Benefits

The base salaries for executive Directors are reviewed annually by the Compensation Committee taking into account the metrics set out in the remuneration policy on page 49. The remuneration of executive Directors and other senior executives is set after taking appropriate account of trends of other employees around the Group. At the first meeting each year the Committee receives a report from management on pay practices across the Group, including salary levels and trends, proposed bonus participation and payments and the proposal for general staff increases in all locations.

Basic salary for the executive Directors remained unchanged for the 5 years up to December 2012. The outcome of the reviews in early 2013 and 2014 are set out below.

Outcome of annual review:

	From 1 January 2014	From 1 January 2013
G. McGann	0.0%	0.0%
A. Smurfit	0.2%	2.0%
I. Curley	0.2%	2.0%

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 stretching 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 2013 %	Outcome 2012 %
EBITDA	40.0	18.8	24.4
FCF	20.0	13.2	11.4
ROCE	10.0	4.4	5.8
Peer Comparison	20.0	13.3	13.3
Health and Safety	10.0	8.0	10.0
	100.0	57.7	64.9

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, Free Cash Flow ('FCF') and Return on Capital Employed ('ROCE') (see Finance Review pages 24 to 26) were the KPI's selected by the Committee for 2013. The Committee, recognising the Group's move from a leveraged group to one with a corporate credit profile, have replaced EBITDA as a target for 2014 with an EPS target. The peer comparison ensures that results, especially in a cyclical industry, while market driven, are as a result of the on-going 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 as set out on page 54. 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 stretching 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 Group's ROCE and Total Shareholder Return ('TSR') are competitive against the constituents of a comparator group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Share Awards will be dependent on the achievement of the Group's cumulative FCF[1] and ROCE targets measured over the same three-year performance period on an inter-conditional basis and the multiplier will be calculated by interpolation.

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

The actual performance targets assigned to the Matching Awards are set by the Compensation Committee on the granting of awards at the start of each three-year cycle. The Group is required to lodge the actual targets with the Group'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 which are 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 Group or the occurrence of an event that causes or is likely to cause reputational damage to the Group, 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 gave a potential maximum of 1,964,442 SKG shares that could vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2013.

The targets for the three-year period ending on December 2013 which were set in 2011 following approval of the DABP at the AGM, were as follows;

Targets and Match Matrix

			Three-year performance period 2011-2013			
					ROCE	
				24%	**29.5%**	**35%**
		Level of performance attained over three-year period	**Below Threshold**	**Threshold**	**Target**	**Stretch**
		Below Threshold	0	0	0	0.5
FCF	**€597***	**Threshold**	0	1	1.5	2
	€767*	**Target**	0	1.5	2.25	2.5
	€917*	**Stretch**	0.5	2	2.5	3

**Adjusted for SKOC acquisition*

Over the past three years, Management have successfully repositioned the Group's capital structure, deleveraged the balance sheet, generated an EBITDA of over €1 billion for three consecutive years for the first time in the Group's history and as a result, ROCE and FCF for the three-year period to December 2013 amounted to 37% and €1,041 million respectively. In addition, the Committee reviewed the Group's ROCE and TSR which were competitive against its comparators over the performance period. Based on these results, the Conditional Matching Shares which were awarded in 2011 would have resulted in a maximum three times match. However, the Committee were of the view that the Venezuelan devaluation and cash effect needed to be reflected in the result and reduced the match to 2.8 times.

In March 2013, Deferred Share Awards totalling 1,264,626 SKG shares were granted to eligible employees in respect of the year ended 31 December 2012. Matching Share Awards totalling 790,543 SKG shares were also granted which give a potential maximum of 2,371,629 SKG shares that may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2015.

Deferred Share Awards and Matching Share Awards will be granted in 2014 to eligible employees in respect of the year ended 31 December 2013. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2016.

Details of the executive Directors' awards are set out on pages 60.

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 automatically converted 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 was 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 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 B and new class C convertible shares would convert into D convertible shares if the Group's total shareholder return was at the median performance level and 100% would convert if the Group's total shareholder return was at or greater than the upper quartile of the peer group. A sliding scale applied 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 retained 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 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	RockTenn	North America
12	Bio-PAPPEL	Latin America
13	Klabin	Latin America

The Compensation Committee determined the performance conditions for awards granted under the 2007 Share Incentive Plan 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 Group'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 22 on page 98. Details of the executive Directors' holdings of convertible shares are set out on page 59.

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. The right to convert these shares expires on 20 March 2014. 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 22 on page 98. Details of the executive Directors' holdings of convertible shares are set out on page 59.

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 his pension contribution as a supplementary taxable non-pensionable cash allowance.

Total Executive Directors' Remuneration in 2013

The following table show a single total figure of remuneration for each executive Director for the year 2013 calculated under the new BIS disclosure rules. The individual remuneration in the tables below is also set out on page 57 as required under the Irish Listing rules. The LTIP columns reflect LTIP awards received or receivable for periods of more than one financial year where the final vesting was determined as a result of performance measures that ended in 2013, the year being reported on, and are not subject to achievement of performance measures or targets in a future financial year.

						LTIP			
	Basic salary	Annual cash bonus	Pension	Benefits	Individual remuneration 2013	Deferred shares	Performance element[1]	Share price appreciation element[2]	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Directors									
G. McGann	1,262	508	625	34	**2,429**	508	969	1,372	**5,278**
A. Smurfit	891	359	248	25	**1,523**	359	671	949	**3,502**
I. Curley	761	329	187	23	**1,300**	329	573	811	**3,013**

1 *Performance element - matching shares that vested in February 2014 at the grant price in 2011. They vested as a result of the achievement of the relevant performance targets for the three-year period ended 31 December 2013.*

2 *Share price appreciation element - the estimated additional value generated through share price growth over the grant price in 2011. The share price used is €19.98 compared to the grant price of €8.27 per share.*

Total Executive Directors' Remuneration in 2012

						LTIP			
	Basic salary	Annual cash bonus	Pension	Benefits	Individual remuneration 2012	Deferred shares	Performance element	Share price appreciation element[1]	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Directors									
G. McGann	1,262	567	625	34	**2,488**	567	-	114	**3,169**
A. Smurfit	874	392	255	22	**1,543**	392	-	79	**2,014**
I. Curley	746	363	205	40	**1,354**	363	-	67	**1,784**

1 *Share price appreciation element - the estimated additional value generated through share price growth over the grant price in 2010. The share price used is €10.50 compared to the grant price of €6.50 per share. These relate to share options that vested 30% in February 2013 as a result of the achievement of the relevant performance targets for the three-year period ended 31 December 2012.*

Percentage Change in Chief Executive Officer Remuneration

Details of the salary, annual bonus and benefits of the Chief Executive Officer are set out below:

		Basic salary	Annual cash bonus	Benefits
		€'000	€'000	€'000
Chief Executive Officer	2013	1,262	508	34
	2012	1,262	567	34
	% change	0%	(10%)	0%

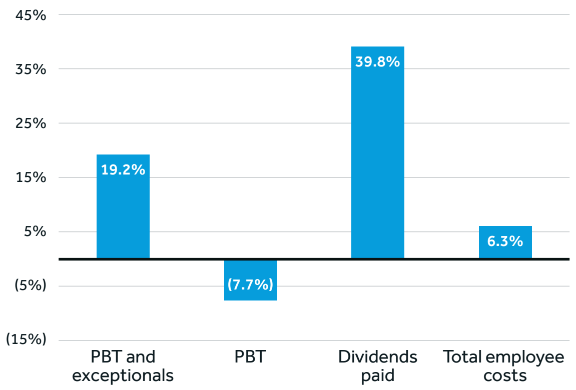
Relative Importance of Spend on Pay

The following tables set out the amounts and percentage change in profit, dividends and total employee costs for the years ended 31 December 2013 against 2012.

		Restated
	2013	**2012**
	€m	**€m**
Profit before income tax and exceptional items	**373**	313
Profit before income tax	**294**	319
Dividends paid to shareholders	**70**	50
Total employee costs[1]	**1,982**	1,864

1 *Total employee costs for continuing operations, includes wages and salaries, social security costs, share-based payment expense, pension costs and redundancy costs for all employees, including Directors. The average full time equivalent number of employees, including Directors and part-time employees in continuing operations was 40,830 (2012: 39,096) with the increase being mainly due to the acquisition of SKOC.*

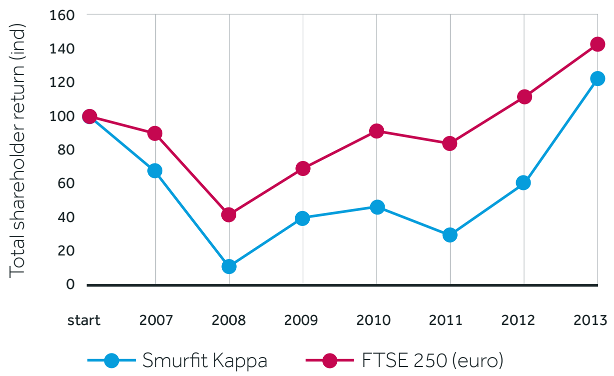
Percentage Change of Spend on Pay 2013 vs 2012



Total Shareholder Return Performance

The performance graph below shows the Group TSR performance since IPO in March 2007 to December 2013 against the performance of the FTSE 250 over the same period. The FTSE 250 has been chosen as it is a broad equity market index.

Total Return Indices - Smurfit Kappa vs FTSE 250



Chief Executive Officer Performance

The table below summarises the single total figure of total remuneration for the Chief Executive Officer for the past five years as well as how the actual awards under the annual bonus and LTIP compare to the maximum opportunity.

	Chief Executive Officer	Single figure of total remuneration €'000	Annual bonus award against maximum opportunity	LTIP award against maximum opportunity
2013	G. McGann	5,278	54%*	93% [1]
2012	G. McGann	3,169	60%*	30% [2]
2011	G. McGann	3,358	65%*	100% [3]
2010	G. McGann	2,641	55%	- [4]
2009	G. McGann	2,231	23%	- [4]

1 *The Conditional Matching Awards (see page 60) granted in 2011 vested in February 2014 based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2013.*

2 *The awards under the 2007 Share incentive plan ('SIP') (see page 59) granted in 2010 vested 30% in February 2013 with the TSR condition being at the median.*

3 *The SIP awards granted in 2009 vested 100% in February 2012 with the TSR condition being in the upper quartile of the peer group.*

4 *The SIP awards granted in 2007 and 2008 lapsed in March 2010 and March 2011 respectively having failed to meet the required performance conditions.*

* *The annual bonus award for 2013, 2012 and 2011 was paid 50% in cash and 50% in Deferred Share Awards.*

The information below forms an integral part of the audited Consolidated Financial Statements as described in the Basis of Preparation on page 74.

Directors' Remuneration

	2013 €'000	2012 €'000
Executive Directors		
Basic salary	**2,914**	2,882
Annual cash bonus	**1,196**	1,322
Pension	**1,060**	1,085
Benefits	**82**	96
Executive Directors' remuneration	**5,252**	5,385
Average number of executive Directors	**3**	3
Non-executive Directors		
Fees	**1,231**	1,147
Non-executive Directors' remuneration	**1,231**	1,147
Average number of non-executive Directors	**11**	11
Directors' remuneration	**6,483**	6,532

Individual Remuneration for the Year Ended 31 December 2013

	Basic salary and fees €'000	Annual cash bonus €'000	Pension[1] €'000	Benefits €'000	Total 2013 €'000	Total 2012 €'000
Executive Directors						
G. McGann	1,262	508	625	34	**2,429**	2,488
A. Smurfit	891	359	248	25	**1,523**	1,543
I. Curley	761	329	187	23	**1,300**	1,354
	2,914	1,196	1,060	82	**5,252**	5,385
Non-executive Directors						
L. O'Mahony	300				**300**	300
F. Beurskens[2]	123				**123**	100
C. Bories[4]	80				**80**	12
T. Brodin	80				**80**	70
I. Finan[4]	80				**80**	64
J. Moloney[3]	5				**5**	-
G. Moore[4]	-				**-**	23
S. Mencoff	80				**80**	70
C. McGowan[3]	28				**28**	70
R. Newell	80				**80**	70
N. Restrepo	135				**135**	125
R. van Rappard[4]	-				**-**	23
P. Stecko	120				**120**	110
R. Thorne	120				**120**	110
	1,231				**1,231**	1,147

During 2013 Mr McGann acted as a non-executive Director of United Drug plc and Aon Ireland Limited and retained gross fees totalling €136,500 in respect of these appointments. Mr Smurfit acted as a non-executive Director of C&C Group plc and received €65,000 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 €204,000 (2012: €211,000) and €149,000 (2012: €167,000) respectively. Effective 1 January 2009 Mr McGann also chose the alternative arrangement and is receiving €625,000 (2012: €325,000) as a supplementary taxable non-pensionable cash allowance.

2 *Mr Beurskens received an additional fee of €50,000 (2012: €50,000) for services as a Director of a Group subsidiary.*

3 *Mr Moloney joined the Board in December 2013. Mr McGowan retired from the Board in May 2013.*

4 *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 60 of this report. The share-based payment expense recognised in the Consolidated Income Statement for the executive Directors in the year totalled €3,646,000 (2012: €3,964,000).

Pension Entitlements – Defined Benefit

Executive Directors	Increase/(decrease) in accrued pension during year[1] €'000	Transfer value of increase/(decrease) in accrued pension[2] €'000	2013 Total accrued pension[3] €'000
A. Smurfit	(1)	6	270
I. Curley	(6)	(52)	260

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 2013 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 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 2013

The interests of the Directors and Secretary in the shares of the Company as at 31 December 2013 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 2013	31 December 2012
Ordinary Shares		
Directors		
L. O'Mahony	**19,830**	19,830
F. Beurskens	**2,500**	25,000
T. Brodin	**30,000**	30,000
S. Mencoff	**272,871**	272,871
– Non-Beneficial	**115,889**	118,068
J. Moloney*	**3,000**	-
P. Stecko	**6,000**	6,000
R. Thorne	**10,000**	10,000
G. McGann	**375,792**	375,792
A. Smurfit	**1,030,568**	1,030,568
I. Curley	**204,267**	204,267
Secretary		
M. O'Riordan	**72,152**	72,152

There were no changes in the above Directors' and Secretary's interests between 31 December 2013 and 7 March 2014 other than the following: Mr McGann, Mr Smurfit, Mr Curley and Mr O'Riordan acquired 56,018, 40,000, 10,000 and 12,866 shares respectively in February 2014, following the vesting of the Conditional Matching Share Awards.

** J. Moloney joined the Board in December 2013.*

Convertible Shares

		Note	31 December 2012	Exercised	Lapsed	31 December 2013	Conversion price	Expiry date
Directors								
G. McGann	D (converted from B)	II	48,100			48,100	4.36	Sep 2019
	D (converted from C)	II	48,100			48,100	4.36	Sep 2019
	D (converted from B[1])	II	47,480		33,236	14,244	6.50	Mar 2020
	D (converted from C[1])	II	47,480		33,236	14,244	6.50	Mar 2020
A. Smurfit	D (converted from B)	II	33,280			33,280*	4.36	Sep 2019
	D (converted from C)	II	33,280			33,280*	4.36	Sep 2019
	D (converted from B[1])	II	32,860		23,002	9,858*	6.50	Mar 2020
	D (converted from C[1])	II	32,860		23,002	9,858*	6.50	Mar 2020
I. Curley	D (converted from B)	II	28,440			28,440	4.36	Sep 2019
	D (converted from C)	II	28,440			28,440	4.36	Sep 2019
	D (converted from B[1])	II	28,080		19,656	8,424	6.50	Mar 2020
	D (converted from C[1])	II	28,080		19,656	8,424	6.50	Mar 2020
Secretary								
M. O'Riordan	D (converted from A1)	I	5,684	5,684[2]		-	4.28	Mar 2014
	D (converted from A2)	I	5,684	5,684[2]		-	4.28	Mar 2014
	D (converted from A3)	I	5,684	5,684[2]		-	4.28	Mar 2014
	D (converted from B)	II	11,050			11,050	4.36	Sep 2019
	D (converted from C)	II	11,050			11,050	4.36	Sep 2019
	D (converted from B[1])	II	10,910		7,637	3,273	6.50	Mar 2020
	D (converted from C[1])	II	10,910		7,637	3,273	6.50	Mar 2020

1 *These shares vested 30% in February 2013 with the vested balance converting to D Shares.*

2 *The market price at date of exercise was €18.10.*

I *Issued under the 2002 Management Equity Plan. The D convertible shares were 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 53. The shares automatically converted into D convertible shares to the extent that the performance conditions were achieved at the end of three years.*

* *These shares were exercised in February 2014 and the market price at date of exercise was €19.98.*

Deferred Annual Bonus Plan Awards

The Conditional Matching Share Awards shown in the table below were granted in 2011 to eligible employees in respect of the year ended 31 December 2010.

Conditional Matching Share Awards

	31 December 2012	31 December 2013	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

* *Based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2013 the conditional shares vested in February 2014 with a match of 2.8 times the level of the matching share award and were subsequently exercised. The market price at date of exercise was €19.98.*

Deferred Share Awards and Matching Share Awards

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

	31-Dec 2012		Granted in year		31-Dec 2013		Market price on award date	Performance period
	Deferred	Matching	Deferred	Matching	Deferred	Matching		
Directors								
G. McGann	82,468	82,468			82,468	82,468	7.49	01/01/2012- 31/12/2014
			47,683	47,683	47,683	47,683	11.89	01/01/2013- 31/12/2015
A. Smurfit	57,068	57,068			57,068	57,068	7.49	01/01/2012- 31/12/2014
			32,997	32,997	32,997	32,997	11.89	01/01/2013- 31/12/2015
I. Curley	48,764	48,764			48,764	48,764	7.49	01/01/2012- 31/12/2014
			30,549	30,549	30,549	30,549	11.89	01/01/2013- 31/12/2015
Secretary								
M. O'Riordan	18,944	18,944			18,944	18,944	7.49	01/01/2012- 31/12/2014
			12,159	12,159	12,159	12,159	11.89	01/01/2013- 31/12/2015

The market price of the Company's shares at 31 December 2013 was €17.86 and the range during 2013 was €9.18 to €18.62.

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

Shareholder Vote on 2012

The table below shows the voting outcome at the 3 May 2013 AGM for the 2012 Directors' Remuneration Report.

Votes for and discretionary	% votes cast	Votes against	% votes cast	Total votes cast	Vote withheld
125,039,414	96.8%	4,119,905	3.2%	129,159,319	2,475,127

Nomination Committee Report

As Chairman of the Nomination Committee I am pleased to present the report of the Committee in relation to the year ended 31 December 2013.

Role of the Nomination Committee

The role of the Nomination Committee ('the Committee') is:

- leading the process for appointments to the Board and making recommendations to the Board
- evaluating the balance of skills, knowledge, experience and diversity on the Board and preparing descriptions of the role and requirements for appointments
- giving full consideration to succession planning for Directors.

The Committee uses the services of external advisors where necessary in order to assist in the search for any new appointments to the Board and are provided with a brief which takes into consideration the skills, experience, diversity both gender and geographical required at the time to give balance to the Board. When a suitable candidate 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.

All newly appointed Directors are subject to election by shareholders at the AGM following their appointment and in compliance with the Code all Directors retire at the AGM and offer themselves for re-election where appropriate.

The terms and conditions of appointment of non-executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM of the Company.

The role and responsibilities of the Committee are set out in its Terms of Reference which is available on the Group's website: www.smurfitkappa.com. The Terms of Reference are reviewed each year by the Committee.

Membership of the Committee

The Committee is currently comprised of six non-executive Directors. The Committee met three times during the year under review. Details of Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer, normally attends meetings of the Committee.

Attendance record	A*	B*	Appointment date
N. Restrepo	3	3	2008
F. Beurskens**	3	2	2013
T. Brodin	3	3	2008
S. Mencoff **	3	3	2013
G. McGann**	-	-	2007
L. O'Mahony	3	3	2007
R. Thorne	3	3	2008

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

** *Mr McGann retired from the Committee in May 2013 and Mr Beurskens and Mr Mencoff joined the Committee in May 2013.*

Main Activities during the Year

During the year the Committee evaluated 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 prepared a policy document on Board succession which was recommended to the Board for approval. The Board approved the policy document at its December Board meeting.

In early 2013 the Committee instigated a search for a non-executive Director using the services of an external advisor, KORN/FERRY Whitehead Mann, who do not have any other affiliation with the Group. Following interviews with a number of the Committee members the Committee recommended Mr John Moloney for co-option to the Board. The appointment was confirmed by the Board in December 2013. Mr Moloney is the recently retired CEO of Glanbia plc and brings extensive international experience to the Board.

Nicanor Restrepo
Chairman of the Nomination Committee

7 March 2014

Statement of Directors' Responsibilities

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

Irish company law requires the Directors to prepare an Annual Report including Financial Statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that 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 2013.

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;
- comply with applicable International Financial Reporting Standards as adopted by the EU, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group 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 2013 Annual Report and 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 to enable them to ensure that the Financial Statements comply with the Companies Acts 1963 to 2013 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 pages 34 and 35, confirms that, to the best of each person's knowledge and belief:

As required by the Transparency Regulations:

- 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.

As required by the UK Corporate Governance Code:

- the Annual Report and Consolidated Financial Statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable.

On behalf of the Board

G. McGann
Director and Group Chief Executive Officer

I. Curley
Director and Group Chief Financial Officer

7 March 2014

Independent Auditors' Report

to the Members of Smurfit Kappa Group plc

Report on the financial statements

Our opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, of the state of the Group's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- the 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 2013, of the state of the Company's affairs as at 31 December 2013 and of its cash flows for the year then ended; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Company financial statements (the "financial statements"), which are prepared by Smurfit Kappa Group plc, comprise:

- the Consolidated and Company Balance Sheets as at 31 December 2013;
- the Consolidated Income Statement and Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statements of Changes in Equity and Statements of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises Irish law and IFRSs as adopted by the European Union and, as regards the Company, as applied in accordance with the provisions of the Companies Acts 1963 to 2013.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be €27 million.

In arriving at this judgement we have had regard to the earnings before exceptional items, share-based payment expense, net finance costs, income tax expense, depreciation and intangible assets amortisation (Pre-exceptional EBITDA). Based on our professional judgement we consider pre-exceptional EBITDA to be the appropriate benchmark as it is the most appropriate measure of recurring performance of the Group. Materiality represents approximately 2.5% of pre-exceptional EBITDA.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €1 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is structured along two operating segments being Europe and the Americas. The Group financial statements are a consolidation of 348 operating plants and centralised functions spread across 32 countries. Reporting units are structured by individual plants, grouping of plants or on a country basis depending on their management team and structure.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC ROI and from other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, we identified those reporting units which, in our view, required an audit of their complete financial information, due to their size and risk characteristics. The in scope reporting units account for 78% of the Group's revenue, 90% of the Group's pre-exceptional EBITDA and 88% of the Group's total assets. In addition we identified certain other reporting units where specific audit procedures on certain balances were performed. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

Independent Auditors' Report (continued)

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 45 and 46.

Area of focus	How the scope of our audit addressed the area of focus
Goodwill impairment assessment The directors' assessment of the carrying value of goodwill and the annual impairment review the directors are required to perform is described in more detail in note 13 to the financial statements. We focused on this area due to the size of this balance and because it involves complex and subjective judgements by the directors about the future results of the business, in particular volume, price, certain costs such as energy and recovered fibre as well as the discount rate and terminal value assumptions applied.	We evaluated the directors' future cash flow forecasts, including comparing them to the latest Board approved budgets and identified the assumptions therein. For each of the 15 CGU's, we challenged the directors' key trading assumptions which comprise volume, price, certain costs such as energy and recovered fibre by comparing them to independently prepared third party and other comparable data (as appropriate). We also challenged key assumptions for replacement capital expenditure requirements (by comparison to historic levels) and inflation and growth rates by reference to independent third party data where appropriate. We considered the appropriateness of the discount rate used by the Company by assessing the assumptions used in the weighted average cost of capital calculation against external benchmarks (where appropriate). We assessed the earnings multiple used in the terminal value calculation by reference to comparable industry multiples. We also performed sensitivity analysis for certain of these assumptions included within the cash flow forecasts including sensitivity analysis on the discount rate and terminal value calculations. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the asset to be impaired, we considered the likelihood of such change in those key assumptions arising. We also tested the accuracy of management's impairment model.
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on timing of the recognition of revenue and its presentation in the income statement because of the risk associated with the high volume of goods sold and the contractual terms under which the goods are sold.	We evaluated the IT systems and internal control over the recording of revenue and tested journal entries posted to revenue accounts to identify and test unusual or irregular items. We evaluated contractual terms with customers, tested timing of revenue recognition by reference to the underlying contractual terms and tested accounts receivable balances by a combination of third party confirmations and subsequent remittances.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We discussed the risk of management override of internal controls with the Audit Committee and obtained their perspectives on the Group's monitoring process over internal control. We observed Audit Committee oversight and review of internal control effectiveness, internal audit reporting and other control processes by attending regular meetings of the Audit Committee. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We also tested journal entries.
Venezuela - political and associated risks The Group is exposed to a number of risks in relation to its operations in Venezuela, where the operating environment remains complex. The principal risks and uncertainties with respect to Venezuela are outlined in the Directors Report on pages 43 and 44 and the key judgements and estimates are set out in note 3 to the financial statements.	We obtained an understanding of key developments during the current year and up to the date of the directors' approval of the financial statements and considered the potential impact from a financial statements perspective, including disclosures. We read public pronouncements by the Venezuelan Government and authorities and by other appropriate commentators. We considered the appropriateness of the rate used to consolidate the Group's Venezuelan operations in light of the facts and circumstances of the Group. We also focused on the impact of exchange control in relation to the Group's cash balances within Venezuela. We also considered recent developments in respect of price controls. We discussed these matters with group, divisional and local management, and the Audit Committee to understand the Group's oversight framework and position in relation to these matters and their potential impact, including the ability to control the Venezuelan operations, on the financial statements. We considered the disclosures in the Annual Report in respect of these matters.

Going Concern

Under the Listing Rules of the Irish Stock Exchange we are required to review the directors' statement in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement the directors have concluded that it is appropriate to prepare the Group's and Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- 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 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 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 2013 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 Company.

Matters on which we are required to report by exception

Directors' remuneration and transactions

Under the Companies Acts 1963 to 2013 we are required to report to you if, in our opinion, the disclosure of directors' remuneration and transactions specified by law have not been made, and under the Listing Rules of the Irish Stock Exchange we are required to review the six specified elements of disclosures in the report to shareholders by the Board on directors' remuneration. We have nothing to report arising from these responsibilities.

Corporate Governance Statement

Under the Listing Rules of the Irish Stock Exchange we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code') and the two provisions of the Irish Corporate Governance Annex specified for our review. We have nothing to report having performed our review.

On page 62 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On pages 45 and 46, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 62, the directors are responsible for the preparation of the Group and Company financial statements giving a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with Irish law and ISAs (UK & 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.

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

7 March 2014

Consolidated Income Statement

For the Year Ended 31 December 2013

		2013			Restated* 2012		
		Pre-exceptional	Exceptional	Total	Pre-exceptional	Exceptional	Total
	Note	€m	€m	€m	€m	€m	€m
Revenue	4	**7,957**	**-**	**7,957**	7,335	-	7,335
Cost of sales		**(5,649)**	**(9)**	**(5,658)**	(5,240)	-	(5,240)
Gross profit		**2,308**	**(9)**	**2,299**	2,095	-	2,095
Distribution costs	5	**(619)**	**-**	**(619)**	(579)	-	(579)
Administrative expenses	5	**(1,012)**	**-**	**(1,012)**	(940)	-	(940)
Other operating income	5	**2**	**-**	**2**	36	28	64
Other operating expenses	5	**-**	**(27)**	**(27)**	-	(10)	(10)
Operating profit		**679**	**(36)**	**643**	612	18	630
Finance costs	8	**(329)**	**(51)**	**(380)**	(316)	(12)	(328)
Finance income	8	**21**	**8**	**29**	14	-	14
Share of associates' profit (after tax)	6	**2**	**-**	**2**	3	-	3
Profit before income tax		**373**	**(79)**	**294**	313	6	319
Income tax expense	9			**(98)**			(68)
Profit for the financial year				**196**			251
Attributable to:							
Owners of the parent				**188**			240
Non-controlling interests				**8**			11
Profit for the financial year				**196**			251
Earnings per share							
Basic earnings per share - cent	10			**82.2**			106.9
Diluted earnings per share - cent	10			**80.8**			104.2

*Details of the restatement are set out in Note 32.

G. McGann
Director

I. Curley
Director

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2013

	Note	2013 €m	Restated* 2012 €m
Profit for the financial year		**196**	251
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Foreign currency translation adjustments:			
- Arising in the year		**(293)**	56
- Recycled to Consolidated Income Statement on disposal of subsidiary		**-**	(17)
Effective portion of changes in fair value of cash flow hedges:			
- Movement out of reserve		**17**	24
- New fair value adjustments into reserve		**(4)**	(13)
- Movement in deferred tax	9	**(2)**	(2)
Net change in fair value of available-for-sale financial assets		**-**	1
		(282)	49
Items which will not be subsequently reclassified to profit or loss			
Defined benefit pension plans:			
- Actuarial loss		**(4)**	(96)
- Movement in deferred tax	9	**2**	16
		(2)	(80)
Total other comprehensive expense		**(284)**	(31)
Total comprehensive (expense)/income for the financial year		**(88)**	220
Attributable to:			
Owners of the parent		**(61)**	202
Non-controlling interests		**(27)**	18
Total comprehensive (expense)/income for the financial year		**(88)**	220

*Details of the restatement are set out in Note 32.

G. McGann
Director

I. Curley
Director

Consolidated Balance Sheet

At 31 December 2013

	Note	2013 €m	Restated* 2012 €m
ASSETS			
Non-current assets			
Property, plant and equipment	12	**3,022**	3,104
Goodwill and intangible assets	13	**2,326**	2,346
Available-for-sale financial assets	14	**27**	33
Investment in associates	15	**16**	16
Biological assets	16	**107**	127
Trade and other receivables	19	**5**	4
Derivative financial instruments	28	**1**	1
Deferred income tax assets	17	**203**	193
		5,707	5,824
Current assets			
Inventories	18	**712**	733
Biological assets	16	**10**	6
Trade and other receivables	19	**1,344**	1,422
Derivative financial instruments	28	**4**	10
Restricted cash	21	**8**	15
Cash and cash equivalents	21	**447**	447
		2,525	2,633
Total assets		**8,232**	8,457
EQUITY			
Capital and reserves attributable to the owners of the parent			
Equity share capital	22	**-**	-
Share premium	22	**1,979**	1,972
Other reserves	22	**208**	444
Retained earnings		**121**	(159)
Total equity attributable to the owners of the parent		**2,308**	2,257
Non-controlling interests		**199**	212
Total equity		**2,507**	2,469
LIABILITIES			
Non-current liabilities			
Borrowings	23	**3,009**	3,188
Employee benefits	24	**713**	738
Derivative financial instruments	28	**59**	65
Deferred income tax liabilities	17	**214**	235
Non-current income tax liabilities		**17**	15
Provisions for liabilities and charges	26	**42**	57
Capital grants		**12**	12
Other payables	27	**9**	10
		4,075	4,320
Current liabilities			
Borrowings	23	**67**	66
Trade and other payables	27	**1,525**	1,536
Current income tax liabilities		**11**	4
Derivative financial instruments	28	**33**	43
Provisions for liabilities and charges	26	**14**	19
		1,650	1,668
Total liabilities		**5,725**	5,988
Total equity and liabilities		**8,232**	8,457

*Details of the restatement are set out in Note 32.

G. McGann
Director

I. Curley
Director

Company Balance Sheet

At 31 December 2013

	Note	2013 €m	2012 €m
ASSETS			
Non-current assets			
Financial assets	14	**2,027**	2,012
		2,027	2,012
Current assets			
Amounts receivable from Group companies	19	**36**	27
Cash and cash equivalents	21	**6**	2
		42	29
Total assets		**2,069**	2,041
EQUITY			
Capital and reserves attributable to the owners of the parent			
Equity share capital		**-**	-
Share premium		**1,979**	1,972
Share-based payment reserve		**81**	66
Retained earnings		**6**	2
Total equity		**2,066**	2,040
LIABILITIES			
Current liabilities			
Amounts payable to Group companies	27	**3**	1
Total liabilities		**3**	1
Total equity and liabilities		**2,069**	2,041

G. McGann
Director

I. Curley
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2013

	Attributable to owners of the parent						
	Equity share capital	Share premium	Other[1] reserves	Retained earnings	Total	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m
At 1 January 2013 (restated*)	**-**	**1,972**	**444**	**(159)**	**2,257**	**212**	**2,469**
Profit for the financial year	**-**	**-**	**-**	**188**	**188**	**8**	**196**
Other comprehensive income							
Foreign currency translation adjustments	**-**	**-**	**(258)**	**-**	**(258)**	**(35)**	**(293)**
Defined benefit pension plans	**-**	**-**	**-**	**(2)**	**(2)**	**-**	**(2)**
Effective portion of changes in fair value of cash flow hedges	**-**	**-**	**11**	**-**	**11**	**-**	**11**
Total comprehensive (expense)/ income for the financial year	**-**	**-**	**(247)**	**186**	**(61)**	**(27)**	**(88)**
Shares issued	**-**	**7**	**-**	**-**	**7**	**-**	**7**
Hyperinflation adjustment	**-**	**-**	**-**	**164**	**164**	**20**	**184**
Dividends paid	**-**	**-**	**-**	**(70)**	**(70)**	**(6)**	**(76)**
Share-based payment	**-**	**-**	**26**	**-**	**26**	**-**	**26**
Shares acquired by SKG Employee Trust	**-**	**-**	**(15)**	**-**	**(15)**	**-**	**(15)**
At 31 December 2013	**-**	**1,979**	**208**	**121**	**2,308**	**199**	**2,507**
At 1 January 2012 (restated*)	-	1,945	391	(340)	1,996	191	2,187
Profit for the financial year	-	-	-	240	240	11	251
Other comprehensive income							
Foreign currency translation adjustments	-	-	30	-	30	9	39
Defined benefit pension plans	-	-	-	(78)	(78)	(2)	(80)
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 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 (restated*)	-	1,972	444	(159)	2,257	212	2,469

*Details of the restatement are set out in Note 32.

[1] An analysis of Other reserves above is provided in Note 22.

Company Statement of Changes in Equity

For the Year Ended 31 December 2013

	Equity share capital €m	Share premium €m	Share-based payment reserve €m	Retained earnings €m	Total equity €m
At 1 January 2013	**-**	**1,972**	**66**	**2**	**2,040**
Profit for the financial year	**-**	**-**	**-**	**74**	**74**
Dividends paid to shareholders	**-**	**-**	**-**	**(70)**	**(70)**
Shares issued	**-**	**7**	**-**	**-**	**7**
Share-based payment	**-**	**-**	**15**	**-**	**15**
At 31 December 2013	**-**	**1,979**	**81**	**6**	**2,066**
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

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2013

	Note	2013 €m	Restated* 2012 €m
Cash flows from operating activities			
Profit before income tax		**294**	319
Adjustment for:			
Net finance costs	8	**351**	314
Depreciation charge	12	**346**	332
Impairment of property, plant and equipment	12	**9**	-
Amortisation of intangible assets	13	**26**	21
Amortisation of capital grants	5	**(2)**	(2)
Share-based payment expense	25	**26**	26
Profit on purchase/sale of assets and businesses		**(6)**	(30)
Share of associates' profit (after tax)	6	**(2)**	(3)
Net movement in working capital	20	**24**	(19)
Change in biological assets		**30**	25
Change in employee benefits and other provisions		**(62)**	(58)
Other		**(16)**	4
Cash generated from operations		**1,018**	929
Interest paid		**(267)**	(246)
Income taxes paid:			
Irish corporation tax (net of tax refunds) paid		**(2)**	-
Overseas corporation tax (net of tax refunds) paid		**(110)**	(113)
Net cash inflow from operating activities		**639**	570
Cash flows from investing activities			
Interest received		**5**	7
Business disposals		**-**	(1)
Additions to property, plant and equipment and biological assets		**(349)**	(316)
Additions to intangible assets		**(9)**	(11)
Receipt of capital grants		**2**	1
Decrease/(increase) in restricted cash		**6**	(2)
Disposal of property, plant and equipment		**8**	20
Dividends received from associates	15	**1**	2
Purchase of subsidiaries and non-controlling interests		**(25)**	(179)
Deferred consideration paid		**(5)**	(1)
Net cash outflow from investing activities		**(366)**	(480)
Cash flows from financing activities			
Proceeds from issue of new ordinary shares		**7**	27
Proceeds from bond issue		**400**	688
Proceeds from other debt issues		**1,050**	-
Purchase of own shares		**(15)**	(13)
Increase in other interest-bearing borrowings		**16**	-
Payment of finance leases		**(6)**	(8)
Repayment of borrowings [(1)]		**(1,577)**	(1,099)
Derivative termination payments		**(16)**	(3)
Deferred debt issue costs		**(28)**	(30)
Dividends paid to shareholders		**(70)**	(50)
Dividends paid to non-controlling interests		**(6)**	(6)
Net cash outflow from financing activities		**(245)**	(494)
Increase/(decrease) in cash and cash equivalents		**28**	(404)
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**423**	825
Currency translation adjustment		**(27)**	2
Increase/(decrease) in cash and cash equivalents		**28**	(404)
Cash and cash equivalents at 31 December	21	**424**	423

*Details of the restatement are set out in Note 32.

[(1)] Included in repayment of borrowings in 2012 is acquired debt of €86 million (Note 31).

Company Statement of Cash Flows

For the Year Ended 31 December 2013

	Note	2013 €m	2012 €m
Cash flows from operating activities			
Profit before income tax		**74**	54
Adjustment for:			
Dividends received		**(77)**	(55)
Cash used in operations		**(3)**	(1)
Dividends received		**77**	55
Net cash inflow from operating activities		**74**	54
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		**(7)**	(15)
Proceeds from issue of new ordinary shares		**7**	27
Dividends paid to shareholders		**(70)**	(50)
Net cash outflow from financing activities		**(70)**	(38)
Increase in cash and cash equivalents		**4**	2
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**2**	-
Increase in cash and cash equivalents		**4**	2
Cash and cash equivalents at 31 December	21	**6**	2

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2013

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 2013 were authorised for issue in accordance with a resolution of the directors on 7 March 2014.

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 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 2013

The Group has adopted a number of new and revised accounting standards with effect from 1 January 2013.

IAS 19 Employee Benefits (Revised)

The IASB has issued a number of amendments to IAS 19, *Employee Benefits*. The main effect on the Group financial statements stems from the removal of the concept of expected return on plan assets. Previously, different rates of return were used for the expected return on plan assets, depending on their nature. Under IAS 19 as revised, the Group determines the net interest expense (or income) for the period by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (or asset) at the beginning of the financial year. The calculation also takes into account movements in the defined benefit liability for contributions and benefits paid in the period. The difference between the actual return on plan assets and that calculated by using the discount rate is recognised in other comprehensive income. The amendments have been applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The effects of the restatement of prior period financial information are detailed in Note 32.

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 has had no impact on the Group's reported financial position or performance. The Consolidated Statement of Comprehensive Income for the prior year has been re-presented to comply with the new requirements.

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 IFRSs 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 is effective for the Group for the 2013 financial year. The disclosure requirements have been adopted in the Consolidated Financial Statements.

There are a number of other changes to IFRS which became effective in 2013, however, they either did not have an effect on the Consolidated Financial Statements or they are not currently relevant for the Group.

Standards issued but not yet effective or early adopted

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 is the standard designed to replace IAS 39, *Financial Instruments: Recognition and Measurement*. It is being completed in a number of phases. The majority of these phases have been completed; however, the impairment phase of the project has yet to be concluded. In November 2013 the IASB decided that the mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare to apply the new standard and accordingly, that a new effective date should be decided upon when the entire IFRS 9 project is closer to completion. 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. The Group will quantify the effect of IFRS 9 when the complete standard is issued.

2. Summary of significant accounting policies (continued)

New and revised standards on consolidation, joint arrangements, associates and related disclosures

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 standards, which the Group will adopt for the 2014 financial year, are not expected to have a material effect on the Group's reported financial position or performance. The Group will include the enhanced disclosures as required in the 2014 financial statements.

As a consequence of the issuance of IFRS 10 and IFRS 12, both IAS 27 and IAS 28, *Investment in Associates and Joint Ventures* 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. These standards, which the Group will adopt for the 2014 financial year, are not expected to have a material effect on the Group's reported financial position or performance.

Other changes to IFRS have been issued but are not yet effective for the Group. However, they are either not expected to have a material 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.

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 values at the date of exchange of any assets transferred, liabilities incurred or assumed and equity instruments issued in exchange for control. When settlement of all or 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. Non-controlling interests are measured either at their proportionate share of the acquiree's identifiable net assets or, at fair value as at the acquisition date on a case by case basis. Acquisition related costs are expensed as incurred.

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 provision for 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.

2. Summary of significant accounting policies (continued)

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. The gain or loss on the net monetary position for the year is included in finance costs or income. Comparative amounts are not restated. 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.

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 any retired component is derecognised. Other repair and maintenance expenditure that does not meet the asset recognition criteria is expensed to profit or loss as incurred. Assets are depreciated from the time they are brought in to use, however, 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.

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.

2. Summary of significant accounting policies (continued)

Intangible assets (other than goodwill)
These include software development costs as well as marketing and customer related intangible assets generally 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.

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. 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 Statement of Cash Flows. 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.

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 on 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.

2. Summary of significant accounting policies (continued)

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 income or costs respectively. The gain or loss relating to the ineffective portion is recognised in profit or loss immediately within finance income or costs 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 costs 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.

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.

2. Summary of significant accounting policies (continued)

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 on the taxable income 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.

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 throughout its operations in accordance with local conditions and practice. The main plans are of the defined benefit type and are funded by payments to separately administered funds. 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 pension plans, once contributions have been paid, the Group has no further payment obligations. Contributions are recognised as an employee benefit expense as service is received from employees. Prepaid contributions are recognised as an asset only to the extent that a cash refund or a reduction in future payments is available.

The costs and liabilities of defined benefit pension plans are calculated using the projected unit credit method. Actuarial calculations are prepared by independent, professionally qualified actuaries at each balance sheet date. Defined benefit costs are categorised as: (1) service cost; (2) net interest expense or income, and; (3) remeasurement. Service cost includes current and past service cost as well as gains and losses on curtailments and settlements; it is included in operating profit. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate to the net defined benefit asset or liability at the beginning of the year; it is included in finance costs. Remeasurement is comprised of the return on plan assets other than interest at the discount rate and actuarial gains and losses; it is recognised in other comprehensive income in the period in which it arises and is not subsequently reclassified to profit or loss.

2. Summary of significant accounting policies (continued)

The net surplus or deficit arising on the Group's defined benefit pension plans, together with the liabilities associated with the unfunded plans, are shown either within non-current assets or liabilities in the Consolidated Balance Sheet. Any pension asset is limited to the present value of economic benefits available in the form of refunds from the plans or reductions in future contributions. 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.

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 comprises 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.

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.

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.

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

Venezuela

Exchange control and devaluation

In 2013 the Venezuelan government operated 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).

On 8 February 2013, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte ('VEF') and the termination of the SITME (the Venezuelan transaction system for foreign currency denominated securities). The official exchange rate was changed from VEF 4.3 per US dollar to VEF 6.3 per US dollar ('Official rate'). As a result of the devaluation the Group recorded 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.

Approved transactions are completed at the Official rate of VEF 6.3 per US dollar (2012: 4.3 per US dollar).

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 was the appropriate rate to use as it had 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 6.3 per US dollar and the closing euro/US dollar rate of 1 euro = US$ 1.38.

Contrary to general market expectations, in January 2014 the Venezuelan government announced that it would not be devaluing the Official rate but access to the Official rate would only be available to certain priority sectors. Those not in these priority sectors would access dollars through the Complimentary System of Foreign Currency Acquirement ('Sicad'). The most recent Sicad rate is VEF 11.0 per US dollar and it is expected that this rate is likely to vary over time. The Group is awaiting clarification on whether it will be part of the priority sector, the non-priority sector or both sectors and is therefore assessing the most appropriate rate at which to consolidate its Venezuelan operations for 2014. Should the Group conclude that the Sicad rate is the most appropriate rate the effect would be to record a reduction in its net assets and cash balances during 2014. Based on the Group's balance sheet as at 31 December 2013, and using the most recent Sicad rate (VEF 11.0 per US dollar), the Group would record a reduction in its net assets of approximately €174 million in relation to these operations and a reduction in the euro value of its cash balances of €73 million.

Price control

The Venezuelan government have also announced that companies can only seek price increases if they have clearance that their margins are within certain guidelines. There is a risk that if the Group's Venezuelan operations cannot implement price increases in a timely manner to cover the cost of its increasing raw material and labour costs as a result of inflation and the devaluing currency it would have an adverse effect on its results of operations. In this volatile environment the Group continues to closely monitor developments, assess evolving business risks and actively manage its investments.

Control

The nationalisation of foreign owned companies or assets by the Venezuelan government remains a risk. 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 2013, the Group's operations in Venezuela represented approximately 7% (2012: 7%) of its total assets and 16% (2012: 18%) of its net assets. In addition, cumulative foreign translation losses arising on its net investment in these operations amounting to €353 million (2012: €198 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 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Index at year-end	**498.1**	318.9	265.6
Movement in year	**56.2%**	20.1%	27.6%

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

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the Consolidated Income Statement is impacted as follows: Revenue €81 million increase (2012: €27 million increase), EBITDA[1] €19 million increase (2012: €4 million decrease) and profit after taxation €91 million decrease (2012: €48 million decrease). In 2013, a net monetary loss of €67 million (2012: €18 million loss) was recorded in the Consolidated Income Statement. The impact on the Group's net assets and its total equity is an increase of €104 million (2012: €33 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 responsible for assessing performance, allocating resources and making strategic decisions. The Group has identified two reportable operating segments: 1) Europe and 2) 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 Smurfit Kappa Orange County ('SKOC'). 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 and employee benefits. 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.

	Europe 2013 €m	The Americas 2013 €m	Total 2013 €m	Restated Europe 2012 €m	Restated The Americas 2012 €m	Restated Total 2012 €m
Revenue and results						
Revenue	**5,967**	**1,990**	**7,957**	5,928	1,407	7,335
EBITDA before exceptional items	**772**	**357**	**1,129**	840	211	1,051
Segment exceptional items	**(6)**	**(21)**	**(27)**	24	(6)	18
EBITDA after exceptional items	**766**	**336**	**1,102**	864	205	1,069
Unallocated centre costs			**(22)**			(35)
Share-based payment expense			**(26)**			(26)
Depreciation and depletion (net)			**(376)**			(357)
Amortisation			**(26)**			(21)
Impairment of assets			**(9)**			-
Finance costs			**(380)**			(328)
Finance income			**29**			14
Share of associates' profit (after tax)			**2**			3
Profit before income tax			**294**			319
Income tax expense			**(98)**			(68)
Profit for the financial year			**196**			251

(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.*

4. Segmental reporting (continued)

	Europe 2013 €m	The Americas 2013 €m	Total 2013 €m	Restated Europe 2012 €m	Restated The Americas 2012 €m	Restated Total 2012 €m
Assets						
Segment assets	**6,089**	**1,856**	**7,945**	6,099	1,961	8,060
Investments in associates	**2**	**14**	**16**	2	14	16
Group centre assets			**271**			381
Total assets			**8,232**			8,457
Liabilities						
Segment liabilities	**2,065**	**393**	**2,458**	2,076	436	2,512
Group centre liabilities			**3,267**			3,476
Total liabilities			**5,725**			5,988
Other segmental disclosures						
Capital expenditure, including additions to goodwill, intangible assets and biological assets:						
Segment expenditure	**315**	**76**	**391**	215	323	538
Group centre expenditure			**8**			9
Total expenditure			**399**			547
Depreciation:						
Segment depreciation	**274**	**72**	**346**	279	53	332
Amortisation:						
Segment amortisation	**16**	**6**	**22**	16	1	17
Group centre amortisation			**4**			4
Total amortisation			**26**			21
Other significant non-cash charges:						
Impairment of property, plant and equipment included in cost of sales	**9**	**-**	**9**	-	-	-

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 2013 €m	Non-current assets 2013 €m	Revenue 2012 €m	Restated Non-current assets 2012 €m
Ireland	**106**	**71**	105	65
France	**973**	**357**	961	363
Germany	**1,209**	**453**	1,224	458
Other	**5,669**	**2,350**	5,045	2,457
	7,957	**3,231**	7,335	3,343

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 €2,240 million.

5. Operating costs and income

	2013 €m	Restated 2012 €m
Other operating costs:		
Distribution costs	**619**	579
Administrative expenses	**1,012**	940
Other operating expenses	**27**	10
	1,658	1,529

	2013 €m	Restated 2012 €m
Other operating income:		
Capital grants amortisation	**2**	2
Gain on disposal of assets and operations	**-**	28
Insurance proceeds	**-**	34
	2	64

Other operating income of €64 million in 2012 included insurance proceeds of €34 million 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 were included in the appropriate cost headings within operating profit.

	2013 €m	2012 €m
Exceptional items included in operating profit:		
Currency trading loss on Venezuelan Bolivar devaluation	**18**	-
Impairment loss on property, plant and equipment	**9**	-
Reorganisation and restructuring costs	**9**	3
Gain on disposal of assets and operations	**-**	(27)
Business acquisition costs	**-**	6
	36	(18)

Exceptional items charged within operating profit in 2013 amounted to €36 million, €15 million of which related to the temporary closure of the Townsend Hook mill in the United Kingdom (comprising a property, plant and equipment impairment charge of €9 million and reorganisation and restructuring costs of €6 million). A further €3 million of reorganisation costs related to the restructuring of SKOC and the consolidation of the Group's two plants in Juarez, Mexico, into one plant. A currency trading loss of €18 million was recorded as a result of the devaluation of the Venezuelan Bolivar in February 2013, comprising €12 million booked in the first quarter and an adjustment of €6 million for hyperinflation and re-translation at the 31 December exchange rate. The original loss reflected the higher cost to the Venezuelan operations of discharging its non-Bolivar denominated net payables following the devaluation.

In 2012, the Group 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, together with €18 million relating to the disposal of a company in Slovakia. This gain primarily related to the reclassification of the cumulative translation differences from the Consolidated Statement of Comprehensive Income to the Consolidated Income Statement. These gains were partially offset by a €1 million post disposal adjustment in respect of the paper sack plants sold to the Mondi Group in 2010.

The business acquisition costs for 2012 of €6 million related to SKG's acquisition of SKOC. Reorganisation and restructuring costs of €3 million primarily related to additional costs in the recycled containerboard mill in Nanterre, France.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

5. Operating costs and income (continued)

	2013 €m	Restated 2012 €m
Expenses by nature:		
Raw materials and consumables	**2,718**	2,512
Employee benefit expense excluding redundancy	**1,940**	1,822
Energy	**515**	487
Maintenance and repairs	**448**	418
Transportation and storage costs	**619**	578
Depreciation, amortisation and depletion	**402**	378
Impairment loss on property, plant and equipment	**9**	-
Reorganisation and restructuring costs	**17**	16
Operating lease rentals	**89**	79
Foreign exchange gains and losses	**9**	(3)
Research and development costs	**8**	4
Other expenses	**542**	478
	7,316	6,769
Directors' statutory disclosures:		
Directors' remuneration – other services	**5**	5
Directors' remuneration – services as a Director	**1**	1

Auditors' remuneration

Auditors' remuneration for the year, payable to PwC Ireland and other network firms, was €8 million (2012: €8 million).

Fees for other audit related, non-audit related services and tax advisory services provided by the auditors in the year amounted to €679,000, €25,000 and €152,000 respectively (2012: €739,000, nil and €57,000 respectively). The audit fee for the parent Company was €50,000 (2012: €50,000) which is payable to PwC, the statutory auditor.

6. Share of associates' profit after tax

	2013 €m	2012 €m
Profit before tax	**3**	3
Income tax expense	**(1)**	-
Profit after tax	**2**	3

7. Employee benefit expense

	2013 Number	2012 Number
Average number of persons employed by the Group by geographical area (full time equivalents):		
Europe	**27,289**	27,733
The Americas	**13,541**	11,363
	40,830	39,096

	Note	2013 €m	Restated 2012 €m
The employee benefit expense comprises:			
Wages and salaries		**1,463**	1,386
Social welfare		**351**	348
Share-based payment expense	25	**26**	26
Expenses related to defined benefit plans and long-term employee benefits		**59**	24
Defined contribution plan expense		**41**	38
Reorganisation and restructuring costs – redundancy		**10**	12
Charged to operating profit – pre-exceptional		**1,950**	1,834
Charged to operating profit – exceptional – redundancy		**5**	1
Charged to finance costs	8	**27**	29
Actuarial loss on pension schemes recognised in other comprehensive income	24	**4**	96
Total employee benefit cost		**1,986**	1,960

8. Finance costs and income

	Note	2013 €m	Restated 2012 €m
Finance costs:			
Interest payable on bank loans and overdrafts		**67**	119
Interest payable on finance leases and hire purchase contracts		**1**	1
Interest payable on other borrowings		**147**	139
Exceptional finance costs associated with debt restructuring		**51**	12
Unwinding discount element of provisions	26	**1**	1
Impairment of financial investments		**5**	-
Foreign currency translation loss on debt		**6**	9
Fair value loss on derivatives not designated as hedges		**8**	-
Net interest cost on net pension liability	24	**27**	29
Net monetary loss – hyperinflation		**67**	18
Total finance costs		**380**	328
Finance income:			
Other interest receivable		**(5)**	(7)
Foreign currency translation gain on debt		**(14)**	(4)
Exceptional foreign currency translation gain		**(8)**	-
Fair value gain on derivatives not designated as hedges		**(2)**	(3)
Total finance income		**(29)**	(14)
Net finance costs		**351**	314

Exceptional finance costs comprised €51 million in 2013, of which €22 million was in respect of the accelerated amortisation of the debt issue costs relating to the refinancing of the senior credit facility. A further €29 million comprised the redemption premium of €19 million, the accelerated unwinding of the unamortised discount of €4 million and the accelerated amortisation of debt issue costs of €6 million in respect of the early repayment of the €500 million 7.25% bonds due in 2017.

Exceptional finance income in 2013 amounted to €8 million and comprised a gain of €6 million in Venezuela on the value of US dollar denominated intra-group loans following the devaluation of the Bolivar and an additional €2 million due to its subsequent adjustment for hyperinflation and re-translation.

The exceptional finance costs of €12 million in 2012 related mainly to the accelerated amortisation of debt issue costs resulting from debt paid down with bond issue proceeds and to the redemption premium payable on the early repayment of the €217.5 million and US$200 million 7.75% bonds due in 2015.

9. Income tax expense

Income tax expense recognised in the Consolidated Income Statement

	2013 €m	Restated 2012 €m
Current tax:		
Europe	**50**	51
The Americas	**72**	34
	122	85
Deferred tax	**(24)**	(17)
Income tax expense	**98**	68
Current tax is analysed as follows:		
Ireland	**6**	5
Foreign	**116**	80
	122	85

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

9. Income tax expense (continued)

The income tax expense is €30 million higher than 2012 largely due to increases in and changes to the geographical mix of earnings. The increase in the Americas arises primarily from a full year inclusion of SKOC, which was acquired in November 2012, and from increased profitability in Venezuela. While the income tax expense in Europe is comparable there are changes within the mix of earnings in the region. There have been lower asset sales and an increase in exceptional expenses which have contributed to lower taxable profits compared to 2012. The income tax credit associated with exceptional items in 2013 is €5 million compared to an immaterial credit in 2012.

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:

	2013 €m	Restated 2012 €m
Profit before income tax	**294**	319
Profit before income tax multiplied by the standard rate of tax of 12.5% (2012: 12.5%)	**37**	40
Effects of:		
Income subject to different rates of tax	**75**	53
Other items (including non-deductible expenditure)	**36**	13
Adjustment to prior period tax	**(3)**	6
Effect of previously unrecognised losses	**(47)**	(44)
	98	68

Income tax recognised within equity

	2013 €m	Restated 2012 €m
Recognised in the Consolidated Statement of Comprehensive Income:		
Arising on actuarial loss on defined benefit plans	**(2)**	(16)
Arising on qualifying derivative cash flow hedges	**2**	2
Total recognised in the Consolidated Statement of Comprehensive Income	**-**	(14)
Arising on hyperinflation	**15**	7
Total recognised within equity	**15**	(7)

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 €569 million (2012: €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 may 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.

	2013	Restated 2012
Profit attributable to owners of the parent (€ million)	**188**	240
Weighted average number of ordinary shares in issue (million)	**229**	224
Basic earnings per share (cent)	**82.2**	106.9

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.

	2013	Restated 2012
Profit attributable to owners of the parent (€ million)	**188**	240
Weighted average number of ordinary shares in issue (million)	**229**	224
Potential dilutive ordinary shares assumed (million)	**4**	6
Diluted weighted average ordinary shares (million)	**233**	230
Diluted earnings per share (cent)	**80.8**	104.2

Pre-exceptional

	2013	Restated 2012
Profit attributable to owners of the parent (€ million)	**188**	240
Exceptional items included in profit before income tax (€ million)	**79**	(6)
Income tax on exceptional items (€ million)	**(5)**	-
Pre-exceptional profit attributable to owners of the parent (€ million)	**262**	234
Weighted average number of ordinary shares in issue (million)	**229**	224
Pre-exceptional basic earnings per share (cent)	**114.5**	104.1
Diluted weighted average ordinary shares (million)	**233**	230
Pre-exceptional diluted earnings per share (cent)	**112.7**	101.5

11. Dividends

During the year, the final dividend for 2012 of 20.5 cent per share was paid to the holders of ordinary shares. In October, an interim dividend for 2013 of 10.25 cent per share was paid to the holders of ordinary shares.

The Board is recommending a final dividend of 30.75 cent per share (approximately €71 million) for 2013 subject to the approval of the shareholders at the AGM. It is proposed to pay the final dividend on 9 May 2014 to all ordinary shareholders on the share register at the close of business on 11 April 2014. It is the Directors' intention that this final dividend for 2013 and the interim dividend for 2014 (expected to be paid in October 2014) will be in the approximate proportions of two thirds to one third respectively.

12. Property, plant and equipment

	Land and buildings €m	Plant and equipment €m	Total €m
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 (restated)	7	140	147
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 (restated)	1,125	1,979	3,104
At 31 December 2012			
Cost or deemed cost (restated)	1,632	4,778	6,410
Accumulated depreciation and impairment losses	(507)	(2,799)	(3,306)
Net book amount (restated)	1,125	1,979	3,104
Year ended 31 December 2013			
Opening net book amount (restated)	**1,125**	**1,979**	**3,104**
Reclassifications	**48**	**(55)**	**(7)**
Additions	**8**	**330**	**338**
Acquisitions	**-**	**7**	**7**
Depreciation charge for the year	**(51)**	**(295)**	**(346)**
Impairments	**(2)**	**(7)**	**(9)**
Retirements and disposals	**(1)**	**(2)**	**(3)**
Hyperinflation adjustment	**41**	**43**	**84**
Foreign currency translation adjustment	**(61)**	**(85)**	**(146)**
At 31 December 2013	**1,107**	**1,915**	**3,022**
At 31 December 2013			
Cost or deemed cost	**1,651**	**4,774**	**6,425**
Accumulated depreciation and impairment losses	**(544)**	**(2,859)**	**(3,403)**
Net book amount	**1,107**	**1,915**	**3,022**

Land and buildings
Included in land and buildings is an amount for land of €418 million (2012: €435 million).

Plant and equipment
Included in plant and equipment is an amount for construction in progress of €198 million (2012: €134 million).

Capitalised leased assets
Included in the net book amount of property, plant and equipment is an amount for capitalised leased assets of €11 million (2012: €16 million). The depreciation charge for capitalised leased assets was €9 million (2012: €5 million) and the related finance charges were nil (2012: €1 million).

The net carrying amount by class of assets at each balance sheet date is as follows:

	Note	2013 €m	Restated 2012 €m
Cogeneration facilities	29	**-**	8
Other plant and equipment		**3**	-
Plant and equipment		**3**	8
Buildings		**8**	8
		11	16

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:

	2013 €m	2012 €m
Contracted for	**129**	134
Not contracted for	**194**	238
	323	372

Impairments

Impairment tests for items of property, plant and equipment are performed on a cash-generating unit basis when impairment triggers arise. In 2013, there was an impairment charge of €9 million relating to the temporary closure of the Townsend Hook mill in the United Kingdom (2012: nil). The recoverable amounts of 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.

Capitalised borrowing costs

In 2013, the Group capitalised borrowing costs of €3.3 million (2012: nil) on qualifying assets. Borrowing costs were capitalised at an average rate of 5.6%.

13. Goodwill and intangible assets

		Intangible assets			
	Goodwill €m	Marketing related €m	Customer related €m	Software assets €m	Total €m
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 (restated)	61	-	46	-	107
Amortisation charge	-	(3)	(5)	(13)	(21)
Reclassifications	-	-	1	4	5
Hyperinflation adjustment	20	-	-	-	20
Foreign currency translation adjustment	14	-	-	-	14
Closing net book amount (restated)	2,250	9	56	31	2,346
At 31 December 2012					
Cost or deemed cost (restated)	2,421	35	230	146	2,832
Accumulated amortisation and impairment losses	(171)	(26)	(174)	(115)	(486)
Net book amount (restated)	2,250	9	56	31	2,346
Year ended 31 December 2013					
Opening net book amount (restated)	**2,250**	**9**	**56**	**31**	**2,346**
Additions	**-**	**2**	**-**	**7**	**9**
Acquisitions	**23**	**-**	**-**	**-**	**23**
Amortisation charge	**-**	**(3)**	**(11)**	**(12)**	**(26)**
Reclassifications	**-**	**-**	**3**	**7**	**10**
Hyperinflation adjustment	**43**	**-**	**-**	**1**	**44**
Foreign currency translation adjustment	**(76)**	**-**	**(3)**	**(1)**	**(80)**
Closing net book amount	**2,240**	**8**	**45**	**33**	**2,326**
At 31 December 2013					
Cost or deemed cost	**2,411**	**37**	**231**	**156**	**2,835**
Accumulated amortisation and impairment losses	**(171)**	**(29)**	**(186)**	**(123)**	**(509)**
Net book amount	**2,240**	**8**	**45**	**33**	**2,326**

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 mainly 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 ten 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 2013, goodwill of €23 million arose mainly on the acquisition of CRP Print and Packaging Holdings Limited ('CRP'), a company in the United Kingdom specialising in litho-laminating and other specialised packaging (Note 31). In 2012, goodwill of €61 million arose on the acquisition of Orange County Container Group ('OCCG'), a corrugated and containerboard manufacturer in Mexico and the United States (Note 31) and Baguin, a bag-in-box packaging solutions company in Argentina.

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. 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 (2012: 15) of CGUs have been identified and these are analysed between the two operating segments as follows:

	2013 Number	2012 Number
Eurozone	**7**	7
Eastern Europe	**1**	1
Scandinavia	**1**	1
United Kingdom	**1**	1
Europe	**10**	10
The Americas	**5**	5
	15	15

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

	2013 €m	Restated 2012 €m
Europe	**1,898**	1,888
The Americas	**342**	362
	2,240	2,250

No impairment arose in 2013 as the recoverable amount of the groups of CGUs, based on value-in-use and estimated using the methodology outlined below, exceeded the carrying amount.

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 €2,240 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	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Carrying amount of goodwill (€ million)	**276**	276	**378**	378	**395**	395
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)	**10.2%**	10.1%	**10.2%**	10.1%	**10.2%**	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)	**26**	269	**143**	347	**163**	493

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.

The table below identifies the amounts by which each of the key assumptions must change in order for the recoverable amount to be equal to the carrying amount of the three CGU's identified as individually significant.

	Europe France	Europe Benelux	Europe Germany, Austria and Switzerland
Increase in pre-tax discount rate	**0.8 percentage points**	**3.4 percentage points**	**3.1 percentage points**
Reduction in terminal value multiple	**0.5**	**2.1**	**1.9**
Reduction in EBITDA	**3%**	**13%**	**11%**

For the other CGU's any reasonable movement in the assumptions used in the impairment test would not result in an 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]**	**Unlisted**	**Total**
	€m	**€m**	**€m**
At 1 January 2012	1	31	32
Change in fair value	-	1	1
At 31 December 2012	**1**	**32**	**33**
Impairments	**-**	**(6)**	**(6)**
At 31 December 2013	**1**	**26**	**27**

(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.

In 2013 the financial position of one of the Group's significant unlisted investments deteriorated arising from a continued and accelerated decline in the operating performance of the investee during 2013. The fair value calculated by reference to discounted cash flows based on all financial information available to the Group at 31 December 2013 has been calculated by management and resulted in an impairment loss of €6 million recorded in the Consolidated Income Statement within financial costs.

At 31 December 2013 available-for-sale assets for which an impairment provision has been recorded amounted to €17 million.

Investment in subsidiaries – Company

	2013	**2012**
	€m	**€m**
At 1 January	**2,012**	1,980
Capital contribution	**15**	32
At 31 December	**2,027**	2,012

15. Investment in associates

	2013 €m	2012 €m
At 1 January	**16**	14
Share of profit for the year	**2**	3
Dividends received from associates	**(1)**	(2)
Foreign currency translation adjustment	**(1)**	1
At 31 December	**16**	16

16. Biological assets

	2013 €m	2012 €m
At 1 January	**133**	124
Increases due to new plantations	**22**	22
Harvested timber transferred to inventories	**(12)**	(19)
Change in fair value less estimated costs to sell	**(2)**	1
Foreign currency translation adjustment	**(24)**	5
At 31 December	**117**	133
Current	**10**	6
Non-current	**107**	127
At 31 December	**117**	133
Approximate harvest by volume (tonnes '000)	**916**	902

The Group's biological assets consist of 103,000 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's biological assets at 31 December 2013 are measured at fair value and have been categorised within level 2 of the fair value hierarchy. There were no transfers between any levels during the year. Level 2 fair values of forest plantations have been derived using the valuation techniques outlined in the accounting policy note for biological assets.

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:

	2013 €m	Restated 2012 €m
Deferred tax assets	**445**	421
Deferred tax assets/liabilities available for offset	**(242)**	(228)
	203	193
Deferred tax liabilities	**456**	463
Deferred tax assets/liabilities available for offset	**(242)**	(228)
	214	235

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 was as follows:

	Note	2013 €m	Restated 2012 €m
At 1 January		**(42)**	(33)
Movement recognised in the Consolidated Income Statement	9	**24**	17
Movement recognised in the Consolidated Statement of Comprehensive Income	9	**-**	14
Acquisitions and disposals (restated)		**-**	(32)
Transfer between current and deferred tax		**1**	-
Hyperinflation adjustment	9	**(15)**	(7)
Foreign currency translation adjustment		**21**	(1)
At 31 December		**(11)**	(42)

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

	Retirement benefit obligations €m	Tax losses €m	Derivative fair values €m	Other €m	Total €m
Deferred tax assets					
At 1 January 2012	80	242	5	97	424
Reclassifications	-	-	-	8	8
Recognised in the Consolidated Income Statement (restated)	(6)	(10)	-	(16)	(32)
Recognised in the Consolidated Statement of Comprehensive Income (restated)	16	-	(2)	-	14
Acquisitions and disposals (restated)	-	-	-	4	4
Other movements	-	-	-	3	3
At 31 December 2012 (restated)	**90**	**232**	**3**	**96**	**421**
Reclassifications	**-**	**1**	**-**	**-**	**1**
Recognised in the Consolidated Income Statement	**(3)**	**6**	**-**	**29**	**32**
Recognised in the Consolidated Statement of Comprehensive Income	**2**	**-**	**(2)**	**-**	**-**
Other movements	**(1)**	**(2)**	**(1)**	**(5)**	**(9)**
At 31 December 2013	**88**	**237**	**-**	**120**	**445**

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

17. Deferred tax assets and liabilities (continued)

	Accelerated tax depreciation €m	Intangible assets fair values €m	Biological assets fair values €m	Debt costs €m	Other €m	Total €m
Deferred tax liabilities						
At 1 January 2012	372	28	3	1	53	457
Reclassifications	(5)	(23)	-	-	36	8
Recognised in the Consolidated Income Statement	(29)	(1)	-	-	(19)	(49)
Acquisitions and disposals (restated)	4	16	-	-	16	36
Recognised in equity	-	-	-	-	7	7
Other movements	-	-	-	-	4	4
At 31 December 2012 (restated)	**342**	**20**	**3**	**1**	**97**	**463**
Recognised in the Consolidated Income Statement	**(5)**	**(11)**	**-**	**-**	**24**	**8**
Recognised in equity	**-**	**-**	**-**	**-**	**15**	**15**
Other movements	**(1)**	**-**	**(1)**	**-**	**(28)**	**(30)**
At 31 December 2013	**336**	**9**	**2**	**1**	**108**	**456**

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

	2013 €m	2012 €m
Tax losses	**31**	85
Deferred interest	**44**	39
	75	124
Pension/employee benefits	**-**	13
Derivative financial instruments	**2**	1
	77	138

No deferred tax asset is recognised in respect of the above assets 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 €106 million (2012: €318 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 2013 €m
1 January 2014 to 31 December 2014	**2**
1 January 2015 to 31 December 2015	**-**
1 January 2016 to 31 December 2016	**-**
1 January 2017 to 31 December 2017	**8**
Other expiry	**33**
Indefinite	**63**
	106

18. Inventories

	2013 €m	Restated 2012 €m
Raw materials	**163**	181
Work in progress	**46**	56
Finished goods	**343**	337
Consumables and spare parts	**160**	159
	712	733

19. Trade and other receivables

	Group 2013 €m	Group 2012 €m	Company 2013 €m	Company 2012 €m
Amounts falling due within one year:				
Trade receivables	**1,219**	1,246	**-**	-
Less: provision for impairment of receivables	**(34)**	(43)	**-**	-
Trade receivables – net	**1,185**	1,203	**-**	-
Amounts receivable from associates	**4**	5	**-**	-
Other receivables	**116**	173	**-**	-
Prepayments and accrued income	**39**	41	**-**	-
Amounts due from Group companies	**-**	-	**36**	27
	1,344	1,422	**36**	27
Amounts falling due after more than one year:				
Other receivables	**5**	4	**-**	-
	1,349	1,426	**36**	27

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

The Group has securitised €540 million (2012: €294 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 borrowings are shown in the Consolidated Balance Sheet.

Included in other receivables in 2012 was an amount of €23 million related to an insurance claim in the Group's mill in Facture, France.

Impairment losses

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

	2013 €m	2012 €m
At 1 January	**43**	41
Provision for impaired receivables during the year	**4**	9
Receivables written off as uncollectable during the year	**(12)**	(7)
Foreign currency translation adjustment	**(1)**	-
At 31 December	**34**	43

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 2013 trade receivables of €210 million (2012: €216 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:

	2013 €m	2012 €m
Past due 0 – 30 days	**146**	150
Past due 30 – 60 days	**46**	46
Past due 60 – 90 days	**9**	11
Past due 90+ days	**9**	9
	210	216

19. Trade and other receivables (continued)

As 31 December 2013 specifically identified trade receivable balances of €29 million (2012: €40 million) were considered impaired and provided for. The ageing of this provision was as follows:

	2013 €m	2012 €m
Not past due	**1**	1
Past due 0 – 30 days	**-**	-
Past due 30 – 60 days	**-**	-
Past due 60 – 90 days	**1**	2
Past due 90+ days	**27**	37
	29	40

In addition to the specific provision above, a portfolio provision of €5 million (2012: €3 million) is held in the current year which is calculated based on historical data.

20. Net movement in working capital

	2013 €m	2012 €m
Change in inventories	**(23)**	2
Change in trade and other receivables	**5**	(23)
Change in trade and other payables	**42**	2
Net movement in working capital	**24**	(19)

21. Cash and cash equivalents and restricted cash

Cash and cash equivalents

	Group 2013 €m	Group 2012 €m	Company 2013 €m	Company 2012 €m
Cash and current accounts	**209**	114	**-**	-
Short-term deposits	**238**	333	**6**	2
Cash and cash equivalents	**447**	447	**6**	2
Cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows				
Cash and cash equivalents	**447**	447	**6**	2
Bank overdrafts and demand loans used for cash management purposes	**(23)**	(24)	**-**	-
Cash and cash equivalents in the Consolidated Statement of Cash Flows	**424**	423	**6**	2
Restricted cash	**8**	15	**-**	-

At 31 December 2013, cash of €2 million (2012: €11 million) was held in restricted securitisation bank accounts which were not available for transfer to other Group subsidiaries or for use outside the Group. A further €6 million (2012: €4 million) of restricted cash was held in other Group subsidiaries.

22. 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.

22. Capital and reserves (continued)

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.

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.

Authorised	**2013 €m**	**2012 €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

22. Capital and reserves (continued)

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 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 1 January 2013	**2,480,090**	**2,480,090**	**2,989,045**	**7,949,225**	**227,745,919**	**235,695,144**	**-**
Conversion of Class B and Class C convertible shares	**(390,576)**	**(390,576)**	**781,152**	**-**	**-**	**-**	**-**
Class D shares converted to ordinary shares	**-**	**-**	**(1,394,657)**	**(1,394,657)**	**1,394,657**	**-**	**-**
Issued on exercise of warrants	**-**	**-**	**-**	**-**	**261,951**	**261,951**	**-**
At 31 December 2013	**2,089,514**	**2,089,514**	**2,375,540**	**6,554,568**	**229,402,527**	**235,957,095**	**-**

At 31 December 2013 ordinary shares represented 97.2% and convertible shares represented 2.8% of issued share capital (2012: 96.6% and 3.4% respectively). The called up, issued and fully paid share capital of the Company at 31 December 2013 was €236,000 (2012: €235,000). The indentures governing the 7.75% senior notes due 2019 contain financial and other covenants that restrict, among other things, the ability of the Group to pay dividends.

Share premium

Share premium of €1,979 million relates to the share premium arising on share issues.

Other reserves

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

	Reverse acquisition reserve	Cash flow hedging reserve	Foreign currency translation reserve	Share-based payment reserve	Own shares	Available -for-sale reserve	Total
	€m	€m	€m	€m	€m	€m	€m
At 1 January 2013	575	(26)	(198)	105	(13)	1	444
Other comprehensive income							
Foreign currency translation adjustments	-	-	(258)	-	-	-	(258)
Effective portion of changes in fair value of cash flow hedges	-	11	-	-	-	-	11
Total other comprehensive income/(expense)	-	11	(258)	-	-	-	(247)
Share-based payment	-	-	-	26	-	-	26
Shares acquired by SKG Employee Trust	-	-	-	-	(15)	-	(15)
At 31 December 2013	575	(15)	(456)	131	(28)	1	208

22. Capital and reserves (continued)

Other reserves (continued)

	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

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 into 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 payment expense recognised in the Consolidated Income Statement.

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

	2013 €m	2012 €m
At 1 January	**13**	-
Shares acquired by SKG Employee Trust	**15**	13
At 31 December	**28**	13

As at 31 December 2013 the number of own shares held was 2,979,526 (2012: 1,790,450); their nominal value was €2,980 (2012: €1,790). In 2013, own shares were purchased at an average price of €11.89 (2012: €7.49) per share. The number of own shares held represents 1.3% of the total called up share capital of the Company.

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.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

23. Borrowings

Analysis of total borrowings

	2013 €m	2012 €m
Senior credit facility		
- Revolving credit facility[1]—interest at relevant interbank rate +3.25%[9]	**-**	(7)
- Tranche B term loan[2a]—interest at relevant interbank rate +3.625%[9]	**-**	550
- Tranche C term loan[2b]—interest at relevant interbank rate +3.875%[9]	**-**	556
Unsecured senior credit facility		
- Revolving credit facility[3]—interest at relevant interbank rate +2%[8][10]	**119**	-
- Facility A term loan[4]—interest at relevant interbank rate +2.25%[8][10]	**740**	-
US$292.3 million 7.50% senior debentures due 2025 (including accrued interest)[10]	**213**	222
Bank loans and overdrafts	**67**	65
2015 receivables securitisation variable funding notes[9]	**203**	197
2018 receivables securitisation variable funding notes[9]	**173**	-
€500 million 7.25% senior notes due 2017 (including accrued interest)[5][10]	**-**	492
2018 senior notes (including accrued interest)[6][10]	**414**	423
€500 million 7.75% senior notes due 2019 (including accrued interest) [10]	**495**	494
€400 million 4.125% senior notes due 2020 (including accrued interest)[10]	**401**	-
€250 million senior floating rate notes due 2020 (including accrued interest)[7][10]	**247**	247
Finance leases	**4**	8
Total borrowings	**3,076**	3,247
Balance of revolving credit facility reclassified to debtors	**-**	7
Total borrowings after reclassification	**3,076**	3,254
Analysed as follows:		
Current	**67**	66
Non-current	**3,009**	3,188
	3,076	3,254

(1) *Revolving credit facility of €525 million (available under the senior credit facility) due to be repaid in 2016. This was repaid on 24 July 2013.*

(2a) *Tranche B term loan due to be repaid in 2016. €193.9 million prepaid January - April 2013. The remaining loans were repaid on 24 July 2013 from the proceeds of the unsecured senior credit facility.*

(2b) *Tranche C term loan due to be repaid in 2017. €197.1 million prepaid January - April 2013. The remaining loans were repaid on 24 July 2013 from the proceeds of the unsecured senior credit facility.*

(3) *Revolving credit facility ('RCF') of €625 million (available under the unsecured senior credit facility) due to be repaid in 2018. (a) Revolver loans - €125 million (b) drawn under ancillary facilities and facilities supported by letters of credit - €0.3 million and (c) other operational facilities including letters of credit €20.6 million.*

(4) *Facility A term loan ('Facility A') due to be repaid in certain instalments from 2016 to 2018.*

(5) *€500 million 7.25% notes due 2017 were repaid in November 2013.*

(6) *€200 million 5.125% senior notes due 2018 and US$300 million 4.875% senior notes due 2018.*

(7) *Interest at EURIBOR + 3.5%.*

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

Net debt/EBITDA ratio	RCF	Facility A
Greater than 3.0 : 1	2.50%	2.75%
3.0 : 1 or less but more than 2.5 : 1	2.00%	2.25%
2.5 : 1 or less but more than 2.0 : 1	1.75%	2.00%
2.0 : 1 or less	1.50%	1.75%

As the net debt/EBITDA ratio was below 2.5:1 but more than 2.0:1 at 31 December 2013, the Group's margins reduced from 2.25% to 2.00% for Facility A and from 2.00% to 1.75% for the RCF effective 19 February 2014.

(9) *Secured loans and long-term obligations.*

(10) *Unsecured loans and long-term obligations. On 24 July 2013, the Group successfully completed a five-year unsecured €1,375 million refinancing of its senior credit facility. In connection with this refinancing the collateral securing the obligations under the Group's various outstanding senior notes and debentures, comprising fixed and floating charges over the assets of certain subsidiaries and pledges over the Group's shareholding in certain of its subsidiaries, was also released and the senior notes and debentures are therefore now unsecured.*

23. Borrowings (continued)

Included within the carrying value of borrowings are deferred debt issue costs of €45 million (2012: €60 million), all of which will be recognised in finance costs in the Consolidated Income Statement using the effective interest rate method over the remaining life of the borrowings.

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €3,592 million (2012: €3,812 million) of which €3,068 million (2012: €3,235 million) was utilised at 31 December 2013. The weighted average period until maturity of undrawn committed facilities is 4.4 years (2012: 3.4 years).

Maturity of undrawn committed facilities

	2013	2012
	€m	€m
Within 1 year	-	-
Between 1 and 2 years	45	1
More than 2 years	479	576
	524	577

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 2013 and 2012 for each of the drawings under the senior credit facility.

	Currency	2013 Interest rate	2012 Interest rate
Term loan B	EUR	-	3.76%
Term loan B	US$	-	3.98%
Term loan C	EUR	-	4.03%
Term loan C	US$	-	4.23%
Facility A	EUR	2.47%	-
Facility A	US$	2.42%	-
Revolving credit facility	EUR	2.23%	-

Borrowings under the revolving credit facility are available to fund the Group's working capital requirements, capital expenditure and other general requirements.

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 a 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 ('2015 receivables securitisation'). 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 United Kingdom, 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.

In addition, on 3 July 2013, the Group put in place a new five-year trade receivables securitisation programme ('2018 receivables securitisation') of up to €175 million utilising the Group's receivables in Austria, Belgium, Italy and the Netherlands. The programme, which has been arranged by Rabobank and carries a margin of 1.70%, complements the Group's 2015 receivables securitisation.

The gross amount of receivables collateralising the 2015 receivables securitisation at 31 December 2013 was €290 million (2012: €294 million). The gross amount of receivables collateralising the 2018 receivables securitisation at 31 December 2013 was €250 million (2012: €nil). 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 28. In accordance with the contractual terms, the counterparty only has recourse to the securitised debtors. Given the short-term nature of the securitised debtors and the variable floating notes, the carrying amount of the securitised debtors and the associated liabilities reported on the Consolidated Balance Sheet is estimated to approximate to fair value. At 31 December 2013, cash of €2 million (2012: €11 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

On 24 July 2013, the Group successfully completed a new five-year unsecured €1,375 million refinancing of its senior credit facility comprising a €750 million term loan with a margin of 2.25% and a €625 million revolving credit facility with a margin of 2.00%. The term loan is repayable in instalments of €125 million on 24 July 2016, €125 million on 24 July 2017 with the balance of €500 million repayable on the maturity date. In connection with the refinancing, the collateral securing the obligations under the Group's various outstanding senior notes and debentures was also released and the senior notes and debentures are therefore now unsecured. The new unsecured senior credit facility is supported by substantially the same guarantee arrangements as the old senior credit facility. The existing senior notes and debentures likewise continue to have substantially similar guarantee arrangements as supported those instruments prior to the refinancing.

On 4 November 2013, the Group completed the redemption of its €500 million 7.25% senior notes due 2017, utilising cash and existing credit facilities arranged as part of the senior credit facility and trade receivables securitisation transactions.

Certain other maturity, interest rate repricing and key terms relating to the Group's borrowings have been set out in Note 28.

24. Employee benefits

The Group operates both defined benefit and defined contribution pension plans throughout its operations in accordance with local requirements and practice. These plans have broadly similar regulatory frameworks. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies with the Company and the respective boards of trustees. The major plans are of the defined benefit type and are funded by payments to separately administered funds. While the majority of the defined benefit plans are funded, in certain countries, such as Germany, Austria and France, plan liabilities are unfunded and recognised as liabilities 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.

The most significant defined benefit plans are in the United Kingdom, the Netherlands, Ireland and Germany. The most recent valuations of the significant funded plans are as follows:

Ireland	1 January 2013
Netherlands	31 December 2012
United Kingdom	31 March 2011

The expense for defined contribution pension plans for the year ended 31 December 2013 was €41 million (2012: €38 million).

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

	2013 €m	Restated 2012 €m
Present value of funded or partially funded obligations	**(1,851)**	(1,832)
Fair value of plan assets	**1,625**	1,598
Deficit in funded or partially funded plans	**(226)**	(234)
Present value of wholly unfunded obligations	**(487)**	(504)
Net pension liability	**(713)**	(738)

In determining the defined benefit costs and obligations, all valuations are performed by independent actuaries using the projected unit credit method.

All 2012 figures shown are restated values under IAS 19, *Employee Benefits* (Revised) ('IAS 19').

Financial assumptions

The main actuarial assumptions used to calculate liabilities under IAS 19 at 31 December 2013 and 31 December 2012 are as follows:

	Eurozone		Rest of Europe		The Americas	
	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %
Rate of increase in salaries	**2.00 – 5.00**	2.12 – 5.00	**1.20 – 3.90**	1.20 – 3.30	**2.99 – 15.75**	3.00 – 16.25
Rate of increase to pensions in payment	**Nil – 2.00**	Nil – 2.00	**Nil – 3.50**	Nil – 3.00	**Nil – 2.99**	Nil – 3.26
Discount rate for plan liabilities	**3.70**	3.60	**2.00 – 4.60**	1.70 – 4.40	**4.90 – 15.75**	4.00 – 16.25
Inflation	**1.75 – 2.00**	1.75 – 2.00	**1.00 – 2.70**	1.00 – 2.80	**2.00 – 15.75**	2.00 – 16.25

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 that the assumptions used made adequate allowance for future changes in mortality rates. These will be reviewed in subsequent actuarial valuations. In the Netherlands, the assumptions were 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 2013 actuarial valuation and allow for increasing life expectancies. In Germany, the mortality table used is that laid down by statutory authorities and also allows for future improvements.

The current life expectancies underlying the valuation of the plan liabilities for the significant plans are as follows:

	Ireland		UK		Netherlands		Germany	
	2013	2012	2013	2012	2013	2012	2013	2012
Longevity at age 65 for current pensioners (years)								
Males	**21.0**	20.6	**20.6**	20.3	**20.6**	20.5	**19.0**	18.6
Females	**23.3**	22.9	**22.9**	22.6	**23.1**	22.9	**23.0**	22.7
Longevity at age 65 for current member aged 45 (years)								
Males	**23.0**	22.6	**22.0**	21.2	**22.6**	22.5	**22.0**	21.3
Females	**25.3**	24.9	**24.5**	23.7	**24.2**	23.9	**26.0**	25.2

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

24. Employee benefits (continued)

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	
	2013	Restated 2012
Change in assumption	**€m**	**€m**
Increase discount rate by 0.25%	**(84)**	(85)
Decrease discount rate by 0.25%	**90**	90
Increase inflation rate by 0.25%	**40**	41
Decrease inflation rate by 0.25%	**(40)**	(40)
Increase in life expectancy by one year	**72**	56

The sensitivity information shown above has been determined by performing calculations of the liabilities using different assumptions and the projected unit credit method.

Analysis of plan assets and liabilities

Plan assets are comprised as follows:

	2013			2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	€m	€m	€m	€m	€m	€m
Equities	**514**	**7**	**521**	518	9	527
Corporate bonds	**238**	**17**	**255**	244	20	264
Government bonds	**152**	**1**	**153**	174	-	174
Property	**29**	**-**	**29**	30	-	30
Cash	**69**	**-**	**69**	44	-	44
Insurance contracts	**-**	**45**	**45**	-	35	35
Liability driven investments	**319**	**16**	**335**	351	16	367
Other	**215**	**3**	**218**	145	12	157
	1,536	**89**	**1,625**	1,506	92	1,598

Included in plan assets at 31 December 2013 under Property is an amount of €1.3 million relating to the Gosport plant in the UK. This is the only self-investment in the Group by the defined benefit plans.

The actual return on plan assets for the year ended 31 December 2013 was a gain of €55 million (2012: a gain of €111 million).

An analysis of the assets held by the plans is as follows:

	Eurozone	Rest of Europe	The Americas	Total
31 December 2013	**€m**	**€m**	**€m**	**€m**
Equities	**288**	**206**	**27**	**521**
Corporate bonds	**128**	**94**	**33**	**255**
Government bonds	**144**	**4**	**5**	**153**
Property	**9**	**19**	**1**	**29**
Cash	**24**	**42**	**3**	**69**
Insurance contracts	**39**	**6**	**-**	**45**
Liability driven investments	**152**	**183**	**-**	**335**
Other	**60**	**158**	**-**	**218**
Fair value of plan assets	**844**	**712**	**69**	**1,625**
Present value of plan liabilities	**(1,341)**	**(878)**	**(119)**	**(2,338)**
Net pension liability	**(497)**	**(166)**	**(50)**	**(713)**

24. Employee benefits (continued)

31 December 2012	Eurozone €m	Rest of Europe €m	The Americas €m	Total €m
Equities	263	232	32	527
Corporate bonds	111	126	27	264
Government bonds	166	3	5	174
Property	10	19	1	30
Cash	12	29	3	44
Insurance contracts	28	7	-	35
Liability driven investments	178	189	-	367
Other	62	95	-	157
Fair value of plan assets	830	700	68	1,598
Present value of plan liabilities (restated)	(1,340)	(862)	(134)	(2,336)
Net pension liability (restated)	(510)	(162)	(66)	(738)

Analysis of the amount charged in the Consolidated Income Statement

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

	2013 €m	Restated 2012 €m
Current service cost	**49**	29
Administrative expenses	**4**	4
Past service cost	**3**	1
Gain on curtailment	**-**	(12)[2]
Gain on settlement	**(2)**	-
Actuarial loss arising on other long-term employee benefits	**1**	2
Charged to operating profit	**55**[1]	24
Net interest cost on net pension liability	**27**	29
	82	53

[1] The amount charged to operating profit for current service cost excludes the hyperinflation adjustment of €4 million.
[2] The gain on curtailment of €12 million was due to the restructuring of the UK defined benefit plan.

The defined benefit cost for 2013 includes €6 million (2012: €7 million) which relates to other long-term employee benefits.

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

	2013 €m	Restated 2012 €m
Cost of sales	**33**	11
Distribution costs and administrative expenses	**22**	13
Finance costs	**27**	29
	82	53

Analysis of actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income	2013 €m	Restated 2012 €m
Return on plan assets	**(7)**	39
Actuarial gain/(loss) due to experience adjustments	**2**	(19)
Actuarial gain/(loss) due to changes in financial assumptions	**11**	(112)
Actuarial loss due to changes in demographic assumptions	**(10)**	(4)
Total loss recognised in the Consolidated Statement of Comprehensive Income	**(4)**	(96)

24. Employee benefits (continued)

	2013 €m	Restated 2012 €m
Movement in present value of defined benefit obligation		
At 1 January	**(2,336)**	(2,141)
IAS 19 adjustment	**-**	(1)
Current service cost	**(49)**	(29)
Contributions by plan participants	**(7)**	(7)
Interest cost	**(89)**	(101)
Actuarial gains and losses	**2**	(137)
Benefits paid by plans	**114**	104
Past service cost	**(3)**	(1)
Reduction arising on curtailments	**-**	12
Acquisitions	**(6)**	(1)
Reclassification from provisions	**-**	(11)
Decrease arising on settlement	**2**	-
Foreign currency translation adjustments	**34**	(23)
At 31 December	**(2,338)**	(2,336)
Movement in fair value of plan assets		
At 1 January	**1,598**	1,487
Interest income on plan assets	**62**	72
Return on plan assets	**(7)**	39
Administrative expenses	**(4)**	(4)
Contributions by employer	**97**	85
Contributions by plan participants	**7**	7
Benefits paid by plans	**(114)**	(104)
Acquisitions	**4**	-
Foreign currency translation adjustments	**(18)**	16
At 31 December	**1,625**	1,598

Employee benefit plan risks

The employee benefit plans expose the Group to a number of risks, the most significant of which are:

Asset volatility The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to equities is monitored to ensure it remains appropriate given the plans' long-term objectives.

Changes in bond yields A decrease in corporate bond yields will increase the value placed on the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk The plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy The majority of the plans' obligations are to provide benefits based on the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In the case of the funded plans, the Group ensures that the investment positions are managed with an asset-liability matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency.

Maturity analysis

The expected maturity analysis is set out in the table below:

Expected benefit payments:	Projected amounts €m
Financial year 2014	**115**
Financial year 2015	**116**
Financial year 2016 - 2018	**363**
Financial year 2019 - 2023	**683**

Most of the plans are closed and therefore, under the projected unit credit method, the current service cost is expected to increase as the members approach retirement and to decrease as members retire or leave service. The expected employee and employer contributions for the year ending 31 December 2014 for the funded schemes are €7 million and €57 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2014 are €42 million.

25. Share-based payment

Share-based payment expense recognised in the Consolidated Income Statement

	2013	2012
	€m	€m
Charge arising from the Deferred Annual Bonus Plan	**26**	23
Charge arising from the 2007 Share Incentive Plan	**-**	3
	26	26

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 2007 Share Incentive Plan.

The size of 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. Recognising the Group's move from a leveraged group to one with a corporate credit profile the Compensation Committee replaced the EBITDA target for 2014 with an EPS target.

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 interconditional basis and the multiplier will be calculated by interpolation.

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 have 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, 2012 and to be granted in respect of 2013 and c) a charge in respect of the Matching Share Awards granted in respect of 2011, 2012 and to be granted in respect of 2013.

The actual performance targets assigned to the Matching Share Awards are set by the Compensation Committee on the granting of awards at the start of each three-year cycle. The Group is required to lodge the actual targets with the Group'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 2012 to 31 December 2013 is presented below:

	Number outstanding	
	Deferred Share Award	Matching Share Award
At 1 January 2012	-	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**
Granted in the year	**1,264,626**	**790,543**
Forfeited in the year	**(15,265)**	**(90,970)**
Distributed in the year	**(75,550)**	**-**
At 31 December 2013	**2,964,261**	**2,456,454**

The fair value of the awards granted in 2013 was €11.89 (2012: €7.49) which was the market value on the date of the allocation.

Deferred Share Awards and Matching Share Awards were granted in March 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.

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

25. Share-based payment (continued)

Deferred Share Awards and Matching Share Awards will be granted in 2014 to eligible employees in respect of the year ended 31 December 2013. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2016.

The Conditional Matching Share awards which were granted in 2011 vested in February 2014 resulting in a 2.8 times match of Conditional Matching Share Awards. Details of the performance targets and results for the three-year period to 31 December 2013 are set out in the Remuneration Report.

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.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

25. Share-based payment (continued)

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.

A summary of the activity under the 2007 SIP, as amended, and the 2002 Plan, as amended, for the period from 1 January 2012 to 31 December 2013 is presented below.

	2013		2012	
	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	**4,620,321**	**5.40**	10,653,943	4.97
Forfeited in the year	**(6,780)**	**6.50**	(150,686)	6.39
Lapsed in the year	**(1,577,144)**	**6.50**	-	-
Exercised in the year	**(1,394,657)**	**4.74**	(5,882,936)	4.60
Outstanding at end of year	**1,641,740**	**4.90**	4,620,321	5.40
Exercisable at end of year	**1,641,740**	**4.90**	2,356,163	4.34

The weighted average market price on the dates the convertible shares were exercised in the year ended 31 December 2013 was €13.73 (2012: €7.86).

	2013	2012
2007 SIP, as amended, convertible shares outstanding at end of year (number)	**1,468,432**	4,072,692
Weighted average exercise price (€ per share)	**4.97**	5.55
Weighted average remaining contractual life (years)	**5.9**	7.0
2002 Plan, as amended, convertible shares outstanding at end of year (number)	**173,308**	547,629
Weighted average exercise price (€ per share)	**4.28**	4.28
Weighted average remaining contractual life (years)	**0.2**	1.2

26. Provisions for liabilities and charges

	2013 €m	Restated 2012 €m
Current	**14**	19
Non-current	**42**	57
	56	76

	Deferred consideration €m	Restructuring €m	Environmental €m	Legal €m	Other €m	Total €m
At 1 January 2012 (restated)	3	16	9	3	42	73
Made during year (restated)	6	9	-	3	40	58
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 (restated)	**8**	**12**	**6**	**4**	**46**	**76**
Made during year	**-**	**9**	**-**	**1**	**14**	**24**
Released during year	**-**	**-**	**-**	**(1)**	**(1)**	**(2)**
Utilised during year	**(5)**	**(12)**	**-**	**(1)**	**(28)**	**(46)**
Acquisitions	**-**	**-**	**-**	**1**	**-**	**1**
Reclassifications	**-**	**-**	**-**	**1**	**1**	**2**
Unwinding of discount	**1**	**-**	**-**	**-**	**-**	**1**
At 31 December 2013	**4**	**9**	**6**	**5**	**32**	**56**

26. Provisions for liabilities and charges (continued)

Deferred consideration

Deferred consideration represents the deferred element of acquisition and disposal consideration payable. The balance at 31 December 2013 related to the acquisition of Baguin, a bag-in-box packaging solutions company in Argentina acquired in 2012 and the acquisition of Oakland Packaging, a solidboard merchant in the United Kingdom acquired in 2011. The balance at 31 December 2013 will be utilised over a period of five years. The balance at 31 December 2012 related to the acquisition of Baguin, Oakland Packaging and Orange County Container Group.

Restructuring

These provisions relate to irrevocable commitments in respect of restructuring programmes throughout the Group. The provisions made in 2013 largely relate to the restructuring of the Townsend Hook mill in the United Kingdom. The provisions made in 2012 relate mainly to the closure of the Nanterre mill in France and also to the restructuring of the Piteå mill in Sweden. The Group expects that the majority of the provision balance remaining at 31 December 2013 will be utilised during 2014.

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 €13 million; employee compensation in certain countries in which we operate amounting to €5 million; and numerous 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.

27. Trade and other payables

	Group 2013 €m	Restated Group 2012 €m	Company 2013 €m	Company 2012 €m
Amounts falling due within one year:				
Trade payables	**899**	929	**-**	-
Amounts owed to associates - trading balances	**1**	2	**-**	-
Payroll taxes	**33**	31	**-**	-
Value added tax	**50**	37	**-**	-
Social welfare	**55**	60	**-**	-
Accruals and deferred income	**425**	425	**-**	-
Capital payables	**44**	34	**-**	-
Other payables	**18**	18	**-**	-
Amounts payable to Group companies	**-**	-	**3**	1
	1,525	1,536	**3**	1
Amounts falling due after more than one year:				
Other payables	**9**	10	**-**	-
	1,534	1,546	**3**	1

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

28. Financial instruments

Financial instruments by category

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

31 December 2013	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	-	-	-	27	27
Derivative financial instruments	-	4	1	-	5
Trade and other receivables	1,263	-	-	-	1,263
Cash and cash equivalents	447	-	-	-	447
Restricted cash	8	-	-	-	8
	1,718	4	1	27	1,750

The financial assets of the Company of €42 million consist of loans and receivables (€36 million) and cash (€6 million).

31 December 2013	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	-	-	3,076	3,076
Derivative financial instruments	46	46	-	92
Trade and other payables	-	-	1,231	1,231
	46	46	4,307	4,399

The financial liabilities of the Company of €3 million consist of other financial liabilities.

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).

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.

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.

28. Financial instruments (continued)

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.

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 tables 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 are the Group's securitisation facilities and the €250 million senior 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. At 31 December 2013, the Group had fixed an average of 69% (2012 adjusted for the January 2013 issuance of the €400 million 4.125% senior notes: 85%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2013 a one percentage point increase in variable interest rates would have an estimated impact on pre-tax interest expense of approximately €11 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. In 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 2013 approximately 99% (2012: 95%) of its non euro denominated net assets consisted of the Swedish Krona 24% (2012: 24%), Sterling 7% (2012: 8%), Latin American currencies 50% (2012: 47%), US Dollar 10% (2012: 8%) and Eastern European currencies 8% (2012: 8%). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2013 rate would reduce shareholders' equity by approximately €27 million (2012: €30 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 dependent 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.

28. Financial instruments (continued)

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 2013 and 2012 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 €26.20 per megawatt-hour, peaked at €30.83 per megawatt-hour during the month of March and ended the year at €27.69 per megawatt-hour. The green energy levies in certain countries result in increased energy costs. 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. Overall, the Group's energy costs increased compared to 2012.

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 23 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:

	2013 €m	2012 €m
Cash and cash equivalents	**447**	447
Committed undrawn facilities	**524**	577
Liquidity reserve	**971**	1,024
Current liabilities – borrowings due within one year	**(196)**	(249)
Net position	**775**	775

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 €524 million at 31 December 2013; and the Group has cash and cash equivalents of €447 million at 31 December 2013. The maturity dates of the Group's main borrowing facilities as set out in Note 23, together with the liquidity analysis as set out in this note, more fully describes the Group's longer term financing risks.

28. Financial instruments (continued)

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 2013 the net debt to EBITDA ratio of the Group was 2.4 times (net debt of €2,621 million) which compares to 2.7 times (net debt of €2,792 million) at the end of 2012. This gives the Group continuing headroom compared to the actual covenant level at 31 December 2013 of 3.75 times.

On the basis of pre-exceptional operating profit, the Group's return on capital employed was 13.1% compared to 12.0% in 2012, reflecting an increase of 11% in its pre-exceptional operating profit. 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; 2013: €5,128 million, (2012: €5,261 million)). The post-exceptional return on capital employed was 12.4% in 2013 (2012: 12.4%).

The capital employed of the Company at 31 December 2013 was €2,027 million (2012: €2,012 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. The maximum exposure to credit risk is represented by the carrying amount of each asset.

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 2013 of €455 million, 39% was with financial institutions in the A rating category of Standard and Poor's or Moody's and 17% was with financial institutions in the AA/Aa rating category. The remaining 44% was represented mainly by cash held with banks in Latin America which fell outside the A and AA/Aa ratings categories. At 31 December 2013 derivative transactions were with counterparties with ratings ranging from BB to AA- with Standard & Poor's or Ba3 to Aa3 with Moody's.

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.

28. Financial instruments (continued)

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:

	2013 €m	2012 €m
Non-current derivative assets		
Cash flow hedges :		
Foreign currency forwards	**1**	1
Total non-current derivative assets	**1**	1
Current derivative assets		
Cash flow hedges :		
Foreign currency forwards	**-**	3
Not designated as hedges:		
Foreign currency forwards	**1**	3
Cross currency swaps	**3**	4
Total current derivative assets	**4**	10
Total derivative assets	**5**	11
Non-current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	**-**	(8)
Cross currency swaps	**(30)**	(18)
Pulp hedging contract	**(1)**	-
Fair value hedges:		
Cross currency swaps	**(5)**	(2)
Not designated as hedges:		
Cross currency swaps	**(23)**	(37)
Total non-current derivative liabilities	**(59)**	(65)
Current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	**(7)**	(20)
Cross currency swaps	**(2)**	(1)
Pulp hedging contract	**(1)**	-
Not designated as hedges:		
Foreign currency forwards	**(1)**	(1)
Cross currency swaps	**(22)**	(21)
Total current derivative liabilities	**(33)**	(43)
Total derivative liabilities	**(92)**	(108)
Net liability on derivative financial instruments	**(87)**	(97)

Fair value hierarchy

Fair value measurement at 31 December 2013	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets (Note 14):				
Listed	**1**	**-**	**-**	**1**
Unlisted	**-**	**7**	**19**	**26**
Derivative financial instruments:				
Assets at fair value through Consolidated Income Statement	**-**	**4**	**-**	**4**
Derivatives used for hedging	**-**	**1**	**-**	**1**
Derivative financial instruments:				
Liabilities at fair value through Consolidated Income Statement	**-**	**(46)**	**-**	**(46)**
Derivatives used for hedging	**-**	**(46)**	**-**	**(46)**
	1	**(80)**	**19**	**(60)**

28. Financial instruments (continued)

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)

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.

Financial instruments in level 3

The following table presents the changes in level 3 instruments for the years ended 31 December 2013 and 31 December 2012:

	2013 €m	**2012 €m**
At 1 January	**25**	25
Impairment loss recognised in the Consolidated Income Statement	**(6)**	-
At 31 December	**19**	25
Total loss for the year included in the Consolidated Income Statement for assets held at the end of the reporting period, under 'Finance costs'	**(6)**	-
Change in unrealised losses for the year included in the Consolidated Income Statement for assets held at the end of the reporting period	**(6)**	-

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 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.

Cash flow hedging

As more fully set out in this note, the Group principally utilises interest rate swaps to swap its variable rate debt into fixed rates. The Group has also designated a number of cross currency swaps which swap fixed US dollar debt into fixed euro debt as cash flow hedges where permitted under the strict hedging requirements of IAS 39. 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 2013 and 2012. 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 2014 to 2021, 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 2014 to 2017. During 2012, the Group entered into a limited level of wood pulp swap contracts (1,500 tonnes per month for three years) to hedge a portion of its wood pulp cost in France and Germany, which are designated as cash flow hedges.

Fair value hedging

In 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 2013 and 2012. The fair value gains and losses are expected to impact on profit and loss over the period from 2014 to 2018, in line with the underlying debt being hedged.

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*.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

28. Financial instruments (continued)

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 2013 are summarised as follows:

Currency	Notional principal (million) [1]	Termination dates	% Fixed payable	% Variable receivable
EUR	**610**	**2014**	**2.630-4.435**	**Euribor [2]**
EUR	**125**	**2018**	**1.051-1.080**	**Euribor**
EUR	**74**	**2020**	**1.460-1.488**	**Euribor**
EUR	**50**	**2021**	**1.455-1.508**	**Euribor**

[1] *The table includes the notional amounts for forward starting swaps which amounted to €50 million with an effective start date in January 2014 and a maturity date in January 2021.*

[2] *European Interbank Offered Rate.*

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
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 2013 the Group had entered into €336 million (2012: €240 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2013 the Group had also entered into further short-term currency swaps of €438 million equivalent (2012: €466 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 2013 are summarised as follows:

Currency swapped (million)	Currency received (million)	Maturity date	Interest rate paid	Interest rate received
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**

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[1] +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

[1] *London Interbank Offered Rate.*

28. Financial instruments (continued)

Energy risk management

The Group had the following energy hedging contracts outstanding at the end of 31 December 2013 and 2012. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

	2013		2012	
	Notional	Maturity	Notional	Maturity
Energy contracts	€6 million	Q1 2014 - Q4 2015	€6 million	Q1 2013 - Q4 2014

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 2013 **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:							
2025 debentures	7.58%	-	-	-	-	213	213
2018 notes	5.54%	-	-	-	414	-	414
2019 notes	8.25%	-	-	-	-	495	495
2020 fixed rate notes	4.45%	-	-	-	-	401	401
Bank loans/overdrafts	2.73%	2	2	3	1	6	14
Effect of interest rate swaps		210	400	-	125	74	809
Effect of fair value cross currency swap		-	-	-	(36)	-	(36)
Total		212	402	3	504	1,189	2,310
Finance leases	3.28%	-	-	-	2	1	3
Total fixed rate liabilities		212	402	3	506	1,190	2,313
Floating rate instruments							
Assets:							
Cash and cash equivalents	0.51%	447	-	-	-	-	447
Restricted cash	0.27%	8	-	-	-	-	8
Total floating rate assets		455	-	-	-	-	455
Liabilities:							
Senior credit facility	2.89%	859	-	-	-	-	859
2015 receivables securitisation	2.31%	203	-	-	-	-	203
2018 receivables securitisation	2.22%	173	-	-	-	-	173
2020 floating rate notes	4.06%	247	-	-	-	-	247
Bank loans/overdrafts	9.59%	53	-	-	-	-	53
Effect of interest rate swaps	2.29%	(809)	-	-	-	-	(809)
Effect of fair value cross currency swap	(0.66%)	40	-	-	-	-	40
Total		766	-	-	-	-	766
Finance leases	1.16%	1	-	-	-	-	1
Total floating rate liabilities		767	-	-	-	-	767
Total net position		(524)	(402)	(3)	(506)	(1,190)	(2,625)

28. Financial instruments (continued)

Effective interest rates and repricing analysis (continued)

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:							
2025 debentures	7.59%	-	-	-	-	222	222
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
2015 receivables securitisation	2.13%	197	-	-	-	-	197
2020 secured floating rate 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)

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 2013	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		**-**	**1,231**	**-**	**-**	**-**	**1,231**
Senior credit facility	**4.1 yrs**	**-**	**21**	**21**	**919**	**-**	**961**
2015 receivables securitisation	**1.9 yrs**	**-**	**4**	**208**	**-**	**-**	**212**
2018 receivables securitisation	**4.3 yrs**	**-**	**3**	**3**	**182**	**-**	**188**
Bank loans/overdrafts	**1.0 yrs**	**22**	**32**	**4**	**10**	**2**	**70**
2025 debentures	**11.8 yrs**	**-**	**16**	**16**	**48**	**323**	**403**
2018 notes	**4.6 yrs**	**-**	**21**	**21**	**480**	**-**	**522**
2019 notes	**5.8 yrs**	**-**	**39**	**39**	**116**	**539**	**733**
2020 fixed rate notes	**6.0 yrs**	**-**	**17**	**17**	**50**	**425**	**509**
2020 floating rate notes	**6.7 yrs**	**-**	**9**	**9**	**28**	**269**	**315**
		22	**1,393**	**338**	**1,833**	**1,558**	**5,144**
Finance leases	**3.7 yrs**	**-**	**2**	**1**	**1**	**1**	**5**
		22	**1,395**	**339**	**1,834**	**1,559**	**5,149**
Derivative liabilities		**-**	**10**	**1**	**-**	**-**	**11**
Total liabilities		**22**	**1,405**	**340**	**1,834**	**1,559**	**5,160**

28. Financial instruments (continued)

Liquidity analysis (continued)

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
2015 receivables securitisation	2.9 yrs	-	3	3	202	-	208
Bank loans/overdrafts	1.0 yrs	24	29	6	6	2	67
2025 debentures	12.8 yrs	-	17	17	49	354	437
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 floating rate 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

The financial liabilities of the Company of €3 million (2012: €1 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 2013	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:					
Cross currency swaps	**549**	**70**	**414**	**-**	**1,033**
Foreign currency forwards	**230**	**64**	**39**	**-**	**333**
Total	**779**	**134**	**453**	**-**	**1,366**

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

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

28. 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 presentation currency (euro) represents both transactional and translation risk. As at 31 December 2013 and 2012 the Company had no financial assets or liabilities denominated in foreign currencies.

31 December 2013	Euro	Sterling	Latin America[1]	US dollar	Other	Total
	€m	€m	€m	€m	€m	€m
Trade and other receivables	773	122	186	76	106	1,263
Available-for-sale financial assets	27	-	-	-	-	27
Cash and cash equivalents	144	27	175	37	64	447
Restricted cash	1	1	3	3	-	8
Total assets	945	150	364	116	170	1,745
Trade and other payables	843	88	130	73	97	1,231
Senior credit facility	812	-	-	47	-	859
2015 receivables securitisation	125	78	-	-	-	203
2018 receivables securitisation	173	-	-	-	-	173
Bank loans/overdrafts	29	-	27	11	-	67
2025 debentures	-	-	-	213	-	213
2018 notes	194	-	-	220	-	414
2019 notes	495	-	-	-	-	495
2020 fixed rate notes	401	-	-	-	-	401
2020 floating rate notes	247	-	-	-	-	247
	3,319	166	157	564	97	4,303
Finance leases	3	-	-	1	-	4
Total liabilities	3,322	166	157	565	97	4,307
Impact of foreign exchange contracts	552	191	1	(477)	(202)	65
Total (liabilities)/assets	(2,929)	(207)	206	28	275	(2,627)

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
2015 receivables securitisation	125	72	-	-	-	197
Bank loans/overdrafts	31	-	24	10	-	65
2025 debentures	-	-	-	222	-	222
2017 secured notes	492	-	-	-	-	492
2018 secured notes	192	-	-	231	-	423
2019 secured notes	494	-	-	-	-	494
2020 secured floating rate 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)

[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.*

28. 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.

	2013		2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	€m	**€m**	**€m**	**€m**
Trade and other receivables [1]	**1,263**	**1,263**	1,311	1,311
Available-for-sale financial assets [2]	**27**	**27**	33	33
Cash and cash equivalents [3]	**447**	**447**	447	447
Derivative assets [4]	**5**	**5**	11	11
Restricted cash	**8**	**8**	15	15
	1,750	**1,750**	1,817	1,817
Trade and other payables [1]	**1,231**	**1,231**	1,242	1,242
Senior credit facility [5] [7]	**859**	**859**	1,099	1,110
2015 receivables securitisation [3]	**203**	**203**	197	197
2018 receivables securitisation [3]	**173**	**173**	-	-
Bank overdrafts [3]	**67**	**67**	65	65
2025 debentures [6] [7]	**213**	**235**	222	233
2017 notes [6] [7]	**-**	**-**	492	535
2018 notes [6] [7]	**414**	**442**	423	441
2019 notes [6] [7]	**495**	**543**	494	552
2020 fixed rate notes [6] [7]	**401**	**418**	-	-
2020 floating rate notes [6] [7]	**247**	**263**	247	250
	4,303	**4,434**	4,481	4,625
Finance leases	**4**	**4**	8	8
	4,307	**4,438**	4,489	4,633
Derivative liabilities [4]	**92**	**92**	108	108
	4,399	**4,530**	4,597	4,741
Total net position	**(2,649)**	**(2,780)**	(2,780)	(2,924)

[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 repricing 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 of the secured senior credit facility which was repaid in July 2013 is based on broker prices at 31 December 2012. The fair value of the unsecured senior credit facility with an effective start date in July 2013 is estimated to approximate the carrying amount reported in the Consolidated Balance Sheet because of the variable nature of the facility and repricing dates.*

[6] *Fair value is based on broker prices at the balance sheet date.*

[7] *On 24 July 2013, the Group successfully completed a five-year unsecured €1,375 million refinancing of its senior credit facility. In connection with this refinancing the collateral securing the obligations under the Group's various outstanding senior notes and debentures, comprising fixed and floating charges over the assets of certain subsidiaries and pledges over the Group's shareholding in certain of its subsidiaries, was also released and the senior notes and debentures are therefore now unsecured.*

The fair value of the Company's financial assets and financial liabilities approximates to their carrying values.

Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2013

29. Lease obligations

Operating leases

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2013	2012
	€m	€m
Within one year	**72**	69
Within two to five years	**165**	141
Over five years	**46**	33
	283	243

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:

	2013		2012	
	Minimum payments €m	Present value of minimum payments €m	Minimum payments €m	Present value of minimum payments €m
Within one year	**1**	**1**	5	5
Within two to five years	**2**	**2**	2	2
Over five years	**1**	**1**	1	1
Total minimum lease payments	**4**	**4**	8	8
Less: amounts allocated to future finance costs	**-**	**-**	-	-
Present value of minimum lease payments	**4**	**4**	8	8

Prior to 2013, the Group had a number of arrangements in place in relation to cogeneration facilities that did not take the legal form of leases but conveyed the right to use the underlying assets in return for a series of payments. These arrangements had been assessed as having the substance of finance lease arrangements. See Note 12 for the capitalised values of these finance leases.

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 75. A listing of the principal subsidiaries is provided on pages 128 to 129 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, services and assets

	2013	2012
	€m	€m
Sale of goods	**12**	15
Purchase of goods	**(5)**	(6)
Rendering of services	**2**	-
Receiving of services	**(2)**	(1)
Purchase of assets	**(1)**	-

These transactions are undertaken and settled at normal trading terms. No guarantees are given or received by either party.

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 2013 or 2012 relating to balances with related parties.

30. Related party transactions (continued)

Transactions with other related parties

In 2013, the Group purchased, in the normal course of business, approximately 31,000 metric tonnes (2012: 28,000 metric tonnes) of paper amounting to approximately €17 million (2012: €15 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 €5 million (2012: €4 million) was owed by the Group to Savon Sellu at 31 December 2013.

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.

	2013 €m	2012 €m
Short-term employee benefits	**6**	6
Post-employment benefits	**1**	1
Share-based payment expense	**4**	4
	11	11

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 parent 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:

- CRP Print and Packaging Holdings Limited ('CRP'), (100%, 14 October 2013), a company in the United Kingdom specialising in litho-laminating and other specialised packaging;
- MT Plastics, (100%, 15 March 2013), a bag-in-box packaging solutions company in Spain.

On 30 November 2012 the Group acquired 100% of Orange County Container Group ('OCCG'), a corrugated and containerboard manufacturer in Mexico and the United States. The provisional fair values of the identifiable assets and liabilities of the OCCG acquisition were reassessed in 2013, to reflect additional information which became available concerning conditions that existed at the date of acquisition, in accordance with IFRS 3, *Business Combinations*. Adjustments made to fair values previously reported have been retrospectively restated.

The fair value of the assets acquired, as previously reported and subsequently adjusted is summarised in the table below.

OCCG	**As previously reported**	**Adjustments to provisional fair values**	**Restated**
	2012		**2012**
	€m	**€m**	**€m**
Non-current assets	119	76	195
Inventories	50	(12)	38
Trade and other receivables	59	-	59
Cash and cash equivalents	7	-	7
Non-current liabilities	(100)	(25)	(125)
Trade and other payables	(47)	(2)	(49)
Net assets acquired	88	37	125
Goodwill	88	(36)	52
Consideration	176	1	**177**

Settled by:	
Cash	176
Deferred consideration	1
	177

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.

31. Business combinations (continued)

In 2012, as part of the acquisition of OCCG, business acquisition costs of €6 million were incurred which included post acquisition restructuring costs and were included as exceptional items in the Consolidated Income Statement. SKG also repaid acquired debt of €86 million following the completion of the acquisition.

The acquisitions of CRP and MT Plastics are immaterial to the Group.

None of the goodwill recognised in respect of acquisitions during the financial year is deductible for tax purposes.

No contingent liabilities were recognised on the acquisitions.

32. Restatement of prior periods

IAS 19, *Employee Benefits (Revised)*

The Group adopted IAS 19, *Employee Benefits* (Revised) from 1 January 2013. In accordance with the previous version of IAS 19, the Consolidated Income Statement included an interest cost based on present value calculations of projected pension payments and finance income based on the expected rates of income generated by plan assets. Generally the rate of expected income on plan assets exceeded the discount rate used in calculating the interest cost. Under the revised standard the interest cost and expected return on plan assets have been replaced with a net interest amount and the rate of return on plan assets is calculated using the same discount rate as that used to determine the present value of plan liabilities. The difference between the lower rate of return on plan assets and the actual return on assets is recognised in other comprehensive income, largely offsetting the higher net interest cost in the Consolidated Income Statement. There are other minor changes which the Group have allowed for but they do not have a material effect on the Consolidated Financial Statements.

The revised standard has been applied retrospectively in accordance with the transitional provisions of the standard, resulting in the adjustment of prior year financial information. The effects of adoption on previously reported financial information are shown in the tables below.

IFRS 3, *Business Combinations*

As required under IFRS 3, *Business Combinations*, the Consolidated Balance Sheet at 31 December 2012 has been restated for final adjustments to the provisional fair values of the SKOC acquisition on 30 November 2012. The effects on previously reported financial information are shown in the tables below.

	Previously reported €m	IAS 19 adjustments €m	IFRS 3 adjustments €m	Restated €m
Consolidated Income Statement				
For the year ended 31 December 2012				
Cost of sales	(5,238)	(2)	-	(5,240)
Administrative expenses	(938)	(2)	-	(940)
Finance costs	(399)	71	-	(328)
Finance income	93	(79)	-	14
Profit before income tax	331	(12)	-	319
Income tax expense	(71)	3	-	(68)
Profit for the financial year	260	(9)	-	251
Attributable to owners of the parent	249	(9)	-	240
Basic earnings per share - cent	111.2	(4.3)	-	106.9
Diluted earnings per share - cent	108.3	(4.1)	-	104.2
Consolidated Statement of Comprehensive Income				
For the year ended 31 December 2012				
Profit for the financial year	260	(9)	-	251
Other comprehensive income				
Defined benefit pension plans:				
- Actuarial loss	(108)	12	-	(96)
- Movement in deferred tax	19	(3)	-	16

32. Restatement of prior periods (continued)

	Previously reported €m	IAS 19 adjustments €m	IFRS 3 adjustments €m	Restated €m
Consolidated Balance Sheet				
At 1 January 2012				
Non-current assets				
Deferred income tax assets	177	-	-	177
Capital and reserves				
Retained earnings	(341)	1	-	(340)
Non-current liabilities				
Employee benefits	655	1	-	656
Provisions for liabilities and charges	55	(2)	-	53
At 31 December 2012				
Non-current assets				
Property, plant and equipment	3,076	-	28	3,104
Goodwill and intangible assets	2,336	-	10	2,346
Deferred income tax assets	191	-	2	193
Current assets				
Inventories	745	-	(12)	733
Capital and reserves				
Retained earnings	(160)	1	-	(159)
Non-current liabilities				
Employee benefits	737	1	-	738
Deferred income tax liabilities	211	-	24	235
Provisions for liabilities and charges	59	(2)	-	57
Other payables	9	-	1	10
Current liabilities				
Trade and other payables	1,534	-	2	1,536
Provisions for liabilities and charges	18	-	1	19
Consolidated Statement of Cash Flows				
For the year ended 31 December 2012				
Cash flows from operating activities				
Profit before income tax	331	(12)	-	319
Net finance costs	306	8	-	314
Change in employee benefits and other provisions	(62)	4	-	(58)

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 €74 million (2012: a profit of €54 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 Limited and Smurfit Kappa Acquisitions with an address at Beech Hill, Clonskeagh, Dublin 4, is a holding company with no operations of its own. Smurfit Kappa Acquisitions is an unlimited public company. 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
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. 1301 International Parkway Suite 550, 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 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 Packaging UK Limited Cunard Building, Pier Head, Liverpool, LS3 1SF, United Kingdom	Holding company for operations in the United Kingdom whose principal activities are the manufacture and sale of paperboard and packaging products	**England**	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.*

34. Principal subsidiaries (continued)

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.

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 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., Smurfit Kappa Trobox Kartonnages B.V., Smurfit Kappa Zedek B.V., Smurfit Kappa European Paper Services B.V., Smurfit Kappa North East Europe Head Office 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., 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 2013, the ordinary shares of the Company in issue were held as follows:

Number of shares	Number of shareholders	% of total	Number of shares held	% of total
1 - 1,000	621	40.9	268	0.1
1,001 - 5,000	370	24.4	863	0.4
5,001 - 10,000	99	6.5	753	0.3
10,001 - 50,000	184	12.1	4,643	2.0
50,001 - 100,000	69	4.6	5,048	2.2
100,001 - 500,000	103	6.8	23,505	10.3
over 500,000	71	4.7	194,323	84.7
Totals	1,517	100.0	229,403	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	2 May 2014
Interim results announcement	30 July 2014

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 & 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 Asset Services, Shareholder Solutions (Ireland),
P.O. Box 7117,
Dublin 2.
Tel: +353 (0)1 553 0050
Fax: +353 (0)1 224 0700
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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.

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