Annual Report 2007

report 2007

Smurfit Kappa Group plc

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Mission

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

Smurfit Kappa Group plc

2007 Highlights

20%
EBITDA growth

€186
million free cash flow

30%
net debt reduction

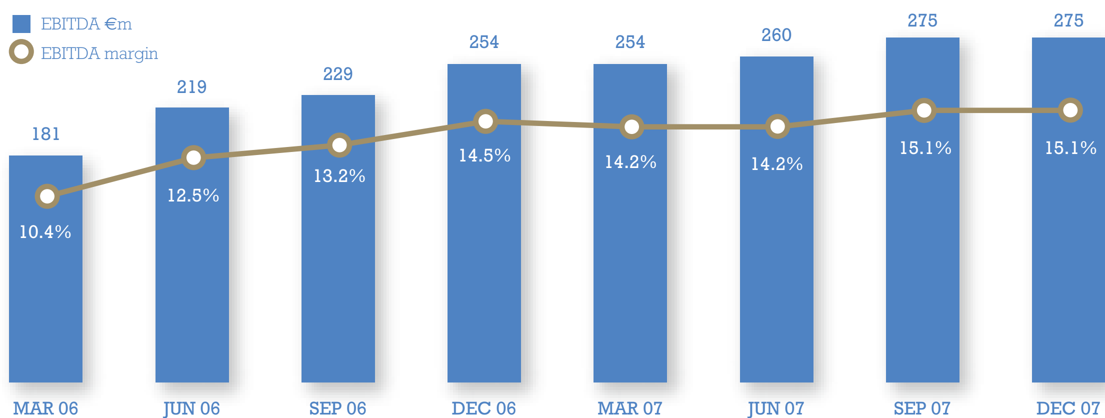
Financial Performance Highlights

€m	FY 2007	FY 2006
Revenue	€7,272	€6,970
EBITDA before exceptional items and share-based payments	€1,064	€883
EBITDA Margin	14.6%	12.7%
Operating Profit	€562	€230
Profit/(Loss) before Tax	€170	(€143)
Free Cash Flow	€186	(€29)
Net Debt	€3,404	€4,882
Net Debt to EBITDA (LTM)	3.2x	5.5x

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

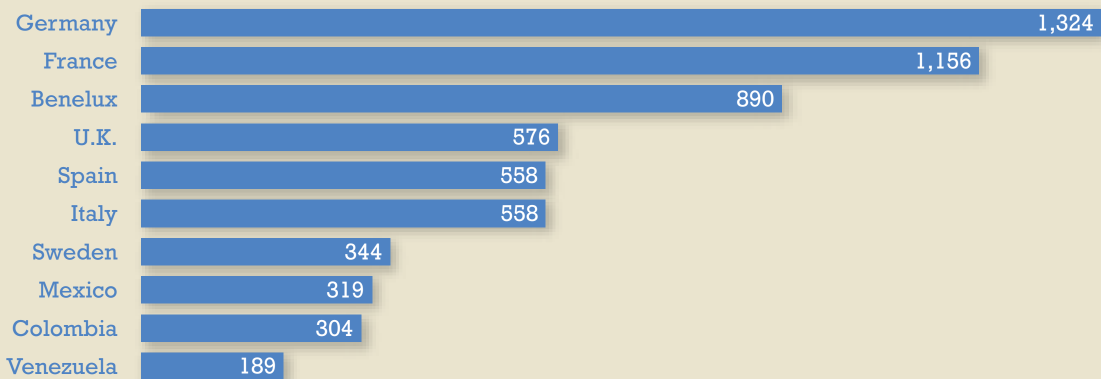
Gary McGann

SKG Quarterly EBITDA and Margin Progression
(EBITDA margin in % of sales)



Group Profile

SKG top 10 markets (based on 2007 Revenue) € million



European Packaging:

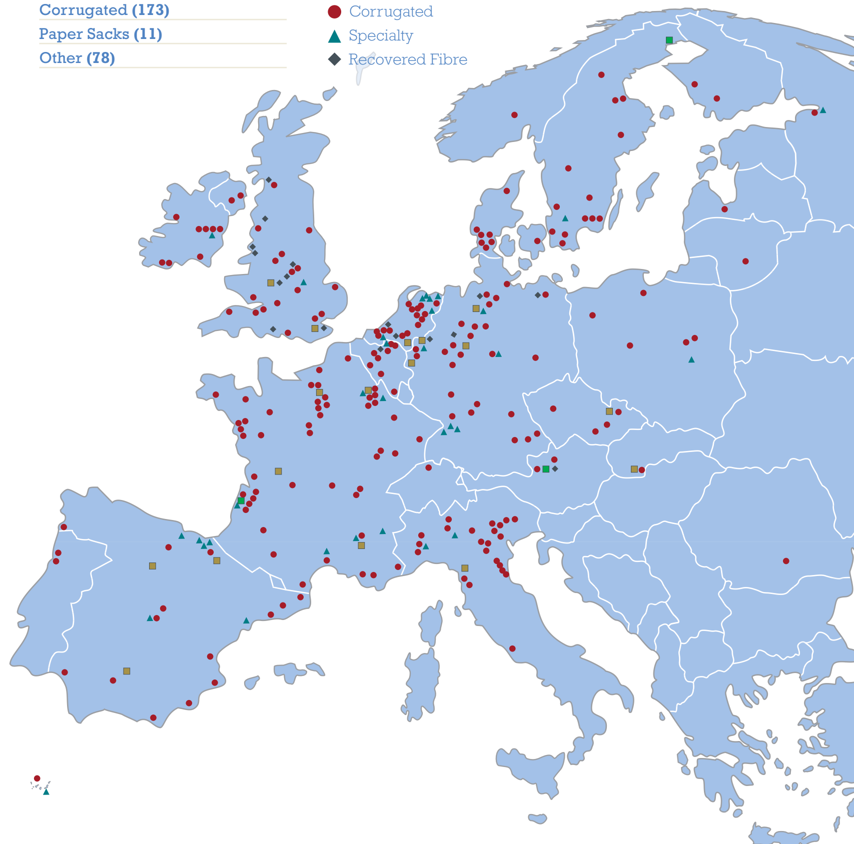
(m tonnes)	**Capacity**
Recycled Containerboard	3.3m
Kraftliner	1.7m
Semi-Chemical	0.2m
Corrugated	4.6m

European Specialties Division:

(m tonnes)	**Capacity**
Solidboard	1.1m
Solidboard packaging	0.4m
Sack Paper	0.1m
Sacks	0.1m

EUROPEAN OPERATIONS

Kraftliner Mills (3)
Other Paper and Board Mills (26)
Corrugated (173)
Paper Sacks (11)
Other (78)



SKG at a glance

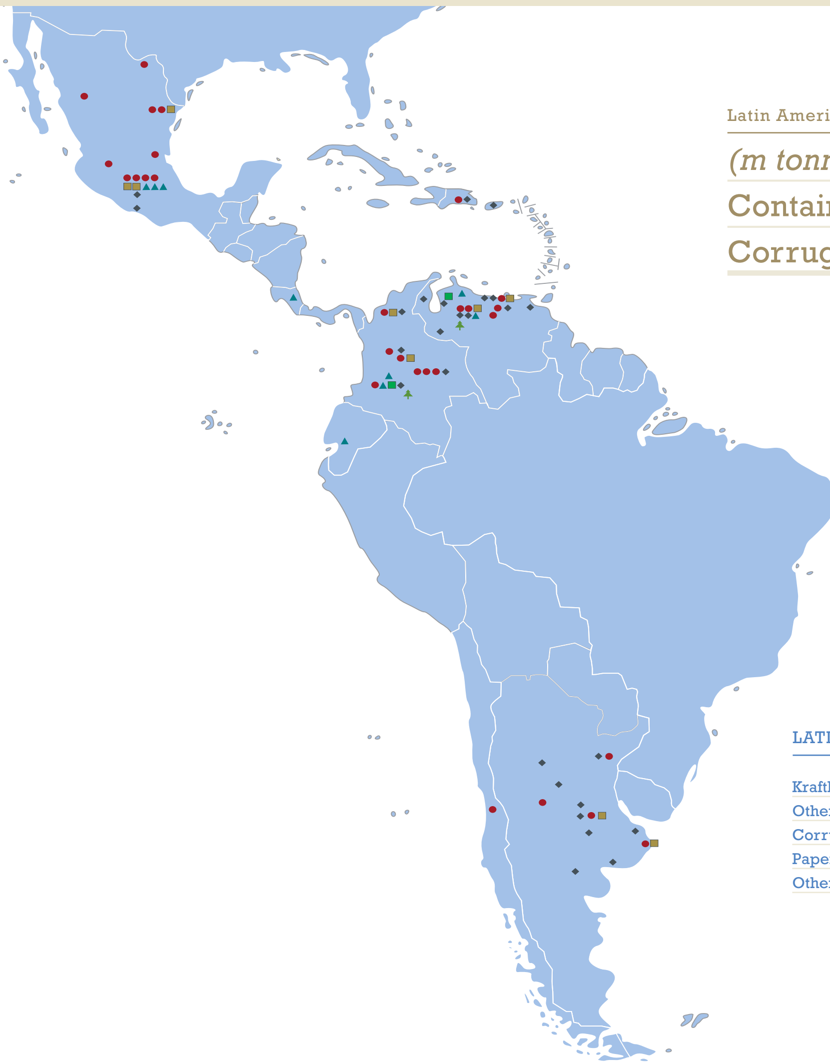
Smurfit Kappa Group is a world leader in paper-based packaging. The Group operates in 22 countries in Europe and is the European leader in containerboard, solidboard, corrugated and solidboard packaging and has a key position in several other paper packaging market segments. The Group also operates in 9 countries in Latin America where it is the only pan-regional operator.

The Group's operations are divided into packaging and specialties. The packaging segment is highly integrated: it includes a system of paper mills that produce a full line of containerboard that is converted into corrugated boxes by the Group's converting operations. Corrugated boxes are then shipped to the Group's end customers.

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 this product. Approximately 60% of the Group's corrugated customers are in food and beverage related business, the remainder being split across a number of different industries.

The packaging segment accounted for approximately 87% of the Group's revenue in 2007. The remainder was generated by the Group's specialties segment, which primarily consists of the graphicboard and solidboard businesses, along with the sack paper and bag-in-box operations.

At the date of this report, the Group owns 40 mills (29 of which produce containerboard), 252 converting plants (most of which convert containerboard into corrugated boxes), 42 reclamation facilities (which provide recovered paper for the Group's mills) and 31 other production facilities carrying on other related activities.



Latin America Packaging:

(m tonnes)	**Capacity**
Containerboard	0.7m
Corrugated	0.8m

LATIN AMERICAN OPERATIONS

Kraftliner Mills (2)	Kraftliner Mills
Other Paper and Board Mills (9)	Other Paper and Board Mills
Corrugated (28)	Corrugated
Paper Sacks (5)	Specialty
Other (30)	Recovered Fibre
	Forestry

Chairman's Statement

Smurfit Kappa Group is pleased to report 20% EBITDA growth for 2007

PERIOD IN REVIEW

This is the Group's first full year report since its successful initial public offering ("IPO") in March 2007 the proceeds of which amounted to €1.5 billion and were applied to debt reduction. Smurfit Kappa Group ("SKG") has delivered on each of the objectives set at IPO and reported strong progress against every financial measure.

SKG reported EBITDA of €1,064 million which represents a 20% year-on-year increase. It delivered industry leading EBITDA margins of 14.6%. Free cash flow of €186 million contributed to a 30% net debt reduction. Smurfit Kappa Group's net debt to EBITDA of 3.2x is below the bottom end of the range we indicated at IPO. The original synergy target of €160 million (of annualised merger benefits) has been achieved ahead of schedule and increased to €180 million.

This performance reflects improved business conditions across Europe, the continuing drive to maximise the benefits of the merger and a continuing strong contribution from the Group's Latin American businesses.

GOVERNANCE AND BOARD

The Smurfit Kappa Group Board supports the highest standards of Corporate Governance and the key principles and practices are set out in the Corporate Governance statement.

At the time of the IPO there were several changes to the board and these are set out in the Directors report. The Combined 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 and the Company is working towards meeting this recommendation.

At IPO the Board appointed Liam O'Mahony and Nicanor Restrepo as independent non-executive Directors and since the year end Paul Stecko, Rosemary Thorne and Thomas Brodin were co-opted to the Board as independent, non-executive Directors.

I would like to pay tribute to my predecessor Dr. Michael Smurfit and to thank him for his guidance of the company over the many years he served both as Chairman and Chief Executive. I would also like to thank the board members who retired prior to the IPO and who contributed to the success of the Group over the previous number of years.

OPERATIONAL VISITS

As a relative newcomer to this industry, since my appointment, I have visited a number of recycled paper mills and corrugated plants together with a specialty operation in Europe, a range of operations in our Colombian business in Latin America and, together with the full Board, the Piteå kraftliner mill in Sweden. While the scale and quality of the assets is significant what impressed me most is the commitment and entrepreneurial approach of the management teams.

It is true that in any industry people are a critical aspect of the business and in the challenging environment of the paper packaging industry this is particularly the case. I am happy from what I have seen and heard that SKG is extremely well served by the management and staff of the company.

SUSTAINABILITY

SKG is fundamentally committed to sustainability and social responsibility in its interaction with its customers, its own employees, the communities in which we are privileged to have our businesses and in relation to our impact on the broader environment.

In that context, we are also producing our first standalone sustainability report in mid 2008. It will deal with all aspects of our interaction with the environment and the constituencies impacted by us. We will lay out our current position and our general commitments for the future. A summary of the report is contained on pages 31 to 33 of this report.

DIVIDENDS AND DIVIDEND POLICY

SKG will adopt a progressive dividend policy which will take into account the underlying growth in earnings of the Group, its capital requirements and cashflows, while maintaining a recommended level of dividend cover.

The Board intends that its interim and final dividends will be paid in October and May each year with a broadly even split between the two payments.

The Board is recommending a final dividend for 2007 of 16.05c per share. It is proposed to pay the final dividend on 16 May 2008 to all ordinary shareholders on the share register at the close of business on 4 April 2008.

OUTLOOK

Turning to 2008, SKG has performed well year to date in an operating environment where supply and demand are reasonably balanced. Assuming current market conditions prevail, we expect modest EBITDA growth and continuing strong free cash flow generation.

Sean Fitzpatrick
Chairman

Chief Executive's Review

REPOSITIONING SMURFIT KAPPA GROUP

Smurfit Kappa Group has been repositioned as a focused industry leader over the past 5 years. Between 2002 and 2005, in difficult market conditions, we sharpened our business focus and substantially increased our cash generation capability. Over that period, we sold €1 billion of non-cash generating assets, spent €500 million on acquisitions and disposed of all major associates.

In December 2005, Jefferson Smurfit Group and Kappa Packaging merged to become a clear and focused market leader in Europe with a 24% market share, twice that of our next nearest competitor. With operations in 22 countries in Europe and 9 in Latin America, we enjoy the best market coverage to serve a growing and diverse customer base.

In 2007, we returned to public equity markets through the successful completion of an all primary IPO.

2007 OVERVIEW

In 2007, we delivered significant earnings growth and exceeded both our leverage and synergy targets. SKG's strengthened financial platform and continuing cash flow provides us with the opportunity to continue to reduce leverage, increase exposure to higher growth markets, participate in further consolidation, or, absent such appropriate opportunities, to consider a return of excess capital to shareholders.

SKG's financial outcome for 2007 represents a strong performance with selling price improvements more than offsetting the negative impact of cost inflation. Underlying revenue growth of 8% for the full year of 2007 shows significant product price improvements in Europe and a particularly strong performance from the Group's operations in Latin America.

There were a number of factors which impacted SKG's earnings growth in the year. Strong input cost increases, particularly for recovered fibre, combined with balanced market conditions in Europe, resulted in three consecutive recycled containerboard price increases being implemented during the year.

Higher containerboard prices, while supporting corrugated pricing momentum, generated short-term margin compression within the Group's integrated system. This margin compression is due to the time lag involved in ultimately recovering the containerboard increases through higher box prices. In kraftliner, anticipated price increases were not sustained due to higher imports from the US into Europe, which, together with increased wood costs, impacted profitability growth during the year.

Overall demand was good in 2007 despite a slower than expected growth rate in the second half of the year. SKG progressively implemented corrugated price increases in 2007 totalling over 8% for the year. Into 2008, SKG expects to continue delivering corrugated price improvements to recover paper input cost increases and some index price recovery has already occurred early in 2008.

ACQUISITIONS AND DISPOSALS

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

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

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

EFFICIENT CAPACITY MANAGEMENT

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

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

In line with the Group's policy of optimising its asset base, permanent closure of 130,000 tonnes of less efficient recycled containerboard capacity and 80,000 tonnes of market-related downtime was announced at the end of the first quarter 2008.

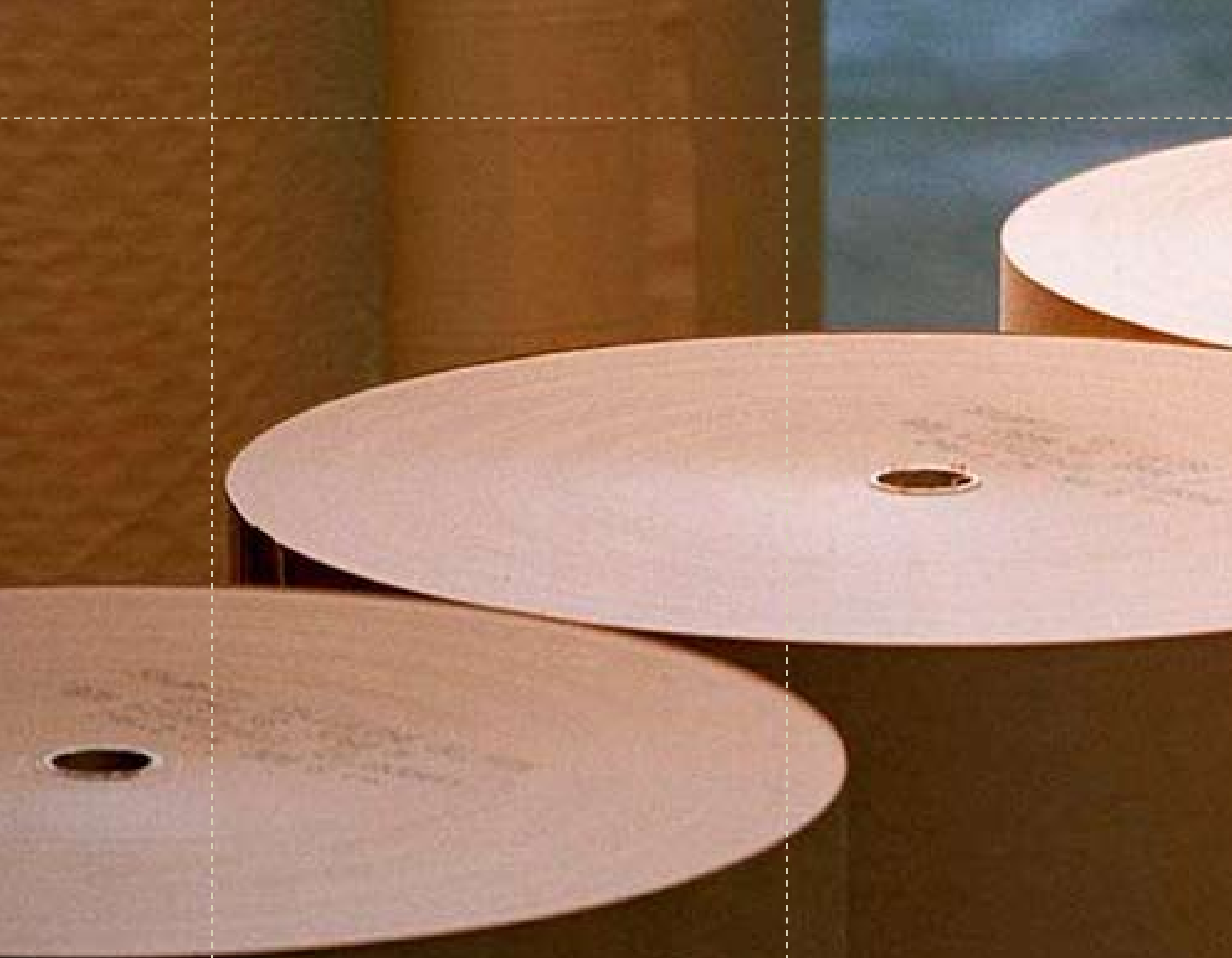
CAPITAL EXPENDITURE

The Group's full year capital expenditure of €324 million equates to 90% of depreciation, in line with expectations, and in excess of 4% of full year net revenue.

SYNERGIES

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

Gary McGann
Group Chief Executive Officer



Operations Review

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

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

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

SKG PACKAGING DIVISION

The Group's Packaging division encompasses our integrated European paper and corrugated operations, as well as our Latin American operations. Net sales for the division in 2007 were €6.3 billion, an underlying increase of 5.2% over 2006. Segmental results pre-exceptional were €599 million, an increase of almost 29% over €465 million for 2006.

SKG's European paper operations consist of three kraftliner mills, in Sweden, France and Austria, which between them produced 1.5 million tonnes of brown and white kraftliner in 2007; a semi chemical fluting mill in Slovakia which produced 0.2 million tonnes of paper; and 16 recycled containerboard mills which produced 3.2 million tonnes of paper. They also include a number of recovered fibre collection facilities, a wood products business and some wood procurement operations.

SKG's European corrugated operations consist of: 111 corrugated plants in 19 countries in both Western and Eastern Europe, with combined production in 2007 of 4.6 million tonnes (8.4 billion square metres); 62 sheet plants in 16 countries with a combined production of 0.3 million tonnes (0.5 billion square metres) in 2007, 22 plants in 11 countries which produce litho laminated corrugated products, preprint or display units; and a number of other small plants producing paper tubes, pallets, divisions, packaging solutions or other packaging products.

SKG's Latin American operations consist of 11 paper mills in 4 countries (Colombia, Mexico, Venezuela and Argentina) producing containerboard, boxboard, sackpaper and printing and writing paper, with a combined capacity of 1.1 million tonnes; 28 corrugated plants in 6 countries with a 2007 production of 0.8 million tonnes (1.3 billion square metres); 1 preprint facility; 5 paper sack converting plants in 4 countries; 3 folding carton plants in Mexico and Venezuela; 26 recovered fibre plants in 5 countries and forestry operations in Colombia and Venezuela.

The regional diversity of the Packaging division, the relatively high growth rates of Eastern Europe and Latin America, as well as the balanced market conditions in Western Europe allowed the division to grow both its sales and profitability in 2007. Market growth was steady in 2007, with higher growth experienced in our Eastern European and Latin American operations than in Western Europe, which was nevertheless a healthy 2.4%.

PACKAGING: EUROPE

While the product price environment in Europe was generally positive in 2007, strong market conditions prevailed for recycled containerboard offset by somewhat weaker conditions for kraftliner. A more balanced market has allowed recycled containerboard producers to recover significant increases in input costs, by implementing several price increases. Two price increases of €30 per tonne each for recycled containerboard were implemented in the first half of the year, and a third increase of €20 to €30 per tonne, depending on the country, was implemented in October. These increases were primarily intended to recover further increases in recovered fibre prices, which occurred in March/April and again in July/August, totalling approximately €35 per tonne increase at the peak. In November and December however, there were some reductions in recovered fibre prices as a result of the withdrawal of Chinese buyers from the market. However, this was temporary, and prices are under upward pressure again in 2008, supporting recycled containerboard prices.

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

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

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

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

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

PACKAGING: LATIN AMERICA

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

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

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

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

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

SKG hosted an investor day – "Latin America Focus" – a first such event for investors and analysts on 19 February 2008 in New York. This day allowed attendees to better understand the strength of SKG's business in this emerging region, the quality of its management and its potential business growth opportunities. The feedback was strongly positive from attendees.

SKG SPECIALTIES DIVISION

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

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

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

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

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

Finance Review

RESULTS

The Group's operations performed strongly in 2007, with growth of 29% in reported pre-exceptional operating profit. With the benefit of the funds raised from our successful IPO in March 2007, our net finance costs were significantly lower in 2007 resulting in growth of 150% in pre-exceptional profit before income tax.

As reported, third party sales revenue grew by over 4% to €7.3 billion in 2007. The true underlying growth in revenue is somewhat masked by the negative impact of currency movements and of closures and disposals in 2006 or during 2007. Acquisitions had a modest impact on sales revenue in 2007. Allowing for the impact of currency and of acquisitions, disposals and closures, the underlying move in sales revenue was an increase of approximately €530 million, the equivalent of 8%.

Driven by positive pricing momentum in recycled containerboard and corrugated in Europe and by strong demand growth for much of 2007, the Group's pre-exceptional operating profit increased by 29% to €618 million. This growth arose primarily within the packaging segment, which comprises our integrated European Paper and Corrugated operations together with all our operations in Latin America. Within Europe, the greater growth came on the mill side with the benefit of improving box prices on the corrugated side being partly offset by the higher cost of containerboard. The mills have also faced significantly higher input costs in 2007, but these increases have in turn underpinned the containerboard price increases implemented during 2007. Although market conditions were relatively weaker for some of our specialty packaging businesses, pre-exceptional operating profit grew year-on-year in our specialties segment also. This segment comprises mainly those European mills which produce grades of paper other than containerboard, together with the related converting operations.

Our pre-exceptional net finance costs amounted to €289 million (costs of €492 million less income of €203 million) in 2007, compared to €350 million in 2006. The lower net charge in 2007 reflected primarily our lower level of debt following the IPO and the restructuring of our debt. Net currency gains, however, were lower in 2007 as a result of the repayment of the majority of our dollar denominated debt with the proceeds from the IPO.

Including our share of associates' operating profit of €13 million, the Group's pre-exceptional profit before income tax was €341 million compared to €136 million in 2006.

EXCEPTIONAL ITEMS

Exceptional items, which in total resulted in an operating loss of €56 million in 2007, comprised asset impairment provisions, disposal gains and reorganisation and restructuring costs.

The impairment provisions of €6 million, which are charged within cost of sales, related mainly to the closure of the Alaincourt containerboard mill in France. Exceptional other operating income of almost €13 million related to disposal gains, mainly in respect of surplus property. Exceptional other operating expenses of €62 million related mainly to reorganisation and restructuring costs incurred within our European operations.

In 2006, exceptional items, which in total resulted in an operating loss of €250 million, comprised asset impairment provisions and reorganisation and restructuring costs. Reorganisation and restructuring costs amounted to €175 million in 2006 and reflected the major programme undertaken following the merger.

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

PROFIT BEFORE INCOME TAX

After exceptional items, our total profit before income tax amounted to €170 million in 2007, comprising the pre-exceptional profit of €341 million and net exceptional costs of €171 million. In 2006, the loss of €143 million comprised the pre-exceptional profit of €136 million and net exceptional costs of €279 million.

INCOME TAX EXPENSE

The accounting tax expense for 2007 was €4 million (comprising a current tax charge of €71 million net of a deferred tax credit of €67 million) compared to approximately €11 million in 2006 (comprising a current tax charge of €40 million net of a deferred tax credit of €29 million). The higher current tax charge reflects the increased profitability of our operations while the deferred tax credit arises primarily from the recognition of a number of individually significant items.

The Group's overall effective tax rate is affected by items not deductible for tax purposes and items not subject to tax. Allowing for these items, we estimate that the underlying tax rate of the Group is approximately 20%.

EARNINGS PER SHARE

Earnings per share amounted to 74.3 cent in 2007 compared to a loss of 134.8 cent in 2006. On a diluted basis, the earnings per share in 2007 was 71.7 while the loss in 2006 was unchanged, since the inclusion of the dilutive impact of the convertible shares would have the effect of reducing the basic loss per share.

The earnings per share figures are calculated on the basis of the weighted average number of ordinary shares in issue during the year, both pre and post the IPO, which was 198,188,000. Ordinary shares in issue at 31 December 2007 amounted to 217,985,995.

FINANCIAL PERFORMANCE INDICATORS

The Group considers the following measures to be important indicators of the underlying performance of its operations:

	2007	2006
Pre-exceptional EBITDA* (€ million)	**1,064**	883
EBITDA margin to third party revenue (%)	**14.6**	12.7
Net borrowing (€ million)	**3,404**	4,882
Net borrowing to EBITDA (times)	**3.2**	5.5
Free cash flow (€ million)	**186**	(29)
Return on average capital employed** (%)	**11.3**	8.7

Reconciliation of profit/(loss) to EBITDA

	2007 € MILLION	2006 € MILLION
Profit/(loss) for the financial period	**166**	(154)
Income tax expense	**4**	11
Share of associates' operating income	**(13)**	(6)
(Income)/loss on sale of assets and operations – subsidiaries	**(13)**	23
Reorganisation and restructuring costs	**62**	175
Settlement of Dominican Republic legal case	**-**	20
Total net interest	**405**	380
Depreciation, depletion (net) and amortisation	**422**	395
Share-based payment expense	**25**	8
Impairment of fixed assets	**6**	31
EBITDA before exceptional items and share-based payments	**€1,064**	€883

* *Earnings before share-based payments, finance costs, tax, depreciation and intangible asset amortisation.*

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

- **Pre-exceptional EBITDA and EBITDA margin**

  The Group uses pre-exceptional EBITDA as a measure of the relative performance of its operations both over time and in comparison to its peer group. In addition, we believe that EBITDA provides useful information to investors because it is frequently used by securities analysts, lenders and others in their evaluation of companies. In addition, management believes that EBITDA provides a transparent measure of our recurring performance and allows management to readily view operating trends, perform analytical comparisons and identify strategies to improve operating performance.

  Reported pre-exceptional EBITDA grew by 20% to €1,064 million in 2007 from €883 million in 2006. Allowing for the overall impact of currency moves and for net disposals and currency, the underlying growth in EBITDA was 22%.

  Our reported pre-exceptional EBITDA represented a margin of 14.6% of third party sales in 2007 compared to 12.7% in 2006.

- **Net Borrowing to EBITDA**

  Leverage is an important measure of our overall financial performance. Net borrowing amounted to €3,404 million at December 2007 compared to €4,882 million at December 2006. Reflecting both lower borrowing and higher EBITDA, our EBITDA to net borrowing ratio improved to 3.2 times from 5.5 times year-on-year, having improved on a quarterly basis within 2007. Our ratio of 3.2 times is below the bottom end of the target range indicated at the time of the IPO.

- **Free cash flow**

  While EBITDA is our primary measure of operating performance, we use free cash flow to measure cash flows associated with EBITDA and to assess and understand our sources and uses of cash and to identify underlying trends in our business. In addition, free cash flow is used to assess our ability to generate cash flow to reduce borrowing and invest in our business.

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. Free cash flow is shown in our summary cash flow, the format of which was developed in order to show the cash generated by our operations and the overall change in our net borrowings.

Primarily as a result of a higher level of EBITDA, our Free Cash flow increased strongly to €186 million in 2007 compared to a negative €29 million in 2006.

The year-on-year improvement in profitability was boosted by a lower working capital outflow and a much reduced cash interest charge as a result of the IPO. Capital expenditure was also lower year-on-year although the growth in profits resulted in higher tax payments in 2007.

- **Return on Capital Employed**
  With a strong improvement in earnings, the Group's return on capital employed grew to 11.3% in 2007 from 8.7% in 2006.

CASH GENERATION

Free cash flow for the year to December 2007 was a net inflow of €186 million, compared to a net outflow of €29 million in 2006. This progression reflects the improvement in profitability year-on-year, taking into account a significant reduction in exceptional operating costs and the once off refinancing costs in 2007. Although the exceptional costs increased the loss before tax in 2006, the amounts unpaid at the year end are added back to reach the free cash flow figure for the year as are the refinancing costs incurred in 2007.

The improvement in profitability was partly offset by a negative movement in the level of capital creditors and increased outflows in current provisions. Conversely, the outflows for working capital and capital expenditure were lower in 2007.

SUMMARY CASH FLOW [1]

	2007 € MILLION	2006 € MILLION
Profit/(loss) before tax – subsidiaries	**157**	(149)
Exceptional items	**13**	134
Depreciation, depletion and amortisation of intangible assets	**427**	426
Non cash interest expense	**46**	11
Refinancing costs	**84**	-
Share-based payment expense	**25**	8
Working capital change	**(25)**	(75)
Current provisions	**(80)**	(23)
Capital expenditure	**(324)**	(345)
Change in capital creditors	**(36)**	36
Tax paid	**(73)**	(42)
Other	**(28)**	(10)
Free cash flow	**186**	(29)
Investments	**(14)**	(34)
Sale of businesses and investments	**11**	15
Shares issued through IPO net of costs	**1,433**	-
Refinancing costs	**(84)**	-
Other	**(51)**	(12)
Net cash inflow/(outflow)	**1,481**	(60)
Net borrowing repaid/disposed	**2**	29
Deferred debt issue costs amortised	**(47)**	(19)
Non-cash interest accrued	**(12)**	(51)
Currency translation adjustments	**54**	113
Decrease in net borrowing	**€1,478**	€12

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

The principal differences are as follows:

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

b) Free cash flow reconciles to operating cash flows in the IFRS cash flow adjusted for capital expenditure, sale of fixed assets and certain interest expense.

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

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

The current provisions outflow for the year to December 2007 was €80 million compared to €23 million in 2006 and related principally to the restructuring and reorganisation costs provided in 2006 but unpaid in that year.

Capital expenditure in 2007 amounted to €324 million, representing 90% of depreciation compared to 2006's €345 million, which represented 98% of depreciation. The outflow of €36 million in respect of capital creditors occurred primarily in the first quarter of 2007 and was in essence the reversal of the inflow in 2006.

The improved profitability in 2007 resulted in a significant increase in tax payments with an outflow of €73 million compared to €41 million in 2006.

Other net outflows of €28 million in 2007 relate mainly to movements in our non-current liabilities for employee benefits as offset by the proceeds from the sale of fixed assets.

The IPO and the subsequent refinancing of the Group's debt resulted in a net inflow of €1,433 million. This comprised the proceeds of €1,495 million from the share issue less IPO costs of €62 million.

Excluding the IPO, cash flows from financing and investment activity comprised investments of €14 million, proceeds of €11 million from the sale of businesses and investments, the refinancing costs of €84 million and other net outflows of €51 million, of which derivative termination payments accounted for €45 million. This included derivatives terminated as a result of debt paydown following the IPO and cash flows arising on maturing currency swaps.

Investment expenditure mainly related to the purchase of Plasticos and the investment in Europack Carton in Romania. Disposal proceeds of €11 million related mainly to Jonsac, our Swedish paper sack business, our Irish recycling business and our tubes and core business in Mexico.

The net cash inflow for 2007 was €1,481 million compared to an outflow of €60 million in 2006. The inflow for 2007 was increased by a positive currency movement on borrowing of €54 million while offset by €47 million in respect of the amortisation of debt issue costs (€30 million of which was accelerated by the paydown of debt) and €12 million of non-cash interest accrued. The currency adjustment on our net borrowing was very much lower than in the past given the reduction in our exposure, particularly to the U.S. dollar, following the repayment of the majority of our unhedged dollar denominated debt with proceeds from the IPO.

In total, Group's net borrowing decreased by €1,478 million in 2007 to €3,404 million compared to €4,882 million at the start of the year.

CAPITAL RESOURCES AND LIQUIDITY

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,526 million, of which €3,771 million was utilised at December 2007. The weighted average period until maturity of undrawn committed facilities is four years. Our debt portfolio is well structured and has a long-term maturity profile. Our nearest significant maturity is towards the end of 2011, when our receivables securitisation matures.

Following the IPO we have repaid all of our highest cost debt, which has reduced our average interest rate to approximately 6.20% as at the year end. In terms of financial sensitivity, over 60% of our interest cost is fixed over the next twelve months.

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

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.

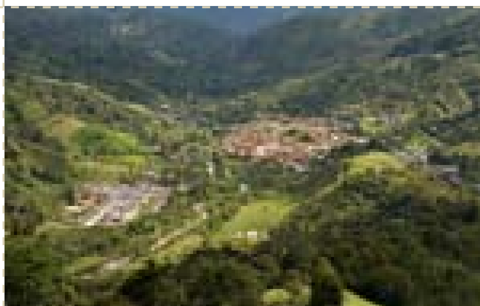
The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding.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

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

Our earnings are affected by changes in short-term interest rates as a result of our floating rate borrowings. If variable interest rates for these borrowings increase by 1%, our interest expense would increase, and income before taxes would decrease, by approximately €16 million over the following twelve months. Interest income on our cash balances would increase by approximately €4 million assuming a 1% 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 in the context of treasury policies and objectives set by the Board of Directors.

Sustainability



2007 SUSTAINABILITY REPORT

SKG regards Sustainability as being central to our business strategy. Our mission is to be a customer oriented, market led company where the satisfaction of customers, the personal development of employees and respect for the environment are seen as being inseparable from the aim of creating value for the shareholders.

Sustainability is concerned with ensuring that the human and natural environment with which we interact as a company is protected both today and into the future as we continue to use resources in meeting our 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 is publishing its first Sustainability Report in mid -2008. It will include full details of our principles with respect to the key areas of environment, health and safety, social and corporate governance. The report and the detail within is considered a baseline from which SKG will seek to go forward with the ultimate objective of achieving "best in class" status where appropriate.

Corporate Governance is detailed on pages 36 to 42 of this Annual Report and a short overview on our performance in the other key areas now follows.

ENVIRONMENT

The principles we apply in terms of the environment include:

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

SKG has made significant investments in biomass to replace fossil fuels where appropriate and today over 45% of all primary energy used by us in our European paper mills is biomass based. We have recently completed an €82 million investment in a biomass boiler and steam turbine at our kraftliner mill in Piteå, Sweden. The benefits will include a reduction in Co_2 emission and a reduction in fuel oil consumption.

In terms of Forestry we have committed that a further two mills in Europe will be certified Chain of Custody during 2008. Chain of Custody refers to the traceability of the origins of a product through all its transformations from raw material to finished product.

Our Sustainability Report will detail the performance of our environmental elements in terms of energy, emissions to air, water and soil and waste.

HEALTH AND SAFETY

The SKG Policy has an opening declaration of intent which notes 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 for safety in the operation of our facilities."

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

All performance reviews at plant, country, division and regional level have an element related to safety and annual management performance reviews include safety performance.

The Group has drawn up a written document covering an extensive list of Health and Safety Standards which together with the Policy document has been issued to every Smurfit Kappa Group site and made available to every employee via notice boards, intranet and other appropriate media. The implementation of these standards is audited on a continuous basis.

For both Europe and Latin America improvements were recorded in accident frequency and accident severity against last year, however, there remains clear scope for improvement.

SOCIAL

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 we interact with our employees, business partners and host communities, is an essential ingredient in creating and maintaining a sustainable future.

We apply 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 however will be the key determinant in recruitment and promotion.

We value open, constructive, regular and timely dialogue with our employees and their representatives, particularly on all matters affecting the business such as safety, working conditions, profitability, business outlook investment decisions or the terms and conditions of employment.

Implementing our social policy is the responsibility of line management who are supported by the Human Resource Managers at both Country and Group level.

We continue to train and develop our employees through various programs that vary from language skills training to horizontal knowledge sharing and from sales training to management development programs.

The European Works Council which was created to assist in the development of an open two way communication process for all employees met on two occasions during the year. Matters typically discussed include Employment opportunities, Financial status, Projected developments, Relocation, Curtailment or Business closures, and Health and Safety.

Community activity is encouraged by SKG and this very important element of our social responsibility is practiced at local plant level where managers are best positioned to influence positive contribution and support to worthy local causes. In Ireland the Group supports our CEO in his role as Chairman of the Barnados “Leaving Poverty Through Learning” Campaign where a financial commitment has been made.

Board of Directors

Sean Fitzpatrick

Sean Fitzpatrick was appointed Chairman upon the Company being admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. He is non-executive Chairman of Anglo Irish Bank Corporation plc. A chartered accountant, he also serves as a non-executive Director of Aer Lingus Group plc, Experian Group Limited, Greencore plc and Gartmore Irish Growth Fund plc. (Age 59)

Frits Beurskens

Frits Beurskens has been 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 immediate past Chairman of the Confederation of European Paper Industries and a member of its executive board and he is a former Chairman of the International Corrugated Cases Association. In December 2007 he was appointed by the Dutch Queen as Officer in the Order of Oranje Nassau. (Age 60)

Gary McGann

Gary McGann was appointed Group Chief Executive Officer in November 2002. He was previously President and Chief Operations Officer of the Smurfit Group since January 2000. He joined the Smurfit Group in 1998 as Chief Financial Officer. He had held a number of senior positions in both the private and public sectors over the previous 20 years, including Chief Executive of Gilbeys of Ireland Group and Aer Lingus Group plc. He is Chairman of Dublin Airport Authority plc and a Director of Anglo Irish Bank Corporation plc, Aon McDonagh Boland Limited and United Drug plc. (Age 57)

Christopher McGowan

Christopher McGowan has served as a Director of the Group since September 2002. He has been employed principally by Madison Dearborn since 1999 where he currently serves as a Managing Director. He has significant experience working with companies in a wide range of industrial sectors. He is a member of the Board of Directors of Forest Products Holdings, LLC (d.b.a. Boise Cascade). (Age 36)

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 Products Holdings, LLC (d.b.a. Boise Cascade), Evanston Northwestern Healthcare and Packaging Corporation of America, and a member of the Board of Trustees of Brown University. (Age 51)

Gordon Moore

Gordon Moore has served as a Director of the Group since December 2006. He was previously a partner of Cinven having been part of their investment team for over 11 years. He has held Directorships with a number of Cinven's investee companies including Fitness First Holdings Limited, Odeon Cinemas, NCP and most recently Sweden DIA (Sweden) AB. He has significant experience working with companies in a wide range of industrial sectors. He is a member of the Institute of Chartered Accountants of Scotland. He is also a Director of Worth School. (Age 41)

BOARD COMMITTEES 2007

Audit	Compensation	Nominations	Senior Independent Director
N.Restrepo, *Chairman*	L. O'Mahony, *Chairman*	S. Fitzpatrick, *Chairman*	L. O'Mahony
S. Mencoff	S. Fitzpatrick	L. O'Mahony	
R. van Rappard	R. van Rappard	G. Moore	
G. Moore	S. Mencoff	C. McGowan	
		G. McGann	

Anthony Smurfit

Anthony Smurfit was appointed as 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 over twenty years ago. He was Chief Executive of Smurfit Europe since October 1999 prior to which he was Deputy Chief Executive of Smurfit Europe and previously Chief Executive Officer of Smurfit France. (Age 44)

Ian Curley

Ian Curley was appointed as 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 United Kingdom and France. (Age 45)

Liam O'Mahony

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 is the Chief Executive Officer of CRH plc since January 2000, prior to which he held a number of senior management positions within the CRH Group including Chief Operations Officer of its US operations and Managing Director, Republic of Ireland and UK companies. He is a member of The Irish Management Institute Council and of the Harvard Business School European Advisory Board. (Age 61)

Rosemary Thorne

Rosemary Thorne joined the Board on 20 March 2008. She was most recently 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 the Senior Independent Director with Virgin Radio Holdings Limited and as a Non-Executive Director with Abbey National plc .She also currently sits on the Council of the University of Warwick and the Royal College of Art in London. (Age 56)

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/Toyota), Exito S.A. (Casino) and Conconcreto 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 66)

Rolly van Rappard

Rolly van Rappard has served as a Director of the Group since December 2005. He was a member of the Supervisory Board of Kappa from 1998. He held positions at Citicorp prior to becoming a Managing Partner of CVC Capital Partners in 1989. He has extensive business experience due to his involvement with many investee companies. He is also a member of the Board of Formula One Limited, Univar Inc, and Volker Wessels B.V. (Age 47)

Paul Stecko

Paul Stecko joined the board on 7 February 2008. He is Chairman and Chief Executive Officer of Packaging Corporation of America "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 is the business that was subsequently acquired by PCA. Mr Stecko spent 16 years with International paper Company. He is a member of the Board of Directors of Tenneco Inc, State Farm Mutual Insurance Company and Cives Corporation. (Age 63)

Thomas Brodin

Thomas Brodin joined the Board on 2 April 2008. He is currently Head of Equity Research and a member of the executive management team at Erik Penser Fondkommission, an independent and privately owned Swedish securities firm.

He was previously a European paper & packaging research analyst and Managing Director at Citigroup between 1995 and 2007. Prior to that he was a paper & packaging research analyst at Credit Suisse First Boston from 1992 to 1995 and at Svenska Handelsbanken from 1990 to 1992.

Between 1998 and 2007 Mr Brodin was ranked as the leading European analyst covering the paper and packaging sector by Extel and Institutional Investor Surveys. (Age 44)

Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance and this statement describes how Smurfit Kappa Group applies the principles of the Combined Code on Corporate Governance ('Combined Code') published in June 2006. Except where stated, the Directors believe that the Group has complied with the provisions of the Combined Code since its admission to listing on the Irish and London Stock Exchanges in March 2007.

BOARD OF DIRECTORS

The Board is primarily responsible 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. There is a clear division of responsibilities within the Group between the Board and executive management, with the Board retaining control of major strategic decisions under a formal schedule of matters reserved to it which includes:

- Approval of the Group's strategy
- 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 acquisitions and disposals of businesses
- Approval of the Interim Reports, the Annual Report and Accounts and all press releases.

As recommended by the Combined 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 devising strategy and policy within the authorities delegated 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 Memorandum and Articles of Association of the Company in force from time to time.

MEMBERSHIP

At present there are fourteen Directors on the Board, comprising: a non-executive Chairman, three executive Directors and ten non-executive Directors. Biographical details are set out on pages 34 and 35.

The Combined 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. Of the non-executive Directors the Board has determined that Liam O'Mahony, Nicanor Restrepo, Paul Stecko, Rosemary Thorne and Thomas Brodin are independent. In reaching that conclusion the Board took into account the principles relating to independence contained in the Combined Code and the factors that might appear to affect the independence of some of the Directors, including cross Directorships. The Board is completely satisfied that the independence of the relevant Directors is not compromised by these factors. The Board is continuing its work towards altering the composition of the Board to comply with the above recommendation of the Combined Code.

EXPERIENCE AND SKILLS

Each of the executive Directors has extensive experience of the paper-based packaging industry. Their specialist knowledge is backed up by the general business skills of the individuals involved and by the broadly based skills and knowledge of the non-executive Directors, eight of whom have the additional benefit of many years' experience of paper-based packaging companies. The non-executive Directors play an important role in helping to develop the Group's strategy and scrutinizing the performance of management in meeting the Group's goals and objectives.

APPOINTMENTS TO THE BOARD

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first annual general meeting after his appointment and all Directors are subject to re-election at intervals of no more than three years. 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 terms of the letter of appointment of non-executive Directors is available, on request, from the Company Secretary.

Pursuant to the Articles of Association of the Company, MDCP III, MDCP IV and MSDE III have the right to nominate up to two persons for appointment as Directors and have nominated Sam Mencoff and Chris McGowan. Similarly Smurfit Kappa Feeder G.P. Limited also has the right to nominate up to two persons for appointment as Directors and has nominated Roly van Rappard and Gordon Moore. These rights do not comply with the recommendations of the Combined Code that the Nominations committee should lead the process for board appointments and make recommendations to the Board.

CHAIRMAN

Sean Fitzpatrick has been Chairman of the Group since the Group was admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. As recommended by the Combined Code, the Chairman was independent at his time of appointment. The Chairman is responsible for the leadership and efficient and effective working of the Board. He sets and manages the Board agenda in order that it addresses and carries out its stated objectives. He ensures that the members of the Board receive accurate, timely and clear information, that there is a good flow of information and that the members of the Board are updated periodically on the views of the major investors. He also facilitates the effective contribution of the non-executive Directors to the Board.

SENIOR INDEPENDENT DIRECTOR

Liam O'Mahony is the Group's Senior Independent Director. His duties include being available to shareholders if they have concerns which cannot be resolved through the Chairman or Group Chief Executive Officer. He also reviews the Chairman's performance in conjunction with the other non-executive Directors on an annual basis.

GROUP SECRETARY

The Directors have access to the advice and services of the Group Secretary who is responsible to the Board for ensuring that board procedures are followed and applicable rules and regulations complied with. The Group Secretary also acts as secretary to all of the Board committees. The Directors also have access to independent professional advice, at the Group's expense, if and when required.

MEETINGS

The Board meets at least five times each year with additional meetings as required. The Board met four times since the IPO. Details of the meetings held during the period, both of the Board and of the Board Committees, 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 management and see the Group's operations. In 2007 the August Board meeting was held at the Piteå mill in Sweden. The Board is supplied on a timely basis with information in a form and of a quality to enable it to discharge its duties effectively.

INDUCTION AND DEVELOPMENT

On appointment, all non-executive Directors receive comprehensive briefing documents on the Group and its operations and are given the opportunity to visit sites and meet with the management. During the year Directors meet with senior management on individual site visits, at board meetings and at the annual visit by the Board to a Group operation and receive briefings and presentations on the Group operations.

PERFORMANCE EVALUATION

The Senior Independent Director conducts an annual review of corporate governance, the operation and performance of the board and the performance of the Chairman. This is achieved through separate discussions with each Director. The Committees undertake an annual evaluation of their performance and report back to the Board. A review of individual Directors' performance is conducted by the Chairman. At least once a year the Chairman meets with the Non-executive Directors without the Executive Directors. The Board discusses the results of its evaluations in order to identify areas in which the effectiveness of the Board may be improved.

BOARD COMMITTEES

As recommended by the Combined 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 Nominations 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 and the minutes of all committee meetings are circulated to all the Directors.

The current membership of each committee is set out on page 35. The Combined Code recommends that all of the members of the Audit committee and the Compensation committee and a majority of the Nominations committee should be independent non-executive Directors and, while this is not currently the case, the Board is actively working to achieve this. The Chairman of each of the Audit and Compensation committee is an independent non-executive Director.

AUDIT COMMITTEE

The Audit Committee chaired by Nicanor Restrepo comprises four non-executive Directors. Of these Sam Mencoff has recent and relevant financial experience. The Committee met four times during the period since IPO. The Group Chief Executive Officer, the Group Chief Financial Officer, the Group Internal Auditor, the Group Compliance Manager and senior members of the finance team normally attend meetings of the committee. The external auditors also attend and together with the Group Internal Auditor have direct access to the Committee Chairman at all times.

The role and responsibilities of the audit committee are set out in written terms of reference and include:

- reviewing the Group's annual and interim reports
- reviewing the scope of the external audit and considering reports of the external auditors
- the approval of services provided by the external auditors
- recommendation of the appointment of external auditors to the Board
- reviewing and reporting to the Board on the effectiveness of the Group's system of internal control
- the appointment of the Group's internal auditor
- the approval of the internal audit plan and review of internal audit reports.

In order to discharge these responsibilities during the year under review, the Committee:

- reviewed the Company's preliminary results announcement, annual report and accounts, interim report and quarterly reports
- reviewed the external auditors plan for the audit of the Group's accounts, which include considerations of the scope of the audit, key risks to the accounts, confirmation of auditor independence and the proposed audit fee and approval of the terms of engagement for the audit
- reviewed on a quarterly basis external auditor services
- reviewed the quarterly internal audit reports with the Group Internal Auditor
- approved the internal audit plan and the consequent resourcing of the function
- reviewed all reports submitted by the Group Compliance Manager
- 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 Financial Monitoring policy, the Treasury Compliance Program and the Competition Compliance program are up to date and embedded in the Group processes
- reviewed and approved the Group's risk assessment processes
- reviewed the Group's monitoring processes over internal control.

THE NOMINATIONS COMMITTEE

The Nominations Committee chaired by Sean Fitzpatrick comprises four non-executive Directors and the Group Chief Executive Officer. The Committee met three times during the period since IPO.

The role and responsibilities of the nominations committee are set out in written terms of reference and include:

- leading the process for appointments to the Board and making recommendations to the Board on the same
- evaluating the balance of skills, knowledge and experience 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 advisers from time to time to facilitate the search in identifying potential candidates.

Since the IPO, the Committee identified, and recommended to the Board the appointment of Paul Stecko, Rosemary Thorne and Thomas Brodin.

THE COMPENSATION COMMITTEE

The Compensation Committee chaired by Liam O' Mahony comprises four non-executive Directors. The Committee met five times since the IPO. The Group Chief Executive Officer normally attends the meetings and the Group V.P. Human Resources attends when appropriate.

The role and responsibilities of the Compensation committee are set out in its written terms of reference and include:

- setting the Group's overall remuneration policy and strategy
- determining the level and structure of remuneration of all executive Directors and the Chairman
- monitoring the level and structure of remuneration for senior management
- administering the 2007 Share Incentive Plan.

The Committee seeks outside independent professional advice where necessary.

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, attendance at relevant conferences and conference calls at the time of the release of the annual and quarterly results.

The Board papers include a report prepared by the Group Chief Financial Officer 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 highlighted 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. In addition to the annual and quarterly reports this contains investor presentations and all press releases immediately after their release to the Stock Exchange. The results announcement is broadcast live on the Group's website and a recording of the web cast can subsequently be viewed on the website. The Company's Annual General Meeting 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 AGM and related papers are sent to shareholders at least 20 working days before the meeting. In addition, the Company responds throughout the year to numerous queries from shareholders on a broad range of issues.

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. Smurfit Kappa Group manages its business in a way which recognises its key responsibilities in all aspects of its corporate social responsibility especially in the areas of Corporate Governance, Social, Health and Safety and the Environment. The Group's principles are summarised on pages 31 to 33 and will be described in detail in the Sustainability report to be published in mid 2008 and will also be made available on the Group's website.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control 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. As recommended by the Combined Code and the Turnbull Guidance on internal control there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place throughout the accounting period and up to the date of approval of the Annual Report and Accounts and is subject to regular review by the Board.

Group executive management is responsible for implementing strategy and for the continued development of the Group's operations within parameters set down by the Board. Day-to-day management of the Group's operations is devolved to operational management within clearly defined authority limits and subject to tight reporting of financial performance. Management at all levels is responsible for internal control over the respective operations that have been delegated. 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.

Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified, evaluated and appropriate risk management strategies are implemented at each level. The key business risks are identified by the senior management team. The Board in conjunction with senior management identifies the major business risks faced by the Group and determines 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 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 system of internal control up to and including the date of approval of the Financial Statements. This had regard to the material risks that could affect the Group's business (as outlined in the Directors' Report on pages 43 to 45), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

Save as set out above, the Group complied with the provisions set out in the 2006 Combined Code throughout the period from admission to the end of the year.

GOING CONCERN

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 Financial Statements.

Attendance at scheduled meetings from IPO to 31 December 2007

Name	Board		Audit		Compensation		Nomination	
	A*	B*	A*	B*	A*	B*	A*	B*
S. Fitzpatrick	4	4			5	5	3	3
F. Beurskens	4	3						
G. Moore	4	3	4	4			3	3
S. Mencoff	4	3	4	3	5	4		
L. O' Mahony	4	4			5	5	3	3
C. Mc Gowan	4	4					3	3
N. Restrepo	4	4	4	4				
R. van Rappard	4	3	4	1	5	3		
G. Mc Gann	4	4					3	3
A. Smurfit	4	4						
I. Curley	4	4						

Column A indicates the number of scheduled 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 scheduled meetings attended.

Directors' Report

REPORT OF THE DIRECTORS

The Directors submit their Report and Financial Statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Group is an integrated paper and paperboard manufacturer and converter whose operations are divided into packaging and specialties. The packaging segment is highly integrated. It includes a system of mills and plants that produce a full line of containerboard that is converted into corrugated containers. The Group's specialties segment primarily consists of its graphicboard and solidboard businesses, along with its sack paper and bag-in-box operations. Geographically, the major economic environments in which the Group conducts its business are Europe (principally Eurozone, Sweden and the United Kingdom, together with a growing presence in some Eastern European countries) and Latin America (principally Argentina, Colombia, Mexico and Venezuela).

The Chairman's statement, the Group Chief Executive's review, the Operations review and the Finance review (including financial risk management policies) on pages 7 to 29 report on the performance of the Group during the year, on events since 31 December 2007 and on future developments.

RESULTS FOR THE YEAR

The results for the year are set out in the Group Income Statement on page 56. The profit attributable to the Equity holders of the Company amounted to €147 million.

Key financial performance indicators are set out in the Finance review on pages 23 to 25. The Financial Statements for the year ended 31 December 2007 are set out in detail on pages 56 to 151.

DIVIDENDS

It is proposed to pay a final dividend of 16.05c per share on 16 May 2008 to shareholders registered at close of business on 4 April 2008.

RESEARCH AND DEVELOPMENT

The Company's subsidiaries are engaged in ongoing research and development aimed at improving products and expanding product ranges. Expenditure on research and development in the year amounted to €2.7 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 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 to 35, together with a short biographical note on each Director.

Gary McGann and Ian Curley were appointed to the Board on 26 January 2007. Sam Mencoff, Tom Souleles, Chris McGowan, John Canning, Gordon Moore, Valerio Massimo, Hugh Briggs, Roly Van Rappard, Frits Beurskens, Tony Smurfit and Dr. Michael Smurfit were appointed to the Board on 6 February 2007.

Tom Souleles, John Canning, Valerio Massimo and Hugh Briggs resigned from the Board on 22 February 2007 and Dr. Michael Smurfit resigned from the Board on 20 March 2007.

Sean Fitzpatrick, Liam O'Mahony and Nicanor Restrepo were appointed to the Board on 20 March 2007, Paul Stecko was appointed to the Board on 7 February 2008, Rosemary Thorne was appointed to the Board on 20 March 2008 and Thomas Brodin was appointed to the Board on 2 April 2008. In accordance with the provisions of Article 83.1, they retire and, being eligible, offer themselves for re-election.

Gary McGann, Tony Smurfit and Ian Curley retire from the Board by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' AND SECRETARY'S INTERESTS

Details of the Directors' and Company Secretary's interests in the share capital are set out in the Report on Directors' remuneration on pages 50 to 52

PRINCIPAL RISKS AND UNCERTAINTIES

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

- The cyclical nature of the packaging industry could result in overcapacity and consequently threaten the Group's pricing structure
- The Group is exposed to the risk of an economic slowdown
- If operations at any of the Group's facilities (in particular its key mills) were interrupted for any significant length of time it could adversely affect the Group's financial position and results of operations
- Price fluctuations in raw materials and energy costs could adversely affect the Group's manufacturing costs
- The Group is exposed to currency exchange rate fluctuations
- The Group may not be able to attract and retain suitably qualified employees as required for its business
- The Group is subject to a growing number of environmental laws and regulations, and the cost of compliance with current and future laws and regulations may negatively affect the Group's business
- The Group is exposed to potential risks in relation to its Venezuelan operations
- The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates
- Substantial future sales of shares by the existing major shareholders may depress the share price.

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

CORPORATE GOVERNANCE

The Directors' Statement on Corporate Governance is set out on pages 36 to 42. The Report on Directors' Remuneration is set out on pages 46 to 52.

PURCHASE OF OWN SHARES

Special resolutions will be proposed at the Annual General Meeting 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 Annual General Meeting and in relation to the maximum and minimum prices at which treasury shares (effectively shares purchased and not cancelled) may be re-issued off-market by the Company. If granted, the authority will expire on the earlier of the date of the Annual General Meeting in 2009 or 8 August 2009.

CHANGE OF CONTROL

On a change of control following a bid the Lenders under the Senior Credit Facility have the option to cancel the commitments under the facility and/or to declare all outstanding amounts immediately due and payable and under the Senior Subordinated notes indenture 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 2007 is set out on pages 150 to 151

CAPITAL STRUCTURE

Details of the structure of the Company's capital are set out in note 22 to the Financial Statements.

SUBSTANTIAL HOLDINGS

As at 2 April 2008 the Company had received notification of the following interests in its Ordinary share capital:

	NUMBER OF SHARES	% OF ISSUED ORDINARY SHARE CAPITAL
Smurfit Kappa Feeder GP	53,181,884	24.40%
Madison Dearborn Capital Partners	46,682,056	21.41%
Causeway Capital LLC	10,612,471	4.87%
Midocean Europe GP (Jersey) Ltd	7,500,000	3.44%
JP Morgan Chase & Co.	7,345,775	3.37%

The above represents all shareholdings in excess of 3% of the issued share capital which have been notified to the Company.

AUDITORS

The Auditors, PricewaterhouseCoopers, are willing to continue in office and a resolution authorising the Directors to fix their remuneration will be submitted to the Annual General Meeting.

DIRECTORS:

G. McGann (Group Chief Executive Officer)
I. Curley (Group Chief Financial Officer)

2 April 2008

Remuneration Report

REPORT ON DIRECTORS' REMUNERATION

The Compensation Committee has responsibility for setting the Group's overall remuneration policy and strategy, determining the level and structure of remuneration of all executive Directors and the Chairman, monitoring the level and structure of remuneration for senior management and administering the 2007 Share Incentive Plan. The committee receives independent advice from leading external pay consultants when necessary. The Group Chief Executive Officer attends meetings except when his own remuneration is being discussed.

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

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 linked to the financial prosperity of the Group and 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.

EXECUTIVE DIRECTORS' REMUNERATION

Salary and Benefits

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

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

Annual Bonus

Executive Directors participate in an annual bonus scheme under which they can earn a bonus of up to 100 per cent of their base salaries for superior performance and achievement. The bonus payments are made based on the achievement of clearly defined annual financial targets set by the Compensation Committee at the start of the year. For 2007 predefined targets were set for the achievement of EBITDA, cash flow and merger related synergies. Targets and the weighting of targets are reviewed each year by the Compensation Committee in the context of the strategic goals of the Group.

LONG-TERM INCENTIVE PLANS

On 12 March 2007 the shareholders approved the 2007 Share Incentive Plan which is designed to motivate superior performance and to align the interests of executives and shareholders.

2007 SHARE INCENTIVE PLAN

Invitations to subscribe under the 2007 Share Incentive Plan are in the form of B convertible shares and C convertible shares for which executives are invited to subscribe at nominal value of 0.001 per share. The maximum aggregate market value of B and C convertible shares that may be issued in any year to an executive under the plan is 150 per cent of basic salary divided equally into B and C convertible shares. On satisfaction of specified performance conditions, the B convertible shares and the C convertible shares will automatically convert on a one-for-one basis into D convertible shares. The D convertible shares may be converted by the holder on a one-for-one basis into Ordinary Shares, upon payment of a conversion price. The conversion price for each D Convertible Share is 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 B or C convertible shares, less the nominal subscription price paid per share.

- Performance Criteria. The performance period for the B and C convertible shares is three financial years. The B convertible shares will automatically convert into D convertible shares if the growth in the Company's earnings per share over that period is a percentage equal to at least 5% per annum plus the annual percentage increase in the Consumer Prices Index of Ireland, compounded. The C convertible shares are subject to that same performance condition. In addition, the C convertible shares will convert into D convertible shares only if the Company's total shareholder return over the three-year period is at least equal to the median total shareholder return of a peer group of companies. 30% of the C convertible shares will convert into D convertible shares at the median performance level and 100% will so convert if the Company's total shareholder return is at or greater than the upper quartile of the peer group. A sliding scale will apply for performance between the median and upper quartile.

Details of restriction on transfer of shares are set out in Note 22 on page 112. The first invitations to subscribe for convertibles under the scheme were issued in March 2007. Details of the executive Directors' subscriptions to date are set out on page 51 and 52.

2002 CONVERTIBLE SHARE SCHEME

This scheme expired in 2007 for the purpose of issuing invitations to subscribe for convertible shares however a number of earlier convertibles remain extant. In March 2007 upon the IPO becoming effective, all of the then class A, E, F and H convertible shares and 80% of the class B convertible shares vested and were converted into D convertible shares. The class C, class G and 20% of the class B convertible shares did not vest and were re-designated as A1, A2 and A3 convertible shares. See Note 22 on page 110 of the Annual Report.

The A1, A2 and A3 convertible shares will vest and automatically convert on a one-for-one basis into D convertible shares on the first, second and third anniversaries respectively of the IPO, provided their holder ("Relevant Holder") remains an employee or his/her spouse or family trust remains their holder at the relevant anniversary (the latter condition is subject to exceptions in a number of cases including the retirement or death of the Relevant Holder). The A1, A2 and A3 convertible shares may be vested at the discretion of the board at any time if they are of the view that the circumstances warrant it.

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 are only transferable/saleable in equal tranches on December 31, 2008, December 31, 2009 and December 31, 2010.

Details of restriction on transfer of shares are set out in Note 22 on page 112.

Details of the executive Directors holdings of convertible shares are set out on page 51.

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

PENSIONS

Mr Smurfit and Mr Curley participate in a Group contributory defined benefit pension plan based on an accrual rate of 1/60th of pensionable salary for each year of pensionable service and is designed to provide two thirds of salary at retirement for full service. Mr McGann was previously a member of a defined contribution pension plan, however, as a result of the Irish Finance Act 2006 which introduced a penalty tax charge on pension assets above at least €5 million, he has been receiving compensatory cash payments in lieu of payments to his pension plan. See Note 1 on page 49 for further details.

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

DIRECTORS SERVICE CONTRACTS

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

Directors' remuneration

Executive Directors	2007 €'000	2006 €'000
Basic Salary	**2,761**	2,655
Annual Bonus	**1,934**	2,655
Pension	**1,053**	864
Benefits	**120**	103
Executive Directors' remuneration	**5,868**	6,277
Average number of executive Directors	**3**	3
Non-executive Directors		
Fees	**2,340**	3,800
Non-executive Directors' remuneration	**2,340**	3,800
Average number of non-executive Directors	**8**	10
Directors' remuneration	**8,208**	10,077
Compensation for loss of office (non-executive)	**9,026**	-
Total	**17,234**	10,077

Individual remuneration for the year ended 31 December 2007

	BASIC SALARY AND FEES €'000	ANNUAL BONUS €'000	PENSION (I) €'000	BENEFITS €'000	COMPENSATION FOR LOSS OF OFFICE €'000	TOTAL 2007 €'000	TOTAL 2006 €'000
Executive Directors							
G. McGann	1,202	842	485	64	-	2,593	2,574
A. Smurfit	848	594	309	22	-	1,773	2,029
I. Curley	711	498	259	34	-	1,502	1,674
	2,761	1,934	1,053	120	-	5,868	6,277

	BASIC SALARY AND FEES €'000	ANNUAL BONUS €'000	PENSION (I) €'000	BENEFITS €'000	COMPENSATION FOR LOSS OF OFFICE €'000	TOTAL 2007 €'000	TOTAL 2006 €'000
Non-executive Directors							
S. Fitzpatrick (II)	250	-	-	-	-	250	-
F. Beurskens (IV)	973	-	-	-	-	973	1,050
G. Moore (III)	58	-	-	-	-	58	-
S. Mencoff (III)	58	-	-	-	-	58	-
L. O' Mahony (II)	104	-	-	-	-	104	-
C. Mc Gowan (III)	58	-	-	-	-	58	-
N. Restrepo (II)	93	-	-	-	-	93	-
R. van Rappard (III)	58	-	-	-	-	58	-
M. Smurfit (V)	688	-	-	-	9,026	9,714	2,750
	2,340	-	-	-	9,026	11,366	3,800

I. 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 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. Mr McGann who had already exceeded the cap has chosen to opt for the alternative arrangement and receives a supplementary taxable non-pensionable cash allowance in lieu of contributions to a pension fund. For 2007 the compensation allowance amounted to €485,000 for Mr McGann.

II. S. Fitzpatrick, L. O'Mahony and N. Restrepo joined the board on 20 March 2007.

III. G. Moore, S. Mencoff, C. McGowan and R. van Rappard only received Directors fees from the 20 March 2007.

IV. F Beurskens two year Directorship agreement for services as a Director to certain Group companies terminated on 30 November 2007. F. Beurskens entered into a letter of appointment in December 2007 under which he will receive a fee at the rate of €50,000 per annum for serving as a Director of the company and an additional fee of €75,000 for services as a Director of a Group subsidiary.

V. M. Smurfit resigned from the board with effect from immediately prior to Admission. See Related Party transactions Note 31 on page 148 for details of the terms of M. Smurfit's resignation.

During 2007 G. McGann acted as a non-executive Director of Anglo Irish Bank plc, United Drug plc, Aon McDonagh Boland and the Dublin Airport Authority plc and retained fees totalling €213,967 in respect of these appointments. In addition, in June 2007, a cash amount totalling approximately €5.3 million was awarded to the executive Directors by the major shareholders Madison Dearborn Capital Partners and Smurfit Kappa Feeder G.P. Limited and is payable directly by those shareholders. The award was made in connection with the successful flotation of the Company.

PENSION ENTITLEMENTS – DEFINED BENEFIT

	INCREASE IN ACCRUED PENSION DURING YEAR €'000	TRANSFER VALUE OF INCREASE IN ACCRUED PENSION (I) €'000	2007 TOTAL ACCRUED PENSION (II) €'000
Executive Directors			
A. Smurfit	29	646	263
I. Curley	32	625	214

I. These transfer values have been 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 2007 in the event of the member leaving service.

II. Accrued pension benefit is that which would be paid annually on normal retirement date.

DIRECTORS' INTERESTS IN SHARE CAPITAL AT 31 DECEMBER 2007

The interests of the Directors and Secretary in the shares of the Company as at 31 December 2007 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.

Ordinary Shares	31 DECEMBER 2007	31 DECEMBER 2006
Directors		
S. Fitzpatrick	**14,491**	-
L. O' Mahony	**6,060**	-
G. McGann	**231,697**	150,000
A. Smurfit	**460,515**	400,000
I. Curley	**192,424**	150,000
Secretary		
M. O' Riordan	**47,151**	32,000

There were no transactions in the above Directors' and Secretary's interests between 31 December 2007 and 2 April 2008.

F. Beurskens – has a beneficial interest in the Company, through his interest in Stichting Senior Management Kappa, a Dutch Foundation which holds current and former Kappa managements interests in Smurfit Kappa Feeder L.P. which in turn holds 53,181,884 shares in the Company.

G. Moore – has a beneficial interest in the Company, through his holding of 180 ordinary interests and €17,130 preference capital interests in Smurfit Kappa Feeder L.P. which in turn holds shares in the Company.

R. van Rappard – has a beneficial interest in the Company, through the holding of his immediate family in 4,789 ordinary interests and €472,301 preference capital interests in Smurfit Kappa Feeder L.P. which in turn holds shares in the Company.

Convertible shares

		31ST DECEMBER 2006	GRANTED	31ST DECEMBER 2007	NOTE	CONVERSION PRICE	EXPIRY DATE
Directors							
G. Mc Gann	D (converted from E.F)	384,894		384,894	1	4.28	Dec 2012
	D (converted from H)	420,996		420,996	1	5.69	Dec 2012
	A1(converted from G)	32,075		32,075	1	4.28	Mar 2014
	A2 (converted from G)	32,075		32,075	1	4.28	Mar 2014
	A3 (converted from G)	32,074		32,074	1	4.28	Mar 2014
	B		49,320	49,320	2	18.28	Apr 2017
	C		49,320	49,320	2	18.28	Apr 2017
A. Smurfit	D (converted from E.F)	321,558		321,558	1	4.28	Dec 2012
	D (converted from H)	420,996		420,996	1	5.69	Dec 2012
	A1(converted from G)	26,796		26,796	1	4.28	Mar 2014
	A2 (converted from G)	26,796		26,796	1	4.28	Mar 2014
	A3 (converted from G)	26,797		26,797	1	4.28	Mar 2014
	B		34,790	34,790	2	18.28	Apr 2017
	C		34,790	34,790	2	18.28	Apr 2017
I. Curley	D (converted from E.F)	302,070		302,070	1	4.28	Dec 2012
	D (converted from H)	420,996		420,996	1	5.69	Dec 2012
	A1(converted from G)	25,172		25,172	1	4.28	Mar 2014
	A2 (converted from G)	25,172		25,172	1	4.28	Mar 2014
	A3 (converted from G)	25,173		25,173	1	4.28	Mar 2014
	B		29,160	29,160	2	18.28	Apr 2017
	C		29,160	29,160	2	18.28	Apr 2017
Secretary							
M. O' Riordan	D (converted from E.F)	68,210		68,210	1	4.28	Dec 2012
	D (converted from H)	105,249		105,249	1	5.69	Dec 2012
	A1(converted from G)	5,684		5,684	1	4.28	Mar 2014
	A2 (converted from G)	5,684		5,684	1	4.28	Mar 2014
	A3 (converted from G)	5,684		5,684	1	4.28	Mar 2014
	B		10,720	10,720	2	18.28	Apr 2017
	C		10,720	10,720	2	18.28	Apr 2017

None of the executive Directors' or the Secretary's convertible shares lapsed or were converted to ordinary shares during the year. The market price of the Company's shares at 31 December 2007 was €11.19 and the range during 2007 was €20.88 to €10.60.

1. Issued under the 2002 Convertible share scheme. The D convertible shares are convertible on a one to one basis into Ordinary shares upon the payment by the holder of the conversion price. The A1, A2 A3 convertible shares will automatically convert into D convertible shares in March 2008, March 2009 and March 2010 respectively provided their holder remains an employee.
2. Issued under the 2007 Share Incentive Plan see note on page 47. The shares will automatically convert into D convertible shares to the extent that the performance conditions are achieved at the end of three years post the invitation to subscribe.
3. In March 2008 the following convertibles were subscribed for under the 2007 Share Incentive Plan with a conversion price of €9.08 per share.

Directors	B CONVERTIBLE	C CONVERTIBLE
G. McGann	45,880	45,880
A. Smurfit	31,750	31,750
I. Curley	27,130	27,130
Secretary		
M. O' Riordan	9,970	9,970

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgments and estimates that are reasonable and prudent
- State that the financial statements comply with IFRSs as adopted by the European Union
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The Directors confirm that they have complied with the above requirements in preparing the 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 2006 and, as regards the Group Financial Statements, Article 4 of the 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 web site. Legislation in the Republic of Ireland concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

G. McGann
I. Curley
Directors

2 April 2008

Independent Auditors' Report to the Members of Smurfit Kappa Group plc

We have audited the Group and parent company Financial Statements (the "Financial Statements") of Smurfit Kappa Group plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group and Parent Company balance sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and the Financial Statements, in accordance with applicable Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, 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 this opinion, 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.

We report to you our opinion as to whether the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union. We report to you our opinion as to whether the parent 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 2006. We also report to you whether the Financial Statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006 and Article 4 of the IAS Regulation. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the Financial Statements are in agreement with the books of account. We also report to you our opinion as to:

- whether the company has kept proper books of account
- whether the Directors' report is consistent with the Financial Statements
- whether at the balance sheet date there existed a financial situation which may require the company to convene an extraordinary general meeting of the company; such a financial situation may exist if the net assets of the company, as stated in the company balance sheet, are not more than half of its called-up share capital.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding Directors' remuneration and Directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises 2007 Highlights, Group Profile, Chairman's Statement, Chief Executive's Review, Operations Review, Finance Review, Sustainability, Corporate Governance Statement, Directors' Report and Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

OPINION

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended
- the parent company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the parent company's affairs as at 31 December 2007 and cash flows for the year then ended
- the Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and Article 4 of the IAS Regulation.

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.

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 2007 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.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin, Ireland
2 April 2008

Group Income Statement

For the Year Ended 31 December 2007

	NOTE	2007 PRE-EXCEPTIONAL €'000	2007 EXCEPTIONAL €'000	2007 TOTAL €'000	2006 PRE-EXCEPTIONAL €'000	2006 EXCEPTIONAL €'000	2006 TOTAL €'000
Continuing operations							
Revenue	5	**7,271,657**	**-**	**7,271,657**	6,969,642	-	6,969,642
Cost of sales		**(5,236,787)**	**(6,433)**	**(5,243,220)**	(5,009,582)	(31,299)	(5,040,881)
Gross profit		**2,034,870**	**(6,433)**	**2,028,437**	1,960,060	(31,299)	1,928,761
Distribution costs	7	**(583,542)**	**-**	**(583,542)**	(597,284)	-	(597,284)
Administrative expenses	7	**(882,086)**	**-**	**(882,086)**	(884,925)	-	(884,925)
Other operating income	7	**48,489**	**12,513**	**61,002**	1,972	-	1,972
Other operating expenses	7	**-**	**(61,797)**	**(61,797)**	-	(218,285)	(218,285)
Operating profit	5	**617,731**	**(55,717)**	**562,014**	479,823	(249,584)	230,239
Finance costs	10	**(492,158)**	**(115,427)**	**(607,585)**	(569,440)	(29,905)	(599,345)
Finance income	10	**202,961**	**-**	**202,961**	219,636	-	219,636
Share of associates' profit (after tax)	8	**12,513**	**-**	**12,513**	6,360	-	6,360
Profit/(loss) before income tax		**341,047**	**(171,144)**	**169,903**	136,379	(279,489)	(143,110)
Income tax expense	11			**(3,503)**			(10,505)
Profit/(loss) for the financial year				**166,400**			(153,615)
Attributable to:							
Equity holders of the Company				**147,169**			(170,134)
Minority interest				**19,231**			16,519
Profit/(loss) for the financial year				**166,400**			(153,615)
Earnings per share							
Basic earnings per share – cent	12			**74.3**			(134.8)
Diluted earnings per share – cent	12			**71.7**			(134.8)

G. McGann
I. Curley
Directors

2 April 2008

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

Group Statement of Recognised Income and Expense

For the Year Ended 31 December 2007

	NOTE	2007 €'000	2006 €'000
Items of income and expense recognised directly within equity:			
Foreign currency translation adjustments		**(92,101)**	(45,511)
Defined benefit pension schemes:			
– Actuarial gain	24	**50,494**	87,701
– Movement in deferred tax		**(15,992)**	(15,514)
Effective portion of changes in fair value of cash flow hedges:			
– Movement out of reserve		**(11,818)**	2,351
– New fair value adjustments into reserve		**11,121**	23,427
– Movement in deferred tax		**(25)**	(1,184)
Net change in fair value of available-for-sale financial assets	17	**564**	11
Net income and expense recognised directly within equity		**(57,757)**	51,281
Profit/(loss) for the financial year		**166,400**	(153,615)
Total recognised income and expense for the financial year		**108,643**	(102,334)
Attributable to:			
Equity holders of the Company		**100,306**	(107,553)
Minority interest		**8,337**	5,219
		108,643	(102,334)

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

Company Statement of Recognised Income and Expense

For the Year Ended 31 December 2007

	2007 €'000
(Loss) for the financial year	**(380)**
Total recognised expense for the financial year	**(380)**
Attributable to:	
Equity holders of the Company	**(380)**
	(380)

The Company was incorporated on 24 January 2007 and therefore no comparative information has been presented.

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

Group Balance Sheet

At 31 December 2007

	NOTE	2007 €'000	2006 €'000
Assets			
Non-current assets			
Property, plant and equipment	13	**3,251,479**	3,381,981
Goodwill and intangible assets	14	**2,416,785**	2,485,147
Available-for-sale financial assets	17	**43,511**	44,413
Investment in associates	16	**79,307**	76,668
Biological assets	15	**74,758**	68,042
Trade and other receivables	20	**6,716**	14,260
Derivative financial instruments	28	**4,301**	10,668
Deferred income tax assets	18	**340,415**	302,215
		6,217,272	6,383,394
Current assets			
Inventories	19	**682,169**	630,168
Biological assets	15	**6,862**	7,856
Trade and other receivables	20	**1,379,105**	1,337,416
Derivative financial instruments	28	**28,261**	16,819
Restricted cash	21	**13,096**	10,317
Cash and cash equivalents	21	**401,622**	360,385
		2,511,115	2,362,961
Non-current assets held for sale	6	**15,999**	5,000
Total assets		**8,744,386**	8,751,355
Equity			
Capital and reserves attributable to the equity holders of the Company			
Equity share capital	22	**228**	136
Capital and other reserves	22	**2,538,047**	1,158,748
Retained earnings	22	**(485,053)**	(663,706)
Total equity attributable to equity holders of the Company		**2,053,222**	495,178
Minority interest	22	**137,443**	136,343
Total equity		**2,190,665**	631,521
Liabilities			
Non-current liabilities			
Borrowings	23	**3,667,618**	5,092,371
Employee benefits	24	**480,964**	584,594
Deferred income tax liabilities	18	**530,102**	543,845
Non-current taxes payable		**19,704**	29,477
Provisions for liabilities and charges	26	**77,698**	92,204
Capital grants		**14,176**	13,869
Other payables		**8,535**	-
		4,798,797	6,356,360
Current liabilities			
Borrowings	23	**150,976**	160,661
Trade and other payables	27	**1,402,687**	1,356,615
Current income tax liabilities		**25,650**	14,135
Derivative financial instruments	28	**121,058**	127,167
Provisions for liabilities and charges	26	**54,553**	104,896
		1,754,924	1,763,474
Total liabilities		**6,553,721**	8,119,834
Total equity and liabilities		**8,744,386**	8,751,355

G. McGann

I. Curley

Directors

2 April 2008

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

Company Balance Sheet

At 31 December 2007

	NOTE	2007 €'000
Assets		
Non-current assets		
Financial assets	17	1,956,328
		1,956,328
Current assets		
Cash and cash equivalents		38
Amounts receivable from Group companies	20	11,844
		11,882
Total assets		1,968,210
Equity		
Capital and reserves attributable to the equity holders of the Company		
Equity share capital	22	228
Capital and other reserves	22	1,952,688
Retained earnings	22	(380)
Total equity		1,952,536
Liabilities		
Current liabilities		
Trade and other payables	27	15,674
Total liabilities		15,674
Total equity and liabilities		1,968,210

The Company was incorporated on 24 January 2007 and therefore no comparative information has been presented.

G. McGann
I. Curley
Directors

2 April 2008

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

Group Cash Flow Statement

At 31 December 2007

	NOTE	2007 €'000	2006 €'000
Cash flows from operating activities			
Profit/(loss) for the financial year		**166,400**	(153,615)
Adjustment for			
Income tax expense	11	**3,503**	10,505
(Profit)/loss on sale of assets and businesses – continuing operations	7	**(12,513)**	22,856
Amortisation of government grants	7	**(2,157)**	(1,972)
Impairment of property, plant and equipment	13	**6,433**	31,299
Equity settled share-based payment expense	25	**24,741**	8,084
Amortisation of intangible assets	14	**45,304**	42,445
Reduction in goodwill	14	**16,068**	-
Share of profit of associates	8	**(12,513)**	(6,360)
Depreciation charge	13	**357,225**	357,549
Net finance costs	10	**404,624**	379,709
Change in inventories		**(68,645)**	(807)
Change in biological assets		**3,053**	(5,105)
Change in trade and other receivables		**(55,438)**	(61,333)
Change in trade and other payables		**100,265**	9,996
Change in provisions		**(62,347)**	55,234
Change in employee benefits		**(55,294)**	(36,094)
Foreign currency translation adjustments		**678**	(4,759)
Cash generated from operations		**859,387**	647,632
Interest paid		**(409,871)**	(349,876)
Income taxes paid:			
Irish corporation tax paid		**(4,296)**	(2,651)
Overseas corporation tax (net of tax refunds) paid		**(69,175)**	(38,879)
Net cash inflow from operating activities		**376,045**	256,226
Cash flows from investing activities			
Interest received		**28,612**	13,318
Business disposals		**10,720**	42,438
Purchase of property, plant and equipment and biological assets		**(349,744)**	(295,213)
Purchase of intangible assets		**(6,796)**	(10,117)
Receipt of capital grants		**2,424**	783
Purchase of available-for-sale financial assets	17	**(106)**	(1,507)
(Increase)/decrease in restricted cash	21	**(2,779)**	759,342
Disposal of property, plant and equipment		**28,529**	25,224
Disposal of investments		**-**	1,129
Dividends received from associates	16	**3,617**	5,087
Investments in/disposals of associates		**408**	1,598
Purchase of subsidiaries and minorities		**(12,013)**	(22,300)
Deferred and contingent acquisition consideration paid		**(14)**	(33,573)
Net cash (outflow)/inflow from investing activities		**(297,142)**	486,209

Group Cash Flow Statement [continued]

At 31 December 2007

	NOTE	2007 €'000	2006 €'000
Cash flow from financing activities			
Proceeds from issue of new ordinary shares		**1,496,244**	-
Costs associated with issuing new shares		**(62,208)**	-
Increase in interest-bearing borrowings		**91,853**	136,070
Repayment of finance lease liabilities		**(20,256)**	(17,741)
Repayments of interest-bearing borrowings		**(1,464,927)**	(738,203)
Derivative termination payments		**(45,186)**	-
Deferred debt issuance costs		**(8,213)**	-
Dividends paid to minority interests		**(7,282)**	(7,175)
Net cash (outflow) from financing activities		**(19,975)**	(627,049)
Increase in cash and cash equivalents		**58,928**	115,386

		2007 €'000	2006 €'000
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**321,494**	214,358
Currency translation adjustment		**(5,032)**	(8,250)
Increase in cash and cash equivalents		**58,928**	115,386
Cash and cash equivalents at 31 December		**375,390**	321,494

An analysis of cash and cash equivalents and restricted cash is presented in Note 21 to the financial information.

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

Company Cash Flow Statement

At 31 December 2007

	2007 €'000
Cash flows from operating activities	
(Loss) for the financial year	(380)
Adjustment for	
Net finance costs	(392)
Change in trade and other payables	244
Cash generated from operations	(528)
Interest paid	(3)
Net cash (outflow) from operating activities	(531)
Cash flows from investing activities	
Interest received	396
Purchase of subsidiaries and minorities	(1,436,409)
Net cash (outflow) from investing activities	(1,436,013)
Cash flows from financing activities	
Proceeds from issue of new ordinary shares	1,496,244
Costs associated with issuing new shares	(62,208)
Group loan movements	2,546
Net cash inflow from financing activities	1,436,582
Increase in cash and cash equivalents	38
Reconciliation of opening to closing cash and cash equivalents	
Cash and cash equivalents at 1 January	-
Increase in cash and cash equivalents	38
Cash and cash equivalents at 31 December	38

The Company was incorporated on 24 January 2007 and therefore no comparative information has been presented.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2007

1. GENERAL INFORMATION

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

The Company is a public limited company incorporated and tax resident in Ireland. The address of its registered office is Beech Hill, Clonskeagh, Dublin 4, Ireland.

The Company was formed in January 2007 and became the ultimate holding company of the Group. On 31 January 2007, the Group, previously headed by Smurfit Kappa Investments Limited (formerly known as Smurfit Kappa Group Limited) ('SKIL'), underwent a reorganisation in advance of the Group's initial public offering ('IPO'). The shareholders of SKIL exchanged their shares of SKIL for an identical number of newly issued shares of SKG plc. This exchange transaction has been accounted for as a reverse acquisition and the Financial Statements have been prepared on the basis of the new legal parent having been acquired by the existing Group. As a result, the Group did not restate the assets and liabilities of SKIL to their fair values. These assets and liabilities continue to be carried at the amounts they were recorded at prior to the exchange transaction, and consequently no goodwill arises on the transaction.

On 14 March 2007 the Company completed an IPO with the placing to institutional investors of 78,787,879 new ordinary shares in SKG plc. This offering, together with the issue of an additional 11,818,181 ordinary shares, generated gross proceeds of €1,495 million. These proceeds, net of costs, were used to repay certain debt obligations of the Group and to repay the shareholder PIK note issued in connection with the Group's 2005 Kappa Packaging merger.

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

The consolidated Financial Statements presented are for the years ended 31 December 2007 and 31 December 2006. The principal companies within the Group during the years ended 31 December 2007 and 31 December 2006 are disclosed in the *Principal subsidiaries* note.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Statement of compliance

The consolidated Financial Statements of SKG plc have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations as adopted by the EU, and with those parts of the Companies Acts applicable to companies reporting under IFRS. IFRS is comprised of standards and interpretations approved by the International Accounting Standards Board ('IASB') and International Accounting Standards and interpretations approved by the predecessor International Accounting Standards Committee that have been subsequently approved by the IASB and remain in effect.

IFRS as adopted by the EU differ in certain respects from IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU. However, the Consolidated Financial Statements would be no different had IFRS as issued by the IASB been applied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Financial Statements, which are presented in euro rounded to the nearest thousand, have been prepared under the historical cost convention except for the following:

- derivative financial instruments are stated at fair value
- available-for-sale financial assets are stated at fair value
- biological assets are stated at fair value
- pension obligations are measured at the present value of the future estimated cash flows related to benefits earned and pension assets are valued at fair value
- share-based payments are measured at the fair value of the awards at the date of grant.

The preparation of financial information in conformity with IFRS requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are disclosed in the *Critical accounting judgements and estimates* note.

Accounting standards and interpretations effective in 2007

IFRS 7 – Financial instruments: Disclosures

IFRS 7 – Financial instruments: Disclosures and the complementary amendment to IAS 1 *Presentation of Financial Statements – Capital disclosures*, were adopted in the Group Financial Statements for the year ended 31 December 2006. IFRS 7 introduced new disclosure requirements relating to financial instruments.

IFRIC 7 – Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies

IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity or its subsidiary identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. It does not have an impact on the Group Financial Statements.

IFRIC 8 – Scope of IFRS 2

This interpretation requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2 *Share-based Payment*. It does not have any impact on the Group Financial Statements.

IFRIC 9 – Re-assessment of embedded derivatives

This interpretation is mandatory for accounting periods beginning on or after 1 January 2007 but does not impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRIC 10 – Interim financial reporting and impairment

This interpretation prohibits the reversal of impairment losses on goodwill, investments in equity instruments and financial assets carried at cost, recognised in an interim period, at a subsequent balance sheet date. It does not have any impact on the Group Financial Statements.

Accounting standards and interpretations not yet effective and which have not been early adopted by the Group

IFRS 8 – Operating Segments

Effective for annual periods beginning on or after 1 January 2009, IFRS 8 sets out the requirements for disclosure of financial and descriptive information about the Group's operating segments, products, the geographical areas in which we operate and, major customers. IFRS 8 will replace IAS 14 *Segment Reporting*. The Group will apply IFRS 8 from 1 January 2009 and is currently assessing its impact.

IAS 23 – Borrowing Costs (Amended)

IAS 23 as amended requires capitalisation of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of the asset. Qualifying assets are those assets that take a substantial period of time to get ready for use. The option to immediately expense such borrowing costs will be removed. Subject to EU approval, the Group will apply IAS 23 (Amended) from 1 January 2009 and is currently assessing its impact.

IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

IFRIC 14 provides general guidance on how to assess the limit in IAS 19 *Employee Benefits*, on the amount of a surplus that can be recognised as an asset. It also explains how the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The Group will apply IFRIC 14 from 1 January 2008. On adoption the Group expects that the defined benefit pension liability will increase by approximately 0.5%.

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions

Effective for annual periods beginning on or after 1 March 2007 IFRIC 11 addresses two issues:

(a) whether certain transactions should be accounted for as equity-settled or as cash-settled under IFRS 2; and

(b) how share-based payment arrangements that affect more than one company in a Group are accounted for in each company's Financial Statements.

The Group will apply IFRIC 11 from 1 January 2008. It is not expected to have a material effect on the Group's Financial Statements.

The following interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the Group:

- IFRIC 12 – Service Concession Arrangements
- IFRIC 13 – Customer Loyalty Programmes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

Subsidiaries

The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date on which control over the operating and financial decisions is obtained; they cease to be consolidated from the date on which control is transferred to a third party. 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, balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the Group Financial Statements except to the extent that such losses provide evidence of impairment.

The Company's investments in subsidiaries are carried at cost less impairment.

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. They 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 associated entity.

Under the equity method, the Group Income Statement reflects the Group share of the profit after tax of each associate. The Group share of post acquisition movements in the equity of each associate is recognised in the Group Statement of Recognised Income and Expense. Investments in associates are carried in the Group Balance Sheet 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 in accordance with IAS 36 *Impairment of assets*, 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.

Accounting policies of associates have been modified to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

The Group uses the purchase method in accounting for the acquisition of subsidiaries and associates.

The cost of a business combination is measured as the aggregate of the fair values at the date of exchange of assets acquired, liabilities incurred or assumed and equity instruments issued in exchange for control together with any directly attributable costs. To the extent that settlement of all or any part of a business combination is deferred, the fair value of the deferred component is determined by discounting the amounts payable to their present value at the date of exchange. The discount component is unwound as an interest charge in the Group 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 and the adjustment can be reliably measured, the cost on the combination is adjusted to include the contingent amount on a discounted basis.

Under the purchase method, the assets, liabilities and contingent liabilities of an acquired business are initially recognised at their fair values at the date of acquisition. In the case of a business combination which is completed in stages, the fair values of the identifiable assets, liabilities and contingent liabilities are determined at the date of each exchange transaction. When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated to the identifiable assets, liabilities and contingent liabilities are made within twelve months of the acquisition date.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, the profit and loss attributable to minorities is included in minority interests. To the extent that any losses exceed the minority interest they are allocated against Group shareholders funds.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns different to those of other segments. Stemming from the Group's internal organisational and management structure and its system of internal financial reporting, segmentation by business is regarded as being the predominant source and nature of the risks and returns facing the Group and is thus the primary segment. Geographical segmentation is the secondary segment.

Foreign currency

Functional and presentation 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').

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transactions and balances

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 re-measured 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 the Group Income Statement with the exception of differences on foreign currency borrowing that qualifies 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 the Statement of Recognised Income and Expense. The ineffective portion is recognised immediately in the Group Income Statement.

Foreign operations

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. The revenues, expenses and cash flows of entities that do not have the euro as their functional currency are translated to euro at average exchange rates for the year. 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 directly in equity, in the foreign currency translation reserve.

On disposal or partial disposal of a foreign operation, accumulated currency translation differences are recognised in the Group Income Statement as part of the overall gain or loss on disposal. Cumulative foreign currency translation differences arising prior to the IFRS transition date (1 January 2004) have been set to zero for the purposes of ascertaining the gain or loss on disposal of a foreign operation.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment charges. Cost includes expenditure that is directly attributable to the acquisition of the assets. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. Other repair and maintenance expenditure that does not meet the asset recognition criteria is expensed to the Group Income Statement as incurred.

Land is not depreciated. Depreciation on other assets is calculated to write off the carrying amount of property, plant and equipment, other than freehold land, on a straight line basis at the following annual rates:

Freehold and long leasehold buildings:	2 – 5%
Plant and equipment:	3 – 33%
Fixtures and fittings:	10 – 25%
Motor vehicles:	20 – 25%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the relevant asset at the date of disposal and are included in operating profit in the period in which they are disposed.

Goodwill

Goodwill is the excess of the cost of an acquisition over the Group share of the fair value of the identifiable assets, liabilities and contingent liabilities in a business combination and relates to the future economic benefits arising from assets which are not capable of being individually identified and separately recognised.

Goodwill in respect of acquisitions completed before 1 January 2004 (being the date of transition to IFRS), is included at its deemed cost, which equates to its net book value under previous GAAP.

The carrying amount of goodwill in respect of associates is included in investments in associates under the equity method in the Group Balance Sheet and is tested for impairment when an indicator of impairment is identified.

To the extent that the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the cost of a business combination, the identification and measurement of the related assets, liabilities and contingent liabilities are reassessed accompanied by a reassessment of the cost of the transaction, and any remaining balance is recognised immediately in the Group Income Statement.

Goodwill acquired in a business combination is allocated to groups of cash-generating units that are anticipated to benefit from the combination's synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. The groups of cash-generating units represent the lowest level within the Group at which the associated goodwill is monitored for internal management purposes and are not larger than the primary and secondary reporting segments determined in accordance with IAS 14 *Segment Reporting*. Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment is considered to exist. Goodwill impairment testing is undertaken at a consistent time each year. Impairment is determined by comparing the carrying amount to the recoverable amount of the groups of cash-generating units to which the goodwill relates. The recoverable amount is the greater of the net selling price and value in use. Where the recoverable amount of the groups of cash-generating units is less than the carrying amount, an impairment loss is recognised. In the year in which a business combination is effected, and where some or all of the goodwill allocated to a particular group of cash-generating units arose in respect of that combination, the groups of cash-generating units are tested for impairment prior to the end of the relevant annual period. Impairment losses arising in respect of goodwill are not reversed following recognition.

Where goodwill forms part of a group of cash-generating units 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 cash-generating units retained.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable (i.e. capable of being divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability) or when it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the intangible asset meets the definition of an intangible asset and the fair value can be reliably measured on initial recognition.

Subsequent to initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying values of intangible assets with finite useful lives 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.

The amortisation of intangible assets is calculated to write off the book value of finite-lived intangible assets over their useful lives on a straight-line basis on the assumption of zero residual value. In general, finite lived intangible assets are amortised over periods ranging from three to ten years, depending on the nature of the intangible asset as detailed in the *Goodwill and Intangible Assets* note.

Research and development

Expenditure on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Group Income Statement as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale
(b) management intends to complete the intangible asset and use or sell it
(c) there is an ability to use or sell the intangible asset
(d) it can be demonstrated how the intangible asset will generate probable future economic benefits
(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available
(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the Group Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. No expenditure has been capitalised to date on the basis that the management of the Group do not regard the above criteria as having been met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Biological assets

Biological assets comprise standing timber held for the production of paper and packaging products. Biological assets are recognised on initial recognition and at each balance sheet date at fair value less estimated costs to sell. Any resultant gains or losses are recognised in the Group Income Statement. At the time of harvest (logging), wood is recognised at fair value less estimated costs to sell and is not subsequently remeasured.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment. 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, restricted cash, borrowing and trade and other payables. Non-derivative instruments are recognised initially at fair value plus any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire, are extinguished, or if the Group transfers the financial asset to another party and transfers all the risks and rewards of ownership of the asset, or does not retain control and transfers substantially all the risks and rewards of ownership of the asset. Regular way purchases and sales of financial assets are accounted for at trade date i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contracts expire, are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances held for the purposes of meeting 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 Group Cash Flow Statement. Cash and cash equivalents are carried at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted cash

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

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as a) loans and receivables, b) held to maturity investments or c) financial assets at fair value through profit or loss. Equity and debt investments held by the Group are classified as being available-for-sale and are stated at fair value. Any movements in fair value are recognised directly in equity (in the available-for-sale reserve). However impairment losses on all available-for-sale financial assets and foreign exchange gains and losses on monetary items such as debt securities, are recognised in the Group Income Statement. When these investments are derecognised, the cumulative gain or loss previously recognised in equity is recognised in profit or loss and forms part of the gain or loss arising. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss (see *'Finance income and costs'* below).

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Group Income Statement 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 12 months after the balance sheet date.

Securitised assets

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. Theses 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 Group Balance Sheet until all of the rights to the cash flows from those assets have expired or have been fully transferred outside the Group, or until substantially all of the related risks, rewards and control of the related assets have been transferred to a third party.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade and other receivables

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. Trade and other receivables are discounted when the time value of money is considered material. 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Group Income Statement within administrative expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the Group Income Statement.

Trade and other payables

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

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge certain foreign currency, interest rate and commodity price exposures. Derivatives are recognised initially at fair value with attributable transaction costs recognised in the Group Income Statement when incurred. Derivatives are subsequently measured at fair value and the method of recognising the resulting gains and losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the effectiveness of the hedge. The Group designates certain derivatives as either:

(a) hedges of a particular risk associated with a recognised floating rate asset or liability or a highly probable forecast transaction (cash flow hedges) or

(b) hedges of net investments in foreign operations (net investment hedges).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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 the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Derivatives not designated as hedges are classified within current assets or liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash flow hedges

Changes in the fair value of the derivative hedging instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective.

Amounts accumulated in equity are recycled into the Group Income Statement in the periods when the hedged item affects profit or loss. The recycled gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Group Income Statement within finance costs. The gain or loss relating to the ineffective portion is recognised in the Group Income Statement within finance income or expense respectively.

When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity 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 equity remains there until the forecast transaction occurs.

Net investment hedge

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 equity. The gain or loss relating to the ineffective portion is recognised immediately in the Group Income Statement within finance income or expense respectively. Gains and losses accumulated in equity are recycled to the Group Income Statement when the foreign operation is sold (proportionately if partially sold).

Derivatives not designated as hedges

Changes in the fair value of derivatives which are not designated for hedge accounting are recognised in profit and 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 in the Group Income Statement. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset, or in the case of equity securities, there is a significant or prolonged decline in value below cost. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the 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.
All impairment losses are recognised in profit or loss including any cumulative loss in respect of an available-for-sale financial asset previously recognised in equity.

An impairment loss is reversed if the reversal can be related objectively 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 equity. 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 based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. In the case of 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 Group Income Statement.

Net realisable value is the estimated proceeds of sale less all further costs to completion, and less all costs to be incurred in marketing, selling and distribution. Full provision is made for all damaged, deteriorated, obsolete and unusable materials.

Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than continued use are classified as held for sale. Such assets are measured at the lower of their fair value less cost to sell and their carrying amount prior to being classified as held for sale.

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)

Provisions

A provision is recognised in the balance sheet 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 cost.

Income taxes

The income tax expense recognised in each financial year comprises current and deferred tax and is recognised in the Group Income Statement except to the extent that it relates to items recognised directly in equity, in which case the related tax is also recognised directly in equity.

Current tax

Current tax is the expected tax payable or recoverable on the taxable income for the year, using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, 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 where there is reasonable assurance that the grant will be received and the Group will comply with the related conditions.

An unconditional government grant relating to a biological asset is recognised in the Group Income Statement as other operating income when the grant becomes receivable. Grants that compensate the Group for expenses incurred are recognised in the Group Income Statement on a systematic basis in the same periods in which the related expense is incurred and are offset against the related expense. Grants that compensate the Group for the cost of an asset are recognised in the Group Income Statement as other operating income on a systematic basis over the useful life of the asset. These grants are disclosed within Non-current liabilities in the Balance Sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Where a lease transfers substantially all of the risks and rewards of ownership of an asset to the Group, the lease is classified as a finance lease. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance costs, are included in borrowings. The interest element of the finance cost is expensed in the Group Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability in each period. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are expensed in the Group Income Statement on a straight line basis over the lease term.

Arrangements comprising transactions that do not take the legal form of 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.

Employee benefits

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are recognised as expenses as the related employee service is received.

Retirement benefit obligations

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The liabilities and costs associated with the Group's defined benefit pension plans (both funded and unfunded) are assessed on the basis of the projected unit credit method by professionally qualified actuaries and are arrived at using actuarial assumptions based on market expectations at the balance sheet date. The discount rates employed in determining the present value of plan liabilities are determined by reference to market yields at the balance sheet date on high-quality corporate bonds of a currency and term consistent with the currency and term of the associated post-employment benefit obligations. The expected increase in the present value of plan liabilities arising from employee service in the current or prior periods is recognised in arriving at operating profit or loss. Plan assets are valued at their market value at the balance sheet date using bid values. The expected returns on plan assets and the increase during the period in the present value of plan liabilities arising from the passage of time are recognised as components of finance income and finance costs respectively. Differences between the expected and the actual return on plan assets, together with the effect of changes in the current or prior assumptions underlying the liabilities are recognised in the Statement of Recognised Income and Expense.

Past service costs are recognised immediately as an expense in the Group Income Statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case the past service costs are amortised on a straight-line basis over the vesting period.

Settlements and curtailments trigger immediate recognition of the consequent change in obligations and related assets or liabilities in the Group Income Statement.

The net surplus or deficit arising on the Group's defined benefit pension plans, together with the liabilities associated with the unfunded plans, is shown either within non-current assets or non-current liabilities on the Group Balance Sheet. The deferred tax impact of pension plan surpluses and deficits is disclosed separately within deferred income tax assets or liabilities, as appropriate.

Other long-term employee benefits

The Group's obligation in respect of other long-term employee benefits such as jubilee and medals plans represents the amount of future benefit that employees have earned in return for service in the current and prior periods. The obligation is computed on the basis of the projected unit credit method and is discounted to present value using a discount rate equating to the market yield at the balance sheet date on high-quality corporate bonds of a currency and term consistent with the currency and estimated term of the post-employment obligations. Actuarial gains and losses are recognised in the Group Income Statement in full in the period in which they arise.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before normal retirement date or providing termination benefits as a result of an offer made to encourage voluntary redundancy. If the effect is material, benefits payable are recognised at their present value by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. The increase in the provision due to passage of time is recognised as finance cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based compensation

The fair value of convertible shares granted under the Group's management equity plan is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the awards vest. The fair value is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted.

The convertible shares issued by the Company are subject to both market-based and non market-based vesting conditions as defined in IFRS 2.

Market-based conditions are included in the calculation of fair value at the date of grant. Non-market vesting conditions are not taken into account when estimating the fair value of awards as at the grant date; such conditions are taken into account through adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised equates to the number of equity instruments that actually vest. The expense in the Group Income Statement in relation to convertible shares granted represents the product of the total number of options anticipated to vest and the fair value of those shares; this amount is allocated to accounting periods on a straight-line basis over the vesting period. The cumulative charge to the Group Income Statement is reversed only where the non-market performance condition is not met or where an employee in receipt of share options relinquishes service prior to completion of the expected vesting period. No reversal of the cumulative charge to the Group Income Statement is made where such awards do not vest as a result of the market based vesting conditions not being achieved.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when vested convertible shares are converted into ordinary shares.

To the extent that the Group receives a tax deduction relating to the services paid in shares, deferred tax in respect of share options is provided on the basis of the difference between the market price of the underlying equity as at the date of the financial information and the exercise price of the option; as a result, the deferred tax impact of share options will not directly correlate with the expense reported in the Group Income Statement.

The Group has no cash-settled share-based payment transactions as defined in IFRS 2.

Emission rights and obligations

Certain jurisdictions in which the Group operates regulate the emission of carbon dioxide through the operation of cap and trade schemes. Limits (caps) are set by national governments and allocated by issuing emission certificates to the entities which physically create emissions. At the end of a compliance period the participating entities must deliver emission certificates to a third party (e.g. a regulator) to cover the volume of actual emissions. Any surplus or deficit of emission certificates may be sold or bought on a regulated market.

Emission rights granted by governments and other similar bodies under cap and trade schemes are recognised at cost, usually a nominal amount. Additional certificates purchased on a regulated market from third parties are recognised at cost which is the market value at the time of purchase. Emissions certificates held by the Group are not subsequently revalued at current market prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liabilities arising in relation to emission obligations under such schemes are recognised only in circumstances where emission rights granted have been exceeded and the difference between actual and permitted emissions must be met through the purchase of additional rights. Liabilities arising from such shortfalls are measured at the current market value of the certificates necessary to meet the obligations and classified as provisions.

Where excess certificates are sold to third parties, the Group recognises the fair value of the consideration received as other income in profit or loss offset by the carrying value of the units derecognised. The Group has a policy of only selling certificates where the level of projected emissions over the relevant compliance period has been reliably estimated and the allowances available to offset such emissions are greater than those projected emissions.

Revenue

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services supplied to customers in the ordinary course of business during the accounting period, excluding value added tax, returns, allowances for rebates and discounts and after eliminating sales within the Group. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group, that it can be reliably measured and that the significant risks and rewards of ownership of the goods have passed to the buyer. This generally occurs at the time of delivery at which point the risks of obsolescence and loss have been transferred to the buyer. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates of returns and allowances on historical results, taking into consideration the type of customer, the type of transaction and the specific terms of each arrangement.

Finance costs and income

Finance costs comprises interest expense on borrowings, 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. All interest expense on borrowings is recognised in profit or loss in the period in which it is incurred.

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 equity holders of the Company. It is calculated by dividing the Group profit or loss after tax and minority interests by the weighted average number of equity shares in issue in respect of the period.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exceptional items

The Group has adopted an income statement format which seeks to highlight significant items within Group results for the year. The Group believe that this presentation provides additional analysis as it highlights one-off items. Such items include restructuring, profit or loss on disposal or termination of operations, major litigation costs and settlements, 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 scale and nature, are disclosed in the Group Income Statement and related notes as exceptional items.

Discontinued operations

A discontinued operation is a component of the Group's business which represents a separate major line of business or geographical area of operations and has been disposed of or is held for sale. When an operation is classified as a discontinued operation, the comparative Group Income Statement is restated as if the operation had been discontinued from the start of the earliest period presented.

Dividend distributions

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

3. DETERMINATION OF FAIR VALUES

A number of the Group accounting policies and disclosures require the determination of fair value, both for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property, plant and equipment is the estimated amount for which such a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Intangible assets

The fair values of intangible assets acquired as part of a business combination are based on the discounted cash flows expected to be derived from the eventual use or sale of those assets.

Biological assets

The fair value of standing timber is calculated using weighted average prices for similar transactions with third parties, where available. Where this is not practical, the Group uses the discounted cash flow method, based on a model which takes into account assumptions including the expected yield of the forests, timber selling price reduced by costs relating to harvest and transportation, plantation costs and maintenance costs and an appropriate discount rate. Costs to sell include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

3. DETERMINATION OF FAIR VALUES (CONTINUED)

Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion, sale and a reasonable profit margin based on the effort required to complete and sell the inventory.

Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. Unquoted available-for-sale financial assets are valued using recognised valuation techniques for the underlying security including discounted cash flows and similar unquoted equity valuation models.

Cash, short-term deposits and liquid investments

The carrying amount reported in the balance sheet is estimated to approximate to fair value because of the short-term maturity of these instruments.

Trade and other receivables and payables

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.

Derivatives

The fair value of forward foreign currency and energy hedging 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.

Non derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the *Summary of significant accounting policies* note. The recoverable amounts of groups of cash-generating units have been determined based on value-in-use calculations. The critical assumptions employed in determining value-in-use, as well as impact of any reasonable changes in these assumptions on identifying potential impairments, are detailed in the *Goodwill and Intangible Assets* note.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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 by using valuation techniques. The Group uses its judgement to select a variety of methods and make 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.

Impairment of available-for-sale financial assets

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 factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Measurement of defined benefit obligations

The Group follows guidance of IAS 19 to determine the present value of its obligations to current and past employees in respect of defined benefit pension obligations and other long-term employee benefits, which are subject to similar fluctuations in value in the long-term. The Group uses a network of professional actuaries co-ordinated under a world wide process to value such liabilities designed to ensure consistency in the quality of the key assumptions underlying the valuations. The critical assumptions and estimates applied are discussed in detail in the *Employee benefits* note.

Provisions

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Share-based payments

The determination of the fair value of awards under the management equity plan involves the use of judgements and estimates. The fair value has been estimated using a binomial lattice model in accordance with the judgemental assumptions set out in the *Share-based payments* note.

Establishing lives for depreciation purposes of property, plant and equipment

Long-lived assets, consisting primarily of property, plant and equipment, comprise a significant portion of the Group's total assets. The annual depreciation charge depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of fair values and residual values. The Directors annually review these asset lives and change them as necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned. Changes in asset lives can have a significant impact on depreciation charges for the period. It is not practical to quantify the impact of changes in asset lives on an overall basis, as asset lives are individually determined and there are a significant number of asset lives in use. Details of the useful lives is included in the accounting policy. The impact of any change would vary significantly depending on the individual changes in assets and the classes of assets impacted.

Establishing lives for amortisation purposes of intangible assets

The Group has significant levels of intangible assets. The amortisation charge is dependent on the estimated lives allocated to each type of intangible asset. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives and the expected pattern of consumption of the future economic benefits embodied in the asset. Changes in asset lives can have a significant impact on amortisation charges for the period. Details of the useful lives are included in the *Goodwill and Intangible Assets* note.

5. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format for segmental reporting is business segments. The secondary format for reporting segmental information is geographical. Inter-segment pricing is determined on an arm's length basis. 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.

Analysis by business segment (primary format)

The Group is an integrated paper and board manufacturer and converter, whose operations are divided into: 1) Packaging and 2) Specialties. The Packaging segment is highly integrated. It includes a system of mills and plants that produce a full line of containerboard that is converted into corrugated containers. The Specialties segment primarily consists of graphicboard and solidboard businesses, along with paper sack and bag-in-box operations.

5. SEGMENTAL REPORTING (CONTINUED)

	PACKAGING 2007 €'000	SPECIALTIES 2007 €'000	TOTAL 2007 €'000
Revenue and results			
Third party revenue	6,313,553	958,104	**7,271,657**
Segment results before exceptional items	598,781	55,582	**654,363**
Segment exceptional items	(23,825)	(4,965)	**(28,790)**
Segment results after exceptional items	574,956	50,617	**625,573**
Unallocated centre costs			**(36,632)**
Unallocated centre exceptional items			**(26,927)**
Operating profit			**562,014**
Share of associates' profit (after tax)	12,513	-	**12,513**
Finance costs			**(607,585)**
Finance income			**202,961**
Profit/(loss) before income tax			**169,903**
Income tax expense			**(3,503)**
Profit for the financial year			**166,400**
Assets			
Segment assets	6,925,687	976,063	**7,901,750**
Investments in associates	79,307	-	**79,307**
Group centre assets			**763,329**
Total assets			**8,744,386**
Liabilities			
Segment liabilities	1,343,031	181,061	**1,524,092**
Group centre liabilities			**5,029,629**
Total liabilities			**6,553,721**

5. SEGMENTAL REPORTING (CONTINUED)

	PACKAGING 2007 €'000	SPECIALTIES 2007 €'000	Total 2007 €'000
Other segmental disclosures:			
Capital expenditure, including additions of intangibles:			
Segment expenditure	269,242	54,562	**323,804**
Group centre expenditure			**5,577**
Total expenditure			**329,381**
Depreciation:			
Segment depreciation	317,722	39,361	**357,083**
Group centre depreciation			**142**
Total depreciation			**357,225**
Amortisation:			
Segment amortisation	36,422	5,382	**41,804**
Group centre amortisation			**3,500**
Total amortisation			**45,304**
Other significant non-cash charges:			
Reduction in goodwill included in cost of sales	16,068	-	**16,068**
Impairment of property, plant and equipment included in cost of sales	6,433	-	**6,433**

	PACKAGING 2006 €'000	SPECIALTIES 2006 €'000	TOTAL 2006 €'000
Revenue and results			
Third party revenue	5,998,830	970,812	6,969,642
Segment results before exceptional items	465,058	49,352	514,410
Segment exceptional items	(199,511)	(49,427)	(248,938)
Segment results	265,547	(75)	265,472
Unallocated centre costs			(34,587)
Unallocated exceptional items			(646)
Operating profit			230,239
Share of associates' profit/(loss) (after tax)	7,907	(1,547)	6,360
Finance costs			(599,345)
Finance income			219,636
(Loss) before income tax			(143,110)
Income tax expense			(10,505)
(Loss) for the financial year			(153,615)
Assets			
Segment assets	7,069,713	880,322	7,950,035
Investments in associates	76,668	-	76,668
Group centre assets			724,652
Total assets			8,751,355
Liabilities			
Segment liabilities	1,425,232	167,046	1,592,278
Group centre liabilities			6,527,556
Total liabilities			8,119,834

5. SEGMENTAL REPORTING (CONTINUED)

	PACKAGING 2006 €'000	SPECIALTIES 2006 €'000	TOTAL 2006 €'000
Other segmental disclosures:			
Capital expenditure, including additions of intangibles:			
Segment expenditure	298,774	28,863	327,637
Depreciation:			
Segment depreciation	311,478	46,071	357,549
Amortisation:			
Segment amortisation	33,723	5,222	38,945
Group centre amortisation			3,500
Total amortisation			42,445
Other significant non-cash charges:			
Impairment of property, plant and equipment included in cost of sales	22,099	9,200	31,299

Segment assets consist primarily of property, plant and equipment, biological assets, goodwill and intangible assets, investments in associates, inventories, trade and other receivables, and cash and cash equivalents. Group centre assets comprise primarily of available-for-sale financial assets, derivative financial assets, deferred income tax assets and restricted cash balances. Segment liabilities comprise principally of operating liabilities. Group centre liabilities comprise items such as borrowings, employee benefit obligations, derivative financial instruments, deferred income tax liabilities and certain provisions.

Capital expenditure comprises additions to property, plant and equipment (Note 13), goodwill and intangible assets (Note 14), including additions resulting from acquisitions through business combinations. There were no other significant non-cash charges other than those dealt with above.

Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

5. SEGMENTAL REPORTING (CONTINUED)

Analysis by geographic segment (secondary format)

The following is a geographical analysis of segmental data presented above on the basis of aggregation thresholds contained in IAS 14.

	REVENUE 2007 €'000	SEGMENT ASSETS 2007 €'000	SEGMENT CAPITAL EXPENDITURE 2007 €'000
Eurozone	4,716,026	5,161,860	200,548
Sweden	199,026	704,607	26,676
United Kingdom	602,068	455,571	10,426
Mexico	314,858	248,108	12,001
Other	1,439,679	1,331,604	79,730
Total	7,271,657	7,901,750	329,381

	REVENUE 2006 €'000	SEGMENT ASSETS 2006 €'000	SEGMENT CAPITAL EXPENDITURE 2006 €'000
Eurozone	4,466,107	5,105,973	194,679
Sweden	223,493	765,360	62,462
United Kingdom	626,537	512,076	18,746
Mexico	316,077	280,396	11,964
Other	1,337,428	1,286,230	39,786
Total	6,969,642	7,950,035	327,637

Revenue is derived almost entirely from the sale of goods and is disclosed based on location of customers.

6. ASSETS HELD FOR SALE

Assets held for sale were €16 million at 31 December 2007, compared to €5 million at 31 December 2006. The €16 million relates to two properties held in Ireland, one property in Italy and one property in the Netherlands. In 2006, the €5 million related to a property held in the Netherlands. These assets are expected to be sold within the next 12 months.

	2007 €'000	2006 €'000
Assets classified as held for sale		
Property, plant and equipment	**15,999**	5,000

7. OPERATING COSTS AND INCOME

	2007 €'000	2006 €'000
Operating costs:		
Distribution costs	**583,542**	597,284
Administrative expenses	**882,086**	884,925
Other operating expenses	**61,797**	218,285
	1,527,425	1,700,494

Other operating income:	2007 €'000	2006 €'000
Capital grants amortisation	**2,157**	1,972
Net income on sale of assets and operations	**12,513**	-
Insurance proceeds received	**46,332**	-
	61,002	1,972

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

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

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

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

7. OPERATING COSTS AND INCOME (CONTINUED)

In 2006, the paper mill rationalisation programme resulted in the closure of six high-cost containerboard mills; four in France, one in Germany and one in Sweden. In addition, the Group completed the closure of the coated paper operations at the Townsend Hook mill in the UK. The Group's corrugated converting plants in Europe were restructured to optimise the enlarged system and make it more efficient. The programme resulted in the closure of five plants; two in France, two in the UK, and one in Germany. Within the European Specialties operations, the Group completed the closure of a solidboard machine in the Netherlands and the closure of the Group's paper sack plant in the UK.

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

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

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

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

7. OPERATING COSTS AND INCOME (CONTINUED)

	2007 €'000	2006 €'000
Expenses by nature		
Changes in inventories of finished goods and work in progress	**(19,438)**	22,175
Raw materials and consumables used	**2,355,960**	2,101,159
Employee benefit expense (Note 9)	**1,674,884**	1,676,050
Movement in provisions for impairment against receivables (Note 20)	**1,425**	1,726
Movement in stock obsolescence provisions	**176**	(163)
Transportation expenses	**575,097**	587,967
Reorganisation and restructuring costs – redundancy (Note 9)	**22,890**	74,000
Reorganisation and restructuring costs – non-redundancy	**38,907**	100,540
Impairment of property, plant and equipment (Note 13)	**6,433**	31,299
Net changes in fair value of biological assets (Note 15)	**(3,266)**	(10,236)
Depletion of biological assets (Note 15)	**6,319**	5,763
Advertising costs	**13,902**	14,700
Depreciation of property, plant and equipment (Note 13)		
– owned assets	**347,438**	341,552
– under finance lease	**9,787**	15,997
Amortisation of intangible assets (Note 14)	**45,304**	42,445
Auditor's remuneration		
– audit	**9,510**	8,620
– audit related – PwC	**941**	402
– non-audit – PwC	**2,298**	11,308
Operating lease rentals		
– plant and machinery	**36,046**	38,616
– transport	**29,414**	16,705
– other	**14,614**	8,102
Research and development costs	**2,655**	2,160
Foreign exchange gains and losses	**1,428**	(3,584)
Reduction in goodwill (Note 14)	**16,068**	-
Other expenses	**1,581,853**	1,654,072
Total expenses	**6,770,645**	6,741,375

Directors statutory disclosures

	2007 €'000	2006 €'000
Directors' remuneration	**8,208**	10,077
Compensation for loss of office (Note 31)	**9,026**	-
Cash awards (Note 31)	**5,310**	-

8. SHARE OF ASSOCIATES' PROFIT AFTER TAX

	2007 €'000	2006 €'000
Operating profit	**17,227**	11,627
Finance costs (net)	**(1,543)**	(1,950)
Profit before tax	**15,684**	9,677
Income tax expense	**(3,171)**	(3,317)
Profit after tax	**12,513**	6,360

9. EMPLOYEE BENEFIT EXPENSE

Average number of persons (full time equivalents) employed by the Group by geographical area:

	2007 NUMBER	2006 NUMBER
Europe	**31,929**	33,480
Latin America	**9,532**	8,779
	41,461	42,259

	2007 €'000	2006 €'000
The employee benefit cost comprises:		
Wages and salaries	**1,310,211**	1,320,939
Social welfare	**259,734**	263,922
Equity settled share-based payments expense (Note 25)	**24,741**	8,084
Expenses related to defined benefit plans and long-term employee benefits (Note 24)	**46,334**	52,759
Defined contribution benefit	**33,864**	30,346
Charged to operating profit – pre-exceptional	**1,674,884**	1,676,050
Charged to operating profit – exceptional (Note 7)	**22,890**	74,000
Charged to finance income and costs (Note 24)	**8,961**	9,255
Actuarial (gain) on pension schemes recognised in equity (Note 24)	**(50,494)**	(87,701)
Total employee benefit cost	**1,656,241**	1,671,604

10. FINANCE INCOME AND COSTS

	2007 €'000	2006 €'000
Finance cost		
Interest payable on bank loans and overdrafts	**206,193**	212,488
Interest payable on finance leases and hire purchase contracts	**7,217**	8,187
Interest payable on other borrowings	**117,825**	198,769
Finance costs associated with debt restructuring (Note 23)	**115,427**	-
Impairment loss on available-for-sale financial assets (Note 17)	**447**	28,209
Impairment loss on investments in associates (Note 16)	**-**	1,696
Unwinding of discount element of provisions (Note 26)	**921**	239
Foreign currency translation loss on debt	**23,049**	-
Fair value loss on other derivatives not designated as hedges	**40,158**	55,404
Fair value loss on commodity derivatives not designated as hedges	**-**	4,414
Interest cost on employee benefit plan liabilities (Note 24)	**96,348**	89,939
Total finance cost	**607,585**	599,345
Finance income		
Other interest receivable	**(28,612)**	(13,354)
Foreign currency translation gain on debt	**(80,447)**	(125,598)
Fair value gain on commodity derivatives not designated as hedges	**(4,081)**	-
Fair value gain on other derivatives not designated as hedges	**(2,434)**	-
Expected return on employee benefit plan assets (Note 24)	**(87,387)**	(80,684)
Total finance income	**(202,961)**	(219,636)
Net finance cost	**404,624**	379,709

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

11. INCOME TAX EXPENSE

Income tax expense recognised in the Group Income Statement

	2007 €'000	2006 €'000
Current taxation		
Europe	**47,764**	14,596
United States and Canada	**(1,715)**	86
Latin America	**25,316**	25,708
	71,365	40,390
Deferred taxation	**(67,862)**	(29,885)
Income tax expense	**3,503**	10,505
Current tax is analysed as follows:		
Ireland	**11,018**	4,025
Foreign	**60,347**	36,365
	71,365	40,390

11. INCOME TAX EXPENSE (CONTINUED)

Reconciliation of the effective tax rate

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

	2007 €'000	2006 €'000
Profit/(loss) before tax	**169,903**	(143,110)
Profit/(loss) before tax multiplied by the standard rate of tax of 12.5% (2006: 12.5%)	**21,238**	(17,889)
Effects of:		
Income subject to different rates of tax	**47,383**	41,029
Other items (including non deductible expenditure)	**(245)**	1,111
Adjustment to prior period tax	**(3,028)**	2,443
Effect of previously unrecognised losses	**(58,674)**	(13,000)
Net impact of associates	**(3,171)**	(3,189)
	3,503	10,505

Income tax recognised directly in equity

	2007 €'000	2006 €'000
Arising on actuarial gains/losses on defined benefit plans	**15,992**	15,514
Arising on qualifying derivative cash flow hedges	**25**	1,184
Total	**16,017**	16,698

Factors that may affect future tax charges and other disclosure requirements

Excess of capital allowances over depreciation

Based on current capital investment plans, the Group expects to continue to be in a position to claim capital allowances in excess of depreciation in future years.

Unremitted earnings in subsidiaries and associates

No provision has been made for temporary differences applicable to investments in subsidiaries as the Group is in a position to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Due to the absence of control in the context of associates (significant influence by definition), deferred tax liabilities are recognised where appropriate in respect of the Group's investments in these entities. Given that exemptions and tax credits would be available in the context of the Group's investments in subsidiaries in the majority of jurisdictions in which it operates, the aggregate amount of temporary differences in respect of which deferred tax liabilities have not been recognised would be immaterial.

11. INCOME TAX EXPENSE (CONTINUED)

Other considerations

The total tax charge in future periods will be affected by any changes to the corporation tax rates in force in the countries in which the Group operates. The current tax charges will also be impacted, inter alia, by changes in the excess of tax depreciation (capital allowances) over accounting depreciation, the use of tax credits and the crystallisation of unrecognised deferred tax assets.

12. EARNINGS PER SHARE

Basic

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

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

Diluted

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

	2007 €'000	2006[(1)] €'000
Profit/(loss) attributable to equity holders of the Company	**147,169**	(170,134)
Weighted average number of ordinary shares in issue ('000)	**198,188**	126,242
Potential dilutive ordinary shares assumed	**7,141**	-
Diluted weighted average ordinary shares	**205,329**	126,242
Diluted earnings per share (cent per share)	**71.7**	(134.8)

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

13. PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS €'000	PLANT AND EQUIPMENT €'000	TOTAL €'000
At 31 December 2005			
Cost or deemed cost	1,463,799	3,771,681	5,235,480
Accumulated depreciation and impairment losses	(182,484)	(1,562,106)	(1,744,590)
Net book amount	**1,281,315**	**2,209,575**	**3,490,890**
Year ended 31 December 2006			
Opening net book amount	1,281,315	2,209,575	3,490,890
Reclassification	7,960	(6,060)	1,900
Additions	6,631	311,202	317,833
Depreciation charge for the year	(49,612)	(307,937)	(357,549)
Impairment losses recognised in profit and loss	(10,147)	(21,152)	(31,299)
Retirements and disposals	(7,844)	(10,824)	(18,668)
Foreign currency translation adjustment	(12,426)	(8,700)	(21,126)
At 31 December 2006	**1,215,877**	**2,166,104**	**3,381,981**
At 31 December 2006			
Cost or deemed cost	1,449,378	3,922,202	5,371,580
Accumulated depreciation and impairment losses	(233,501)	(1,756,098)	(1,989,599)
Net book amount	**1,215,877**	**2,166,104**	**3,381,981**
Year ended 31 December 2007			
Opening net book amount	1,215,877	2,166,104	3,381,981
Reclassification	34,382	(34,941)	(559)
Acquisitions	772	6,783	7,555
Additions	14,547	288,742	303,289
Transfer to assets held for sale	(9,123)	(1,026)	(10,149)
Depreciation charge for the year	(51,406)	(305,819)	(357,225)
Impairment losses recognised in profit and loss	(225)	(6,208)	(6,433)
Retirements and disposals	(10,703)	(7,934)	(18,637)
Foreign currency translation adjustment	(17,427)	(30,916)	(48,343)
At 31 December 2007	**1,176,694**	**2,074,785**	**3,251,479**
At 31 December 2007			
Cost or deemed cost	1,440,179	3,898,255	5,338,434
Accumulated depreciation and impairment losses	(263,485)	(1,823,470)	(2,086,955)
Net book amount	**1,176,694**	**2,074,785**	**3,251,479**

Land and Buildings

Included in property, plant and equipment is an amount for land of €386.2 million (2006: €383.5 million).

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capitalised leased assets

Included in the net book amount of property, plant and equipment is an amount for capitalised leased assets of €91.7 million (2006: €109.5 million). The depreciation charge for capitalised leased assets was €9.8 million (2006: €16.0 million) and the related finance charges amounted to €7.2 million (2006: €8.2 million). The net carrying amount by class of assets at each balance sheet date is as follows:

	2007 €'000	2006 €'000
Cogeneration facilities (Note 30)	**60,845**	74,478
Other plant and equipment	**12,181**	16,430
Plant and equipment	**73,026**	90,908
Buildings	**18,681**	18,623
	91,707	109,531

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:

	2007 €'000	2006 €'000
Contracted for	**88,249**	148,239
Not contracted for	**127,201**	95,849
	215,450	244,088

Impairments

Impairment tests for items of property, plant and equipment are performed on an entity level basis and resulted in the Group recognising impairment costs of €6.4 million and €31.3 million in 2007 and 2006, respectively. The recoverable amounts in property, plant and equipment are based on value-in-use calculations. The same cash flow projections and discount rates for items of property, plant and equipment were used for the goodwill impairment calculations (Note 14). Impairment charges are recognised within cost of sales in the Group Income Statement.

In 2007, an impairment charge of €6.4 million is reflected in the Packaging segment and resulted mainly from the closure of a containerboard mill in France and a corrugated box plant in Italy.

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

14. GOODWILL AND INTANGIBLE ASSETS

	GOODWILL €'000	INTANGIBLE ASSETS MARKETING RELATED €'000	INTANGIBLE ASSETS CUSTOMER RELATED €'000	INTANGIBLE ASSETS SOFTWARE ASSETS €'000	TOTAL €'000
At 31 December 2005					
Cost or deemed cost	2,291,649	35,000	176,314	32,653	**2,535,616**
Accumulated amortisation and impairment losses	-	(289)	(2,576)	(7,474)	**(10,339)**
Net book amount	**2,291,649**	**34,711**	**173,738**	**25,179**	**2,525,277**
Year ended 31 December 2006					
Opening net book amount	2,291,649	34,711	173,738	25,179	**2,525,277**
Additions	-	-	-	9,804	**9,804**
Amortisation charge (Note 7)	-	(3,500)	(31,131)	(7,814)	**(42,445)**
Reclassification	2,797	-	-	63	**2,860**
Foreign currency translation adjustment	(11,087)	-	672	66	**(10,349)**
Closing net book amount	2,283,359	31,211	143,279	27,298	**2,485,147**
At 31 December 2006					
Cost or deemed cost	2,283,359	35,000	176,986	42,586	**2,537,931**
Accumulated amortisation and impairment losses	-	(3,789)	(33,707)	(15,288)	**(52,784)**
Net book amount	**2,283,359**	**31,211**	**143,279**	**27,298**	**2,485,147**
Year ended 31 December 2007					
Opening net book amount	2,283,359	31,211	143,279	27,298	**2,485,147**
Additions	16,505	-	-	9,587	**26,092**
Reduction arising from recognition of deferred tax assets	(16,068)	-	-	-	**(16,068)**
Amortisation charge (Note 7)	-	(3,500)	(31,132)	(10,672)	**(45,304)**
Disposals	(721)	-	-	-	**(721)**
Reclassification	(328)	-	-	328	**-**
Foreign currency translation adjustment	(32,090)	-	-	(271)	**(32,361)**
Closing net book amount	2,250,657	27,711	112,147	26,270	**2,416,785**
At 31 December 2007					
Cost or deemed cost	2,250,657	35,000	176,986	52,200	**2,514,843**
Accumulated amortisation and impairment losses	-	(7,289)	(64,839)	(25,930)	**(98,058)**
Net book amount	**2,250,657**	**27,711**	**112,147**	**26,270**	**2,416,785**

The reduction of goodwill arising from deferred tax assets relates to the requirement of IAS 12 *Income Taxes* to reduce goodwill for the subsequent recognition of deferred tax assets on acquired tax losses which were not originally recognised as part of the business combinations.

14. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

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

Marketing related intangible assets relate to the Kappa Packaging trade name acquired as a result of the merger on 1 December 2005 and have an estimated useful life of 10 years for amortisation purposes. Customer related intangible assets result from certain Kappa customer relationships valued at the acquisition date and are amortised over their estimated useful lives of 5 to 8 years. Software assets relate to computer software, other than software for items of machinery that cannot operate without that specific software and where such software is regarded as an integral part of the related hardware. Such software and operating systems of computers are treated as an integral component of the capitalised asset and classified as property, plant and equipment. Computer software assets have estimated useful lives of 3 to 5 years for amortisation purposes.

The Directors do not consider the acquisitions giving rise to the goodwill additions to be material and therefore, no further disclosure is warranted.

Impairment testing of goodwill

No impairment losses have been recognised by the Group in respect of goodwill in the periods presented.

Goodwill acquired through a business combination has been allocated to groups of cash-generating units ('CGUs') for the purpose of impairment testing based on the business segment into which the business combination is assimilated. The groupings represent the lowest level at which the related goodwill is monitored for internal management purposes and are not larger than the primary and secondary segments determined in accordance with IAS 14 *Segment Reporting*. A total of 15 groups (2006: 15) of cash-generating units have been identified and these are analysed as follows:

	2007	2006
Packaging – Eurozone	**6**	6
Packaging – Sweden	**1**	1
Packaging – United Kingdom	**1**	1
Packaging – Mexico	**1**	1
Packaging – Other	**5**	5
Specialties – Eurozone	**1**	1
	15	15

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

	2007 €'000	2006 €'000
Packaging – Eurozone	**1,371,937**	1,372,418
Packaging – Sweden	**138,453**	148,153
Packaging – United Kingdom	**129,872**	155,160
Packaging – Mexico	**79,772**	89,092
Packaging – Other	**224,869**	228,236
Specialties – Eurozone	**305,754**	290,300
	2,250,657	2,283,359

14. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Impairment testing methodology and results

The recoverable amounts of groups of cash-generating units are based on value in use calculations. The cash flow forecasts for the purposes of these calculations are based on a 10 year plan approved by management. Cash flow forecasts for years five to ten use growth factors consistent with historical growth rates as adjusted for the cyclical nature of the business. In general, these adjusted growth rates are equal to or lower than the historical or long-term growth rates. The terminal value is estimated based on estimated fair value less costs to sell at end of year ten. We believe a ten year forecast is more appropriate to use for the impairment test, due to the cyclical nature of the business in which we operate and the long-term lives of our 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 discount rates reflecting the risk associated with the individual future cash flows and the risk free rate based on past experience and consistent with appropriate external indices.

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

Of the goodwill allocated to each of the 15 groups of CGUs, four units individually account for between 10% and 20% of the total carrying amount of €2,251 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 four groups of CGUs are as follows:

	PACKAGING – FRANCE	PACKAGING – BENELUX	PACKAGING – GERMANY, AUSTRIA AND SWITZERLAND	SPECIALTIES – EUROZONE
Carrying amount of goodwill	€351 million	€351 million	€333 million	€306 million
Basis of recoverable amount	Value in use	Value in use	Value in use	Value in use
Discount rate applied	9.66%	9.72%	9.50%	9.30%
Earnings multiple used for terminal value	7.1	7.1	7.1	7.1
Excess of value-in-use	€295 million	€849 million	€338 million	€19 million

The key assumptions used 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. In the prior year, discount rates applied ranged from 10.0% to 10.2% and the earnings multiple used was 7.8.

The cash flows for each of the four groups of CGUs have been projected in line with the methodology disclosed above with the cash flows arising after five years being driven by anticipated inflation as the relevant growth factor.

14. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Given the magnitude of the excess of value-in-use over the recoverable amount in the packaging CGUs detailed above and the absence of any reasonably possible changes in key assumptions employed, the additional disclosures in IAS 36 pertaining to sensitivity of the value-in-use computations are not warranted. If the pre-tax discount rate is increased by 0.5%, the estimated value-in-use of the Specialties Eurozone would approximate to its carrying value.

15. BIOLOGICAL ASSETS

	2007 €'000	2006 €'000
At 1 January	**75,898**	66,498
Increases due to new plantations	**12,276**	11,195
Harvested timber transferred to inventories	**(6,319)**	(5,763)
Change in fair value less estimated costs to sell	**3,266**	10,236
Foreign currency translation adjustments	**(3,501)**	(6,268)
At 31 December	**81,620**	75,898
Current	**6,862**	7,856
Non-current	**74,758**	68,042
At 31 December	**81,620**	75,898
Approximate harvest by volume (tonnes '000)	**600**	636

The Group's biological assets consist of 96,800 hectares of forest plantations in Colombia and Venezuela. These plantations provide the Group's mills in that region with a significant proportion of their total wood fibre needs.

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

Political risks in Venezuela

The Group's forestry and other assets in Venezuela are subject to political risk, i.e. risk of nationalisation. While the Group's assets are not currently target for nationalisation, the Group actively monitors the situation and is in regular contact with the Venezuelan government.

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.

15. BIOLOGICAL ASSETS (CONTINUED)

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.

16. INVESTMENT IN ASSOCIATES

	2007 €'000	2006 €'000
At 1 January	**76,668**	79,779
Additions	**-**	130
Share of profits for the year	**12,513**	6,360
Dividends received from associates	**(3,617)**	(5,087)
Disposals	**(3,810)**	(1,728)
Transfer to subsidiaries	**(2,000)**	-
Reclassification	**631**	(113)
Impairment loss recognised in the year	**-**	(1,696)
Foreign currency translation adjustment	**(1,078)**	(977)
At 31 December	**79,307**	76,668

The Group's principal associate is Duropack AG, Brunnerstrasse 75, A-1230 Wien, Austria. The Group holds 40% of the issued equity share capital of Duropack and receives certain financial reports for Duropack on a periodic basis throughout the financial year. These financial reports are used by the Group as its basis of measurement for any potential impairment. The Group also reviews the annual audited consolidated Financial Statements of Duropack. Final results for the year ended 31 December 2007 for Duropack are not yet available to the Group. However, no impairment is deemed necessary based on the interim financial reports and analyses received during the year. The following is a summary of Duropack's financial information before adjustment for the percentage ownership held by the Group at 31 December 2006 and 2005:

	2006 €'000	2005 €'000
Total assets	213,132	193,388
Total liabilities	(44,290)	(43,971)
	168,842	149,417
Revenue	290,760	247,774
Expenses	(266,676)	(222,913)
Profit before tax	24,084	24,861

17. FINANCIAL ASSETS

17(a). Available-for-sale financial assets – Group

	LISTED* €'000	UNLISTED €'000	TOTAL €'000
At 1 January 2006	6,371	67,955	**74,326**
Additions	-	1,507	**1,507**
Change in fair value recognised in equity	11	-	**11**
Reclassification	-	(4,255)	**(4,255)**
Disposals	(530)	(599)	**(1,129)**
Other	(65)	602	**537**
Impairment loss recognised in the Group Income Statement	-	(28,209)	**(28,209)**
Foreign currency translation adjustment	-	1,625	**1,625**
At 31 December 2006	**5,787**	**38,626**	**44,413**
Additions	-	106	**106**
Change in fair value recognised in equity	564	-	**564**
Reclassification	83	(118)	**(35)**
Disposals	-	(204)	**(204)**
Impairment loss recognised in the Group Income Statement	-	(447)	**(447)**
Foreign currency translation adjustment	3	(889)	**(886)**
At 31 December 2007	**6,437**	**37,074**	**43,511**

**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 flow.

In 2006, the financial position of one of the Group's significant unlisted investees deteriorated considerably arising from a continuing and accelerated decline in operating performance during 2006 of the investee. The fair value, calculated by reference to discounted cash flows based on all financial information available to the Group at 31 December 2006, has been calculated by management and resulted in an impairment loss of €28.2 million recorded in the Group Income Statement within finance costs.

At 31 December 2007 available-for-sale assets for which impairment provisions had been recorded amounted to €36 million.

17(b). Investment in subsidiaries – Company

	2007 €'000
At 1 January	-
Share exchange with SKIL	**495,178**
Capital contribution in SKIL	**1,461,150**
At 31 December	**1,956,328**

18. DEFERRED TAX ASSETS AND LIABILITIES

The deductible and taxable temporary differences at the balance sheet date in respect of which deferred tax has been recognised are analysed as follows:

	2007 €'000	2006 €'000
Deferred Income Tax Assets:		
Deficits on Group defined benefit pension obligations	**51,371**	79,321
Tax losses	**185,072**	183,812
Temporary differences principally arising in respect of property, plant and equipment	**26,653**	-
Other	**77,319**	39,082
	340,415	302,215

	2007 €'000	2006 €'000
Deferred Income Tax Liabilities:		
Taxable temporary differences principally attributable to accelerated depreciation and fair value adjustments arising on acquisition	**397,053**	444,286
Revaluation of intangible assets to fair value	**42,870**	54,603
Revaluation of biological assets to fair value	**2,359**	4,478
Revaluation of derivative financial instruments to fair value	**1,403**	1,187
Temporary differences arising on provisions	**23,635**	-
Temporary differences arising on debt issue costs	**5,826**	6,204
Other items	**56,956**	33,087
	530,102	543,845

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

	2007 €'000	2006 €'000
Tax losses	**137,104**	169,834
Pension/employee benefits	**8,129**	17,379
Derivative financial instruments	**2,262**	3,134
Trade and other payables	**-**	6,295
Debtors	**-**	944
Total	**147,495**	197,586

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.

18. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

No deferred tax assets have been recognised in respect of losses amounting to €608 million that can be carried forward against future taxable income. The expiry dates in respect of these losses are as follows:

	AMOUNT OF TAX LOSSES €'000
Expiry 1 January 2008 to 31 December 2008	**1,165**
Expiry 1 January 2009 to 31 December 2009	**1,496**
Expiry 1 January 2010 to 31 December 2010	**980**
Expiry 1 January 2011 to 31 December 2011	**68,630**
Expiry 1 January 2012 to 31 December 2012	**17,571**
Other expiry	**23,619**
Indefinite	**494,684**
Total	**608,145**

The movement in temporary differences during the year is:

	2007 €'000	2006 €'000
At 1 January	**(241,630)**	(252,682)
Movement recognised in the Group Income Statement (Note 11)	**67,862**	29,885
Movement recognised directly in Equity (Note 11)	**(16,017)**	(16,698)
Acquisitions	**(95)**	-
Reclassification	**3,752**	(7,546)
Currency adjustment	**(3,559)**	1,002
Subsidiaries disposed	**-**	4,409
	(189,687)	(241,630)

19. INVENTORIES

	2007 €'000	2006 €'000
Raw materials	**267,283**	174,970
Work in progress	**31,378**	33,416
Finished goods	**295,452**	283,739
Consumables and spare parts	**88,056**	138,043
	682,169	630,168

20. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Amounts falling due within one year:				
Trade receivables	**1,283,102**	1,248,048	**-**	-
Less: provision for impairment of receivables	**(36,927)**	(42,268)	**-**	-
Trade receivables – net	**1,246,175**	1,205,780	**-**	-
Amounts receivable from associates	**6,219**	4,076	**-**	-
Other receivables	**81,243**	89,038	**11,844**	-
Prepayments and accrued income	**45,468**	38,522	**-**	-
Classified as current	**1,379,105**	1,337,416	**11,844**	-
Amounts falling due after more than one year:				
Other receivables	**6,716**	14,260	**-**	-
	1,385,821	1,351,676	**11,844**	-

The Group has entered into a securitisation transaction relating to €265 million (2006: €260 million) of the above trade receivable values. This transaction was entered into for the purpose of generating financing for the Group, details of which have been more fully provided in Note 23. As a result of the above transaction, the Group retained substantially all of the risks and rewards associated with the related receivables and, accordingly, has continued to recognise these and the related financing raised on its balance sheet.

The fair value of trade and other receivables are not materially different than the carrying amounts.

Impairment losses

Trade receivables which are less than 30 days past due are not considered impaired. At 31 December 2007 trade receivables of €213 million (2006: €203 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:

	2007 €'000	2006 €'000
Past due 0 – 30 days	**152,916**	154,257
Past due 31 – 60 days	**39,811**	28,579
Past due 60 – 90 days	**12,787**	9,215
Past due 90 + days	**7,710**	11,228
	213,224	203,279

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

At 31 December 2007 trade receivables of €34.8 million (2006: €34.9 million) were considered impaired and provided for. The amount of the provision at 31 December 2007 was €34.8 million (2006: €34.9 million). The ageing of the provision was as follows:

	2007 €'000	2006 €'000
Not past due	**1,887**	1,907
Past due 0 – 30 days	**142**	682
Past due 31 – 60 days	**624**	871
Past due 60 – 90 days	**2,289**	1,718
Past due 90 + days	**29,876**	29,760
	34,818	34,938

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

	2007 €'000	2006 €'000
Opening balance	**42,268**	45,831
Charged in the year	**1,425**	1,726
Utilised in the year	**(6,396)**	(7,855)
Acquisitions and disposals	**93**	2,882
Foreign currency translation adjustment	**(463)**	(316)
Closing balance	**36,927**	42,268

The creation and release of provisions for impaired receivables have been included in administrative expenses in the Group Income Statement (Note 7). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Trade and other receivables are stated at amortised cost. Other classes within trade and other receivables do not contain impaired assets.

As of 31 December 2007 and 2006, the level of trade receivables that were past due was not significant and such amounts are not automatically considered to be impaired. Trade receivables that are less than three months past due are generally not considered impaired unless specific evidence of impairment is identified. All receivables are monitored on an ongoing basis for evidence of impairment. Assessments are undertaken both for individual accounts and on a portfolio basis.

Provisions against specific balances

Significant balances are assessed for evidence that the customer is in significant financial difficulty. Examples of factors to consider are high probability of bankruptcy, breaches of contract or major concessions being sought by the customer. Instances of significant single customer related bad debts are very rare and there is no significant concentration of risk associated with particular customers.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

Providing against the remaining population of customers

Historic data is monitored and applied as the primary source of evidence to assess the level of losses incurred although impairments cannot yet be identified with individual receivables. Adverse changes in the payment status of customers in the Group (e.g. an increase in number of delayed payments) or national or local economic conditions that correlate with defaults on receivables in the Group may also provide a basis for increasing the level of provision above historic losses (e.g. a large increase in the unemployment rate / underlying economic situation in a market). However, the fact that payments are made late by customers does not automatically provide evidence that a debt should be provided for.

21. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents

	2007 €'000	2006 €'000
Cash and current accounts	**137,621**	144,094
Short-term deposits	**264,001**	216,291
Cash and cash equivalents	**401,622**	360,385
Cash and cash equivalents for the purposes of the cash flow statement		
Cash and cash equivalents	**401,622**	360,385
Bank overdrafts and demand loans used for cash management purposes	**(26,232)**	(38,891)
Cash and cash equivalents in the statement of cash flows	**375,390**	321,494

Restricted cash

	2007 €'000	2006 €'000
Total restricted cash	**13,096**	10,317

At 31 December 2007, cash of €13.1 million (2006: €10.3 million) was held in restricted securitisation bank accounts which were not available for transfer to other Group subsidiaries or for use outside the Group.

22. CAPITAL AND RESERVES

Group

	Capital and other reserves										
	SHARE CAPITAL €'000	SHARE PREMIUM €'000	REVERSE ACQUISITION RESERVE €'000	AVAILABLE-FOR-SALE RESERVE €'000	CASH FLOW HEDGING RESERVE €'000	FOREIGN CURRENCY TRANSLATION RESERVE €'000	RESERVE FOR SHARE-BASED COMPENSATION €'000	RETAINED EARNINGS €'000	TOTAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY €'000	MINORITY INTEREST €'000	TOTAL EQUITY €'000
At 1 January 2006	136	1,088,672	(18,203)	10	(8,334)	78,778	20,338	(566,750)	594,647	135,222	729,869
Total recognised income and expense	-	-	-	11	24,594	(35,202)	-	(96,956)	(107,553)	5,219	(102,334)
Dividends paid to minorities	-	-	-	-	-	-	-	-	-	(4,084)	(4,084)
Purchase of minorities	-	-	-	-	-	-	-	-	-	(14)	(14)
Share-based payments (Note 25)	-	-	-	-	-	-	8,084	-	8,084	-	8,084
At 31 December 2006	**136**	**1,088,672**	**(18,203)**	**21**	**16,260**	**43,576**	**28,422**	**(663,706)**	**495,178**	**136,343**	**631,521**
At 1 January 2007	136	1,088,672	(18,203)	21	16,260	43,576	28,422	(663,706)	495,178	136,343	631,521
Share exchange	-	(593,630)	593,630	-	-	-	-	-	-	-	-
Shares issued	92	1,432,905	-	-	-	-	-	-	1,432,997	-	1,432,997
Total recognised income and expense	-	-	-	564	(722)	(78,189)	-	178,653	100,306	8,337	108,643
Dividends paid to minorities	-	-	-	-	-	-	-	-	-	(5,775)	(5,775)
Purchase of minorities	-	-	-	-	-	-	-	-	-	(1,462)	(1,462)
Share-based payments (Note 25)	-	-	-	-	-	-	24,741	-	24,741	-	24,741
At 31 December 2007	**228**	**1,927,947**	**575,427**	**585**	**15,538**	**(34,613)**	**53,163**	**(485,053)**	**2,053,222**	**137,443**	**2,190,665**

22. CAPITAL AND RESERVES (CONTINUED)

Company

	CAPITAL AND OTHER RESERVES				
	SHARE CAPITAL €'000	SHARE PREMIUM €'000	RESERVE FOR SHARE-BASED COMPENSATION €'000	RETAINED EARNINGS €'000	TOTAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY €'000
At 24 January 2007	-	-	-	-	**-**
Total recognised income and expense	-	-	-	(380)	**(380)**
Shares issued – exchange offer	136	495,042	-	-	**495,178**
Shares issued – IPO	92	1,432,905	-	-	**1,432,997**
Share-based payments (Note 25)	-	-	24,741	-	**24,741**
At 31 December 2007	**228**	**1,927,947**	**24,741**	**(380)**	**1,952,536**

Share Capital

The exchange transaction

SKG plc was formed in January 2007 as the ultimate holding company of the Group. On 31 January 2007, the Group, previously headed by SKIL, underwent a reorganisation in advance of the Group's IPO. The shareholders of SKIL exchanged their shares of SKIL for an identical number of newly issued shares of Smurfit Kappa Group plc. This exchange transaction has been accounted for as a reverse acquisition and the Financial Statements have been prepared on the basis of the new legal parent having been acquired by the existing Group. The transaction resulted in the transfer of capital reserves to share premium and the addition of €594 million to reverse acquisition reserves. The reserves and the retained earnings of the Group on the date of the exchange are the consolidated reserves and retained earnings of the old Group immediately prior to the business combination. The closing equity structure in 2007 is that of the new parent, whereas the opening equity structure in 2007 is that of the old parent. Comparative information presented in the consolidated Financial Statements represents that of the old Group.

Share Capital

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

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. For further details on the 2002 Convertible Share Scheme, please refer to the Remuneration Report on page 47.

In March 2007, SKG plc adopted the 2007 Share Incentive Plan (the "2007 SIP"). Incentive awards under the 2007 SIP are in the form of New Class B and New Class C convertible shares issued in equal proportions to participants at a nominal value of €0.001 per share. For further details on the 2007 SIP, please refer to the Remuneration Report on page 47.

22. CAPITAL AND RESERVES (CONTINUED)

Restriction on Transfer of Shares

The Directors, in 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 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 A1, A2, A3, B, C and D convertible shares) are subject to restrictions as to their transferability. Generally they are not transferable either at all or without the consent of the Directors, save by transmission on the death of a holder, or in the case of A1, A2 and A3 convertible shares, to certain family members.

Share Rights

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 be firstly distributed amongst the holders of ordinary shares, in proportion to the numbers 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 numbers 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 a 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 numbers 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.

22. CAPITAL AND RESERVES (CONTINUED)

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

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

	2007 €'000	2006 €'000
Authorised		
Ordinary shares		
9,910,931,085 Ordinary shares of €0.001 each	**9,912**	-
5,816,081,957 A Ordinary shares of €0.001 each	**-**	5,817
4,153,889,081 B Ordinary shares of €0.001 each	**-**	4,154
Convertible shares of €0.001 each		
3,442,533 Class A	**-**	3
2,356,472 Class A1	**2**	-
2,356,471 Class A2	**2**	-
2,355,972 Class A3	**2**	-
30,000,000 Class B	**30**	-
30,000,000 Class C	**30**	-
75,000,000 Class D	**75**	-
3,442,433 Class B	**-**	3
1,721,268 Class C	**-**	2
8,606,334 Class D	**-**	9
3,442,553 Class E	**-**	3
3,442,533 Class F	**-**	3
1,721,268 Class G	**-**	2
2,104,980 Class H	**-**	2
2,104,980 Class I	**-**	2
Redeemable shares		
53,000,000 Redeemable, non-voting deferred shares	**-**	53
	10,053	10,053

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

	CONVERTIBLE OF €0.001 EACH													TOTAL
	CLASS B	CLASS C	CLASS A1	CLASS A2	CLASS A3	CLASS A	CLASS B	CLASS C	CLASS D	CLASS E	CLASS F	CLASS G	CLASS H	
	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
At 1 January 2006 – SKIL	-	-	-	-	-	3,166,332	3,336,694	1,668,342	170,362	-	-	-	2,062,878	10,404,608
Converted under Management Equity Agreement	-	-	-	-	-	(2,825,600)	(2,825,600)	(1,412,796)	-	2,825,600	2,825,600	1,412,796	-	-
Redemption and cancellation of ABC shares re EFG	-	-	-	-	-	(97,895)	(97,895)	(48,948)	-	-	-	-	-	(244,738)
Allotment of EFG shares	-	-	-	-	-	-	-	-	-	97,895	97,895	48,948	-	244,738
Vested under Management Equity Plan	-	-	-	-	-	(112,103)	-	-	112,103	-	-	-	-	-
31 December 2006	**-**	**-**	**-**	**-**	**-**	**130,734**	**413,199**	**206,598**	**282,465**	**2,923,495**	**2,923,495**	**1,461,744**	**2,062,878**	**10,404,608**
At 1 January 2007 – SKIL	-	-	-	-	-	130,734	413,199	206,598	282,465	2,923,495	2,923,495	1,461,744	2,062,878	10,404,608
Issue of new shares in connection with exchange	-	-	-	-	-	130,734	413,199	206,598	282,465	2,923,495	2,923,495	1,461,744	2,062,878	10,404,608
Group reconstruction	-	-	-	-	-	(130,734)	(413,199)	(206,598)	(282,465)	(2,923,495)	(2,923,495)	(1,461,744)	(2,062,878)	(10,404,608)
New Class B and Class C convertible shares issued	1,374,600	1,374,600	-	-	-	-	-	-	-	-	-	-	-	2,749,200
Vested on IPO	-	-	-	-	-	(130,734)	(330,559)	-	8,371,161	(2,923,495)	(2,923,495)	-	(2,062,878)	-
Conversion to Class A1, A2 and A3 convertible shares	-	-	583,672	583,672	583,638	-	(82,640)	(206,598)	-	-	-	(1,461,744)	-	-
Conversion of Class D convertibles to ordinary shares	-	-	-	-	-	-	-	-	(253,780)	-	-	-	-	(253,780)
31 December 2007	**1,374,600**	**1,374,600**	**583,672**	**583,672**	**583,638**	**-**	**-**	**-**	**8,399,846**	**-**	**-**	**-**	**-**	**12,900,028**

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

	SHARES OF €0.001 EACH				CONVERTIBLE OF €0.001 EACH	TOTAL	
	ORDINARY NUMBER	"A" ORDINARY NUMBER	"B" ORDINARY NUMBER	TOTAL NUMBER	TOTAL NUMBER	NUMBER	€'000
At 1 January 2006 – SKGL	-	73,573,336	52,624,495	126,197,831	10,404,608	136,602,439	136
Redemption and cancellation of ABC shares re EFG	-	-	-	-	(244,738)	(244,738)	-
Allotment of EFG shares	-	-	-	-	244,738	244,738	-
Issued on exercise of warrants	-	83,068	59,416	142,484	-	142,484	-
31 December 2006	**-**	**73,656,404**	**52,683,911**	**126,340,315**	**10,404,608**	**136,744,923**	**136**
At 1 January 2007	-	73,656,404	52,683,911	126,340,315	10,404,608	136,744,923	136
Issue of new shares in connection with exchange	-	73,656,404	52,683,911	126,340,315	10,404,608	136,744,923	-
Group reconstruction	-	(73,656,404)	(52,683,911)	(126,340,315)	(10,404,608)	(136,744,923)	-
Re-designated as ordinary shares	126,340,315	(73,656,404)	(52,683,911)	-	-	-	-
Issued at IPO	91,104,033	-	-	91,104,033	-	91,104,033	90
New Class B and Class C convertible shares issued	-	-	-	-	2,749,200	2,749,200	2
Conversion of Class D convertibles to ordinary shares	253,780	-	-	253,780	(253,780)	-	-
Issued on exercise of warrants	287,867	-	-	287,867	-	287,867	-
31 December 2007	**217,985,995**	**-**	**-**	**217,985,995**	**12,900,028**	**230,886,023**	**228**

At 31 December 2007 ordinary shares represent 94.4% and convertible shares represent 5.6% of issued share capital.

22. CAPITAL AND RESERVES (CONTINUED)

Share premium

The share premium of €1,928 million relates to the share premium arising on the share exchange offer and the IPO. The share premium in 2006 relates to the share premium of the previous parent.

Reverse acquisition reserve

This reserve arose from the share exchanges in 2007 and 2004. The credit in 2007 represents the difference between the share premium of the Company and that of the previous parent. The 2006 debit arose as a result of a transfer from capital reserves to share premium.

Available-for-sale reserve

This reserve includes the cumulative net change in the fair value arising on investments, which are accounted for as available-for-sale investments and measured at fair value, recognised in equity excluding impairment losses recognised in the Group Income Statement. Such gains and losses are retained in this reserve until the investments are derecognised or regarded as being impaired.

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 including the translation of the profits of such operations from the average exchange rate for the year to the exchange rate at the balance sheet date, as well as from the translation of liabilities that hedge those net assets.

Reserve for share-based compensation

This reserve comprises amounts expensed in the Group Income Statement in connection with awards made under the management equity plan less any exercises or lapses of such awards.

23. BORROWINGS

Analysis of total debt

	2007 €'000	2006 €'000
Senior credit facility		
Revolving credit facility[1] – interest at relevant interbank rate + 1.5%[1a]	**(10,746)**	(6,982)
Restructuring facility[2] – interest at relevant interbank rate + 1.5%[1a]	**103,200**	103,200
Tranche A term loan[3] – interest at relevant interbank rate + 1.5%[1a]	**422,214**	442,492
Tranche B term loan[4] – interest at relevant interbank rate + 1.875%[4a]	**1,187,045**	1,142,998
Tranche C term loan[5] – interest at relevant interbank rate + 2.125%[5a]	**1,186,147**	1,142,547
US Yankee bonds (including accrued interest)[6]	**198,674**	219,764
Bank loans and overdrafts[7]	**89,728**	123,527
Receivables securitisation floating rate notes 2011[8]	**205,815**	204,656
2012 Bonds (including accrued interest)[9]	**-**	922,218
2015 Cash pay subordinated notes (including accrued interest)[10]	**352,985**	368,299
Total Debt before PIK notes and finance leases	**3,735,062**	4,662,719
2015 senior PIK notes – Smurfit Kappa Holdings (including accrued interest)[11]	**-**	396,344
Smurfit Finance Luxembourg Sarl PIK (including accrued interest)[12]	**-**	95,706
Total debt before finance leases	**3,735,062**	5,154,769
Finance leases	**72,786**	91,281
Total debt including finance leases	**3,807,848**	5,246,050
Balance of revolving credit facility reclassified to debtors	**10,746**	6,982
Total debt after reclassification	**3,818,594**	5,253,032
Analysed as follows:		
Current	**150,976**	160,661
Non-current	**3,667,618**	5,092,371
	3,818,594	5,253,032

(1) Revolving credit facility of €600 million (available under senior facility) to be repaid in full 2012. (Revolver Loans – Nil, drawn under ancillary facilities and facilities supported by letters of credit – Nil, letters of credit issued in support of other liabilities – €18 million)

(1a) Margin on the Revolving credit facility, Restructuring facility and Tranche A reduced by 0.25% in April 2007, 0.25% in July 2007 and 0.25% in November 2007

(2) Restructuring facility of €275 million, which converts to Term A, B and C loans on 1 December 2008

(3) Term loan A due to be repaid in certain instalments up to 2012

(4) Term loan B due to be repaid in full in 2013

(4a) Margin on Tranche B reduced by 0.25% in April 2007 and 0.375% in July 2007 on euro term loans
Margin on Tranche B reduced by 0.25% in April 2007 and 0.25% in July 2007 on US Dollar term loans

(5) Term loan C due to be repaid in full in 2014

(5a) Margin on Tranche C reduced by 0.25% in April 2007 and 0.625% in July 2007 on euro term loans
Margin on Tranche C reduced by 0.125% in April 2007 and 0.625% in July 2007 on US Dollar term loans

(6) 7.50% senior debentures due 2025 of $292.3 million

23. BORROWINGS (CONTINUED)

(7) Comprises various smaller subsidiary loans, overdrafts and accrued interest on the senior credit facility

(8) Receivables securitisation floating rate notes mature September 2011

(9) €350 million 10.125% and $750 million 9.625% senior notes due 2012 repaid in full during 2007

(10) €217.5 million 7.75% senior subordinated notes due 2015 and $200 million of 7.75% senior subordinated notes due 2015

(11) €325 million 11.5% senior PIK notes due 2015 repaid in full during 2007

(12) €95.7 million 9% shareholder PIK maturing 31 December 2016 repaid in full during 2007.

Included within the carrying value of debt are deferred debt transaction costs of €81.1 million (2006: €119.8 million), all of which will be recognised in finance costs in the Income Statement using the effective interest rate method over the remaining life of the debt.

Included in the above are the following secured loans and long-term obligations (stated at principal value):

	’000
US Yankee bonds 7.50% due 2025	**$292,300**
Receivables securitisation floating rate due 2011	**€210,000**
Senior credit facility due between 2012 and 2014	**€2,957,100**

Included in the above are the following unsecured long-term obligations:

	’000
Cash pay subordinated notes 7.75% due 2015	**€217,500**
Cash pay subordinated notes 7.75% due 2015	**$200,000**
Sundry short-term bank loans and overdrafts	**€90,000**

Details relating to the above principal borrowings have been set out further below.

Security comprises fixed and floating charges over the assets of certain subsidiaries and pledges over the Group’s shareholding in certain of its subsidiaries. Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,526 million (2006: €6,000 million) of which €3,771 million (2006: €5,242 million) was utilised at 31 December 2007. The weighted average period until maturity of undrawn committed facilities is 4.0 years (2006: 5.0 years).

Maturity of Undrawn Committed Facilities

	2007 €’000	2006 €’000
Within 1 year	**171,918**	262
Between 1 and 2 years	**-**	171,797
More than 2 years	**582,947**	585,441
	754,865	757,500

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

23. BORROWINGS (CONTINUED)

Certain subsidiaries are party to a senior credit facility. The senior credit facility comprises a €422 million amortising A Tranche maturing in 2012, a €1,187 million B Tranche maturing in 2013 and a €1,186 million C Tranche maturing in 2014. In addition, the senior credit facility includes €875 million in committed lines including a €600 million revolving credit facility of which €Nil million was drawn as at 31 December 2007. The Group has also borrowed €103 million on a restructuring facility to fund restructuring costs incurred following the merger of the Smurfit and Kappa organisations. Any balances drawn on this facility will convert to term loans in December 2008. The following table sets out the average interest rates as at 31 December 2007 and 2006 for each of the drawings under the term loans.

	CURRENCY	2007 INTEREST RATE	2006 INTEREST RATE
Term loan A	EUR	**6.26%**	5.97%
Term loan B	EUR	**6.66%**	6.16%
	USD	**7.12%**	7.75%
Term loan C	EUR	**6.87%**	6.65%
	USD	**7.37%**	8.25%

Borrowings under the revolving credit facility are available to fund the Group's working capital requirements, capital expenditure and other general requirements. The term loan A must be repaid by instalments from June 2008 to December 2012. The term loan B must be repaid in December 2013. The term loan C must be repaid in December 2014. As of 31 December 2007 there was €Nil million drawn under the revolving credit facility by way of drawings on ancillary facilities and facilities supported by documentary letters of credit. The revolving credit facility will terminate in December 2012.

At 31 December 2007, the Group had outstanding debt of €217.5 million 7.75% senior subordinated notes due 2015 and $200 million 7.75% senior subordinated notes due 2015. In addition, the Group had outstanding $292.3 million 7.5% senior debentures due 2025 and a further €210 million floating rate notes issued under an accounts receivables securitisation programme maturing 2011.

On 20 March 2007 the Group received gross proceeds from an initial public offering of its shares of €1.495 billion. The net proceeds of the offering were used to repay certain indebtedness together with costs of the initial public offering and costs associated with refinancing and debt repayment.

On 21 March 2007 the Group paid off its shareholder PIK obligation of €99.6 million.

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

23. BORROWINGS (CONTINUED)

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

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 and incurrence of liens. They also contain financial covenants, the primary ones being a maximum borrowings to EBITDA and a minimum EBITDA to net interest.

In September 2004, the Group initiated a securitisation transaction which raised seven year funding of €210 million, which was used to repay a portion of our term loans under our then existing senior credit facility. Receivables generated by certain of our operating companies in the United Kingdom, Germany and France are sold to special purpose subsidiaries and entities to support the funding provided by JP Morgan, Deutsche Bank and ABN Amro conduits, divided equally. 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 balance sheet and the notes issued which fund the purchase of these receivables continue to be shown as liabilities. The gross amount of receivables collateralising the receivables securitisation at 31 December 2007 was €265 million (2006: €260 million). At 31 December 2007 cash of €13.1 million (2006: €10.3 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

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

24. EMPLOYEE BENEFITS

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

The principal plans are in the United Kingdom, the Netherlands, Ireland and Germany. The most recent formal valuations of the significant funded defined benefit plans were carried out as follows: United Kingdom on 31 March 2005; the Netherlands on 31 December 2006; Ireland on 1 January 2007. The current agreed rates of contribution for future years are comparable to current levels.

24. EMPLOYEE BENEFITS (CONTINUED)

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

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

	2007 €'000	2006 €'000	2005 €'000	2004 €'000
Present value of funded or partially funded obligations	**(1,498,547)**	(1,565,210)	(1,633,243)	(844,217)
Fair value of plan assets	**1,412,756**	1,419,064	1,316,681	655,105
Deficit in funded or partially funded plans	**(85,791)**	(146,146)	(316,562)	(189,112)
Present value of wholly unfunded obligations	**(395,173)**	(438,448)	(388,380)	(281,018)
Net employee benefit liabilities	**(480,964)**	(584,594)	(704,942)	(470,130)

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

Principal actuarial assumptions

The main actuarial assumptions used to calculate scheme liabilities under IAS 19 at the reporting dates are set out below:

Financial assumptions

December 2007	EUROPE %	USA %	LATIN AMERICA %
Rate of increase in salaries	1.20 – 5.00	3.50	3.25 – 4.77
Rate of increase to pensions in payment	Nil – 3.20	Nil	Nil
Discount rate for scheme liabilities	3.50 – 5.85	6.35	6.00 – 9.80
Inflation	1.75 – 3.20	2.00	2.50 – 3.50

December 2006	EUROPE %	USA %	LATIN AMERICA %
Rate of increase in salaries	1.50 - 4.00	3.50	3.25 - 6.08
Rate of increase to pensions in payment	Nil - 3.00	Nil	Nil
Discount rate for scheme liabilities	4.00 - 5.25	5.85	5.85 - 11.17
Inflation	1.50 - 2.90	2.00	2.50 - 3.50

24. EMPLOYEE BENEFITS (CONTINUED)

The expected long-term rates of return on the assets of the significant plans are set out in the tables below:

December 2007	EUROPE %	USA %	LATIN AMERICA %
Equities	7.75	8.50	8.25 –13.00
Bonds	4.00 – 5.50	4.50	8.50
Property	6.75	n/a	n/a
Other	2.50 – 7.50	3.50	3.50

December 2006	EUROPE %	USA %	LATIN AMERICA %
Equities	7.25 – 8.00	8.50	8.25 – 13.75
Bonds	3.25 – 5.50	4.50	8.75
Property	6.25 – 7.00	n/a	n/a
Other	2.75 – 7.14	3.50	7.00

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. A mortality investigation was carried out in the UK, Ireland and the Netherlands and these reviews concluded that the mortality assumptions set out below currently include sufficient allowance for future improvements in mortality rates. In Germany, the mortality table chosen is the appropriate one laid down by statutory authorities and also allows for future improvements.

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

	31 DECEMBER 2007			
	IRELAND	UK	NETHERLANDS	GERMANY
Longevity at age 65 for current pensioners				
Males	18.5	19.4	17.3	17.9
Females	21.5	22.1	20.7	22.0
Longevity at age 65 for current member aged 45				
Males	19.9	20.6	19.2	20.6
Females	22.8	23.3	21.6	24.6

The mortality assumptions for other plans around the world 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 Financial Statements arising from adjusting certain key actuarial assumptions. Each item shown below assumes all other assumptions would remain unchanged:

	1% INCREASE	1% DECREASE
	INCREASE/ (DECREASE)	INCREASE/ (DECREASE)
Effect of adjusting the discount rate used on liabilities reflected in the Balance sheet as at 31 December 2007	(€268m)	€339m
Effect of adjusting the discount rate used on the charge to the Income Statement for the year ended 31 December 2007	(€10m)	€10m
Effect of changing the expected return on assets on the charge to the Income Statement for the year ended 31 December 2007	(€14m)	€14m

Furthermore, the impact of increasing the expected longevity for pension members by one year would result in an increase in the balance sheet liability of €43 million as at 31 December 2007 together with an increase in the charge to the Income Statement of €4 million for the year. An insignificant element of the employee liabilities relate to healthcare plans, mainly in the USA and the Group is therefore not materially exposed to change in medical cost trend rates.

Analysis of plan assets and liabilities

Plan assets are comprised as follows:

	2007 €'000	2007 %	2006 €'000	2006 %
Equities	**627,970**	**44.4**	681,945	48.1
Bonds	**555,302**	**39.3**	551,533	38.9
Property	**104,319**	**7.4**	99,422	7.0
Other	**125,165**	**8.9**	86,164	6.0
	1,412,756	**100.0**	1,419,064	100.0

The average expected long-term rate of return on assets is 6.4%. The expected rates of return on individual asset classes are estimated using current and projected economic and market factors. The overall expected return on plan assets is based upon the weighted average of the assumed returns on the major asset classes as outlined on page 122.

As at 31 December 2007 the pension scheme assets within equities included shares held in Smurfit Kappa Group plc amounting to €0.8 million and property to the value of €1.4 million, which relates to the Gosport plant in the UK.

The actual return on plan assets for the year ended 31 December 2007 was €17.6 million (2006: €94.3 million).

24. EMPLOYEE BENEFITS (CONTINUED)

The market values of the assets of the schemes and the present value of scheme liabilities were as follows:

December 2007	EUROPE €'000	USA €'000	LATIN AMERICA €'000	TOTAL €'000
Assets				
Equities	600,521	13,977	13,472	627,970
Bonds	535,334	9,850	10,117	555,301
Property	104,319	-	-	104,319
Other	123,916	546	704	125,166
Fair value of plan assets	1,364,090	24,373	24,293	1,412,756
Present value of scheme liabilities	(1,813,510)	(35,627)	(44,583)	(1,893,720)
(Deficit) in the plans	(449,420)	(11,254)	(20,290)	(480,964)

December 2006	EUROPE €'000	USA €'000	LATIN AMERICA €'000	TOTAL €'000
Assets				
Equities	657,046	13,167	11,732	681,945
Bonds	531,906	11,084	8,543	551,533
Property	99,422	-	-	99,422
Other	85,010	467	687	86,164
Fair value of plan assets	1,373,384	24,718	20,962	1,419,064
Present value of scheme liabilities	(1,917,413)	(41,226)	(45,019)	(2,003,658)
(Deficit) in the plans	(544,029)	(16,508)	(24,057)	(584,594)

Analysis of the amount charged in the Group Income Statement

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

	2007 €'000	2006 €'000
Current service cost	**50,255**	51,995
Past service cost	**4,706**	3,823
(Gain)/loss on settlements	**(30)**	3,501
(Gain) on curtailments	**(5,079)**	(7,690)
Actuarial (gains)/losses arising on long-term employee benefits other than defined benefit schemes	**(3,518)**	1,130
Charged to operating profit	**46,334**	52,759
Expected return on plan assets	**(87,387)**	(80,684)
Interest cost on plan liabilities	**96,348**	89,939
	55,295	62,014

24. EMPLOYEE BENEFITS (CONTINUED)

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

	2007 €'000	2006 €'000
Cost of sales	**25,984**	27,407
Distribution costs and administrative expenses	**20,350**	25,352
Finance costs	**96,348**	89,939
Finance income	**(87,387)**	(80,684)
	55,295	62,014

The past service cost recognised in the year ended 31 December 2007 was mainly due to early retirements in Germany and Belgium.

The most significant curtailment gain was in Ireland where redundancies and restructuring took place during 2007. The rest of the curtailment gain was recognised in Italy as the authorities changed the basis from 1 July 2007 for TFR pensions to a defined contribution basis instead of a defined benefit basis.

Analysis of actuarial gains and losses recognised in the Statement of Recognised Income and Expense (SORIE)

	2007 €'000	2006 €'000
Cumulative amount at 1 January	**73,458**	(15,373)
Recognised during the year	**50,494**	87,701
Foreign currency translation adjustments	**(2,685)**	1,130
Cumulative amount at 31 December	**121,267**	73,458

Movement in present value of defined benefit obligations	2007 €'000	2006 €'000
Present value of liability for defined benefit obligations as at 1 January	**(2,003,658)**	(2,021,623)
Current service cost	**(50,255)**	(51,995)
Past service cost	**(4,706)**	(3,823)
Contributions by plan participants	**(5,772)**	(9,542)
Benefits paid by plans	**96,719**	96,059
Increase arising on settlements	**(434)**	-
Reduction arising on curtailments	**5,079**	7,690
Interest cost	**(96,348)**	(89,939)
Actuarial gains and losses	**123,769**	63,311
Transfers	**(20,730)**	-
Acquisitions	**(11,603)**	-
Disposals	**-**	13,446
Foreign currency translation adjustments	**74,219**	(7,242)
Present value of liability for defined benefit obligations as at 31 December	**(1,893,720)**	(2,003,658)

24. EMPLOYEE BENEFITS (CONTINUED)

Movement in fair value of plan assets	2007 €'000	2006 €'000
Fair value of plan assets as at 1 January	**1,419,064**	1,316,681
Contributions by employer	**104,207**	88,853
Contributions by plan participants	**5,772**	9,542
Expected return on plan assets	**87,387**	80,684
Benefits paid by plans	**(96,719)**	(96,059)
Transfers	**18,568**	-
Acquisitions	**9,386**	(9,500)
Disposals	**-**	(3,501)
Increase arising on settlements	**464**	-
Actual return less expected return on pension scheme assets	**(69,756)**	24,390
Foreign currency translation adjustments	**(65,617)**	7,974
Fair value of plan assets as at 31 December	**1,412,756**	1,419,064

Historical information	2007 €'000	2006 €'000
Actuarial (loss)/gain arising on plan assets	**(69,816)**	24,390
Actuarial loss arising on plan liabilities	**(1,317)**	(7,104)
Gain arising from changes in assumptions	**121,627**	70,415
Total gains recognised in the SORIE during the year	**50,494**	87,701

Some of the schemes are closed schemes and therefore under the projected unit method the current service cost would be expected to increase as the members of the scheme approach retirement and reduce as members retire or leave service. The expected employee and employer contributions for the year ending 31 December 2008 for the funded schemes are €6.6 million and €47.5 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2008 are €59.2 million. The defined contribution pension scheme expense for the year ended 31 December 2007 was €33.9 million (2006: €30.3 million).

25. SHARE-BASED PAYMENTS

	2007 €'000	2006 €'000
Charge arising from fair value calculated at grant date	**2,369**	4,676
Incremental charge arising from modifications	**9,625**	3,408
Charge arising from accelerated vesting at IPO date	**12,747**	-
	24,741	8,084

25. SHARE-BASED PAYMENTS (CONTINUED)

In September 2002, the then holding company of the Group, Smurfit Kappa Corporation Limited ('SKCL'), adopted the 2002 Management Equity Plan (the '2002 Plan'). The 2002 Plan provided for the issuance of convertible equity shares for a nominal value of €0.001 each through long-term equity incentive awards to eligible employees, officers, and Directors ('Participants'). Each award was comprised of class A, class B and class C convertible shares in SKCL, proportioned as 40%, 40% and 20%, respectively. Class A convertible shares vest over a three year period ending on December 31, 2007. Class B and class C convertible shares vest over the same time period if certain internal rate of return performance requirements are met. Vesting for all three classes of convertible shares is conditional on the Participant remaining employed by the Group. On vesting, each class of convertible shares would automatically convert into class D convertible shares. Subject to certain criteria, these class D convertible shares could then be converted into ordinary shares of SKCL upon payment of an agreed upon conversion price. Each award has a life of seven years from the date of issuance of the class A, class B or class C convertible shares. Also, certain restrictions apply on transferring convertible or ordinary shares.

In February 2004, the 2002 Plan was amended (the '2004 Plan') and restated to, among other things, provide a clause that creates variability in the exercise price for the equity awards based upon interest accrued on the senior PIK notes of SK Holdings. In addition, the awards were exchanged for an identical number of shares in Smurfit Kappa Investments Limited (formerly known as Smurfit Kappa Group Limited) ('SKIL'), the then new holding company of the Group in 2005. These changes to the 2002 Plan took effect in February 2005 when a corporate restructuring occurred. All other significant terms and conditions of the 2002 Plan remained unchanged with the amendment.

In December 2005, the 2004 Plan was amended (the '2005 Plan'). In this amendment SKIL gave Participants the opportunity to exchange their awards of class A, class B and class C convertible shares for an equal number of class E, class F and class G convertible shares having basically the same terms and conditions. Participants had to exchange their entire award, not just a particular class of convertible shares. The main changes to the vesting conditions were that the vesting dates were changed to the three years ending 31 December 2010 and the performance criteria for the class F and class G convertible shares were slightly different to those for the class B and class C convertible shares, which they replaced. Additionally, SKIL introduced class H convertible shares, which automatically convert into class I convertible shares upon vesting which then can be converted into ordinary shares of SKIL. The vesting provisions for class H convertible shares are similar to class F convertible shares except that once converted into class I convertible shares, the exercise price was fixed at €5.6924. The life of awards of the class E, F, G and H convertible shares ends on 1 December 2012. All other significant terms and conditions of the 2004 Plan remained unchanged with the amendment. The opportunity to exchange the convertible shares under the 2005 Plan occurred in the first quarter of 2006.

In February 2007, the awards were exchanged for an identical number of shares in SKG plc, the new holding company of the Group. In March 2007, prior to the IPO of SKG plc, the 2005 Plan was amended (the '2007 Plan'), whereby, upon the IPO taking effect, all of the B, C, F, G and H convertible shares that were not converted to D or I convertible shares would be re-designated as A1, A2 and A3 convertible shares (as to one-third of each aggregate holding in respect of each class). The A1, A2 and A3 convertible shares will automatically convert on a one-to-one basis into D convertible shares on the first, second and third anniversaries respectively of the IPO, provided their holder remains an employee of the Group at the relevant anniversary. The D convertible shares resulting from these conversions are convertible on a one-to-one basis into ordinary shares, at the instance of the holder, upon the payment by the holder of the agreed conversion price. The life of the D convertible shares arising from the vesting of these new classes of convertible share ends on 20 March 2014.

25. SHARE-BASED PAYMENTS (CONTINUED)

Upon the IPO becoming effective, all of the 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 as explained above.

The plans provide for equity settlement only, no cash settlement alternative is available.

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

The performance period for the New Class B and New Class C convertible shares is three financial years. The New Class B convertible shares will automatically convert into D convertible shares if the growth in the Company's earnings per share over that period is a percentage equal to at least five percent per annum plus the annual percentage increase in the Consumer Price Index of Ireland, compounded. The New Class C convertible shares are subject to that same performance condition. In addition, the New Class C convertible shares will convert into D convertible shares only if the Company's total shareholder return over the three-year period is at least equal to the median total shareholder return of a peer group of companies. 30% of the New Class C convertible shares will convert into D convertible shares at the median performance level and 100% will so convert if the Company's total shareholder return is at or greater than the upper quartile of the peer group. A sliding scale will apply for performance between the median and upper quartile.

All A1, A2, A3 convertible shares and all New Class B and New Class C convertible shares will 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 summary of the activity under the 2002 Plan, as amended, and the 2007 SIP, for the period since allotment to 31 December 2007 is presented below:

	AVERAGE EXERCISE PRICE PER SHARE € PER SHARE	NUMBER OF CONVERTIBLE SHARES
At 1 January 2006	5.25	9,546,191
Forfeited in the year	4.56	(364,900)
Granted in the year	4.56	953,124
At 31 December 2006	**4.79**	**10,134,415**
Forfeited in the year	9.05	(224,233)
Granted in the year	18.28	2,749,200
Exercised in the year	4.75	(253,780)
At 31 December 2007	**7.52**	**12,405,602**

25. SHARE-BASED PAYMENTS (CONTINUED)

During 2007, 253,780 shares were exercised (2006: nil). At 31 December 2007, 8,285,922 shares had vested and were convertible to ordinary shares (2006: 282,465). The exercise price for all D convertible shares other than those derived from Class H at 31 December 2007 was €4.28. The exercise price for D convertible shares derived from Class H convertibles was €5.69 at 31 December 2007. The weighted average remaining contractual life of all the awards issued under the 2002 Plan, as amended, at 31 December 2007 was 4.98 years.

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

A binomial lattice approach was used to calculate the value of convertible shares, other than New Class C, at each grant date and any subsequent modification dates. The Monte Carlo simulation approach was used to calculate the value of New Class C convertibles at grant date. The expected volatility rates applied were based upon the weighted average historical volatility of comparable companies over an equivalent period to the period from valuation dates to expected exit dates. The risk-free interest rates used were based upon euro-denominated government bonds with similar lives. A dividend yield of 1.75% was included in the model. The fair value of the convertible shares at the valuation dates was determined based upon market price at that date.

The following is a summary of the key assumptions used in calculating the fair value of awards under the plan:

	EXPECTED VOLATILITY	EXPECTED VESTING DATES	VESTING PERIODS (MONTHS)	RISK-FREE RATE	FAIR VALUE
Granted 15 November 2002					
A Convertible	24.58%	31-Dec-05 to 31-Dec-07	38 to 62	4.46%	€4.17
B Convertible	24.58%	31-Dec-05 to 31-Dec-07	38 to 62	4.46%	€3.27
C Convertible	24.58%	31-Dec-05 to 31-Dec-07	38 to 62	4.46%	€2.29
Granted 1 December 2005					
H Convertible	14.46%	31-Dec-08	37	2.99%	€1.20
Granted 21 December 2006					
E Convertible	16.07%	30-Jun-07	6	3.67%	€4.95
F Convertible	16.07%	30-Jun-07	6	3.67%	€0.06
G Convertible	16.07%	30-Jun-07	6	3.67%	€0.00

25. SHARE-BASED PAYMENTS (CONTINUED)

The following is a summary of the key assumptions used in calculating the additional incremental fair value of awards on modification:

	EXPECTED VOLATILITY	REVISED EXPECTED VESTING DATES	REMAINING VESTING PERIODS (MONTHS)	RISK-FREE RATE	INCREMENTAL FAIR VALUE
Modification as at 19 January 2006					
A Convertible converted to E Convertible	16.12%	31-Dec-08	36	3.06%	€3.31
B Convertible converted to F Convertible	16.12%	31-Dec-08	36	3.06%	€0.91
C Convertible converted to G Convertible	16.12%	31-Dec-08	36	3.06%	€0.23

The following is a summary of the key assumptions used in calculating the additional incremental fair value of awards on modification at IPO date:

	EXPECTED VOLATILITY	EXPECTED VESTING DATES	REMAINING VESTING PERIODS (MONTHS)	RISK-FREE RATE	INCREMENTAL FAIR VALUE
Modification as at 20 March 2007					
B, C and G Convertibles converted to A1 Convertible	19.28%	20-Mar-08	12	4.00%	€14.15
B, C and G Convertibles converted to A2 Convertible	17.27%	20-Mar-08 to 20-Mar-09	24	3.93%	€13.74
B, C and G Convertibles converted to A3 Convertible	16.45%	20-Mar-08 to 20-Mar-10	36	3.91%	€13.36

The following is a summary of the key assumptions used in calculating the fair value of awards under the 2007 SIP:

	EXPECTED VOLATILITY	EXPECTED VESTING DATES	VESTING PERIODS (MONTHS)	RISK-FREE RATE	FAIR VALUE
Granted 13 April 2007					
New B Convertible	26.32% – 22.42%	13-Apr-10	36	4.158% – 4.154%	€3.59 – €4.79
New C Convertible	26.32% – 22.42%	13-Apr-10	36	4.158% – 4.154%	€3.06 – €3.86
Granted 1 May 2007					
New B Convertible	25.93% – 22.58%	1-May-10	36	4.143% – 4.120%	€4.41 – €5.57
New C Convertible	25.93% – 22.58%	1-May-10	36	4.143% – 4.120%	€4.17 – €4.70

26. PROVISIONS FOR LIABILITIES AND CHARGES

	2007 €'000	2006 €'000
Current	**54,553**	104,896
Non-current	**77,698**	92,204
	132,251	197,100

26. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

	DEFERRED CONSIDERATION €'000	RESTRUCTURING €'000	ENVIRONMENTAL €'000	LEGAL €'000	OTHER €'000	TOTAL €'000
At 1 January 2006	33,573	28,429	8,507	17,547	67,347	**155,403**
Provisions made during the year	-	117,221	1,041	19,410	29,858	**167,530**
Provisions released during the year	-	(14,913)	-	(2,309)	(1,588)	**(18,810)**
Provisions utilised in the year	(33,573)	(52,769)	(558)	(1,565)	(20,266)	**(108,731)**
Reclassifications	-	57	620	(6)	1,873	**2,544**
Unwinding of discount	-	23	73	10	133	**239**
Currency adjustment	-	116	1	(16)	(1,176)	**(1,075)**
At 31 December 2006	**-**	**78,164**	**9,684**	**33,071**	**76,181**	**197,100**
Provisions made during the year	11,910	43,842	1,365	1,500	52,837	**111,454**
Provisions released during the year	-	(3,735)	(2,640)	(5,835)	(6,337)	**(18,547)**
Provisions utilised in the year	-	(73,427)	(958)	(14,683)	(53,296)	**(142,364)**
Reclassifications	-	(6,223)	206	(1,055)	(5,118)	**(12,190)**
Unwinding of discount	130	46	78	387	280	**921**
Currency adjustment	-	(346)	(12)	(991)	(2,774)	**(4,123)**
At 31 December 2007	**12,040**	**38,321**	**7,723**	**12,394**	**61,773**	**132,251**

Deferred consideration

Deferred consideration represents the deferred element of acquisition consideration payable. The balance at 31 December 2007 relates to the acquisition of the Plasticos bag-in-box operation in Spain. The balance at 1 January 2006 and the movement in 2006 relate to the Kappa Packaging merger. The Group expects that this balance will be utilised by 2009.

Restructuring

These provisions relate to irrevocable commitments relating to restructuring programmes throughout the Group. During 2006, following the completion of the merger with Kappa Packaging in December 2005, the Group undertook a significant programme of restructuring with the objective of fully integrating the combined operations of the Jefferson Smurfit Group and Kappa Packaging in order to achieve planned synergy benefits. This programme continued into 2007 and was substantially concluded by the year end. The Group expects that the majority of the provisions balances remaining at 31 December 2007 will be utilised during 2008.

26. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

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

Represents provisions for certain legal claims brought against the Group by various parties in the ordinary course of business. Provisions are expensed in the Group Income Statement within administrative expenses.

The most significant provision amounted to €5.3 million and €15.0 million at 31 December 2007 and 2006 respectively, and related to the outstanding element of the settlement of litigation in the Dominican Republic. This litigation arose from the acquisition in 1996 of a controlling interest in a local corrugator owned by Industria Cartonera Dominicana. This matter was settled on 13 December 2006. Outstanding amounts are payable in January 2008 and January 2009. Other 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 €16.7 million; deferred employee profit sharing provisions in certain of the countries in which we operate amounting to €8.1 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		COMPANY	
	2007 €'000	2006 €'000	2007 €'000	2006 €'000
Trade payables	**898,882**	906,348	**-**	-
Amounts owed to associates – trading balances	**2,733**	938	**-**	-
Payroll taxes	**27,828**	41,053	**-**	-
Value added tax	**16,639**	4,947	**-**	-
Social welfare	**47,983**	49,821	**-**	-
Accruals and deferred income	**337,056**	227,948	**244**	-
Capital payables	**47,600**	84,206	**-**	-
Other payables	**23,966**	41,354	**-**	-
Amounts due to Group companies	**-**	-	**15,430**	-
	1,402,687	1,356,615	**15,674**	-

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

28. FINANCIAL INSTRUMENTS

Financial instruments by category

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

As at 31 December 2007

Assets as per balance sheet	LOANS AND RECEIVABLES €'000	ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS €'000	DERIVATIVES USED FOR HEDGING €'000	AVAILABLE -FOR-SALE €'000	TOTAL €'000
Available-for-sale financial assets	-	-	-	43,511	43,511
Derivative financial instruments	-	13,662	18,900	-	32,562
Trade and other receivables	1,334,133	-	-	-	1,334,133
Cash and cash equivalents	401,622	-	-	-	401,622
Restricted cash	13,096	-	-	-	13,096
Total	1,748,851	13,662	18,900	43,511	1,824,924

Liabilities as per balance sheet	LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS €'000	DERIVATIVES USED FOR HEDGING €'000	OTHER FINANCIAL LIABILITIES €'000	TOTAL €'000
Borrowings	-	-	3,818,594	3,818,594
Derivative financial instruments	121,058	-	-	121,058
Trade and other payables	-	-	973,181	973,181
Total	121,058	-	4,791,775	4,912,833

As at 31 December 2006

Assets as per balance sheet	LOANS AND RECEIVABLES €'000	ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS €'000	DERIVATIVES USED FOR HEDGING €'000	AVAILABLE -FOR-SALE €'000	TOTAL €'000
Available-for-sale financial assets	-	-	-	44,413	44,413
Derivative financial instruments	-	7,890	19,597	-	27,487
Trade and other receivables	1,309,079	-	-	-	1,309,079
Cash and cash equivalents	360,385	-	-	-	360,385
Restricted cash	10,317	-	-	-	10,317
Total	1,679,781	7,890	19,597	44,413	1,751,681

28. FINANCIAL INSTRUMENTS (CONTINUED)

Liabilities as per balance sheet	LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS €'000	DERIVATIVES USED FOR HEDGING €'000	OTHER FINANCIAL LIABILITIES €'000	TOTAL €'000
Borrowings	-	-	5,253,032	5,253,032
Derivative financial instruments	127,167	-	-	127,167
Trade and other payables	-	-	1,032,846	1,032,846
Total	127,167	-	6,285,878	6,413,045

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

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

Financial and credit risk management

The operating parameters and policies of the Group's treasury management function are established under formal board authority. The formal 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 programmes 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 remote. 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 our control. The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to our investing and funding activities and our 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 our underlying borrowings from variable to fixed rate. The impact of any such swaps on the Group's financial instruments has been set out in the table below.

The Group manages its balance sheet having regard to the currency exposures arising from our 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.

28. FINANCIAL INSTRUMENTS (CONTINUED)

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

Interest rate risk

The Group is exposed to changes in interest rates, primarily changes in Euribor. The senior credit facility is variable rate debt, as is the Group's securitisation facility. 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, our future earnings and cash flows, assuming other factors are held constant. At 31 December 2007, the Group had fixed an average of 60% (2006: 75%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, as at 31 December 2007 a one percentage point increase in variable interest rates would have had an estimated impact on pre-tax interest expense of approximately €16 million over the following 12 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. 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 consolidated 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) and Eastern Europe (comprising mainly the Slovak Koruna, Polish Zloty and the Czech Koruna). At the end of 2007 approximately 95% of our non euro denominated net assets consisted of the Swedish Krona (32%), Sterling (9%), Latin American currencies (39%) and Eastern European currencies (15%). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2007 rate would reduce shareholders' equity by approximately €19 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 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 tons of recovered paper are required to manufacture 1.0 metric ton of recycled containerboard. Consequently, an increase in the price of recovered paper of, for example, €20 per tonne would increase the cost of production of recycled containerboard by approximately €21 per tonne. Historically, increases in the cost of recovered paper, if sustained, have led to a rise in the price of recycled containerboard, with a lag of one to two months.

The price of recovered paper can fluctuate significantly affecting the operating results of our paper processing facilities. The Group seeks to manage this risk operationally rather than by entering into financial risk management derivatives. Accordingly, at each of December 2007 and 2006 there were no derivatives on hand to mitigate such risks.

28. FINANCIAL INSTRUMENTS (CONTINUED)

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 increasing the price of wood and consequently the cost of the Group's raw materials.

Energy

The cost of producing our 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 increases and volatility in recent years with a corresponding effect on Group production costs. The main drivers for the general increase in energy costs in recent years have been the increase in the price of crude oil varying from $50 up to $100 per barrel and the price increase of coal varying from $60 up to $130 per metric ton.

The Group has entered into a limited level of energy derivative contracts to partially economically hedge 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.

The Group's energy derivatives at year end 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:

	2007 €'000	2006 €'000
Cash and cash equivalents	**401,622**	360,385
Committed undrawn facilities	**754,865**	757,500
Liquidity reserve	**1,156,487**	1,117,885
Current liabilities – borrowings due within one year	**(404,382)**	(541,149)
Net position	**752,105**	576,736

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 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 consolidated net borrowings as a multiple of pre-exceptional EBITDA (earnings before interest, taxation, depreciation, amortisation and share-based payment expense). Maximum levels for this ratio are set under board approved policy.
At 31 December 2007 the EBITDA ratio of the Group was 3.2 times net debt of €3,819 million, which is significantly reduced on the previous year end level of 5.5 times net debt of €5,253 million primarily as a result of the reduction in borrowing levels following the initial public offering by the Group in March 2007.

The Group's return on capital employed grew to 10.3% in 2007 from 4.2% in 2006. On a basis of pre-exceptional earnings, the return was 11.3% in 2007 compared to 8.7% in 2006. The return on capital employed comprises the operating profit plus the share of associates' profit as a percentage of average capital employed (where capital employed is the sum of total equity and net borrowing at year end; 2007: €6,009,259, 2006: €5,884,553).

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.

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 our total cash and cash equivalents (including restricted cash) at 31 December 2007 of €415 million, 22% was with financial institutions in the A rating category of Standard and Poor's or Moody's and 71% was with financial institutions in the AA/Aa rating category. The remaining 7% was represented mainly by cash held with banks in Latin America which fell outside the A and AA/Aa ratings categories. As at 31 December 2007 derivative transactions were with counterparties with ratings ranging from A+ to AAA with Standard and Poors or A1 to Aaa with Moody's.

Management does not expect any significant counterparty to fail to meet its obligations and any amount at risk has been fully provided for. The maximum exposure to credit risk is represented by the carrying amount of each asset.

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 17.

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 5.

28. FINANCIAL INSTRUMENTS (CONTINUED)

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 has been written down to its estimated fair value and the Group's maximum exposure to risk associated with this investment is represented by its carrying amount.

Derivative positions

Derivative financial instruments recognised as assets and liabilities in the Group 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:

	2007 €'000	2006 €'000
Non-current derivative assets		
Cash flow hedges		
Interest rate swaps	**4,301**	10,668
Total non-current cash flow hedges	**4,301**	10,668
Current derivative assets		
Cash flow hedges		
Interest rate swaps	**14,599**	8,929
Total current cash flow hedges	**14,599**	8,929
Not designated as hedges		
Interest rate swaps	**8,541**	6,107
Cross currency swaps	**2,579**	1,596
Foreign currency forwards	**1,817**	187
Energy and pulp hedging contracts	**725**	-
Total current derivative assets	**28,261**	16,819
Total derivative assets	**32,562**	27,487
Non-current derivative liabilities		
Not designated as hedges		
Foreign currency forwards	**(964)**	(338)
Cross currency swaps	**(120,026)**	(123,405)
Energy and pulp hedging contracts	**(68)**	(3,424)
Total current derivative liabilities	**(121,058)**	(127,167)
Total derivative liabilities	**(121,058)**	(127,167)
Net (liability) on derivative financial instruments	**(88,496)**	(99,680)

28. FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedging

As more fully set out in the table above, the Group principally utilises interest rate swaps to change its variable rate debt to fixed rates. These swaps are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying debt being hedged. They have accordingly been determined by the Group to be highly effective in achieving offsetting cash flows for its variable rate debt, and no material level of ineffectiveness has been recorded in the Income Statement in relation to these hedges in 2007 and 2006. 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 Group Statement of Recognised Income and Expense. These fair value gains and losses are expected to impact on profit and loss over the period from 2008 to 2010, in line with the underlying debt being hedged.

Derivatives not designated as hedges

Certain of the Group's interest rate swaps are not designated as hedges under IAS 39, and although economically hedging the underlying cash flows are therefore fair valued through the income statement.

The Group also utilises a combination of foreign currency forward contracts and cross currency swaps in order to 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 Income Statement as required by IAS 39, while also retranslating the related on balance sheet foreign currency denominated monetary assets or liabilities at appropriate closing rates at each balance sheet date, as required by IAS 21.

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 have instead been fair valued through the 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 2007 are summarised as follows:

CURRENCY	NOTIONAL PRINCIPAL (MILLIONS)	TERMINATION DATES	% FIXED PAYABLE	% VARIABLE RECEIVABLE
EUR	480	2008	3.165 – 3.489	Euribor[1]
EUR	1,100	2009	3.035 – 3.489	Euribor
EUR	200	2010	3.723 – 3.790	Euribor

(1) European Interbank Offered Rate

28. FINANCIAL INSTRUMENTS (CONTINUED)

Outstanding interest rate swap agreements at 31 December 2006 are summarised as follows:

CURRENCY	NOTIONAL PRINCIPAL (MILLIONS)	TERMINATION DATES	% FIXED PAYABLE	% VARIABLE RECEIVABLE
EUR	346	2007	3.455 – 3.670	Euribor
EUR	480	2008	3.165 – 3.489	Euribor
EUR	1,100	2009	3.035 – 3.489	Euribor
EUR	200	2010	3.723 – 3.790	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 2007 the Group had entered into €126 million (2006: €106 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2007 the Group had also entered into further short-term currency swaps of €388 million equivalent (2006: €317 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 2007 are summarised as follows:

CURRENCY SWAPPED (MILLIONS)	CURRENCY RECEIVED (MILLIONS)	MATURITY DATE	INTEREST RATE PAID	INTEREST RATE RECEIVED
USD 176	EUR 168	2010	Euribor + 2.06	Libor[1] +2.00
USD 87	EUR 59	2008	Euribor	Libor
USD 200	EUR 153	2010	6.61	7.75
USD 204	EUR 183	2012	9.98	9.65

(1) London Interbank Offered Rate

Outstanding currency swap agreements at 31 December 2006 are summarised as follows:

CURRENCY SWAPPED (MILLIONS)	CURRENCY RECEIVED (MILLIONS)	MATURITY DATE	INTEREST RATE PAID	INTEREST RATE RECEIVED
USD 176	EUR 172	2007	Euribor + 3.32	Libor + 3.00
USD 222	EUR 190	2007	Euribor + 2.59	7.50
USD 70	SEK 574	2007	Stibor[2] + 2.60	7.50
USD 200	EUR 153	2010	6.61	7.75
USD 204	EUR 183	2012	9.98	9.65
USD 545	EUR 414	2007	Euribor + 0.04	Libor

(2) Stockholm Interbank Offered Rate

28. FINANCIAL INSTRUMENTS (CONTINUED)

Energy risk management

The Group had the following energy hedging contracts outstanding at the end of 2007 and 2006. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

	2007		2006	
	Notional	**Maturity**	Notional	Maturity
Energy contracts	**€8.9m**	**Q1 2008 – Q4 2009**	€17.6m	Q1 2007 – Q3 2008

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:

2007 Fixed rate instruments	AVERAGE EFFECTIVE INTEREST RATE	6 MONTHS OR LESS €'000	6-12 MONTHS €'000	1-2 YEARS €'000	2-5 YEARS €'000	MORE THAN 5 YEARS €'000	TOTAL €'000
Liabilities							
US Yankee bonds	7.60%	-	-	-	-	198,674	**198,674**
2012 Bonds	-	-	-	-	-	-	**-**
2015 Cash pay notes	8.19%	-	-	-	-	352,985	**352,985**
Bank loans/overdrafts	1.99%	758	2,074	2,244	4,322	3,865	**13,263**
Effect of interest rate swaps	-	-	480,000	1,100,000	200,000	-	**1,780,000**
Total		758	482,074	1,102,244	204,322	555,524	**2,344,922**
Finance leases	7.75%	5,940	5,940	16,553	32,991	2,962	**64,386**
Total fixed rate liabilities		**6,698**	**488,014**	**1,118,797**	**237,313**	**558,486**	**2,409,308**
Floating rate instruments							
Assets							
Cash and cash equivalents	3.74%	401,622	-	-	-	-	**401,622**
Restricted cash	4.07%	13,096	-	-	-	-	**13,096**
Total floating rate assets		**414,718**	**-**	**-**	**-**	**-**	**414,718**
Liabilities							
Senior credit facility	7.40%	2,887,860	-	-	-	-	**2,887,860**
Receivables securitisation	6.46%	205,815	-	-	-	-	**205,815**
Bank loans/overdrafts	7.50%	76,465	-	-	-	-	**76,465**
Effect of interest rate swaps	(1.46%)	(1,780,000)	-	-	-	-	**(1,780,000)**
Total		1,390,140	-	-	-	-	**1,390,140**
Finance leases	5.32%	1,298	1,298	2,050	2,087	1,667	**8,400**
Total floating rate liabilities		**1,391,438**	**1,298**	**2,050**	**2,087**	**1,667**	**1,398,540**
Total net position		**(983,418)**	**(489,312)**	**(1,120,847)**	**(239,400)**	**(560,153)**	**(3,393,130)**

28. FINANCIAL INSTRUMENTS (CONTINUED)

2006 Fixed rate instruments	AVERAGE EFFECTIVE INTEREST RATE	6 MONTHS OR LESS €'000	6-12 MONTHS €'000	1-2 YEARS €'000	2-5 YEARS €'000	MORE THAN 5 YEARS €'000	TOTAL €'000
Liabilities							
US Yankee bonds	7.74%	-	-	-	-	219,764	**219,764**
2012 Bonds	10.45%	-	-	-	-	922,218	**922,218**
2015 Cash pay notes	8.19%	-	-	-	-	368,299	**368,299**
Bank loans/overdrafts	3.18%	3,864	1,076	1,509	5,651	4,703	**16,803**
2015 Senior PIK notes	11.90%	-	-	-	-	396,344	**396,344**
Smurfit Finance Lux. Sarl PIK	9.57%	-	-	-	-	95,706	**95,706**
Effect of interest rate swaps	-	246,250	100,000	480,000	1,300,000	-	**2,126,250**
Total		250,114	101,076	481,509	1,305,651	2,007,034	**4,145,384**
Finance leases	7.92%	8,891	8,892	13,884	38,930	10,185	**80,782**
Total fixed rate liabilities		**259,005**	**109,968**	**495,393**	**1,344,581**	**2,017,219**	**4,226,166**
Floating rate instruments							
Assets							
Cash and cash equivalents	2.88%	360,385	-	-	-	-	**360,385**
Restricted cash	3.04%	10,317	-	-	-	-	**10,317**
Total floating rate assets		**370,702**	**-**	**-**	**-**	**-**	**370,702**
Liabilities							
Senior credit facility	7.05%	2,824,255	-	-	-	-	**2,824,255**
Receivables securitisation	4.87%	204,656	-	-	-	-	**204,656**
Bank loans/overdrafts	6.01%	106,724	-	-	-	-	**106,724**
Effect of interest rate swaps	(0.30%)	(2,126,250)	-	-	-	-	**(2,126,250)**
Total		1,009,385	-	-	-	-	**1,009,385**
Finance leases	4.50%	1,071	1,071	2,209	3,360	2,788	**10,499**
Total floating rate liabilities		**1,010,456**	**1,071**	**2,209**	**3,360**	**2,788**	**1,019,884**
Total net position		**(898,759)**	**(111,039)**	**(497,602)**	**(1,347,941)**	**(2,020,007)**	**(4,875,348)**

28. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity analysis

The following table sets out the maturity or liquidity analysis of the Group's financial liabilities and net settled derivative financial liabilities in to the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

Liquidity table 2007	WEIGHTED AVERAGE PERIOD UNTIL MATURITY	NO FIXED TERM €'000	LESS THAN 1 YEAR €'000	1-2 YEARS €'000	2-5 YEARS €'000	MORE THAN 5 YEARS €'000	TOTAL €'000
Liabilities							
Trade and other payables		-	973,181	-	-	-	**973,181**
Senior credit facility	5.9 yrs	-	257,505	265,206	876,005	2,769,290	**4,168,006**
Receivables securitisation	3.7 yrs	-	12,091	12,058	231,044	-	**255,193**
Bank loans and overdrafts	1.0 yrs	26,232	47,737	3,496	8,629	6,225	**92,319**
US Yankee bonds	17.8 yrs	-	14,892	14,892	44,676	390,625	**465,085**
2015 Cash Pay Notes	7.1 yrs	-	27,385	27,385	82,156	414,978	**551,904**
		26,232	1,332,791	323,037	1,242,510	3,581,118	**6,505,688**
Finance leases	5.1 yrs	-	19,913	22,958	39,507	7,496	**89,874**
		26,232	1,352,704	345,995	1,282,017	3,588,614	**6,595,562**
Derivative liabilities		-	68	-	-	-	**68**
Total liabilities		**26,232**	**1,352,772**	**345,995**	**1,282,017**	**3,588,614**	**6,595,630**

Liquidity table 2006	WEIGHTED AVERAGE PERIOD UNTIL MATURITY	NO FIXED TERM €'000	LESS THAN 1 YEAR €'000	1-2 YEARS €'000	2-5 YEARS €'000	MORE THAN 5 YEARS €'000	TOTAL €'000
Liabilities							
Trade and other payables		-	1,032,846	-	-	-	**1,032,846**
Senior credit facility	6.9 yrs	-	209,352	242,851	790,181	2,959,734	**4,202,118**
Receivables securitisation	4.8 yrs	-	8,798	8,822	234,153	-	**251,773**
Bank loans and overdrafts	1.0 yrs	38,891	69,047	7,674	7,830	5,082	**128,524**
US Yankee bonds	18.7 yrs	-	16,646	16,646	49,937	453,274	**536,503**
2012 Bonds	5.6 yrs	-	90,250	90,250	270,749	987,163	**1,438,412**
2015 Senior PIK Notes	8.8 yrs	-	45,061	45,061	135,184	560,817	**786,123**
2015 Cash Pay Notes	8.1 yrs	-	28,625	28,625	85,876	462,393	**605,519**
Smurfit Fin Sarl PIK	10.0 yrs	-	8,915	8,940	26,745	142,324	**186,924**
		38,891	1,509,540	448,869	1,600,655	5,570,787	**9,168,742**
Finance leases	6.0 yrs	-	26,357	21,121	50,630	15,492	**113,600**
		38,891	1,535,897	469,990	1,651,285	5,586,279	**9,282,342**
Derivative liabilities		-	3,107	317	-	-	**3,424**
Total liabilities		**38,891**	**1,539,004**	**470,307**	**1,651,285**	**5,586,279**	**9,285,766**

28. FINANCIAL INSTRUMENTS (CONTINUED)

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:

Liquidity table 2007	LESS THAN 1 YEAR €'000	1-2 YEARS €'000	2-5 YEARS €'000	MORE THAN 5 YEARS €'000	TOTAL €'000
Liabilities					
Cross currency swaps	487,716	38,333	498,216	-	**1,024,265**
Foreign currency forwards	115,739	-	-	-	**115,739**
Total	603,455	38,333	498,216	-	**1,140,004**

Liquidity table 2006	LESS THAN 1 YEAR €'000	1-2 YEARS €'000	2-5 YEARS €'000	MORE THAN 5 YEARS €'000	TOTAL €'000
Liabilities					
Cross currency swaps	1,198,830	26,837	195,333	159,351	**1,580,351**
Foreign currency forwards	106,525	-	-	-	**106,525**
Total	1,305,355	26,837	195,333	159,351	**1,686,876**

Currency analysis

The following table sets out the Group's financial assets and liabilities according to their principal currencies:

YEAR ENDED 31 DECEMBER 2007

	EURO €'000	STERLING €'000	*LATIN AMERICA €'000	US DOLLAR €'000	OTHER €'000	TOTAL €'000
Trade and other receivables	942,291	98,519	127,083	27,240	139,000	**1,334,133**
Available-for-sale financial assets	43,511	-	-	-	-	**43,511**
Cash and cash equivalents	298,652	24,091	26,595	21,098	31,186	**401,622**
Restricted cash	12,004	1,057			35	**13,096**
Total assets	**1,296,458**	**123,667**	**153,678**	**48,338**	**170,221**	**1,792,362**
Trade and other payables	720,850	69,112	59,665	33,457	90,097	**973,181**
Senior credit facility	2,768,641	-	-	119,219	-	**2,887,860**
Receivables securitisation	205,815	-	-	-	-	**205,815**
Bank loans and overdrafts	69,252	2,580	17,276	(2,549)	3,169	**89,728**
US Yankee Bonds	-	-	-	198,674	-	**198,674**
2015 Cash Pay Notes	214,493	-	-	138,492	-	**352,985**
	3,979,051	71,692	76,941	487,293	93,266	**4,708,243**
Finance leases	51,271	18,504	-	-	3,011	**72,786**
Total liabilities	**4,030,322**	**90,196**	**76,941**	**487,293**	**96,277**	**4,781,029**
Impact of foreign exchange contracts	473,960	120,771	-	(439,564)	(46,945)	**108,222**
Total assets/(liabilities)	**(3,207,824)**	**(87,300)**	**76,737**	**609**	**120,889**	**(3,096,889)**

28. FINANCIAL INSTRUMENTS (CONTINUED)

- Latin America includes currencies such as Mexican Pesos, Colombian Pesos and Venezuelan Boilvars. These have been grouped together principally owing to their size and impact on the currency analysis tables within this note
- Currency risk related to financial assets and liabilities denominated in currencies other than the Group's functional currency (euro) represents both transactional and translation risk.

YEAR ENDED 31 DECEMBER 2006	EURO €'000	STERLING €'000	*LATIN AMERICA €'000	US DOLLAR €'000	OTHER €'000	TOTAL €'000
Trade and other receivables	894,822	108,670	128,049	22,871	154,667	**1,309,079**
Available-for-sale financial assets	44,413	-	-	-	-	**44,413**
Cash and cash equivalents	221,681	10,222	13,873	39,608	75,001	**360,385**
Restricted cash	8,262	2,055	-	-	-	**10,317**
Total assets	**1,169,178**	**120,947**	**141,922**	**62,479**	**229,668**	**1,724,194**
Trade and other payables	794,288	73,391	51,418	28,940	84,809	**1,032,846**
Senior credit facility	2,690,998	-	-	133,257	-	**2,824,255**
Receivables securitisation	204,656	-	-	-	-	**204,656**
Bank loans and overdrafts	74,741	-	46,488	1,725	573	**123,527**
US Yankee Bonds	-	-	-	219,764	-	**219,764**
2012 Bonds	337,180	-	-	585,038	-	**922,218**
2015 Cash Pay Notes	213,497	-	-	154,802	-	**368,299**
2015 Snr PIK Notes	396,344	-	-	-	-	**396,344**
Smurfit Fin Sarl PIK	95,706	-	-	-	-	**95,706**
	4,807,410	73,391	97,906	1,123,526	85,382	**6,187,615**
Finance leases	68,498	19,727	-	-	3,056	**91,281**
Total liabilities	**4,875,908**	**93,118**	**97,906**	**1,123,526**	**88,438**	**6,278,896**
Impact of foreign exchange contracts	1,061,240	86,054	-	(1,078,765)	30,120	**98,649**
Total assets/(liabilities)	**(4,767,970)**	**(58,225)**	**44,016**	**17,718**	**111,110**	**(4,653,351)**

28. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values

The following table sets out the fair values of the Group's principal financial assets and liabilities. The determination of these fair values is based on the descriptions set out within the Statement of Accounting Policies.

	2007		2006	
	CARRYING VALUE €'000	FAIR VALUE €'000	CARRYING VALUE €'000	FAIR VALUE €'000
Trade and other receivables	1,334,133	1,334,133	1,309,079	1,309,079
Available-for-sale financial assets	43,511	43,511	44,413	44,413
Cash and cash equivalents	401,622	401,622	360,385	360,385
Derivative assets	32,562	32,562	27,487	27,487
Restricted cash	13,096	13,096	10,317	10,317
	1,824,924	1,824,924	1,751,681	1,751,681
Trade and other payables	973,181	973,181	1,032,846	1,032,846
Senior credit facility	2,887,860	2,748,272	2,824,255	2,854,999
Receivables securitization	205,815	205,815	204,656	204,656
Bank overdrafts	89,728	89,728	123,527	123,527
US Yankee Bonds	198,674	176,832	219,764	208,577
2012 Bonds	-	-	922,218	986,848
2015 Cash Pay Notes	352,985	330,155	368,299	364,873
2015 Snr PIK Notes	-	-	396,344	415,491
Smurfit Fin Sarl PIK	-	-	95,706	95,706
	4,708,243	4,523,983	6,187,615	6,287,523
Derivative liabilities	121,058	121,058	127,167	127,167
Total liabilities	4,829,301	4,645,041	6,314,782	6,414,690
Total net position	**(3,004,377)**	**(2,820,117)**	**(4,563,101)**	**(4,663,009)**

29. CONTINGENT LIABILITIES

Smurfit Kappa Packaging's subsidiary, Smurfit Kappa Zülpich, is, since 25 May 2004, being investigated by the German *Bundes Kartellamt* regarding alleged price co-ordination of recovered paper purchases by paper and board producers. The Group is cooperating fully with the *Bundes Kartellamt* in respect of its investigation.

On 16 January 2007, representatives of the *Autoridade da Concorrência* (Portuguese National Competition Authority) visited the Group's Portuguese corrugated plant, located in São Paio de Oleiros, as part of what appears to be a local investigation affecting several Portuguese companies in the packaging sector. Smurfit Kappa Portugal has cooperated fully with the *Autoridade da Concorrência* and as of this date has not received any news or further communication in relation to this matter.

29. CONTINGENT LIABILITIES (CONTINUED)

In October 2006, a notice of claim was received by a former subsidiary of Smurfit Kappa Group from a local County Administrative Board in Sweden requiring it to investigate and remediate an adjacent lake. This lake was polluted by local industry over a very long period of time. The subsidiary was in dialogue with the County Administrative Board over the past 30 years as some of its operations require operating permits under the Environmental Code. The investigation is at a very preliminary stage and meetings are ongoing with the County Administrative Board.

No provisions have been recognised in relation to the above matters, as the Directors believe that at this time it is not probable that the Group will be required to settle the obligations. Any possible obligations arising from past events will only be confirmed by the occurrence (or non-occurrence) of future events not wholly within control of the Group.

30. LEASE OBLIGATIONS

Operating leases

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

	2007 €'000	2006 €'000
Within one year	**48,456**	49,314
Within two to five years	**101,605**	111,095
Over five years	**43,182**	57,177
	193,243	217,586

The Group leases a number of properties under operating leases. The leases typically run for a period of 3 to 10 years. Rents are generally reviewed every 5 years. The Group also leases vehicles under various agreements, that typically run for a period of between 2 and 5 years. The agreements do not include an extension option.

Finance leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2007		2006	
	MINIMUM PAYMENTS €'000	PRESENT VALUE OF MINIMUM PAYMENTS €'000	MINIMUM PAYMENTS €'000	PRESENT VALUE OF MINIMUM PAYMENTS €'000
Within one year	**18,866**	**14,606**	20,925	19,925
Within two to five years	**60,031**	**51,756**	72,977	57,598
Over five years	**7,280**	**6,424**	19,317	13,758
Total minimum lease payments	**86,177**	**72,786**	113,219	91,281
Less: amounts allocated to future finance costs	**(13,391)**	**-**	(21,938)	-
Present value of minimum lease payments	**72,786**	**72,786**	91,281	91,281

30. LEASE OBLIGATIONS (CONTINUED)

The Group has a number of arrangements in place in relation to cogeneration facilities that do not take the legal forms of leases but convey the right to use the underlying assets in return for a series of payments. These arrangements have been assessed as having the substance of finance lease arrangements. See Note 13 for the capitalised values of these finance leases.

The cogeneration plants consist of gas turbines, steam turbines and boilers for the recuperation of exhaust fumes. In exchange for a third party vendor constructing such a plant on, or near, a Group paper mill, the Group generally commits to purchasing the recouped steam output and a minimum amount of electricity produced by the plant. Payment terms generally include both fixed elements and variable elements determined on output consumed by the Group and certain market indices. The terms of these arrangements cover minimum periods ranging from 6 to 20 years, and generally include a bargain purchase option and renewal provisions at end of term.

31. 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 67. A listing of the principal subsidiaries is provided on pages 150 to 151 of this document.

Sales to and purchases from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IAS 27 *Consolidated and Separate Financial Statements*.

Transactions with associates

The Group conducts certain transactions with associates in the normal course of business which are summarised as follows:

Sales and purchase of goods and services

	2007 €'000	2006 €'000
Sale of goods	**31,284**	24,113
Purchase of goods	**(19,152)**	(13,083)
Rendering of services	**1,447**	1,231
Receiving of services	**(3,408)**	(6,208)

These transactions are undertaken and settled on an arms length basis. No guarantees are given or received by either party. The Group settled a participatory interest in its Duropack associate during 2006. The par value of this participatory interest, which was included in financial assets, amounted to €2.9 million and entitled the Group to a 4.8% share in Duropack's pre-tax income and was due to mature in 2010. The Group settled this participation right in 2006 for approximately €6.0 million, resulting in a gain of approximately €3.0 million recognised in finance income.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

The receivables from related parties arise mainly from sale transactions and are due two months after the date of sale. The receivables are unsecured in nature and bear no interest.

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables bear no interest.

No provision has been made in 2007 and 2006 relating to balances with related parties.

Transactions with other related parties

In 2007, the Group purchased, in the normal course of business, approximately 56,800 metric tonnes (2006: 47,000) of paper amounting to approximately €28 million (2006: €20 million) from Savon Sellu, a company controlled by Dermot Smurfit together with his brothers Dr. Michael Smurfit, our former Chairman, and Alan Smurfit. An amount of €6.7 million (2006: €5.5 million) was owed by the Group to Savon Sellu as at 31 December 2007.

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.

	2007 €'000	2006 €'000
Short-term employee benefits	**8,121**	10,022
Post employment benefits	**1,989**	525
Share-based payment charge	**5,723**	2,532
Compensation for loss of office*	**9,026**	-
Total	**24,859**	13,079

* By agreements dated 9 February 2007 between Dr. Michael Smurfit and the Group, Dr. Michael Smurfit resigned from all positions within the Group, with effect from immediately prior to the Group being admitted to trading on the Irish Stock Exchange and the London Stock Exchange. He also resigned from the Board of Directors of, and as chairman of, each Group company. The agreements provided for a total payment to Dr. Michael Smurfit of approximately €9 million.

In addition, in June 2007, a cash amount totalling approximately €5.8 million was awarded to the Executive Directors (€5.3 million) and the Company Secretary by the major shareholders Madison Dearborn Capital Partners and Smurfit Kappa Feeder G.P. Limited and is payable directly by those shareholders. The award was made in connection with the successful flotation of the company.

32. EVENTS AFTER THE BALANCE DATE

There have been no significant events since the balance sheet date.

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 profit and loss account to the Annual General Meeting and from filing it with the Registrar of Companies. Losses of €0.4 million have been dealt with in the income statement of the Company.

34. COMPARATIVE FIGURES

Certain figures for the prior period have been adjusted to conform with 2007 classifications and disclosure requirements.

35. BOARD APPROVAL

The Board of Directors approved and authorised for issue the Group Financial Statements together with the Company Financial Statements in respect of the financial year ended 31 December 2007 on 2 April 2008.

36. PRINCIPAL SUBSIDIARIES

Each of Smurfit Kappa Group plc, Smurfit Kappa Investments Limited, Smurfit Kappa Holdings Limited, Smurfit Kappa Corporation Limited, Smurfit Kappa Funding plc, and Smurfit Kappa Acquisitions are holding companies with no operations of their own. A listing of the principal subsidiaries is set out below:

SUBSIDIARIES	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	HOLDING %
Carton de Colombia, S.A. Apartado Aereo 219, Cali, Colombia	Manufacture and sale of paperboard and packaging products	**Colombia**	70
Carton de Venezuela, S.A. Apartado Aereo 609, Caracas, Venezuela	Manufacture and sale of paperboard and packaging products	**Venezuela**	88
Grupo Smurfit Mexico, S.A. de C.V. Jaime Balmes, No. 11 Torre D. 7 Piso, Col. Los Morales Polanco 11510, Mexico D.F., Mexico	Manufacture and sale of paperboard and packaging products	**Mexico**	100
Kappa Kraftliner AB SE – 941 86, Piteå, Sweden	Manufacture and sale of containerboard and holding company for operations in Sweden and other countries which manufacture specialty papers and packaging products	**Sweden**	100
Smurfit Kappa Nederland B.V. Zwaanstraat 1, 5651 KA Eindhoven The Netherlands	Holding company for Dutch operations which manufacture containerboard, solidboard and packaging products	**The Netherlands**	100

SUBSIDIARIES	PRINCIPAL ACTIVITIES	COUNTRY OF INCORPORATION	HOLDING %
Nettingsdorfer Papierfabrik AG and Co KG A-4054 Nettingsdorf-Fabrik, Austria	Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board	**Austria**	100
Smurfit, S.A. Paque Saenz Pena 308 – 8th Floor, Buenos Aires, Argentina	Manufacture and sale of paperboard and packaging products	**Argentina**	100
Smurfit Kappa Treasury Funding Limited Beech Hill, Clonskeagh, Dublin 4, Ireland	Finance company	**Ireland**	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 International B.V. Fred Roeskestraat 123, 1076 EE Amsterdam, The Netherlands	Principal international holding company	**The Netherlands**	100
Smurfit Kappa International France SAS 2 Rue Goethe, 75116 Paris, France	Holding company for French operations whose activities are the manufacture and sale of paperboard and packaging products	**France**	100
Smurfit Kappa Investments UK Limited Darlington Road, West Auckland, Bishop Auckland, Co. Durham DL14 9PE, United Kingdom	Holding company for UK operations whose principal activities are the manufacture and sale of paperboard and packaging products	**United Kingdom**	100
Smurfit Kappa Ireland Limited Beech Hill, Clonskeagh, Dublin 4, Ireland	Manufacture and sale of paperboard and packaging products and printing	**Ireland**	100
Smurfit Kappa Nervion, S.A. B Arriandi s/n, 48215 Iurreta, Vizcaya, Spain	Manufacture and sale of sack paper and holding company for Spanish, Portuguese and sack converting operations whose principal activities are the manufacture and sale of paperboard, packaging and paper sack products	**Spain**	99
Smurfit SISA, S.p.A Viale Regina Margerhita, 3 20122 Milan (MI), Italy	Manufacture and sale of paperboard and packaging products	**Italy**	90

(1) The companies operate principally in their countries of incorporation.

(2) A full list of subsidiaries and associates will be annexed to the Annual Report of the Company to be filed with the Irish Registrar of Companies.

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 2007, the ordinary shares of the Company in issue were held as follows

NUMBER OF SHARES	NUMBER OF SHAREHOLDERS	% OF TOTAL	NUMBER OF SHARES HELD '000	% OF TOTAL
1 – 1,000	321	34.2	164	0.1
1,001 – 5,000	240	25.6	628	0.3
5,001 – 10,000	100	10.7	753	0.3
10,001 – 50,000	127	13.5	3,216	1.5
50,001 – 100,000	35	3.7	2,577	1.2
100,001 – 500,000	71	7.6	16,696	7.7
over 500,000	44	4.7	193,951	88.9
Totals	938	100	217,985	100

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	9 May 2008
Ex-dividend date	2 April 2008
Record date	4 April 2008
Dividend payment date	16 May 2008
Interim results announcement	12 August 2008

PAYMENT OF DIVIDENDS

Dividends are customarily paid in euro. However, shareholders may avail of the facility to have their dividends paid in Sterling or US dollars.

Shareholders may also avail of the facility to have their dividends paid by electronic transfer directly to a bank account in Ireland, the UK or the USA. These shareholders will receive at their registered address a tax voucher giving details of the dividend paid.

Shareholders who wish to avail of any of these facilities should contact the Company's Registrars.

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 shares should be directed to the Company's Registrars:

Capita Registrars,
P.O. Box 7117,
Dublin 2.
Telephone: +353 (0)1 810 2400
Fax: +353 (0)1 810 2422
Website: www.capitaregistrars.ie

CREST PROXY VOTING

CREST members wishing to appoint a proxy via the CREST system should refer to the CREST Manual and the notes to the Notice of the Annual General Meeting.

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