Smurfit Kappa Group plc

ANNUAL REPORT 2010

Innovation through people and packaging

“ On behalf of the Board, I would like to thank all our employees for their commitment and contribution to our substantial progress on an outstanding set of achievements in 2010.”

Liam O’Mahony, Chairman

People are the key to Smurfit Kappa Group’s success, especially those who make up our international team of some 38,000 employees across the world. We have used the opportunity of this Annual Report to show a wide selection of our colleagues doing valuable work in a number of SKG plants and operations.

GROUP PROFILE ▶

Latin American Operations

Virgin Mills (2)

Recycled Paper and Board Mills (9)

Corrugated (26)

Paper Sacks (5)

Other (29)

Virgin Mills

Recycled Mills

Corrugated

Specialties

Recovered Fibre

Forestry

Group Profile

Packaging Europe

Sales Volumes	**(million tonnes)**
Recycled Containerboard	3.0
Kraftliner	1.5
Sack Paper	0.1
Corrugated	4.4

Specialties Europe

Sales Volumes	**(million tonnes)**
Solidboard & Graphicboard	0.9
Solidboard Packaging	0.3

Latin America

Sales Volumes	**(million tonnes)**
Containerboard	0.7
Corrugated	0.7

European Operations

Virgin Mills (4)

Recycled Containerboard Mills (15)

Other Paper and Board Mills (8)

Corrugated (162)

Other (72)

Virgin Mills

Recycled Containerboard Mills

Corrugated

Specialties

Recovered Fibre

Mission

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

Smurfit Kappa Group plc

Contents

SKG at a Glance

The Group is an integrated paper and paperboard manufacturer and converter with operations in Europe and Latin America. The Group's operations are divided into Packaging Europe, Specialties Europe and Latin America. In Europe, the Packaging segment, which is highly integrated, includes a system of mills and plants that produce a full line of containerboard that is converted into corrugated containers. The Specialties segment comprises paper-based activities dedicated to the needs of specific niche markets, primarily bag-in-box and solidboard. Prior to their sale, the Group's European paper sack operations formed part of this segment. The Latin American segment comprises forestry, paper, corrugated, paper sack and folding carton activities in a number of Latin American countries.

The Group operates in 21 countries in Europe and is the European leader in containerboard, corrugated containers, solidboard and solidboard packaging and has a key position in several other paper packaging market segments. The Group operates in nine countries in Latin America where it is the only pan-regional operator. In terms of world market positions, the Group is the second largest producer of corrugated containers, one of the two largest producers of graphicboard and the third largest producer of containerboard.

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

In 2010, the Group's European Packaging and Specialties segments accounted for 72% and 11% of revenue respectively, with Latin America accounting for the remaining 17%.

At the date of this report, the Group owns 38 mills (27 of which produce containerboard), 225 converting plants (most of which convert containerboard into corrugated boxes), 41 reclamation facilities (which provide recovered fibre for the Group's mills) and 28 other production facilities carrying on other related activities. In addition, the Group owns approximately 105,000 hectares of forest plantations.

Mustafa Temiz and Tolga Tuzun at the Zedek print & display plant, Deventer, NL

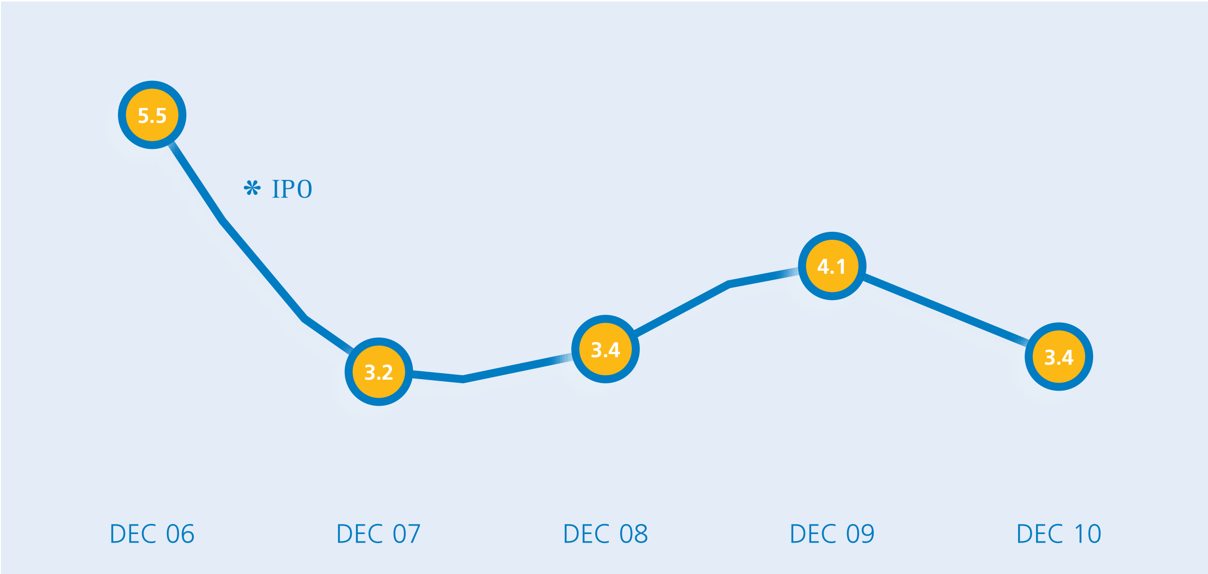
2010 Financial Performance Overview

	2010 €m	2009 €m
Revenue	**6,677**	6,057
EBITDA before exceptional items and share-based payment expense ('EBITDA')	**904**	741
EBITDA Margin	**13.5%**	12.2%
Operating Profit	**409**	267
Profit/(Loss) before Tax	**103**	(52)
Free Cash Flow	**82**	172
Net Debt	**3,110**	3,052
Net Debt to EBITDA	**3.4x**	4.1x

Barry Fiks and Emiel Heltzel at the Roermond mill, NL

SKG Net Debt to EBITDA Ratio

Leverage evolution



Fatima Turkylmaz at the Zedek print and display plant, NL


Paper machine 6 at the Facture paper mill, near Bordeaux, FR

Chairman's Statement

"The Group is pleased to deliver EBITDA growth of 22% for 2010."


Liam O'Mahony, Chairman

Year in Review

The Group is pleased to deliver EBITDA growth of 22% for 2010 with EBITDA of €904 million, free cash flow generation of €82 million and a reduction of our net debt to EBITDA ratio to 3.4x. 2010 was a year of strong progress for SKG, characterised by 10% growth in revenue, reflecting good volume and pricing recovery, both in Europe and Latin America, achieved against the backdrop of a significant rise in our input costs.

On behalf of the Board, I would like to thank all our employees for their commitment and contribution to our substantial progress on an outstanding set of achievements in 2010.

Governance and Board

The Board and Management of SKG supports the highest standards of Corporate Governance and ethical business conduct and the key principles and practices designed to achieve these standards are set out in the Corporate Governance statement.

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. Mindful of the rights of our two largest shareholders to appoint four directors in total and the need to keep the Board at a size that is not unwieldy, the Company is continuing its progress towards enhancing the composition of the Board to comply with this recommendation.

I would like to thank all of the Directors for their ongoing support and their contributions to the development and effectiveness of the workings of the Board and its various Committees during the year.

Tommy Birch at the Walkinstown corrugated plant, Dublin, IR

New Director

In June 2010 we were delighted to announce that Roberto Newell, a Mexican citizen, had been co-opted to the Board. Roberto's appointment reflects the increasing importance of the Latin American region to the Group and his extensive international experience will be valuable to the Board as we continue to develop our presence throughout the region.

Operational Visits

During 2010, I spent time with the businesses in three of the countries in which we operate in Latin America. In February together with Gary McGann, I visited several of our operations in Colombia and Venezuela and met the local management teams who continually outperform in sometimes difficult circumstances. In August, together with your Board I travelled to Mexico and visited the Cerro Gordo complex comprising a mill, folding cartons and corrugated plant in Mexico City together with the Guanajuato corrugated facility. We also inspected the site for our new corrugated facility in Atlacomulco which is scheduled to come on stream later this year.

In Europe in May, I visited our Italian operations and in September in the Netherlands, I had the pleasure of presenting the Innovation Awards to our Group's designers who have taken on our customers challenges for new product design and converted them into imaginative and cost effective solutions.

Asset Swap

During the year the Group completed an asset swap agreement with Mondi Group ('Mondi') where the Group acquired Mondi's UK corrugated operations comprising three corrugated box plants, and disposed of our Western European sack converting operations to Mondi. The total cash cost of the asset swap for SKG was €56 million.

This deal further strengthened the Group's leadership in its core corrugated packaging business, enhancing the significance and efficiency of the Group's integrated system in the increasingly attractive UK market.

Sustainability

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

During 2010, we produced our third Sustainability Report. It dealt with all aspects of our interaction with the environment, the constituencies impacted by us, our current position in terms of our performance improvement against key targets and most importantly our general commitments for the future. A summary of the report is contained on pages 30 to 33 of this report.

Dividends and Dividend Policy

As the Group continues to focus on maximising cash available for net debt reduction, the Board does not propose to pay a dividend for 2010. However, at the appropriate time, the restoration of dividends will be considered in the context of the general economic conditions and the sustainable outlook for the business.

Outlook

Current business conditions support continued price recovery with input costs remaining high and demand remaining strong. Industry inventory levels continue to be at a satisfactory level and the supply side outlook is favourable. These factors, together with SKG's ongoing cost control initiatives, should deliver further performance improvement and earnings growth in 2011.

In that context, the Group currently expects its free cash flow generation to be materially stronger in 2011, which should translate into significant debt paydown, and enhance the available range of strategic and financial options.

Liam O'Mahony

Liam O'Mahony
CHAIRMAN

Hernán Rebolledo at the Cali paper mill, CO

Chief Executive's Review

"The Group's strong performance highlights the benefits of the integrated model and focus on operating efficiency."

Gary McGann,
Group Chief Executive Officer

2010 Overview

The Group reported an EBITDA outcome of €904 million and an improved EBITDA margin of 13.5% for 2010. The strong performance highlights the benefits of our integrated business model and focus on operating efficiency. Despite significant input cost pressure, the increased EBITDA margin primarily reflects progress in the performance of our European packaging business, which benefited from healthier demand levels and from over 16% corrugated pricing recovery from the low point in September 2009 to the end of 2010.

In 2010, the Group also continued to actively manage its cost base, with €94 million of cost take-out benefits delivered in the year, thereby offsetting some of the input costs increases. Overall, from 2008 to 2010, SKG has delivered €306 million of cost take-out benefits, which should contribute to the delivery of structurally higher EBITDA margins compared to previous cycles.

SKG's performance also reflects the continued impressive contribution of our Latin American operations, as underlined by the higher EBITDA margin of 17.8% and a 7% growth in corrugated deliveries in 2010.

While the Group's energy costs were broadly stable in 2010, raw material costs were significantly higher. Recovered paper prices almost doubled on average compared to 2009 levels, while wood costs were 13% higher and this has continued into 2011.

This cost dynamic combined with the ongoing satisfactory market balance, allowed SKG to successfully implement a number of European containerboard price increases in 2010, and to announce a further recycled containerboard

Finished paper reels being stored

increase of €60 per tonne for February 2011. In viewing the supply demand balance in the containerboard market, it is worth bearing in mind that no new recycled containerboard machine is expected in Europe before 2012.

The higher containerboard pricing environment in turn generates major pressure on the Group's corrugated business. This has resulted in a continuing requirement to pursue corrugated pricing recovery through 2010 and into 2011 as additional corrugated price increases are required to compensate for the higher input costs, and in order to restore appropriate levels of returns in SKG's business.

Net Debt Reduction and Capital Structure

The Group's financial priority continues to be one of maximising free cash flow generation for further net debt reduction. The Group's free cash flow generation of €82 million in 2010 was lower than in 2009, largely reflecting a move towards more sustainable levels of capital expenditure, and as a result of increased absolute working capital levels due to higher raw materials and end-product prices year-on-year. Despite the positive free cash flow generation, SKG's net debt increased by €58 million in 2010, primarily reflecting the acquisition of the Mondi corrugated assets in the UK and adverse currency impacts.

From a leverage perspective, the 22% growth in EBITDA in the full year supported a reduction of the Group's net debt to EBITDA ratio to 3.4x at the end of 2010, compared to 4.1x at the end of 2009. The Group currently expects to deliver further meaningful de-leveraging in 2011, as a result of materially stronger cash flow generation and continued earnings progress.

In November 2010, the Group successfully completed a €250 million five year trade receivables securitisation programme which further extends the Group's long-term debt maturity profile and contributes to the diversity of its funding sources, thereby further enhancing its financial flexibility.

Customers

SKG's sustained financial performance also reflects a continuing focus on providing all customers, small, medium and large, with innovative, sustainable and cost efficient paper-based packaging solutions. The Group is uniquely equipped to provide industry leading customer service, supported by its unrivalled geographical footprint, cutting-edge design capabilities and a very extensive range of product offering. SKG will continue to invest to meet and exceed customers' requirements.

I would like to thank our customers on both continents for the continuing confidence and trust they placed in us and we look forward to continue working with them to enhance their product delivery and sales position.

People

I would like to acknowledge our approximately 38,000 employees in the 31 countries in which we operate for continuing to be the key differentiator in our business offering and for delivering the 2010 result. We believe our broad based multi-cultural international teams to be a competitive advantage and it is testament to them that we have successfully managed our way through one of the most difficult periods ever experienced by most businesses.

Gary McGann
GROUP CHIEF EXECUTIVE OFFICER

Renate Heutinck at the TWINCORR corrugated plant, Hoogeveen, NL

Strategy

As we emerge from this unprecedented downturn, and we make significant strides towards achieving our de-leveraging objectives, it is worth reminding shareholders of our strategy which was outlined on the Initial Public Offering ('IPO') in 2007.

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

The Group's immediate objectives and strategies are:

Edwuin Londoño at the warehouse, Cali paper mill, CO

- to profitably build on its market positions in Western and Eastern Europe and in Latin America through selective focused growth, including:
  - organic growth from increased market share through consolidating, and where possible, extending its leadership position in Western Europe. This will be achieved by leveraging the Group's relationships with its customers across its broad product range and enhancing its profitability by maximising synergies and optimising the cost base; and
  - acquisition and merger based growth in areas where market share and/or coverage facilitates it, particularly in the higher growth markets.

  This dual approach of organic growth and acquisition will be pursued in each of Western Europe, Eastern Europe and Latin America with acquisitions mostly focused on the higher growth markets of Eastern Europe and Latin America.

- to focus on enhancing its operational excellence, thereby continuing to improve its customer offering, by continuously upgrading its products, processes, services, quality and delivery in all markets by:
  - leveraging the Group's increasingly high quality asset base through continuous improvement programmes, transfer of best practice, industrial engineering, innovation and targeted capital investment;
  - increasing the proportion of added-value converting products in the overall portfolio through the use of the Group's development and technology centres, its pan-European network in high-value areas such as high quality printing, display and litho lamination; and
  - ensuring that its operations, whether in the converting or mill divisions, continue to be close to the customers and have a clear market focus rather than being production-driven.

- to focus on cash flow and appropriate returns on investment in order to maximise shareholder value.

- to secure and retain the optimal balance between debt and equity capital to facilitate the Group's growth strategy in a cyclical industry while striking the appropriate balance between risk and return.

Aurélien Gillet and Hélène Mauffroy at the bag-in-box plant, Epernay, FR

Operations Review

Following the widespread economic downturn that prevailed in 2009, operating conditions for the Group materially improved in 2010, supported by progressive demand and pricing recovery, and our continuing focus on operating efficiency.

Tony Smurfit,
Group Chief Operations Officer

The Group's sustained financial performance also continues to reflect its ongoing focus on providing customers with innovative, sustainable and cost efficient paper-based packaging solutions. The Group is uniquely equipped to provide industry leading customer service, supported by its unrivalled geographical footprint, design capabilities and extensive product offering. The Group will continue to invest to meet and exceed customers' requirements.

Packaging Europe

The Packaging Europe segment, which comprises primarily our integrated containerboard mills and corrugated operations, is the Group's largest segment, accounting for 72% of its revenue in 2010.

The Group has facilities in 21 countries, in both Western and Eastern Europe. On the mill side, the operations consist of three kraftliner mills, in Sweden, France and Austria, which between them produced approximately 1.5 million tonnes of brown and white kraftliner in 2010, 15 recycled containerboard mills which produced approximately 3.0 million tonnes of paper, and a sack kraft paper mill in Spain (transferred from Specialties Europe) which produced over 0.1 million tonnes of paper. The mills are supported by a number of recovered fibre collection facilities and some wood procurement operations. In the fourth quarter of 2010, we sold our French wood products operation, Rol Pin. On the conversion side, the operations comprise 108 corrugated plants, which produced approximately 4.4 million tonnes (8.0 billion square metres) in 2010 and 54 sheet plants. In addition, we have 21 plants which produce litho laminated corrugated products, preprint or display units and a number of other small plants producing paper tubes, pallets, fulfilment activities and other packaging solutions.

Will Akkerman at Solid Board Packaging, Oude Pekela, NL

Operations Review [continued]

Revenue for the segment in 2010 was €4.8 billion compared to €4.2 billion in 2009. Segmental EBITDA before exceptional items was €668 million, an increase of 32% on €505 million in 2009.

The Group's European corrugated volumes were 6% higher in 2010 than in 2009, reflecting a continued steady recovery of demand throughout the year as well as the presence of the UK plants acquired from Mondi as part of the asset swap. Excluding the former Mondi plants, volumes in our continuing operations were 4% higher year-on-year. Demand in early 2011 continues to be strong.

Despite the significant increase in input costs throughout 2010, the progressive improvement in the EBITDA margin of our European Packaging operations from 12.4% in quarter one to 15.2% in quarter four highlights the ongoing benefits of our efficient cost structure, strong asset base, price recovery, and focus on customer service and product innovation. In general, the Group's 2010 financial performance demonstrates the significant operational exposure of its business to the economic recovery.

On the cost side, the Group's average recovered fibre prices of approximately €120 per tonne in 2010 almost doubled compared to 2009 levels. In the fourth quarter of 2010, input cost pressure intensified further compared to the third quarter, with an approximate 5% increase in recovered fibre, and a double digit increase in wood costs.

The availability of recovered fibre has become an increasing concern for the containerboard industry in 2010, in particular in Central and Eastern Europe where competition for fibre is intense following the introduction of new containerboard capacity. On a positive note, however, lower availability and higher prices for fibre are significantly increasing the barriers to entry for new capacity, which could prove to be beneficial for the medium-term supply outlook of the industry.

In that context, the Group is favourably positioned, with 35% of its containerboard capacity using virgin (wood) fibre, and with the majority of its recycled mills located in Western Europe, where it has a well structured recovered fibre supply network, including its own collection facilities and long standing contracts with local suppliers.

Higher input costs, combined with adequate supply demand balance in Europe throughout 2010 supported a strong containerboard pricing recovery from the totally uneconomic price levels that prevailed in 2009. Public market indices have reported a total of €195 per tonne price increase for recycled containerboard from September 2009 to December 2010 (the equivalent of an 85% increase).

Patrick Badon at the Roermond paper mill, NL


Belinda Behling at Solid Board Packaging, Oude Pekela, NL

Early in 2011, recovered fibre prices have again increased, while energy and other input costs are also rising sharply. This has necessitated our announcement of a further price increase of €60 per tonne for recycled containerboard with effect from February. With continued good demand, we have succeeded in implementing a substantial part of the announced price increase, with the expectation that the balance will be implemented over the coming months.

On the kraftliner side, public market indices had reported a 65% price increase from September 2009 to the end of 2010. However, higher imports from the United States in quarter four generated some pressure on European kraftliner prices, and a 3% price adjustment was reported in January. In general, the outlook for kraftliner remains positive, supported by healthy global demand, and indications of a price increase in the United States.

These higher containerboard prices have generated significant pressure on the earnings of corrugated producers, which led to a necessary material pick-up in corrugated prices throughout 2010. In that context, the Group's corrugated pricing increased by over 16% from the low point in 2009 to the end of December 2010. The Group remains on track to achieve its 20% price recovery target by the end of the first quarter of 2011 in order to compensate for the containerboard price hikes implemented to date.

The additional recycled containerboard price increase announced for February 2011 will require further corrugated pricing recovery in the later part of 2011. As is normal, it will take up to six months to fully offset higher containerboard prices through corrugated price recovery.

Specialties Europe

The Specialties Europe segment consists of operations which manufacture and supply solidboard and solidboard packaging, boxboard, graphicboard, bag-in-box, cartons and other related products. With facilities in 11 countries, the operations comprise eight mills, eight conversion plants and five bag-in-box plants (including one in Canada). In 2010, the mills produced approximately 700,000 tonnes of solidboard and boxboard and 250,000 tonnes of graphicboard while the conversion plants produced over 300,000 tonnes of solidboard packaging and cartons, using a portion of the paper produced by the mills. Prior to their disposal in 2010, our European paper sack plants were part of this segment, as was our sack kraft paper mill in Spain, which was transferred to the Packaging Europe segment after the above disposal.

Revenue for the segment in 2010 was €755 million, representing 11% of total revenue for the Group, compared to €771 million in 2009 with the year-on-year decrease reflecting in part the disposal of the paper sack plants. Segmental

EBITDA before exceptional items was €63 million, a decrease of 11% on 2009's €71 million, primarily reflecting the significant impact of higher recovered fibre costs on the fibre intense solidboard business. The lower performance of the solidboard business was somewhat offset by an improved EBITDA from our bag in-box operations.

Demand for the Group's solidboard products was robust in the fourth quarter, and positive trends are being sustained into the current year. Following a successful board price increase of €50 per tonne in the first half of 2010, we implemented another €50 per tonne increase during the fourth quarter. Consequently, solidboard packaging prices are expected to rise meaningfully in 2011, which will support an earnings recovery in that business.

Latin America

The Group's Latin American operations consist of 11 paper mills in four countries (Colombia, Mexico, Venezuela and Argentina) producing containerboard, boxboard, sack paper and printing and writing paper, with a combined production of 1.1 million tonnes in 2010; 26 corrugated plants in 6 countries with a 2010 production of over 700,000 tonnes (1.2 billion square metres); 1 preprint facility; 5 paper sack converting plants in 4 countries; 3 folding carton plants in Mexico and Venezuela; 25 recovered fibre plants in 5 countries and forestry operations in Colombia and Venezuela.

Fanny Perot and Marion Vaillant at the bag-in-box plant, Epernay, FR

Jovanny Guarin at paper machine 4, Cali paper mill, CO

Coen Slots at the Roermond paper mill, NL


Edwin Wissink and Ronald Sterk at the Zedek print and display plant, Deventer, NL

Our Latin American operations maintained a strong performance in 2010, reporting an EBITDA margin of almost 18%. While Latin America represented approximately 17% of the Group's revenue in 2010, it generated 22% of the Group's EBITDA before exceptional items, reflecting its superior margin levels. Latin America remains one of the world's stronger growing regions, as demonstrated through the 7% year-on-year corrugated volume increase experienced within the Group's business in 2010. With the benefit of higher volumes in 2010, Latin American EBITDA of €200 million in 2010 was approximately 4% higher year-on-year in euro terms, with the relative weakness of the euro dampening somewhat the underlying growth in earnings. Market conditions varied across the region with a particularly difficult environment in Venezuela given the economic slowdown and continuing high inflation.

Demand for the Group's products in Mexico increased by 10% on average in 2010, although fourth quarter demand was somewhat softer than in the first nine months of the year. Raw material and electricity costs rose significantly throughout the year, but were largely offset by the successful implementation of two corrugated price increases. Early in 2011, Mexican demand is healthy and costs are relatively stable.

The EBITDA generated by our Colombian operations was materially higher in 2010 compared to 2009, primarily reflecting our continued cost reduction actions, and a generally low inflation rate in the country. After a relatively slow start to the year, the recovery in the Colombian economy accelerated from the second quarter of 2010, allowing the Group's corrugated volumes to increase by 11% for the full year compared to 2009. Deliveries in the fourth quarter were particularly strong with 14% growth.

In Argentina, the recovered fibre market remains under significant pressure. The consequent cost increase together with 14% end-market demand growth in 2010 has underpinned substantial containerboard and corrugated price increases, which allowed the Group to deliver materially higher EBITDA year-on-year.

In the challenging Venezuelan market, the Group's corrugated deliveries in 2010 declined by 7%. Continuing high inflation in the country was partly offset by our ongoing efforts to enhance its operating efficiency.

Despite some country-specific challenges from time to time, we believe that the geographic diversity of our business in the region, together with the proven ability of our management team in driving the business and growing its earnings, will continue to deliver a strong performance through the cycle.

Synergy/Cost Take-Out Programme

Early in 2008, the Group initiated a cost take-out programme to further strengthen the competitiveness of its operations. In the full year 2008, the programme delivered €72 million of sustainable cost savings, and a further €140 million was delivered in 2009.

In 2010 the Group generated a further €94 million of savings, including €20 million in the fourth quarter. This brings the 3-year achievement to €306 million over the 2008-2010 period. The Group's efficient cost base is a significant contributor to its strong and sustained relative margin performance, and should allow it to deliver higher returns.

Following the completion of its 3-year cost take-out programme, the Group has introduced a new 2-year initiative, with a target to generate €150 million of cost savings by the end of 2012.

Through the cycle, the Group will continue to focus on enhancing its cost efficiency, through selective capital investments, plant restructuring and closures, and internal benchmarking. In that context, we are currently considering a number of options to further enhance the competitiveness of our recycled mill system.

Jeremy Goff, Caitriona Ambrose, Kyra O'Sullivan and Ken Bowles, Finance Department, Group HQ, Dublin, IR

Finance Review

At €904 million, the Group's pre-exceptional EBITDA for 2010 was €163 million higher than 2009's €741 million.

Ian Curley, Group Chief Financial Officer

Results

At €904 million, the Group's EBITDA for 2010 was €163 million higher than 2009's €741 million. While negative currency movements and hyperinflation accounting decreased comparable EBITDA by €12 million, the asset swap and the closure or disposal of certain loss-making operations added €12 million. As a result, comparable EBITDA was €163 million higher year-on-year, representing an increase of 22%. The higher earnings in 2010 primarily reflected the progress in the performance of our European packaging operations, which benefited from healthier demand levels and a significant recovery in corrugated pricing. In addition, the Group continued to actively manage its cost base with the continued benefit of costs savings offsetting some of the input cost increases sustained during the year.

With the benefit of volume growth and improved pricing in 2010, revenue increased by over 10% to €6.7 billion in 2010 from €6.1 billion in 2009. The net impact of currency, hyperinflation accounting, the asset swap and other disposals and closures was negligible, resulting in a comparable year-on-year increase of €621 million, the equivalent again of over 10%.

The year-on-year increase in EBITDA arose mainly within the Packaging Europe segment. Driven by improved demand levels and continued corrugated price recovery, the profitability of this segment grew strongly year-on-year despite the significant increase in input costs throughout 2010. The profitability of our Specialties Europe segment was lower in 2010 reflecting the greater impact of higher recovered fibre costs on the fibre intensive solidboard business. Following the disposal of our European paper sack

Tim Snijckers and Willem Schoenmakers at the Roermond paper mill, NL

Mark van de Vegte at the Corrugated Development Centre, Hoogeveen, NL

operations, this segment comprises our solidboard and graphicboard mills, together with the related converting operations as well as our bag-in-box business. In 2010, an improved EBITDA from bag-in-box somewhat offset the lower earnings from the solidboard operations. Our Latin American segment performed strongly in 2010 with increased EBITDA year-on-year, despite the dampening impact of a net negative currency move reflecting the devaluation of the Venezuelan Bolivar. Excluding currency and hyperinflation accounting, the underlying year-on-year increase in Latin American EBITDA was almost 16%.

With depreciation, depletion and amortisation broadly unchanged year-on-year, the increase of €163 million in EBITDA was maintained at the level of operating profit. Consequently, our pre-exceptional operating profit (EBITDA less depreciation, depletion and amortisation and the share-based payment expense) of €490 million in 2010 was €165 million higher than the €325 million generated in 2009.

Our pre-exceptional net finance costs amounted to €308 million (costs of €431 million less income of €123 million) in 2010, compared to €304 million in 2009. The year-on-year increase of €4 million was primarily driven by higher cash interest costs largely offset by lower non-cash costs (foreign exchange losses and fair value moves on derivatives).

Cash interest of €259 million in 2010 was €34 million higher than in 2009, reflecting the higher margins agreed under the senior credit facility amendment in 2009 and the higher cost of the bonds issued in November 2009. At €49 million, non-cash interest costs were €30 million lower in 2010 with a positive move in the fair value of derivatives (from a loss in 2009 to a gain in 2010) and a lower net loss on foreign currency translation.

Including a net profit of €2 million from our share of associates' earnings, the Group's pre-exceptional profit before income tax was €184 million in 2010 compared to €20 million in 2009. The year-on-year increase in the contribution from associates resulted from a combination of improved profitability in 2010 and the absence of a loss-making associate, which was closed in late 2009.

Exceptional items

Exceptional items, which in total resulted in an operating loss of €81 million in 2010, comprised administrative expenses of €17 million and other operating expenses of €64 million.

The loss of €17 million arose from the devaluation of the Venezuelan Bolivar in January 2010. The total comprised a currency translation loss of €14 million booked in the first quarter from re-translating U.S. dollar denominated net payables in our Venezuelan operations together with related hyperinflation adjustments of €3 million booked over the remainder of the year.

The loss of €64 million related mainly to the Mondi asset swap and to the subsequent disposal of our Polish paper sack plant and Rol Pin, a wood products operation in France. As a result of the asset swap, which generated an exceptional loss of €41 million, we acquired three corrugated plants in the UK and disposed of our loss-making paper sack plants in Western Europe. We subsequently sold our Polish paper sack plant to Mondi at a loss of €6 million, thereby exiting the European paper sack market. The disposal of Rol Pin, a loss-making non-core business, in the fourth quarter of 2010 generated a loss of €16 million.

In 2009, exceptional items, which in total resulted in an operating loss of €58 million, comprised asset impairments of €33 million and reorganisation and restructuring costs of €25 million. The asset impairments of €33 million, which are charged within cost of sales, related to property, plant and equipment at the Sturovo mill in Slovakia, the permanent closure of this mill having been announced in 2009. The reorganisation and restructuring costs of €25 million, reported as other operating expenses, related mainly to the closure of the Sturovo mill and to the rationalisation of our Irish corrugated operations and the Rol Pin wood products business.

The exceptional finance costs of €22 million in 2009 represented the non-cash accelerated write-off of deferred debt issue costs relating to the debt paid down with the proceeds from the bond issue in November 2009. The exceptional finance income of €8 million related to the gain on the Group's debt buy-back.

Profit before Income Tax

After exceptional items, our total profit before income tax amounted to €103 million in 2010, comprising the pre-exceptional profit of €184 million and net exceptional costs of €81 million. In 2009, the net loss of €52 million comprised the pre-exceptional profit of €20 million and net exceptional costs of €72 million.

Income Tax Expense

The accounting tax expense for 2010 was €45 million (comprising a current tax expense of €64 million net of a deferred tax credit of €19 million) compared to €55 million (comprising a current tax expense of €70 million net of a deferred tax credit of €15 million) in 2009. The current tax expense in 2009 included the effects of a number of items that did not recur in 2010. The tax expense is largely determined by the geographical mix of earnings at the tax rates in force in each location. In 2010, it included the effect of new income taxes in France and a significant reduction in the tax expense in Venezuela. The deferred tax credit included the effects of the recognition of tax losses not previously recognised but this was offset by a deferred tax expense associated with the use of prior year tax losses.

Earnings per share

The basic earnings per share amounted to 22.9 cent in 2010 compared to a loss of 55.8 cent in 2009. On a diluted basis, our earnings per share in 2010 amounted to 22.5 cent. In 2009, there was no difference between the loss per share on a basic and diluted basis, since the inclusion of the dilutive impact of the convertible shares would have the effect of reducing the 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, which was 218,655,000 in 2010 compared to 218,024,000 in 2009. Ordinary shares in issue at 31 December 2010 amounted to 220,064,000 (2009: 218,034,000).


Pawel Rybka at the Walkinstown corrugated plant, Dublin, IR

Finance Review [continued]

Financial Performance Indicators

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

	2010	2009
EBITDA* (€m)	**904**	741
EBITDA margin to revenue (%)	**13.5**	12.2
Net debt (€m)	**3,110**	3,052
Net debt to EBITDA (times)	**3.4**	4.1
Free cash flow (€m)	**82**	172
Return on average capital employed** (%)	**9.9**	6.6

* *Earnings before exceptional items, share-based payment expense, net 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 debt at year-end).*

Reconciliation of Profit/(Loss) to EBITDA

	2010 €m	2009 €m
Profit/(loss) for the financial year	**58**	(107)
Income tax expense	**45**	55
Exceptional items charged in operating profit	**81**	58
Share of associates' operating (income)/loss	**(2)**	1
Net finance costs (after exceptional items)	**308**	318
Depreciation, depletion (net) and amortisation	**410**	413
Share-based payment expense	**4**	3
EBITDA before exceptional items and share-based payment expense	**904**	741

Stéphane Picard and Julien Danielczyk at paper machine 5 at the Facture paper mill, near Bordeaux, FR

EBITDA and EBITDA margin

The Group uses EBITDA as a measure of the relative performance of its operations both over time and in comparison to its peer group. 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.

EBITDA increased by 22% to €904 million in 2010 from €741 million in 2009, with currency, hyperinflation accounting, the asset swap and other disposals and closures having a negligible impact overall. Our reported EBITDA represented a margin of 13.5% of revenue in 2010 compared to 12.2% in 2009.

Net debt to EBITDA

Leverage is an important measure of our overall financial performance. Net debt amounted to €3,110 million at December 2010 compared to €3,052 million at December 2009.

Although our net debt increased by €58 million year-on-year, the impact on our leverage was more than offset by the benefit of the significant increase in EBITDA. As a result, our leverage decreased from 4.1x at December 2009 to 3.4x at December 2010, comfortably within the covenant limit of 5.1x in our senior credit facility.

Return on capital employed

With the benefit of an almost 52% increase in our pre-exceptional operating profit, the Group's return on capital employed rose to 9.9% in 2010 from 6.6% in 2009.

Our return on capital employed in 2009 was adversely affected by the entries recorded in respect of hyperinflationary accounting for Venezuela, which reduced our operating earnings by €26 million and increased our capital employed at December 2009 by €225 million. Excluding these entries, our return on capital employed in 2009 would have been 7.2%. The devaluation of the Bolivar in January 2010 largely reversed the uplift to our capital employed at December 2009.

Free cash flow

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 debt. Free cash flow is the result of the cash inflows and outflows from our operating activities, and is before those arising from acquisition and disposal activities. We use free cash flow to assess and understand the total operating performance of the business and to identify underlying trends.

Summary Cash Flow[1]

	2010 €m	2009 €m
Pre-exceptional EBITDA	**904**	741
Exceptional items	**(17)**	(10)
Cash interest expense	**(259)**	(225)
Working capital change	**(92)**	65
Current provisions	**(24)**	(14)
Capital expenditure	**(274)**	(229)
Change in capital creditors	**(28)**	(19)
Tax paid	**(82)**	(95)
Sale of fixed assets	**6**	4
Other	**(52)**	(46)
Free cash flow	**82**	172
Share issues	**9**	–
Gain on debt buy-back	**–**	9
Sale of businesses and investments	**(13)**	–
Purchase of investments	**(47)**	(9)
Dividends	**(5)**	(7)
Derivative termination payments	**(3)**	(4)
Net cash inflow	**23**	161
Net cash acquired/disposed	**(3)**	–
Deferred debt issue costs amortised	**(20)**	(43)
Currency translation adjustments	**(58)**	15
(Increase)/decrease in net debt	**(58)**	133

1 *The summary cash flow is prepared on a different basis to the cash flow statement under International Financial Reporting Standards ('IFRS') and is produced to further assist readers of the accounts.*

The principal differences are as follows:

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

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

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

Reconciliation of free cash flow to cash generated from operations

	2010 €m	2009 €m
Free cash flow	**82**	172
Add back:		
Cash interest	**259**	225
Capital expenditure (net of change in capital creditors)	**302**	248
Tax payments	**82**	95
Less:		
Sale of fixed assets	**(6)**	(4)
Profit on sale of assets and businesses – non-exceptional	**(12)**	(6)
Receipt of capital grants (in 'Other' per summary cash flow)	**(3)**	(3)
Dividends from associates (in 'Other' per summary cash flow)	**(1)**	(1)
Cash generated from operations	**703**	726

Cash generation

Although EBITDA grew strongly year-on-year, our free cash flow at €82 million in 2010 was €90 million lower than in 2009 as a result of a significantly higher working capital outflow, increased capital expenditure and, to a lesser extent, higher cash interest.

The working capital move in 2010 was an outflow of €92 million, compared to an inflow of €65 million in 2009, which reflected the industry downturn which prevailed for much of that year. As a result of strengthening demand, higher raw material costs and higher end-product prices year-on-year, working capital amounted to €584 million at December 2010, representing 8.4% of annualised sales revenue. Working capital of €484 million at December 2009 represented 7.9% of annualised sales revenue.

The Group continues to effectively manage working capital, as underlined through the ratio of 8.4% to annualised sales revenue at December 2010, compared to 8.7% at September 2010. Through the cycle, we expect to maintain our year-end working capital to sales ratio between 8% and 9%.

At €274 million in 2010, our capital expenditure was €45 million higher than 2009's €229 million and equated to 75% of depreciation. Reflecting improving market conditions, we have increased the level of capital expenditure as the year has progressed. In 2009, in response to the industry conditions then prevailing and in order to maximise our debt pay down capability, we reduced the level of capital expenditure to 63% of depreciation. In 2011, we expect to increase our capital expenditure back towards the more sustainable level of approximately 90% of depreciation.

In cash terms, our capital expenditure in both years was increased by an outflow in respect of the change in capital creditors, with an outflow of €28 million in 2010 compared to €19 million in 2009.

Cash interest amounted to €259 million in 2010 compared to €225 million in 2009, with the year-on-year increase resulting from the higher average interest cost following the changes in the Group's debt structure in 2009.

The outflow of €24 million in respect of current provisions relates to amounts charged in prior years and includes the payment of reorganisation and restructuring costs.

At €82 million in 2010, our tax payments were €13 million lower year-on-year, primarily reflecting the absence of approximately €20 million of non-recurring items which arose in 2009, somewhat offset by the impact of higher underlying payments in 2010 as a result of improved earnings. Other net outflows at €52 million, which related mainly to employee benefits, were €6 million higher than in 2009.

Wood storage facility at the Facture paper mill, near Bordeaux, FR

Finance Review [continued]

Investment and financing cash flows in 2010 amounted to a net outflow of €59 million compared to €11 million in 2009. The outflows related primarily to the Mondi asset swap and to the disposal of our Polish paper sack plant and Rol Pin. The outflow of €13 million in respect of disposals comprised €9 million paid to Mondi to take on the loss-making paper sack plants and €4 million (of a total of €14 million) paid under the agreement with the buyers of Rol Pin. The remaining €10 million will be paid in 2011. The outflow of €47 million in respect of purchases represented (together with transaction costs) the €45 million paid to Mondi for the corrugated plants acquired under the asset swap along with €2 million paid under the settlement agreed with the minority in Sturovo as part of the process of closing the mill. The remaining investment and financing cash flows in 2010 comprised a €9 million inflow in respect of share issues associated with the exercise of options and outflows of €3 million and €5 million respectively in relation to derivative repayments and minority dividend payments.

Investment and financing cash flows in 2009 comprised mainly the inflow of €9 million on our debt buy-back programme, the payment of the final part of the deferred consideration for Plasticos (the Spanish bag-in-box business acquired in 2007) and minority dividends of €7 million.

After investment and financing cash movements, the net cash inflow for 2010 was €23 million compared to €161 million in 2009.

The reconciliation of the net cash inflow to the decrease in net debt includes certain non-cash items. For 2010, these comprise a cash movement of €3 million arising from the asset swap, €20 million in respect of the amortisation of debt issue costs and a negative currency movement on net debt of €58 million.

In addition to reflecting the impact of the relative weakness of the euro, mainly on our U.S. dollar denominated borrowings, the negative currency move of €58 million in 2010 included a loss of approximately €26 million on our Bolivar denominated net cash balances as a result of January's devaluation. Despite some recovery in the strength of the euro relative to the U.S. dollar in the second half of 2010, primarily in the third quarter, the negative currency move on the dollar amounted to over €30 million. Over the course of 2010, the euro weakened progressively from a rate of US$1.44 at December 2009 to US$1.23 at June before strengthening to US$1.34 at December.

In total, the Group's net debt increased by €58 million in 2010 to €3,110 million compared to €3,052 million at the start of the year. In 2009, with higher free cash flow, modest financing and investment outflows and the benefit of a positive currency move, net debt decreased by €133 million.

Capital Resources and Liquidity

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,205 million, of which €3,582 million was utilised at December 2010. The weighted average period until maturity of undrawn committed facilities is approximately three years. Our debt portfolio is well structured and has a relatively long-term maturity profile. Our nearest significant debt maturity is towards the end of 2013,


Bart Zegers, Remy Notten and Paul Uildriks at Solid Board Packaging, Oude Pekela, NL

when Tranche B of the senior credit facility matures.

In November 2010, the Group successfully completed a €250 million five year trade receivables securitisation programme, further extending the Group's maturity profile and contributing to its diversity of funding sources. Proceeds were primarily used to refinance the Group's existing €210 million securitisation programme which had a September 2011 maturity. As at the end of December the Group had an average maturity profile of 5.3 years.

The weighted average interest rate on our debt was 6.5% at December 2010, compared to 7% at December 2009. The year-on-year decrease reflects the maturity during the course of 2010 of €720 million in interest rate swaps, which were not replaced as a result of the increase in fixed rate debt following the €1 billion senior secured note issuance in November 2009, and the effect of a reduction in margin on the senior credit facility during 2010 arising from lower leverage.

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

Market Risk and Risk Management Policies

The Board of Directors sets the Group's treasury policies and objectives, which include controls over the procedures used to manage financial market risks. These are set out in detail in Note 28 to the Consolidated Financial Statements.

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. At 31 December 2010, the Group had fixed an average of 76% of its interest cost on gross borrowings over the following twelve months.

Our fixed rate debt comprised mainly €500 million 7.25% senior secured notes due 2017, €500 million 7.75% senior secured notes due 2019, €217.5 million 7.75% senior subordinated notes due 2015, US$200 million 7.75% senior subordinated notes due 2015 and US$292.3 million 7.50% senior debentures due 2025. In addition the Group also has €1,110 million in interest rate swaps with maturity dates ranging from April 2012 to July 2014.

Our earnings are affected by changes in short-term interest rates as a result of our floating rate borrowings. If LIBOR interest rates for these borrowings increase by one percent, our interest expense would increase, and income before taxes would decrease, by approximately €10 million over the following twelve months. Interest income on our cash balances would increase by approximately €5 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

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


Carlos Mario Jiménez and Claudia Gómez with colleagues at the Restrepo forestry nursery, CO

Sustainability

Sustainability Report

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

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

SKG published its third annual Sustainability Report in June 2010 and it is available on the Group's website at www.smurfitkappa.com. It includes details of the principles by which the Group abides in its interaction with key areas of the environment, social development (including health and safety) and business development. A roadmap was included in the report which outlines SKG's commitment to continued progress and performance improvement in the areas which we have identified as those underpinning the concept of sustainability. SKG also reports on its progress against the targets and commitments made for 2009 using the guidelines issued by the Global Reporting Initiative ('GRI'). In an effort to improve transparency, we increased the application level of our reporting to GRI B+ and we also engaged KPMG to undertake external assurance on a number of key environmental indicators. SKG will continue to drive the sustainability

Bert Mik and Berthil Jans at the Coevorden solid board mill, NL agenda and its objective is to improve its performance every year. A further Sustainability Report will be issued later this year, which will advance SKG's commitments in this area.

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

A report on Corporate Governance is detailed on pages 36 to 45 of this Annual Report and a short overview on SKG's performance in the other key areas now follows.

Social Citizenship

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

SKG applies the principles of respect for human rights, freedom of association, fair compensation, and diversity regardless of age, gender, sexual orientation, ethnic origin, disability or nationality. Merit is the key determinant in recruitment and promotion.

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

Implementing SKG's social citizenship policy is the responsibility of line management who are supported by the Human Resource Managers at Country, Segment and Group level.

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

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

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

Health and Safety

The SKG Policy states that:

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

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

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

The Group has 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 and health and safety committees exist at all operating sites with broad-based representation of individuals and employees.

Environment

The principles SKG applies in terms of the environment include:

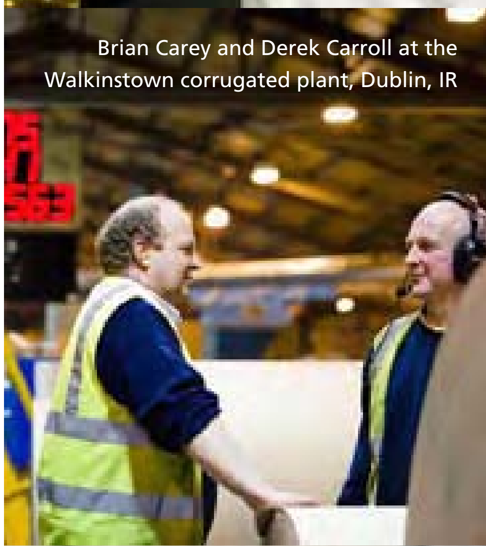
- Complying with national and international environmental legislation and seeking to achieve best practice through benchmarking and the promotion of continuous improvement programmes
- Developing appropriate environmental management systems that continue to question the status quo thereby helping to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

Noteworthy highlights were:

- In Europe, 100% of our mill system is now Chain of Custody certified under the Forestry Stewardship Council or the Programme for the Endorsement of Forest Certification.
- In Latin America, almost 50% of our mill system is now certified under Environmental Management Systems.
- Significant progress was made in the certification process of our converting operations in Europe.
- SKG became a participant in the UN Global Compact initiative.
- Early in 2011, SKG won a prestigious Unilever Supplier Award in the inaugural 'Winning through Sustainability' category.

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


Lissa Amparo Urrutia at the Cali paper mill, CO


Brian Carey and Derek Carroll at the Walkinstown corrugated plant, Dublin, IR


Wim Schreurs at the Roermond paper mill, NL

Board of Directors

1 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 was appointed Chairman in December 2008. He is Chairman of IDA Ireland and a Director of CRH plc and Project Management Ltd. He was the Chief Executive Officer of CRH plc from January 2000 until his retirement in December 2008, prior to which he held a number of senior management positions within the CRH Group including Chief Executive of its U.S. operations and Managing Director, Republic of Ireland and UK companies. (Age 64)

2 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 Aon Ireland, a Director of United Drug plc and the Irish Business Employers Confederation ('IBEC')and a member of the European Round Table of Industrialists ('ERT'). (Age 60)

3 Anthony Smurfit

Anthony Smurfit was appointed Group Chief Operations Officer in November 2002. He has worked in various parts of the Smurfit Group both in Europe and the United States since he joined the Group over twenty years ago. He was Chief Executive of Smurfit Europe from October 1999 to 2002 prior to which he was Deputy Chief Executive of Smurfit Europe and previously Chief Executive Officer of Smurfit France. (Age 47)

4 Ian Curley

Ian Curley was appointed Group Chief Financial Officer in January 2000. He joined the Group in 1989 having previously worked for a number of multinationals in Ireland. He was appointed Chief Financial Officer of Smurfit Europe in 1997, prior to which he served as Financial Controller of Smurfit Continental Europe for a number of years based in the UK and France. (Age 48)

5 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 a former Chairman of both the Confederation of European Paper Industries and the International Corrugated Cases Association. In December 2007 he was appointed by the Dutch Queen as Officer in the Order of Oranje Nassau. (Age 63)

6 Thomas Brodin

Thomas Brodin joined the Board in April 2008. He is currently Head of Equities and a member of the executive management team at Erik Penser Bankaktiebolag, an independent and privately owned Swedish bank. 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 47)

7 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), BWAY Holding Company, the Illinois Venture Capital Association and the University of Chicago Laboratories School. (Age 39)

8 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), Northshore University HealthSystem and Packaging Corporation of America, and a member of the Board of Fellows of Brown University and the Art Institute of Chicago. (Age 54)

9 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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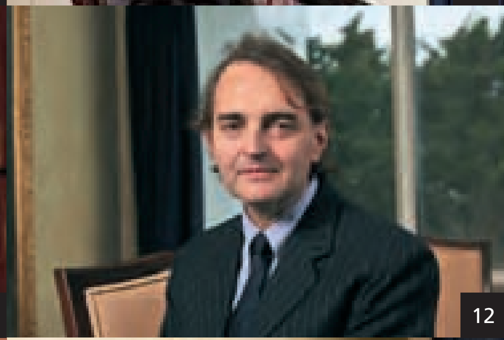
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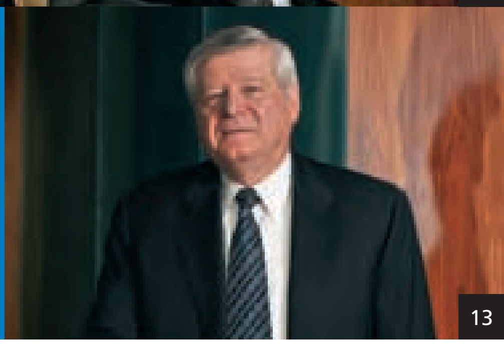
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sectors. He is a member of the Institute of Chartered Accountants of Scotland. He is also a Director of Worth School. (Age 44)

10 Roberto Newell

Roberto Newell joined the Board in June 2010. He is Vice Chairman of the Board of the Instituto Mexicano para la Competitividad, A.C. ('IMCO'), an independent think-tank in Mexico, established to develop policies to enhance Mexico's competitiveness. Prior to joining IMCO, Mr Newell served Mexico's Federal Government, most recently as Deputy Secretary for Agriculture. Between 1984 and 2001, Mr Newell worked for McKinsey & Co., where he served clients in North America and Latin America. At McKinsey, Mr Newell advised large corporations and national governments with a focus on the financial and telecommunications sectors. Mr Newell serves on the Board of a number of institutions in Mexico. (Age 63)

11 Nicanor Restrepo

Nicanor Restrepo joined the Board upon the Company being admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. He was previously the President and Chief Executive Officer of Suramericana de Inversiones S.A. He is a Director of Sofasa (Renault), Exito S.A. (Groupe Casino), Conconcreto S.A. and Carvajal Internacional S.A. He has extensive business experience having occupied several positions in the private sector and has received many awards both in Colombia and internationally. (Age 69)

12 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 50)

13 Paul Stecko

Paul Stecko joined the Board in February 2008. He is Executive Chairman of Packaging Corporation of America ('PCA') since July 2010, prior to which he had served as Chairman and Chief Executive Officer of PCA since 1999. Prior to 1999 he served as President and Chief Operating Officer of Tenneco Inc and other senior positions within Tenneco including President and Chief Executive Officer of Tenneco Packaging Inc which was the business that included PCA which was subsequently sold by Tenneco in 1999. Mr Stecko spent 16 years with International Paper Company. He is a member of the Board of Directors of Tenneco Inc and State Farm Mutual Insurance Company. (Age 66)

14 Rosemary Thorne

Rosemary Thorne joined the Board in March 2008. She was most recently Group Finance Director for Ladbrokes plc from 2006 to April 2007. Prior to that she was Group Finance Director at Bradford and Bingley plc from 1999 to 2005 and at J Sainsbury plc from 1992 to 1999. Ms Thorne has extensive experience as a non-executive Director and currently serves as a non-executive Director with Santander UK plc. (Age 59)

Board Committees 2010

Audit	R. Thorne, Chairman T. Brodin C. McGowan G. Moore R. Newell P. Stecko
Compensation	P. Stecko, Chairman L. O'Mahony R. Newell N. Restrepo R. van Rappard S. Mencoff
Nominations	N. Restrepo, Chairman L. O'Mahony R. Thorne T. Brodin G. McGann
Senior Independent Director	N. Restrepo

Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance. As required by the Listing Rules of the Irish Stock Exchange ('ISE') this Corporate Governance Statement describes how Smurfit Kappa Group applied the principles of the Combined Code on Corporate Governance ('Combined Code') published in June 2008 by the Financial Reporting Council ('FRC') throughout the financial year ended 31 December 2010. Except where otherwise stated, the Directors believe that the Group has complied with the provisions of the Combined Code throughout the year under review.

The Directors note that on 29 September 2010, the ISE amended the Listing Rules of the ISE to require Irish listed companies to comply or explain against the provisions of the new UK Corporate Governance Code published in June 2010. The UK Corporate Governance Code applies to accounting periods beginning on or after 30 September 2010. In addition, the ISE introduced the Irish Corporate Governance Annex to apply to accounting periods beginning on or after 18 December 2010. A copy of the Combined Code on Corporate Governance (June 2008) and the UK Corporate Governance Code (June 2010) can be obtained from the FRC's website: *www.frc.org.uk*. A copy of the Irish Corporate Governance Annex can be obtained from the ISE's website: *www.ise.ie*.

The Board welcomes corporate governance developments and believes the Group is already substantially compliant with the provisions of the UK Corporate Governance Code. The Group will apply the UK Corporate Governance Code and the Irish Corporate Governance Annex for the financial year beginning on 1 January 2011.

Board of Directors

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

- Approval of the Group's strategy
- Board appointments including those of the Chairman and Group Chief Executive
- Agreement of terms of appointment of the Chairman, Group Chief Executive and other executive Directors
- Agreement of any fundamental changes to the Group management and control structure
- Approval of the annual financial budgets
- Approval of capital expenditure above fixed limits
- Approval of material acquisitions and disposals of businesses
- Approval of the Interim 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 Articles of Association of the Company. The Directors have access to independent professional advice at the Group's expense, if and when required. No such advice was sought by any Director during the year. The Board Committees are provided with sufficient resources to undertake their duties.

Membership and Board Independence

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

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

* *For Smurfit Kappa Group plc and predecessor companies.*

** *On his appointment as Chairman in December 2008 Mr O'Mahony was independent.*

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.

The composition of the SKG Board reflects, in part, the entitlement of SKG's two largest shareholders, under the Group's Articles of Association, to appoint up to four Directors to the Board. The Articles of Association allow MDCP III, MDCP IV and MDSE III jointly (together 'MDP') and Smurfit Kappa Feeder G.P. Limited ('SKF') the right to nominate up to two persons each as Directors to the Board. This right is based on them maintaining a shareholding of, or in excess of, 15% in the Group. Should MDP or SKF's holding fall below 15% but remain above 10%, they retain the right to appoint one Director to the Board. The right to appoint a Director falls away if a shareholding falls below 10%.

While the four shareholder nominated Directors are deemed 'affiliated' Directors (and, therefore, non-independent), SKG does not believe this compromises either their independence of judgment, their contribution to the Board or the quality of their oversight. The Group has an effective Board to provide governance for an internationally diverse business whose interests span two continents and 31 individual countries. Each of the Group's non-executive Directors has broad-based business expertise and many have gained significant and relevant (paper-based packaging) industry specific expertise over a number of years. The composition of the Board reflects the need, as outlined by the Combined Code, for an effective Board to maintain a balance of "skills, knowledge and experience".

Corporate Governance Statement [continued]

Since 2008, and recognising the recommendations of Combined Code, the Group has appointed five independent Directors to its Board: Thomas Brodin, Roberto Newell, Nicanor Restrepo, Paul Stecko and Rosemary Thorne. The Group is continuing its work towards enhancing the composition of the Board to comply with the Combined Code recommendations on Board independence.

During 2010, the Group reviewed the composition of the Board and determined that Thomas Brodin, Roberto Newell, Nicanor Restrepo, Paul Stecko and Rosemary Thorne are independent. In reaching that conclusion the Board took into account the principles relating to independence contained in the Combined Code and specifically whether any of the non-executive Directors:

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

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

Experience and Skills

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

Appointments, Retirement and Re-Election to the Board

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first Annual General Meeting ('AGM') 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 letter of appointment of non-executive Directors will be available for inspection at the AGM and is available, on request, from the Company Secretary.

As noted above, pursuant to the Articles of Association of the Company, MDP have the right to nominate up to two persons for appointment as Directors and has nominated Samuel Mencoff and Christopher McGowan. Similarly SKF also has the right to nominate up to two persons for appointment as Directors and has nominated Rolly 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.

Details of the Directors offering themselves for re-election at the 2011 AGM are set out on page 46.

The Board is aware of the new recommendations set out in the UK Corporate Governance Code (published June 2010) regarding annual election of all Directors by shareholders. The Board intends to implement annual re-election of Directors with effect from its 2012 AGM.

Remuneration

Details of remuneration paid to Directors (executive and non-executive) are set out in the Remuneration Report on pages 53 and 54. In line with emerging best practice corporate governance, this report will be presented to shareholders for the purposes of a non-binding advisory vote at the AGM on 6 May 2011.

Chairman

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

Senior Independent Director

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

Group Secretary

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

Meetings

The Board meets at least five times each year with additional meetings as required. The Board met six times in 2010. Details of the meetings held during the period, both of the Board and of the Board Committees, are contained in the schedule on page 45, which also includes information on individual attendance. The Board holds at least one of its meetings each year at a Group operation to give the Directors an opportunity to meet with a wider range of management and to see the Group's operating activities. In 2010 the August Board meeting was held in Mexico. The Board is supplied on a timely basis in advance of Board meetings with a Board Book comprising strategic updates, operational, financial and investor relations information together with Board papers on key issues in a form and of a quality to enable it to discharge its duties effectively. The Board papers also include the minutes of all Board committee meetings and at each Board meeting the Chairman of each committee gives a report on major agenda items discussed at committee meetings held since the last Board meeting. When Directors are unable to attend a meeting having been advised of the matters to be discussed they are given an opportunity to make their views known to the Chairman or the Group Chief Executive prior to the meeting.

Induction and Development

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

Corporate Governance Statement [continued]

Performance Evaluation

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

Share Ownership and Dealing

Details of Directors' shareholdings are set out on page 54. The Group has a policy on dealing in shares that applies to all Directors and senior management. This policy adopts the terms of the Model Code as set out in the Listing Rules published by the UK Listing Authority and the Irish Stock Exchange. Under this policy, Directors and senior management are required to obtain clearance from prescribed persons before dealing. Directors and senior management are prohibited from dealing in Smurfit Kappa Group shares during designated close periods and at any other time when the individual is in possession of Inside Information (as defined by the Market Abuse (Directive 2003/6/EC) Regulations 2005).

Board Committees

As recommended by the 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 discussed since the last meeting and the minutes of all Committee meetings are circulated to all of the Directors.

The current membership of each Committee is set out on page 35. The 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, Compensation, and Nominations Committee is an independent non-executive Director and a majority of each of the committees comprises independent non-executive Directors.

Audit Committee

The Audit Committee, chaired by Rosemary Thorne, comprises five non-executive Directors. Of these, Rosemary Thorne and Gordon Moore have recent and relevant financial experience. The Committee met five times during the year under review. The Group Chief Executive Officer, the Group Chief Financial Officer, the Group Internal Auditor, the Group Compliance Manager, and senior members of the 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:

- monitoring the integrity of the financial statements of the Group
- reviewing significant financial reporting issues and judgements which they contain
- 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 and risk management framework
- the appointment of the Group 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, 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 Group Treasury Policy, the Financial Monitoring Policy, the Treasury Compliance Programme and the Competition Compliance Programme are up to date and embedded in the Group processes
- reviewed and approved the Group's risk assessment framework
- reviewed and approved each significant risk facing the group together with the actions proposed by management to avoid or mitigate those risks
- reviewed the Group's monitoring processes over internal control.

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

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

The Group has a policy governing the conduct of non-audit work by the auditors. The engagement of the external auditors to provide any non-audit services must be pre-approved by the Audit Committee or entered into pursuant to pre-approval policies and procedures established by the Committee. The policy exists to ensure that the auditors do not audit their own work, participate in activities that would normally be undertaken by management, have a mutuality of financial interest with the Group or act in an advocacy role for the Group.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in Note 6 to the Financial Statements on page 97.

The Nominations Committee

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

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 used the services of an external advisor in the appointment of Roberto Newell during 2010.

Corporate Governance Statement [continued]

The Compensation Committee

The Compensation Committee chaired by Paul Stecko comprises five non executive Directors.

The Committee met five times during the year. 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 as appropriate.

Communication with Shareholders

The Board gives a high priority to effective communications with shareholders and recognises the need to understand the views of major investors. On a day-to-day basis, contact with institutional shareholders is the responsibility of the Group Chief Executive Officer, the Group Chief Financial Officer and the Investor Relations Manager. The Chairman, Senior Independent Director and any other member of the Board are available to meet major investors if required. Shareholder communications are given high priority and there is regular dialogue with individual shareholders, as well as general presentations, plant visits, attendance at relevant conferences and conference calls at the time of the release of the annual and quarterly results.

The papers for each Board meeting include a comprehensive 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 Company's AGM affords each shareholder the opportunity to question the Chairman of the Board, the Chairmen of all Committees and all other Board members. The Notice of Annual General Meeting and related papers together with the Annual Report and Financial Statements are sent to shareholders at least twenty working days before the meeting. In addition, the Company responds throughout the year to numerous queries from shareholders on a broad range of issues.

Shareholder Meetings and Shareholder Rights

Shareholders' meetings are governed by the Articles of Association of the Company and the Companies Acts 1963-2009.

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

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

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

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

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

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 Environment, Sustainable Forestry, Social Citizenship and Health and Safety. The Group's principles are summarised on pages 30 to 33 and are described in detail in the Sustainability Report for 2009 which is available on the Group's website. The Sustainability Report for 2010 will be published later this year.

Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness, in order to safeguard shareholders' investments and the Group's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. 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 to them. As such, the system of internal control throughout the Group's operations ensures that the organisation is capable of responding quickly to evolving operational and business risks and that significant internal control issues should they arise are reported promptly to appropriate levels of management.

The Board is responsible for determining the nature and extent of the significant risks it is willing to take to achieve its strategic objectives. Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified, evaluated and appropriate risk management strategies are implemented at each level. The key business risks are identified by the senior management team. The Audit Committee and Board in conjunction with senior management reviews 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 Group Compliance Manager and the Group Internal Auditor at least quarterly in order to satisfy itself on the adequacy of the Group's internal control system.

Corporate Governance Statement [continued]

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 46 to 48), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

Financial Reporting

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, the Chief Executive's Review, Strategy and the Operations Review on pages 6 to 19. The financial position of the Group, its cash generation, capital resources and liquidity and its market risk and risk management policies are described in the Finance Review on pages 20 to 29. In addition, Notes 20, 22, 23 and 28 to the Financial Statements detail cash and cash equivalents, capital and reserves, borrowings and financial instruments. Note 28 to the Financial Statements also highlights the Group's financial and credit risk management, hedging activities, liquidity risk and capital risk management.

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

Directors' Report

The Change of Control, Capital Structure and Purchase of Own Shares Information are set out on pages 47 and 48 in the Directors' Report and form part of this Corporate Governance Statement.

Attendance at meetings during the year to 31 December 2010

Name	Board		Audit		Compensation		Nomination	
	A*	B*	A*	B*	A*	B*	A*	B*
L. O'Mahony	6	6			5	4	4	4
T. Brodin	6	6	5	5			4	4
F. Beurskens	6	6						
G. Moore	6	6	5	5				
S. Mencoff	6	5			5	4		
C. McGowan	6	5	5	5				
R. Newell**	3	3	3	3	3	3		
N. Restrepo	6	6			5	5	4	4
R. van Rappard	6	3			5	3		
P. Stecko	6	6	5	5	5	5		
R. Thorne	6	6	5	5			4	4
G. McGann	6	6					4	4
A. Smurfit	6	6						
I. Curley	6	5						

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

** *R. Newell was appointed to the Board on 22 June 2010 and to the Audit and Compensation Committees in August 2010.*

Directors' Report

Report of the Directors

The Directors submit their Report and Financial Statements for the year ended 31 December 2010.

Principal Activity and Business Review

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

The Chairman's Statement, the Group Chief Executive's Review, Strategy, the Operations Review and the Finance Review (including financial risk management policies) on pages 6 to 29 and Note 33 on page 161 report on the performance of the Group during the year, on events since 31 December 2010 and on future developments.

Results for the Year

The results for the year are set out in the Group Income Statement on page 60. The profit attributable to the owners of the Parent amounted to €50 million (2009: loss of €122 million).

Key financial performance indicators are set out in the Finance Review on pages 24 and 25. The Financial Statements for the year ended 31 December 2010 are set out in detail on pages 60 to 164.

Dividends

The Board does not propose to pay a final dividend in respect of the year ended 31 December 2010.

Research and Development

The Company's subsidiaries are engaged in ongoing research and development aimed at improving products and processes and expanding product ranges. Expenditure on research and development in the year amounted to €3 million.

Books and Records

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

Directors

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

Roberto Newell was appointed to the Board on 22 June 2010. In accordance with the provisions of Article 83.1 he retires and, being eligible, offers himself for election.

Liam O'Mahony, Nicanor Restrepo, Paul Stecko and Rosemary Thorne retire from the Board by rotation and, being eligible, offer themselves for re-election. To enable shareholders to make an informed decision, reference should be made to pages 34 and 35 which contains a biographical note on each Director offering themselves for re-election and to the Notice of the Annual General Meeting which explains why the Board believes the relevant Directors should be re-elected. The Directors intend to confirm at the AGM that the performance of each individual continues to be effective and demonstrates commitment to the role.

Directors' and Secretary's Interests

Details of the Directors' and Company Secretary's interests in the share capital are set out in the Remuneration Report on pages 54 to 56.

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
- If the current economic recovery were to reverse or sovereign debt concerns were to intensify and result in an economic slowdown which was sustained over any significant length of time it could adversely affect the Group's financial position and results of operations
- 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 or the failure to comply 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 (see Note 4)
- 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

Under Statutory Instrument 450/2009 European Communities (Directive 2006/46/EC) Regulations 2009 the Group is required to produce a Corporate Governance Statement. The Directors' Statement on Corporate Governance is set out on pages 36 to 45 and forms part of this report. The Report on Directors' Remuneration is set out on pages 49 to 56. The Directors note that on 29 September 2010, the ISE amended the Listing Rules of the ISE to require Irish listed companies to comply or explain against the provisions of the new UK Corporate Governance Code published in June 2010. The UK Corporate Governance Code applies to accounting periods beginning on or after 30 September 2010. In addition, the ISE introduced the Irish Corporate Governance Annex to apply to accounting periods beginning on or after 18 December 2010. A copy of the Combined Code on Corporate Governance (June 2008) and the UK Corporate Governance Code (June 2010) can be obtained from the FRC's website: *www.frc.org.uk*. A copy of the Irish Corporate Governance Annex can be obtained from the ISE's website: *www.ise.ie*.

The Board welcomes these corporate governance developments and believes the Group is already substantially compliant with the provisions of the UK Corporate Governance Code. The Group will apply the UK Corporate Governance Code and the Irish Corporate Governance Annex for the financial year beginning on 1 January 2011.

Purchase of Own Shares

Special resolutions will be proposed at the AGM to renew the authority of the Company, or any of its subsidiaries, to purchase up to 10% of the Company's ordinary shares in issue at the date of the AGM and in relation to the maximum and minimum prices at which treasury shares (effectively shares purchased and not cancelled) may be re-issued off-market by the Company. If granted, the authority will expire on the earlier of the date of the AGM in 2012 or 5 August 2012.

A similar authority was granted at the AGM in 2010, which is due to expire on the earlier of the date of the AGM in 2011 or 6 August 2011.

Directors' Report [continued]

Change of Control

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

Subsidiary and Associated Undertakings

A list of principal subsidiaries and associates as at 31 December 2010 is set out in Note 37 to the financial statements.

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 3 March 2011 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	39,882,681	18.0%
Madison Dearborn Capital Partners	35,089,259	15.8%
Norges Bank	18,850,737	8.5%
Causeway Capital LLC	8,740,126	3.9%
Polaris Capital Management	7,164,494	3.2%

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 AGM.

Directors

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

3 March 2011

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 as appropriate. The Group Chief Executive Officer attends meetings except when his own remuneration is being discussed.

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

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

Remuneration Policy

The Remuneration policy is designed to attract, retain and motivate Directors and senior management of the highest calibre who are expected to deliver superior performance and to provide strong leadership to the Group. In return the Group aims to provide an attractive compensation package linked to the financial prosperity of the Group and consequently its shareholders. The key elements of the package comprise salary and benefits, a performance related annual bonus, a long-term equity based incentive plan and provision of pension benefits. As set out below, the performance related annual bonus forms a key part of executive Director remuneration. As the Group is multinational, remuneration packages in each geographical location must be competitive for that location.

Executive Directors' Remuneration

Salary and Benefits

Base salaries for executive Directors reflect job responsibilities and are competitive having regard to comparable international companies. The base salaries are reviewed annually by the Compensation Committee having regard to personal performance, Group performance, step changes in responsibilities, prevailing market conditions and competitive market practice. Employment benefits relate principally to the use of company cars and 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 earned for 2010 was based on the achievement of clearly defined annual financial targets for some of the Group's Key Financial Performance Indicators ('KPI'), together with targets for Health and Safety and Sustainability. A further consideration was the comparison of the Group's financial performance compared to that of its peer group. Targets and the weighting of targets are reviewed each year by the Compensation Committee in the context of the prior year performance, the positioning in the cycle, the annual budget and the strategic goals of the Group. EBITDA, Free Cash Flow and Return on Capital Employed (see Finance Review pages 24 and 25) were the KPI's selected by the Committee and reflected the Group's strategic focus on continued de-leveraging. The peer comparison ensures that results, especially in a cyclical industry, while market driven, are as a result of the ongoing relative performance of our operations and management teams rather than some windfall benefits. The Peer group used for the annual bonus comprises the companies used for the Long-Term Incentive Plan as set out below.

Remuneration Report [continued]

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 new class B convertible shares and new class C convertible shares for which executives are invited to subscribe at a nominal value of €0.001 per share.

The maximum aggregate market value of the new class B and new class C convertible shares that may be issued in any year to an executive under the plan is 150 per cent of basic salary divided equally into new class B and new class C convertible shares. On satisfaction of specified performance conditions, the new class B convertible shares and the new class C convertible shares will automatically convert on a one-for-one basis into D convertible shares. The D convertible shares may be converted by the holder on a one-for-one basis into ordinary shares, upon payment of a conversion price. The conversion price for each D convertible share 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 new class B or new class C convertible shares, less the nominal subscription price paid per share. The performance period for the new class B and new class C convertible shares is three financial years. The awards made in 2007 and 2008 lapsed in March 2010 and March 2011 respectively and ceased to be capable of conversion to D convertible shares.

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

	Company	Region
1	Billerud	Europe
2	Mondi	Europe
3	M-real	Europe
4	Norske Skog	Europe
5	SCA	Europe
6	Stora Enso	Europe
7	UPM-Kymmene	Europe
8	Cascades/Norampac	North America
9	International Paper	North America
10	Packaging Corp. of America	North America
11	Temple-Inland	North America
12	Durango	Latin America
13	Klabin	Latin America

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

Details of restrictions on transfer of shares are set out in Note 22 on page 117. Details of the executive Directors' subscriptions to date are set out on pages 55 and 56.

2002 Management Equity Plan

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

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

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

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

Details of restrictions on transfer of shares are set out in Note 22 on page 117.

Details of the executive Directors holdings of convertible shares are set out on pages 55 and 56.

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 is a member of a defined contribution pension plan.

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

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

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

Remuneration Report [continued]

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

	2010 €'000	2009 €'000
Executive Directors		
Basic salary	**2,882**	2,882
Annual bonus	**1,581**	667
Pension	**1,199**	1,178
Benefits	**140**	132
Executive Directors' remuneration	**5,802**	4,859
Average number of executive Directors	**3**	3
Non-executive Directors		
Fees	**1,132**	1,120
Non-executive Directors' remuneration	**1,132**	1,120
Average number of non-executive Directors	**11**	10
Directors' remuneration	**6,934**	5,979

Individual Remuneration for the Year Ended 31 December 2010

	Basic salary and fees €'000	Annual bonus €'000	Pension* €'000	Benefits €'000	Total 2010 €'000	Total 2009 €'000
Executive Directors						
G. McGann	1,262	692	625	61	**2,640**	2,231
A. Smurfit	874	479	311	22	**1,686**	1,386
I. Curley	746	410	263	57	**1,476**	1,242
	2,882	1,581	1,199	140	**5,802**	4,859
Non-executive Directors						
L. O'Mahony	300				**300**	300
T. Brodin	70				**70**	70
F. Beurskens (I)	100				**100**	125
G. Moore	70				**70**	70
S. Mencoff	70				**70**	70
C. McGowan	70				**70**	70
R. Newell (II)	37				**37**	–
N. Restrepo	125				**125**	125
R. van Rappard	70				**70**	70
P. Stecko	110				**110**	110
R. Thorne	110				**110**	110
	1,132				**1,132**	1,120

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

Effective 1 January 2009 Messrs. Smurfit and Curley who both exceeded the cap, chose the alternative arrangement and received a supplementary taxable non-pensionable cash allowance in lieu of contributions to a pension fund in the amount of €267,000 (2009: €246,000) and €225,000 (2009: €225,000) respectively. Effective 1 January 2009 Mr. McGann also chose the alternative arrangement and is receiving a proportion of his pension contribution in the amount of €325,000 (2009: €325,000) as a supplementary taxable non-pensionable cash allowance.

I. Mr. Beurskens entered into a letter of appointment in December 2007 under which he receives a fee at the rate of €50,000 per annum for serving as a Director of the Company and an additional fee of €50,000 (2009: €75,000) for services as a Director of a Group subsidiary.

II. Mr. Newell received Directors' fees from June 2010 when he joined the Board.

During 2010 Mr. McGann acted as a non-executive Director of United Drug plc and Aon Ireland Limited and retained gross fees totalling €136,500 in respect of these appointments.

Remuneration Report [continued]

Pension Entitlements – Defined Benefit

	Increase in accrued pension during year €'000	Transfer value of increase in accrued pension (I) €'000	2010 Total accrued pension (II) €'000
Executive Directors			
A. Smurfit	–	22	297
I. Curley	–	23	250

I. In the case of Mr. Smurfit and Mr. Curley retirement benefits payable on death in retirement continue to accrue in accordance with scheme rules so transfer values have been included and calculated on the basis of actuarial advice. These transfer values do not represent sums paid or due, but are the amounts that the pension scheme would transfer to another pension scheme in relation to the benefits accrued in 2010 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 2010

The interests of the Directors and Secretary in the shares of the Company as at 31 December 2010 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 2010	31 December 2009
Directors		
L. O'Mahony	**19,830**	19,830
F. Beurskens	**25,000**	25,000
T. Brodin	**30,000**	30,000
P. Stecko	**6,000**	6,000
R. Thorne	**10,000**	10,000
G. McGann	**325,792**	390,792
A. Smurfit	**572,621**	572,621
I. Curley	**193,767**	286,191
Secretary		
M. O' Riordan	**47,151**	47,151

There were no transactions in the above Directors' and Secretary's interests between 31 December 2010 and 3 March 2011.

Mr. 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 management's interests in Smurfit Kappa Feeder L.P. which in turn holds 39,882,681 shares in the Company.

Mr. 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 39,882,681 shares in the Company.

Convertible Shares

		31 December 2009	Granted (Lapsed)	Exercised	31 December 2010	Note	Conversion price	Expiry date
Directors								
G. McGann	D (converted from E, F)	384,894		(256,596)*	**128,298**	1	4.28	Dec 2012
	D (converted from H)	420,996		(280,664)*	**140,332**	1	5.69	Dec 2012
	D (converted from A1)	32,075		(32,075)*		1	4.28	Mar 2014
	D (converted from A2)	32,075		(32,075)*		1	4.28	Mar 2014
	D (converted from A3)	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
	B**	45,880			**45,880**	2	9.08	Mar 2018
	C**	45,880			**45,880**	2	9.08	Mar 2018
	B	48,100			**48,100**	2	4.36	Sept 2019
	C	48,100			**48,100**	2	4.36	Sept 2019
	B		47,480		**47,480**	2	6.50	Mar 2020
	C		47,480		**47,480**	2	6.50	Mar 2020
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
	D (converted from A1)	26,796			**26,796**	1	4.28	Mar 2014
	D (converted from A2)	26,796			**26,796**	1	4.28	Mar 2014
	D (converted from A3)	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
	B**	31,750			**31,750**	2	9.08	Mar 2018
	C**	31,750			**31,750**	2	9.08	Mar 2018
	B	33,280			**33,280**	2	4.36	Sept 2019
	C	33,280			**33,280**	2	4.36	Sept 2019
	B		32,860		**32,860**	2	6.50	Mar 2020
	C		32,860		**32,860**	2	6.50	Mar 2020
I. Curley	D (converted from E, F)	302,070		(201,380)*	**100,690**	1	4.28	Dec 2012
	D (converted from H)	420,996		(280,664)*	**140,332**	1	5.69	Dec 2012
	D (converted from A1)	25,172		(25,172)*		1	4.28	Mar 2014
	D (converted from A2)	25,172		(25,172)*		1	4.28	Mar 2014

Remuneration Report [continued]

Convertible Shares [continued]

		31 December 2009	Granted (Lapsed)	Exercised	31 December 2010	Note	Conversion price	Expiry date
	D (converted from A3)	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
	B**	27,130			**27,130**	2	9.08	Mar 2018
	C**	27,130			**27,130**	2	9.08	Mar 2018
	B	28,440			**28,440**	2	4.36	Sept 2019
	C	28,440			**28,440**	2	4.36	Sept 2019
	B		28,080		**28,080**	2	6.50	Mar 2020
	C		28,080		**28,080**	2	6.50	Mar 2020
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
	D (converted from A1)	5,684			**5,684**	1	4.28	Mar 2014
	D (converted from A2)	5,684			**5,684**	1	4.28	Mar 2014
	D (converted from A3)	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
	B**	9,970			**9,970**	2	9.08	Mar 2018
	C**	9,970			**9,970**	2	9.08	Mar 2018
	B	11,050			**11,050**	2	4.36	Sept 2019
	C	11,050			**11,050**	2	4.36	Sept 2019
	B		10,910		**10,910**	2	6.50	Mar 2020
	C		10,910		**10,910**	2	6.50	Mar 2020

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

** *These shares lapsed in March 2011 and ceased to be capable of conversion to D convertible shares.*

The market price of the Company's shares at 31 December 2010 was €7.18 and the range during 2010 was €5.65 to €8.25.

1. Issued under the 2002 Management Equity Plan. The D convertible shares are convertible on a one to one basis into ordinary shares upon the payment by the holder of the conversion price. The A3 convertible shares vested and converted into D convertible shares in March 2010.

2. Issued under the 2007 Share Incentive Plan – see note on pages 50 and 51. The shares will automatically convert into D convertible shares to the extent that the performance conditions are achieved at the end of three years.

Statement of Directors' Responsibilities

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

Irish 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 IFRS 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 IFRS as adopted by the European Union; and
- Prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group 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 also required by applicable law and the Listing Rules issued by the Irish Stock Exchange to prepare a Directors report and reports relating to Directors' remuneration and corporate governance. In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the 'Transparency Regulations'), the Directors are required to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors 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 2009 and, as regards the Group Financial Statements, Article 4 of the International Accounting Standards ('IAS') Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' statement pursuant to the Transparency Regulations

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

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

G. McGann
I. Curley

Directors

3 March 2011

Independent Auditor's 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 2010 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Changes in Equity 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 Parent 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 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 2009. We also report to you whether the financial statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009 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 Parent Company balance sheet is in agreement with the books of account. We also report to you our opinion as to:

- whether the Parent Company has kept proper books of account;
- whether the Directors' report is consistent with the financial statements; and
- whether at the balance sheet date there existed a financial situation which may require the Parent Company to convene an extraordinary general meeting of the Parent Company; such a financial situation may exist if the net assets of the Parent Company, as stated in the Parent 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 are required by law to report to you our opinion as to whether the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the group financial statements is consistent with the group financial statements. In addition, we review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2008 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 the 2010 Financial Performance Overview, the Group Profile, the Chairman's Statement, the Chief Executive's Review, Strategy, the Operations Review, the Finance Review, Sustainability, the Corporate Governance Statement, the Directors' Report and the 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 Parent 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 2010 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 2009, of the state of the Parent Company's affairs as at 31 December 2010 and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 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 Parent Company. The Parent Company balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the group financial statements is consistent with the group financial statements.

The net assets of the Parent Company, as stated in the Parent 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 2010 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Parent Company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin, Ireland

3 March 2011

Group Income Statement

For the Year Ended 31 December 2010

	Note	2010 Pre-exceptional €m	2010 Exceptional €m	2010 Total €m	2009 Pre-exceptional €m	2009 Exceptional €m	2009 Total €m
Continuing operations							
Revenue	5	**6,677**	**–**	**6,677**	6,057	–	6,057
Cost of sales		**(4,825)**	**–**	**(4,825)**	(4,370)	(33)	(4,403)
Gross profit		**1,852**	**–**	**1,852**	1,687	(33)	1,654
Distribution costs	6	**(546)**	**–**	**(546)**	(515)	–	(515)
Administrative expenses	6	**(838)**	**(17)**	**(855)**	(850)	–	(850)
Other operating income	6	**22**	**–**	**22**	3	–	3
Other operating expenses	6	**–**	**(64)**	**(64)**	–	(25)	(25)
Operating profit		**490**	**(81)**	**409**	325	(58)	267
Finance costs	9	**(431)**	**–**	**(431)**	(410)	(22)	(432)
Finance income	9	**123**	**–**	**123**	106	8	114
Share of associates' profit/(loss) (after tax)	7	**2**	**–**	**2**	(1)	–	(1)
Profit/(loss) before income tax		**184**	**(81)**	**103**	20	(72)	(52)
Income tax expense	10			**(45)**			(55)
Profit/(loss) for the financial year				**58**			(107)
Attributable to:							
Owners of the Parent				**50**			(122)
Non-controlling interests				**8**			15
Profit/(loss) for the financial year				**58**			(107)
Earnings per share							
Basic earnings/(loss) per share – cent	11			**22.9**			(55.8)
Diluted earnings/(loss) per share – cent	11			**22.5**			(55.8)

G. McGann
I. Curley

Directors

3 March 2011

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

Group Statement of Comprehensive Income

For the Year Ended 31 December 2010

	Note	2010 €m	2009 €m
Profit/(loss) for the financial year		**58**	(107)
Other comprehensive income:			
Foreign currency translation adjustments		**(53)**	45
Defined benefit pension plans:			
– Actuarial gain/(loss) including payroll tax		**33**	(158)
– Movement in deferred tax	10	**(8)**	43
Effective portion of changes in fair value of cash flow hedges:			
– Movement out of reserve		**19**	11
– New fair value adjustments into reserve		**(20)**	(30)
– Movement in deferred tax	10	**–**	2
Total other comprehensive income		**(29)**	(87)
Comprehensive income and expense for the financial year		**29**	(194)
Attributable to:			
Owners of the Parent		**25**	(214)
Non-controlling interests		**4**	20
		29	(194)

G. McGann
I. Curley

Directors

3 March 2011

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Group Balance Sheet

At 31 December 2010

	Note	2010 €m	2009 €m
ASSETS			
Non-current assets			
Property, plant and equipment	12	**3,008**	3,066
Goodwill and intangible assets	13	**2,209**	2,222
Available-for-sale financial assets	14	**32**	32
Investment in associates	15	**16**	13
Biological assets	16	**88**	91
Trade and other receivables	19	**5**	4
Derivative financial instruments	28	**2**	–
Deferred income tax assets	17	**134**	280
		5,494	5,708
Current assets			
Inventories	18	**638**	586
Biological assets	16	**7**	8
Trade and other receivables	19	**1,292**	1,105
Derivative financial instruments	28	**8**	3
Restricted cash	20	**7**	43
Cash and cash equivalents	20	**495**	601
		2,447	2,346
Non-current assets held for sale	21	**–**	4
Total assets		**7,941**	8,058
EQUITY			
Capital and reserves attributable to the owners of the Parent			
Equity share capital	22	**–**	–
Capital and other reserves	22	**2,315**	2,345
Retained earnings	22	**(552)**	(669)
Total equity attributable to the owners of the Parent		**1,763**	1,676
Non-controlling interests	22	**173**	179
Total equity		**1,936**	1,855

Group Balance Sheet [continued]

At 31 December 2010

	Note	2010 €m	2009 €m
LIABILITIES			
Non-current liabilities			
Borrowings	23	**3,470**	3,563
Employee benefits	24	**595**	653
Derivative financial instruments	28	**101**	80
Deferred income tax liabilities	17	**206**	325
Non-current income tax liabilities		**9**	15
Provisions for liabilities and charges	26	**49**	44
Capital grants		**14**	13
Other payables	27	**7**	3
		4,451	4,696
Current liabilities			
Borrowings	23	**142**	133
Trade and other payables	27	**1,351**	1,211
Current income tax liabilities		**5**	28
Derivative financial instruments	28	**27**	90
Provisions for liabilities and charges	26	**29**	45
		1,554	1,507
Total liabilities		**6,005**	6,203
Total equity and liabilities		**7,941**	8,058

G. McGann
I. Curley

Directors

3 March 2011

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

Company Balance Sheet

At 31 December 2010

	Note	2010 €m	2009 €m
ASSETS			
Non-current assets			
Financial assets	14	**1,968**	1,964
		1,968	1,964
Current assets			
Amounts receivable from Group companies	19	**23**	12
Cash and cash equivalents	20	**–**	2
		23	14
Total assets		**1,991**	1,978
EQUITY			
Capital and reserves attributable to the owners of the Parent			
Equity share capital	22	**–**	–
Capital and other reserves	22	**1,973**	1,960
Retained earnings	22	**(1)**	–
Total equity		**1,972**	1,960
LIABILITIES			
Current liabilities			
Amounts due to Group companies	27	**19**	18
Total liabilities		**19**	18
Total equity and liabilities		**1,991**	1,978

G. McGann
I. Curley

Directors

3 March 2011

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

Group Statement of Changes in Equity

For the Year Ended 31 December 2010

			Capital and other reserves								
	Note	Equity share capital €m	Share premium €m	Reverse acquisition reserve €m	Cash flow hedging reserve €m	Foreign currency translation reserve €m	Reserve for share-based payment €m	Retained earnings €m	Total attributable to the owners of the Parent €m	Non-controlling interests €m	Total equity €m
At 1 January 2009		–	1,928	575	(27)	(203)	57	(679)	1,651	145	1,796
Total comprehensive income and expense		–	–	–	(17)	40	–	(237)	(214)	20	(194)
Hyperinflation adjustment		–	–	–	–	(11)	–	247	236	21	257
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(7)	(7)
Share-based payment	25	–	–	–	–	–	3	–	3	–	3
At 31 December 2009		–	1,928	575	(44)	(174)	60	(669)	1,676	179	1,855
At 1 January 2010		–	1,928	575	(44)	(174)	60	(669)	1,676	179	1,855
Shares issued		–	9	–	–	–	–	–	9	–	9
Total comprehensive income and expense		–	–	–	(1)	(50)	–	76	25	4	29
Hyperinflation adjustment		–	–	–	–	–	–	40	40	6	46
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(5)	(5)
Purchase of non-controlling interests		–	–	–	–	–	–	–	–	(2)	(2)
Other movements		–	–	–	–	8	–	1	9	(9)	–
Share-based payment	25	–	–	–	–	–	4	–	4	–	4
At 31 December 2010		**–**	**1,937**	**575**	**(45)**	**(216)**	**64**	**(552)**	**1,763**	**173**	**1,936**

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

Company Statement of Changes in Equity

For the Year Ended 31 December 2010

	Equity share capital €m	Capital and other reserves: Share premium €m	Capital and other reserves: Reserve for share-based payment €m	Retained earnings €m	Total attributable to the owners of the Parent €m
At 1 January 2009	–	1,928	29	1	1,958
Total comprehensive income and expense	–	–	–	(1)	(1)
Share-based payment	–	–	3	–	3
At 31 December 2009	–	1,928	32	–	1,960
At 1 January 2010	–	1,928	32	–	1,960
Shares issued	–	9	–	–	9
Total comprehensive income and expense	–	–	–	(1)	(1)
Share-based payment	–	–	4	–	4
At 31 December 2010	**–**	**1,937**	**36**	**(1)**	**1,972**

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

Group Cash Flow Statement

For the Year Ended 31 December 2010

	Note	2010 €m	2009 €m
Cash flows from operating activities			
Profit/(loss) for the financial year		**58**	(107)
Adjustment for			
Income tax expense	10	**45**	55
Loss/(profit) on sale of assets and businesses		**44**	(6)
Amortisation of capital grants	6	**(1)**	(3)
Impairment of property, plant and equipment	12	**–**	33
Equity settled share-based payment expense	25	**4**	3
Amortisation of intangible assets	13	**46**	47
Share of (profit)/loss of associates	7	**(2)**	1
Depreciation charge	12	**343**	355
Net finance costs	9	**308**	318
Change in inventories		**(79)**	48
Change in biological assets		**21**	11
Change in trade and other receivables		**(187)**	111
Change in trade and other payables		**177**	(94)
Change in provisions		**(22)**	2
Change in employee benefits		**(56)**	(54)
Other		**4**	6
Cash generated from operations		**703**	726
Interest paid		**(263)**	(230)
Income taxes paid:			
Irish corporation tax paid		**(5)**	(16)
Overseas corporation tax (net of tax refunds) paid		**(77)**	(79)
Net cash inflow from operating activities		**358**	401

Group Cash Flow Statement [continued]

For the Year Ended 31 December 2010

	Note	2010 €m	2009 €m
Cash flows from investing activities			
Interest received		**5**	11
Mondi asset swap		**(58)**	–
Business disposals		**(11)**	–
Purchase of property, plant and equipment and biological assets		**(297)**	(237)
Purchase of intangible assets		**(5)**	(11)
Receipt of capital grants		**3**	3
Decrease/(increase) in restricted cash	20	**36**	(24)
Disposal of property, plant and equipment		**18**	10
Dividends received from associates	15	**1**	1
Purchase of non-controlling interests		**(2)**	–
Deferred consideration		**8**	(9)
Net cash outflow from investing activities		**(302)**	(256)
Cash flows from financing activities			
Proceeds from bond issuance		**–**	988
Proceeds from issue of new ordinary shares		**9**	–
Increase in interest-bearing borrowings		**152**	–
Repayment of finance lease liabilities		**(16)**	(14)
Repayments of interest-bearing borrowings		**(285)**	(1,162)
Derivative termination payments		**(3)**	(4)
Deferred debt issue costs		**(5)**	(58)
Dividends paid to non-controlling interests		**(5)**	(7)
Net cash outflow from financing activities		**(153)**	(257)
Decrease in cash and cash equivalents		**(97)**	(112)
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**587**	683
Currency translation adjustment		**(9)**	16
Decrease in cash and cash equivalents		**(97)**	(112)
Cash and cash equivalents at 31 December	20	**481**	587

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

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

Company Cash Flow Statement

For the Year Ended 31 December 2010

	Note	2010 €m	2009 €m
Cash flows from operating activities			
Loss for the financial year		**(1)**	(1)
Cash generated from operations		**(1)**	(1)
Net cash outflow from operating activities		**(1)**	(1)
Cash flows from financing activities			
Group loan movements		**(10)**	1
Proceeds from share issues		**9**	–
Net cash (outflow)/inflow from financing activities		**(1)**	1
Decrease in cash and cash equivalents		**(2)**	–
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**2**	2
Decrease in cash and cash equivalents		**(2)**	–
Cash and cash equivalents at 31 December	20	**–**	2

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2010

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 Consolidated Financial Statements presented are for the years ended 31 December 2010 and 31 December 2009. The principal companies within the Group during the years ended 31 December 2010 and 31 December 2009 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.

The Financial Statements, which are presented in euro rounded to the nearest million, 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 payment expense is measured at the fair value of the awards at the date of grant
- the financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period. This is the case for our subsidiaries in Venezuela.

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 and income and expenses. It also requires management to exercise judgement in the process of applying Group accounting policies. These estimates, assumptions and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation. However, actual outcomes may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial information are discussed in the *Critical accounting judgements and estimates* note.

2. Summary of significant accounting policies [continued]

Accounting standards and interpretations effective in 2010 which are relevant to the Group

IAS 27 – Consolidated and Separate Financial Statements (Revised)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. These transactions will no longer result in goodwill or gains and losses. The revised standard also specifies the accounting when control is lost with any remaining interest in the entity remeasured to fair value, and a gain or loss recognised in profit or loss. The Group has applied IAS 27 as revised prospectively to transactions with non-controlling interests from 1 January 2010. Adoption of IAS 27 did not have a material effect on the Group Financial Statements.

IFRS 3 – Business Combinations (Revised)

IFRS 3 as revised continues to apply the acquisition method in accounting for business combinations but with some significant changes. For example, all payments to purchase a business must be recorded at fair value at the acquisition date with contingent payments classified as debt and subsequently remeasured in profit or loss. There is a choice, on an acquisition by acquisition basis, to measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs are expensed. The Group has adopted revised IFRS 3 with effect from 1 January 2010. It applies to business combinations after that date. Adoption of IFRS 3 did not have a material effect on the Group Financial Statements.

In addition, the following new standards, amendments and interpretations became effective in 2010, however, they either do not have an effect on the Group Financial Statements or they are not currently relevant for the Group:

- IFRS 2 (Amendment) – Group Cash-settled Share-based Payment Transactions
- IAS 39 (Amendment) – Eligible Hedged Items, Financial Instruments: Recognition and Measurement
- IFRIC 17 – Distributions of Non-cash Assets to Owners

Accounting standards, interpretations, amendments to existing accounting standards not yet effective and which have not been early adopted and are relevant to the Group

IFRS 9 – Financial Instruments

The IASB is in the process of replacing IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9, which is effective for the Group from 1 January 2013, represents the first phase of this project. It addresses classification and measurement of financial assets only. It replaces the multiple classification models in IAS 39 with two classification categories, namely amortised cost and fair value. Classification under IFRS 9 is determined by the business model for managing financial assets and the contractual characteristics of the financial assets. It removes the requirement to separate embedded derivatives from financial asset hosts. It also removes the cost exemption for unquoted equities. EU endorsement of this standard has been postponed pending the issuance of further chapters such as financial liabilities and impairment. It is likely to affect the Group's accounting for its financial assets. Subject to EU endorsement the Group will apply IFRS 9 from 1 January 2013.

Classification of Rights Issues (Amendment to IAS 32)

The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Group will adopt the amendment for the 2011 financial year. It is not expected to have an effect on the Group Financial Statements.

2. Summary of significant accounting policies [continued]

IAS 24 – Related Party Disclosure (Revised)

The revised IAS 24 simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The IASB did not reconsider the fundamental approach to related party disclosures contained in IAS 24. The Group will adopt the amendment for the 2011 financial year. It is not expected to have an effect on the Group Financial Statements.

Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement

The amendment removes the unintended consequences of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. It will be mandatory for the Group from the beginning of the 2011 financial year. It is not expected to have a material effect on the Group Financial Statements.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 requires recognition in profit or loss of a gain or loss when a liability is settled by issuing equity instruments. IFRIC 19 will be effective for the Group from the beginning of the 2011 financial year. It is not expected to have an effect on the Group Financial Statements.

Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)

Issued in October 2010, these amendments extend the existing disclosure requirements relating to transfers of financial assets, particularly those that involve securitisation of such assets. The extended disclosures are intended to help the users of financial statements to evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. Subject to EU endorsement, the Group will adopt the amended standard for the 2012 financial year. It is not expected to have an effect on the Group Financial Statements.

Improvements in IFRSs

In developing IFRS the IASB follows a due process handbook which allows for fast track annual improvements. Under this process amendments are made to existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. A number of annual improvements to IFRSs are effective for 2010 or will be effective in 2011, however, none of these had or is expected to have a material effect on the Group Financial Statements.

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, intragroup 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.

2. Summary of significant accounting policies [continued]

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 or loss after tax of each associate. The Group share of post acquisition movements in other comprehensive income of each associate is recognised in the Group Statement of Comprehensive Income. 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, 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.

Business combinations

The Group uses the acquisition method in accounting for business combinations. The cost of a business combination is measured as, the aggregate of the fair value 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 expense 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, the contingent consideration is measured at fair value. Any subsequent remeasurement of the contingent amount is recognised in profit or loss. Under the acquisition method, the assets and liabilities of an acquired business are initially recognised at their fair value at the date of acquisition. When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated to the identifiable assets and liabilities are made within twelve months of the acquisition date. On an acquisition by acquisition basis any non-controlling interest in an acquiree is measured at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Acquisition related costs are expensed as incurred.

Foreign currency

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 remeasured at the exchange rate at the date of valuation. Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the foreign exchange rate ruling at the balance sheet date.

Foreign exchange differences arising on translation are recognised in the Group Income Statement with the exception of differences on foreign currency borrowings that qualify as a hedge of the Group's net investment in foreign operations. The portion of exchange gains or losses on foreign currency borrowing used to provide a hedge against a net investment in a foreign operation and that is determined to be an effective hedge is recognised in the Group Statement of Comprehensive Income. 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 during the year. However if a Group entity's functional currency is the currency of a hyperinflationary economy, that entity's financial statements are first restated in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies* (see 'Reporting in Hyperinflationary Economies' below). The related income, costs and balance sheet amounts are translated at the foreign exchange rates ruling at the balance sheet date.

Foreign exchange differences arising on translation of net investments including those arising on long-term intragroup loans deemed to be quasi equity in nature, are recognised in other comprehensive income, within foreign currency translation adjustments.

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.

Reporting in hyperinflationary economies

When the economy of a country in which we operate is deemed hyperinflationary and the functional currency of a Group entity is the currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non monetary items in the balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at the period end using a general price index from the date when they were first recognised. Inflation in Venezuela has been at relatively high levels in recent years. In the fourth quarter of 2009 cumulative three year inflation exceeded 100%. This, combined with other indicators, results in the Group deeming Venezuela as a hyperinflationary economy under IAS 29, *Financial Reporting in Hyperinflationary Economies*. IAS 29 has been applied to the historical cost financial statements of our Venezuelan operations from the beginning of 2009. The gain or loss on the net monetary position for the year is included in finance costs or income. Comparative amounts are not adjusted. Any differences arising were recorded in equity on adoption. The restated Bolivar Fuerte ('VEF') income, expenses and balance sheets of our Venezuelan operations are translated to euro at the closing rate at the end of the reporting period. Differences arising on translation to euro are recognised in other comprehensive income.

2. Summary of significant accounting policies [continued]

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

	2010	2009	2008
Index at year end	**208.2**	163.7	130.9
Movement in year	**27.2%**	25.1%	30.9%

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 or construction of the assets. When an asset takes a substantial period of time to get ready for its intended use cost also includes directly attributable borrowing costs. 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%

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 and 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.

To the extent that the Group's interest in the net fair value of the identifiable assets and liabilities acquired exceeds the cost of a business combination, the identification and measurement of the related assets and 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.

2. Summary of significant accounting policies [continued]

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 operating segments determined in accordance with IFRS 8, *Operating Segments*. 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 fair value less costs to sell 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 that year. 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.

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.

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 initially recognised separately from goodwill if the intangible asset meets the definition of an intangible asset and the fair value can be reliably measured. 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 values. 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.

2. Summary of significant accounting policies [continued]

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 when 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.

Biological assets

Biological assets comprise standing timber held for the production of paper and packaging products. Biological assets are stated at fair value less estimated costs to sell at each balance sheet date. Any resultant gains or losses are recognised in the Group Income Statement. At the time of harvest, wood is recognised at fair value less estimated costs to sell and is transferred to inventory.

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.

2. Summary of significant accounting policies [continued]

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 a third 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.

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 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 other comprehensive income (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 costs and income'* 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 one year after the balance sheet date.

2. Summary of significant accounting policies [continued]

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. These special purpose entities are consolidated as they are considered to be controlled by the Group. The related securitised assets continue to be recognised on the 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.

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 uncollectible, 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 manage 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 value or cash flows of hedged items.

2. Summary of significant accounting policies [continued]

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 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 one year; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than one year. Non hedging derivative assets and liabilities are classified as current or non-current based on expected realisation or settlement dates.

Cash flow hedges

Changes in the fair value of derivative hedging instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. Amounts accumulated in other comprehensive income are 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 other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs.

Net investment hedges

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

Embedded derivatives

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

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 expense.

2. Summary of significant accounting policies [continued]

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 other comprehensive income or equity, in which case the related tax is also recognised in the Group Statement of Comprehensive Income or 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 when there is reasonable assurance that the grant will be received and the Group will comply with any related conditions. Grants that compensate the Group for expenses incurred are recognised in the Group Income Statement on a systematic basis in the same periods in which the related expenses are 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. Government grants relating to biological assets measured at fair value less costs to sell are recognised in the Group Income Statement only when any related conditions are met.

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 a lease but convey the right to use an asset in return for payment, or a series of payments, are assessed to determine whether the arrangement contains a lease.

2. Summary of significant accounting policies [continued]

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.

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 Group Statement of Comprehensive Income.

Past service costs are recognised immediately 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 in the Group Balance Sheet. When recognising a surplus the Group considers the guidance contained in IFRIC 14 in determining the limit on the amount of any surplus which can be recognised as an asset. The deferred tax impact of pension plan surpluses and deficits is disclosed separately within deferred income tax assets or liabilities, as appropriate.

2. Summary of significant accounting policies [continued]

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 a finance cost.

Share-based payment

The fair value of convertible shares, granted under the Group's management equity plan and share incentive plan, are recognised as an expense with a corresponding increase in equity. Fair value is measured at grant date and expensed over the period during which the awards are expected to vest. Fair value is measured using a binomial lattice model or Monte Carlo simulation, taking into account terms and conditions upon which the options were granted. The convertible shares issued 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-based vesting conditions are not taken into account when estimating the fair value of awards at the grant date; such conditions are taken into account by adjusting the number of equity instruments included in the measurement of the related expense so that the cumulative amount recognised equates to the number of equity instruments that actually vest. The cumulative expense in the Group Income Statement in relation to convertible shares granted represents the product of the total number of options expected to vest and the fair value of those options; 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 when a non-market-based performance condition is not expected to be met or where an employee in receipt of share options terminates service prior to completion of the 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 at the date of the Financial Statements 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.

2. Summary of significant accounting policies [continued]

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 remeasured at fair value.

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

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

2. Summary of significant accounting policies [continued]

Earnings per share

Earnings per share represents the profit or loss in cent attributable to the owners of the Parent. It is calculated by dividing the Group profit or loss attributable to owners of the Parent by the weighted average number of equity shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

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, where significant, restructuring costs, profit or loss on disposal or termination of operations, major litigation costs and settlements, profit or loss on early extinguishment of debt and 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 Financial Statements in the period in which the dividends are approved by the Company's shareholders.

3. Determination of fair value

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 value has been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair value 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.

3. Determination of fair value [continued]

Intangible assets

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

Biological assets

The fair value of standing timber is measured at fair value less cost to sell at the point of harvest. Fair value is calculated using weighted average prices for similar transactions with third parties.

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 bid price at the reporting date. Unlisted available-for-sale financial assets are valued using recognised valuation techniques for the underlying security including discounted cash flows and similar unlisted equity valuation models.

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 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

Accounting 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.

Estimated impairment of goodwill and other fixed assets

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 the impact of any reasonable changes in these assumptions on identifying potential impairments, are detailed in the *Goodwill and intangible assets* note. Impairment tests in respect of property, plant and equipment are performed on a cash-generating unit basis. Further details are contained in the *Property, plant and equipment* 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.

The Group recognises tax assets where there is a reasonable expectation that the assets will be recovered. The assessment of the recoverability of deferred tax assets involves significant judgement. The main deferred tax asset recognised by the Group relates to unused tax losses. The Directors assess the recoverability of tax losses by reference to future profitability and Group tax planning.

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 makes assumptions that are mainly based on market conditions existing at each balance sheet date. The Group uses discounted cash flow analysis for various available-for-sale financial assets that are not traded in active markets. Fair value disclosures are set out in the *Financial instruments* note.

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.

4. Critical accounting judgements and estimates [continued]

Measurement of defined benefit obligations

The Group follows the 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 along with sensitivity analysis 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).

Share-based payment

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 binomial lattice or Monte Carlo simulation models in accordance with the judgemental assumptions set out in the *Share-based payment* 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 value and residual values. The Directors annually review these asset lives and adjust 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 useful lives are 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.

4. Critical accounting judgements and estimates [continued]

Venezuela

Exchange rate

Since 2003 the government of Venezuela has operated exchange controls, including a fixed official exchange rate against the U.S. dollar. The purchase and sale of foreign currency is controlled and approved by CADIVI (the Venezuelan commission for the administration of foreign currencies). Approved transactions are completed at official fixed rates. In June 2010, the Venezuelan government announced that companies could also apply to receive US$350,000 a month through SITME (the Venezuelan transaction system for foreign currency denominated securities). The old parallel market of exchange became illegal at that date. At 31 December 2010 the official rate was VEF 4.30 per U.S. dollar and the SITME rate was VEF 5.3 per U.S. dollar. The Group assesses at each balance sheet date which rate to use for translation of the results and net assets of its Venezuelan operations. The Group has concluded that the official rate is the appropriate rate to use as it believes it has the ability to access funds at that rate.

On this basis, in accordance with IFRS, the income statements, statements of comprehensive income, cash flows and balance sheets of the Group's operations in Venezuela included in the Group Financial Statements were translated at the official year end rate of VEF 4.3 per U.S. dollar. At 31 December 2010 the closing U.S. dollar/euro rate applied by the Group was 1 euro = US$ 1.34.

Control

The nationalisation of foreign owned companies by the Venezuelan government has intensified and would suggest that the risk of similar such action against the Group's operations in Venezuela has heightened. Market value compensation is either negotiated or arbitrated under applicable treaties in these cases. However, the amount and timing of such compensation is necessarily uncertain.

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

In 2010, the Group's operations in Venezuela represented approximately 4% of the Group's revenue, 7% of its EBITDA[(1)], 5% of its total assets and 14% of its net assets. In addition, cumulative foreign translation losses arising on our net investment in these operations amounting to €199 million are included in the foreign exchange translation reserve.

Hyperinflation

Venezuela became hyperinflationary during 2009 when its cumulative inflation rate for the past three years exceeded 100%. As a result, the Group applied the hyperinflationary accounting requirements of IAS 29 to its Venezuelan operations at 31 December 2009 and for the year ended 31 December 2010.

The index used to reflect current values is derived from a combination of Banco Central de Venezuela's National Consumer Price Index from its initial publication in December 2007 and the Consumer Price Index for the metropolitan area of Caracas for earlier periods. The level of and movement in the price index for the years 2010 and 2009 are as follows:

	2010	2009	2008
Index at year end	208.2	163.7	130.9
Movement in year	27.2%	25.1%	30.9%

(1) For ease of reference, EBITDA before exceptional items and share-based payment expense is denoted as EBITDA throughout the Notes to the Consolidated Financial Statements. A reconciliation of net income to EBITDA before exceptional items and share-based payment expense is set out in Note 5.

4. Critical accounting judgements and estimates [continued]

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the 2010 Group Income Statement is impacted as follows: Sales €32 million increase (2009: €34 million increase), EBITDA €3 million decrease (2009: €1 million decrease), EBITDA after exceptional items €7 million decrease (2009: €1 million decrease), and profit after taxation €33 million decrease (2009: €34 million decrease). In 2010, a net monetary loss of €8 million (2009: €8 million loss) was recorded in the Group Income Statement. The impact on our net assets and our total equity is an increase of €14 million (2009: €225 million increase).

Devaluation

The Venezuelan government announced the devaluation of its currency, the VEF, on 8 January 2010. The official exchange rate generally applicable to SKG was changed from VEF 2.15 per U.S. dollar to VEF 4.3 per U.S. dollar. For 2010 a devaluation loss of €17 million arises from the effect of retranslation of the U.S. dollar denominated net payables of its Venezuelan operations and associated hyperinflationary adjustments, which is included within operating profit. In addition, the Group recorded a reduction in net assets of €223 million, arising from the devaluation, in relation to these operations, which is reflected in the Group Statement of Comprehensive Income as part of foreign currency translation adjustments.

5. Segmental reporting

IFRS 8, *Operating Segments* 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. An operating segment is a grouping of individual business locations: engaged in business activities to generate revenues and incur expenses; whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and in assessing its performance; and for which discrete financial information is available. Segmental disclosures are presented on the same basis as that used for internal reporting purposes. In addition the Group presents financial information on a geographical basis. In accordance with IFRS 8, the Group has determined the operating segments based on the reports reviewed by the Group's executive management team that are used to make strategic decisions and assess performance. The Group has identified three operating segments on the basis of which performance is assessed and resources are allocated: 1) Packaging Europe, 2) Specialties Europe and 3) Latin America.

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 comprises activities dedicated to the needs of specific and sometimes niche markets. These include bag-in-box and solidboard. The Latin American segment comprises the Group's forestry, paper, corrugated and folding carton activities in a number of Latin American countries. No operating segments have been aggregated for disclosure purposes.

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

As part of an internal re-organisation during the year our sack kraft paper mill was transferred from the Specialties segment to the Packaging segment. Prior year segmental information has been restated to conform to the current year segment presentation.

5. Segmental reporting [continued]

	Packaging Europe 2010 €m	Specialties Europe 2010 €m	Latin America 2010 €m	Total 2010 €m
Revenue and results				
Revenue	4,803	755	1,119	**6,677**
EBITDA before exceptional items	668	63	200	**931**
Segment exceptional items	(18)	(46)	(17)	**(81)**
EBITDA after exceptional items	650	17	183	**850**
Unallocated centre costs				**(27)**
Share-based payment expense				**(4)**
Depreciation and depletion (net)				**(364)**
Amortisation				**(46)**
Finance costs				**(431)**
Finance income				**123**
Share of associates' profit (after tax)				**2**
Profit before income tax				**103**
Income tax expense				**(45)**
Profit for the financial year				**58**
Assets				
Segment assets	5,346	679	1,268	**7,293**
Investments in associates	3	–	13	**16**
Group centre assets				**632**
Total assets				**7,941**
Liabilities				
Segment liabilities	1,263	113	160	**1,536**
Group centre liabilities				**4,469**
Total liabilities				**6,005**

5. Segmental reporting [continued]

	Packaging Europe 2010 €m	Specialties Europe 2010 €m	Latin America 2010 €m	Total 2010 €m
Other segmental disclosures:				
Capital expenditure, including additions of goodwill and intangible assets and biological assets:				
Segment expenditure	194	26	61	**281**
Depreciation:				
Segment depreciation	264	34	45	**343**
Amortisation:				
Segment amortisation	32	10	–	**42**
Group centre amortisation				**4**
Total amortisation				**46**

	Packaging Europe 2009 €m	Specialties Europe 2009 €m	Latin America 2009 €m	Total 2009 €m
Revenue and results				
Revenue	4,241	771	1,045	6,057
EBITDA before exceptional items	505	71	193	769
Segment exceptional items	(25)	–	–	(25)
EBITDA after exceptional items	480	71	193	744
Unallocated centre costs				(28)
Share-based payment expense				(3)
Depreciation and depletion (net)				(366)
Amortisation				(47)
Impairment of assets				(33)
Finance costs				(432)
Finance income				114
Share of associates' loss (after tax)				(1)
Loss before income tax				(52)
Income tax expense				(55)
Loss for the financial year				(107)

5. Segmental reporting [continued]

	Packaging Europe 2009 €m	Specialties Europe 2009 €m	Latin America 2009 €m	Total 2009 €m
Assets				
Segment assets	5,122	732	1,321	7,175
Investments in associates	2	–	11	13
Group centre assets				870
Total assets				8,058
Liabilities				
Segment liabilities	1,097	124	156	1,377
Group centre liabilities				4,826
Total liabilities				6,203

	Packaging Europe 2009 €m	Specialties Europe 2009 €m	Latin America 2009 €m	Total 2009 €m
Other segmental disclosures:				
Capital expenditure, including additions of goodwill and intangible assets and biological assets:				
Segment expenditure	162	23	44	229
Depreciation:				
Segment depreciation	271	34	50	355
Amortisation:				
Segment amortisation	33	10	–	43
Group centre amortisation				4
Total amortisation				47
Other significant non-cash charges:				
Impairment of property, plant and equipment included in cost of sales	33	–	–	33

5. Segmental reporting [continued]

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

Capital expenditure comprises additions to property, plant and equipment (Note 12), goodwill and intangible assets (Note 13) and biological assets (Note 16), including additions resulting from acquisitions through business combinations. There were no other significant non-cash charges other than those dealt with above in 2009.

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

Information about geographical areas

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

	Revenue 2010 €m	Non-current assets 2010 €m
Ireland	**110**	**65**
France	**961**	**409**
Germany	**1,155**	**494**
The Netherlands	**605**	**310**
Other	**3,846**	**1,905**
	6,677	**3,183**

	Revenue 2009 €m	Non-current assets 2009 €m
Ireland	121	69
France	949	439
Germany	1,076	493
The Netherlands	528	338
Other	3,383	1,933
	6,057	3,272

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

6. Operating costs and income

	2010 €m	2009 €m
Other operating costs:		
Distribution costs	**546**	515
Administrative expenses	**855**	850
Other operating expenses	**64**	25
	1,465	1,390

	2010 €m	2009 €m
Other operating income:		
Capital grants amortisation	**1**	3
Insurance proceeds	**21**	–
	22	3

The insurance proceeds of €21 million are in respect of the failure of a turbo generator in the Group's mill in San Felipe, Venezuela. The costs of the breakdown are included in the appropriate cost headings within operating profit.

	2010 €m	2009 €m
The following items are regarded as exceptional in nature:		
Currency trading loss on Venezuelan Bolivar devaluation	**17**	–
Mondi asset swap	**41**	–
Disposal of operations	**22**	–
Reorganisation and restructuring costs	**1**	25
Impairment loss on property, plant and equipment	**–**	33
Total exceptional items included in operating costs	**81**	58

On 8 January 2010 the Venezuelan government announced the devaluation of its currency, the VEF. The official exchange rate generally applicable to SKG was changed from VEF 2.15 per U.S. dollar to VEF 4.3 per U.S. dollar. As a result, a currency translation loss of €14 million arose in 2010 from the effect of the retranslation of the U.S. dollar denominated net payables of our Venezuelan operations, with a further €3 million of hyperinflationary adjustments also arising in relation to this currency translation loss.

In May 2010 an asset swap agreement was completed with the Mondi Group ('Mondi'). As a result of this, three corrugated plants in the UK were acquired and the Group's Western European sack converting operations were disposed. The transaction generated an exceptional loss of €41 million.

Disposal of operations includes the Polish paper sack plant which was sold to Mondi in a separate transaction. The transaction generated an exceptional loss of €6 million. Also included is the disposal of our Rol Pin business in France, a wood products operation for which exceptional costs on the transaction amounted to €16 million.

The exceptional charge in 2010 of €1 million relates to additional costs incurred in respect of previous reorganisation and restructuring programmes.

The reorganisation and restructuring costs in 2009 related to the closure of the semi-chemical fluting mill in Sturovo, Slovakia and the rationalisation of our Cork corrugated plant in Ireland and our Rol Pin business in France.

The impairment of property, plant and equipment in 2009 related entirely to the Sturovo mill in Slovakia. See Note 12 for further details.

6. Operating costs and income [continued]

	2010 €m	2009 €m
Expenses by nature:		
Changes in inventories of finished goods and work in progress	**(43)**	34
Raw materials and consumables used	**2,093**	1,573
Movement in provisions for impairment against receivables (Note 19)	**7**	12
Movement in stock obsolescence provisions	**1**	–
Transportation expenses	**524**	492
Employee benefit expense excluding redundancy	**1,615**	1,588
Reorganisation and restructuring costs – redundancy	**17**	33
Reorganisation and restructuring costs – non-redundancy	**3**	14
Currency trading loss on Venezuelan Bolivar devaluation	**17**	–
Mondi asset swap	**41**	–
Disposal of operations	**22**	–
Impairment loss on property, plant and equipment (Note 12)	**–**	33
Net changes in fair value of biological assets (Note 16)	**8**	(1)
Depletion of biological assets (Note 16)	**8**	6
Depletion of biological assets – hyperinflation adjustment	**5**	6
Advertising costs	**8**	9
Depreciation of property, plant and equipment (Note 12)		
– owned assets	**334**	346
– under finance lease	**9**	9
Amortisation of intangible assets (Note 13)	**46**	47
Auditor's remuneration (Ireland and other network firms)		
– audit – PwC	**8**	8
– audit related – PwC	**–**	1
– non-audit related – PwC	**–**	–
Operating lease rentals		
– plant and machinery	**35**	34
– transport	**32**	33
– other	**17**	14
Research and development costs	**3**	2
Foreign exchange gains and losses	**(5)**	(1)
Other expenses	**1,485**	1,501
Total expenses	**6,290**	5,793

	2010 €m	2009 €m
Directors' statutory disclosures:		
Directors' remuneration – other services	**6**	5
Directors' remuneration – services as a Director	**1**	1

Notes to the Consolidated Financial Statements [continued]

For the Year Ended 31 December 2010

6. Operating costs and income [continued]

Auditor statutory disclosure

The audit fee for the Parent Company is set at €50,000 (2009: €50,000). This amount is paid to PwC Ireland, the statutory auditor.

7. Share of associates' profit/(loss) after tax

	2010 €m	2009 €m
Profit/(loss) before tax	**3**	(1)
Income tax expense	**(1)**	–
Profit/(loss) after tax	**2**	(1)

8. Employee benefit expense

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

	2010 Number	2009 Number
Europe	**28,401**	29,444
Latin America	**9,972**	9,823
	38,373	39,267

	2010 €m	2009 €m
The employee benefit expense comprises:		
Wages and salaries	**1,288**	1,250
Social welfare	**261**	255
Equity settled share-based payment expense (Note 25)	**4**	3
Expenses related to defined benefit plans and long-term employee benefits (Note 24)	**26**	43
Defined contribution benefit	**36**	37
Reorganisation and restructuring costs – redundancy	**15**	19
Charged to operating profit – pre-exceptional	**1,630**	1,607
Charged to operating profit – exceptional	**2**	14
Charged to finance income and costs (Note 24)	**30**	28
Actuarial (gain)/loss on pension schemes recognised in other comprehensive income (Note 24)	**(32)**	159
Total employee benefit cost	**1,630**	1,808

9. Finance income and costs

	2010 €m	2009 €m
Finance cost:		
Interest payable on bank loans and overdrafts	**148**	187
Interest payable on finance leases and hire purchase contracts	**3**	5
Interest payable on other borrowings	**133**	65
Finance costs associated with debt restructuring	**–**	22
Other finance costs	**–**	2
Foreign currency translation loss on debt	**38**	13
Fair value loss on derivatives not designated as hedges	**–**	34
Interest cost on employee benefit plan liabilities (Note 24)	**101**	96
Net monetary loss – hyperinflation	**8**	8
Total finance cost	**431**	432
Finance income:		
Other interest receivable	**(5)**	(11)
Foreign currency translation gain on debt	**(7)**	(24)
Gain on debt buy-back	**–**	(8)
Fair value gain on commodity derivatives not designated as hedges	**(2)**	(3)
Fair value gain on other derivatives not designated as hedges	**(38)**	–
Expected return on employee benefit plan assets (Note 24)	**(71)**	(68)
Total finance income	**(123)**	(114)
Net finance cost	**308**	318

The exceptional costs of €22 million in 2009 arose following our use of proceeds from the 2017 and 2019 bond issuance to pay down debt. These costs fully comprised the non-cash accelerated amortisation of debt costs arising on the pay down of the debt.

The exceptional finance income of €8 million in 2009 related to the gain on the Group's debt buy-back. In February 2009, the Group launched an auction process to buy back up to €100 million of its Senior bank debt. In total, just over €100 million of offers were received, of which €43 million were accepted at an average discount of 24% to par.

10. Income tax expense

Income tax expense recognised in the Group Income Statement

	2010 €m	2009 €m
Current taxation:		
Europe	**36**	36
Latin America	**28**	34
	64	70
Deferred taxation	**(19)**	(15)
Income tax expense	**45**	55
Current tax is analysed as follows:		
Ireland	**4**	7
Foreign	**60**	63
	64	70

A net credit of €1 million in respect of deferred tax is included in the 2010 tax charge for exceptional items.

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:

	2010 €m	2009 €m
Profit/(loss) before tax	**103**	(52)
Profit/(loss) before tax multiplied by the standard rate of tax of 12.5% (2009: 12.5%)	**13**	(6)
Effects of:		
Income subject to different rates of tax	**40**	35
Other items (including non-deductible expenditure)	**32**	29
Adjustment to prior period tax	**(5)**	(1)
Effect of previously unrecognised losses	**(35)**	(2)
	45	55

10. Income tax expense [continued]

Income tax recognised in the Group Statement of Comprehensive Income

	2010 €m	2009 €m
Arising on actuarial gains/losses on defined benefit plans	**8**	(43)
Arising on qualifying derivative cash flow hedges	**–**	(2)
	8	(45)

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.

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.

Notes to the Consolidated Financial Statements [continued]

For the Year Ended 31 December 2010

11. Earnings per share

Basic

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

	2010 €m	2009 €m
Profit/(loss) attributable to owners of the Parent	**50**	(122)
Weighted average number of ordinary shares in issue (millions)	**219**	218
Basic earnings/(loss) per share (cent per share)	**22.9**	(55.8)

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 plans.

	2010 €m	2009 €m
Profit/(loss) attributable to owners of the Parent	**50**	(122)
Weighted average number of ordinary shares in issue (millions)	**219**	218
Potential dilutive ordinary shares assumed	**4**	–
Diluted weighted average ordinary shares	**223**	218
Diluted earnings/(loss) per share (cent per share)	**22.5**	(55.8)

At 31 December 2009 there were 328,135 potential ordinary shares in issue that could dilute EPS in the future, but these were not included in the computation of diluted EPS in the year because they would have the effect of reducing the loss per share. Accordingly, there is no difference between basic and diluted loss per share in 2009.

12. Property, plant and equipment

	Land and buildings €m	Plant and equipment €m	Total €m
At 31 December 2008			
Cost or deemed cost	1,399	3,859	5,258
Accumulated depreciation and impairment losses	(291)	(1,929)	(2,220)
Net book amount	1,108	1,930	3,038
Year ended 31 December 2009			
Opening net book amount	1,108	1,930	3,038
Reclassification	16	(18)	(2)
Additions	4	199	203
Depreciation charge for the year	(57)	(298)	(355)
Impairment losses recognised in the Group Income Statement	(13)	(20)	(33)
Retirements and disposals	(3)	(2)	(5)
Hyperinflation adjustment	83	96	179
Foreign currency translation adjustment	13	28	41
At 31 December 2009	1,151	1,915	3,066
At 31 December 2009			
Cost or deemed cost	1,527	4,308	5,835
Accumulated depreciation and impairment losses	(376)	(2,393)	(2,769)
Net book amount	1,151	1,915	3,066
Year ended 31 December 2010			
Opening net book amount	1,151	1,915	3,066
Reclassification	25	(25)	–
Additions	5	249	254
Acquisitions	10	21	31
Depreciation charge for the year	(50)	(293)	(343)
Retirements and disposals	(11)	(7)	(18)
Hyperinflation adjustment	16	18	34
Foreign currency translation adjustment	(18)	2	(16)
At 31 December 2010	**1,128**	**1,880**	**3,008**
At 31 December 2010			
Cost or deemed cost	1,542	4,198	5,740
Accumulated depreciation and impairment losses	(414)	(2,318)	(2,732)
Net book amount	**1,128**	**1,880**	**3,008**

12. Property, plant and equipment [continued]

Land and buildings

Included in property, plant and equipment is an amount for land of €408 million (2009: €404 million).

Capitalised leased assets

Included in the net book amount of property, plant and equipment is an amount for capitalised leased assets of €44 million (2009: €65 million). The depreciation charge for capitalised leased assets was €9 million (2009: €9 million) and the related finance charges amounted to €3 million (2009: €5 million). The net carrying amount by class of assets at each balance sheet date is as follows:

	2010 €m	2009 €m
Cogeneration facilities (Note 30)	**28**	47
Other plant and equipment	**3**	4
Plant and equipment	**31**	51
Buildings	**13**	14
	44	65

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:

	2010 €m	2009 €m
Contracted for	**113**	65
Not contracted for	**91**	96
	204	161

Impairments

Impairment tests for items of property, plant and equipment are performed on a cash-generating unit basis when impairment triggers arise. In 2010 no impairment costs were recognised for the Group (2009: €33 million). The recoverable amounts in property, plant and equipment are based on the higher of fair value less costs to sell and value in-use. Value-in-use calculations are based on cash flow projections and discount rates for items of property, plant and equipment. Impairment charges are recognised within cost of sales in the Group Income Statement.

The impairment charge of €33 million booked in 2009 arose in the Packaging Europe segment and related entirely to the closure of the semi-chemical fluting mill in Sturovo, Slovakia.

13. Goodwill and intangible assets

	Goodwill €m	Intangible assets: Marketing related €m	Intangible assets: Customer related €m	Intangible assets: Software assets €m	Total €m
At 31 December 2008					
Cost or deemed cost	2,194	35	174	93	2,496
Accumulated amortisation and impairment losses	(171)	(11)	(96)	(64)	(342)
Net book amount	2,023	24	78	29	2,154
Year ended 31 December 2009					
Opening net book amount	2,023	24	78	29	2,154
Additions	–	–	–	11	11
Amortisation charge (Note 6)	–	(4)	(30)	(13)	(47)
Reclassification	–	–	–	6	6
Hyperinflation adjustment	82	–	–	–	82
Foreign currency translation adjustment	15	–	1	–	16
Closing net book amount	2,120	20	49	33	2,222
At 31 December 2009					
Cost or deemed cost	2,291	35	175	110	2,611
Accumulated amortisation and impairment losses	(171)	(15)	(126)	(77)	(389)
Net book amount	2,120	20	49	33	2,222
Year ended 31 December 2010					
Opening net book amount	2,120	20	49	33	**2,222**
Additions	7	–	–	5	**12**
Amortisation charge (Note 6)	–	(4)	(29)	(13)	**(46)**
Reclassification	–	–	–	9	**9**
Hyperinflation adjustment	16	–	–	–	**16**
Foreign currency translation adjustment	(5)	–	1	–	**(4)**
Closing net book amount	2,138	16	21	34	**2,209**
At 31 December 2010					
Cost or deemed cost	2,309	35	176	124	**2,644**
Accumulated amortisation and impairment losses	(171)	(19)	(155)	(90)	**(435)**
Net book amount	**2,138**	**16**	**21**	**34**	**2,209**

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 and administrative expenses in the Group Income Statement.

13. Goodwill and intangible assets [continued]

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 ten 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 five to eight 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 three to five years for amortisation purposes.

The addition to goodwill in 2010 of €7 million arose on the acquisition of Mondi's UK corrugated operations (Note 32).

Impairment testing of goodwill

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 operating segments determined in accordance with IFRS 8, *Operating Segments*. A total of 13 groups (2009: 13) of CGUs have been identified and these are analysed as follows:

	2010 Number	2009 Number
Packaging – Eurozone	**5**	5
Packaging – Eastern Europe	**1**	1
Packaging – Scandinavia	**1**	1
Packaging – UK	**1**	1
Packaging Europe	**8**	8
Specialties Europe	**1**	1
Latin America	**4**	4
	13	13

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

	2010 €m	2009 €m
Packaging Europe	**1,635**	1,606
Specialties Europe	**234**	234
Latin America	**269**	280
	2,138	2,120

No impairment arose in 2010 as the recoverable amount of the groups of CGUs based on value-in-use, as estimated based on the methodology outlined below, exceeded the carrying amounts.

13. Goodwill and intangible assets [continued]

Impairment testing methodology and results

The recoverable amounts of groups of CGUs are based on value-in-use calculations. The cash flow forecasts for the purposes of these calculations are based on a nine year plan approved by management. Cash flow forecasts for years six to nine use growth factors consistent with historical growth rates as adjusted for the cyclical nature of the business. The use of adjusted growth rates where higher than the long-term rates for years six to nine has no impact on the impairment assessment. The terminal value is estimated based on using an appropriate earnings multiple in year nine. The Group believes a nine year forecast is more appropriate to use for the impairment test, due to the cyclical nature of the business in which the Group operates and the long-term lives of 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 and discount rates. Key assumptions in determining terminal value include earnings multiples.

Of the goodwill allocated to each of the 13 groups of CGUs, four units individually account for between 10% and 20% of the total carrying amount of €2,138 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	€276 million	€351 million	€333 million	€234 million
Basis of recoverable amount	Value-in-use	Value-in-use	Value-in-use	Value-in-use
Discount rate applied	10.2%	10.2%	10.2%	10.2%
Earnings multiple used for terminal value	7.1	7.1	7.1	7.1
Excess of value-in-use	€137 million	€247 million	€553 million	€79 million

Following the disposal in 2010 of the Group's European paper sack plants, the Group's sack kraft paper mill in Spain has been moved from the Specialties CGU to the Packaging – Spain and Portugal CGU.

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, the discount rate applied was 10.2% and the earnings multiple used was 7.1.

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

If management's estimates of future profitability were adjusted over a range of +/- 5% per annum over the nine year forecast, there would be no goodwill impairment.

If estimated discount rates applied to the cash flows were adjusted by a range of +/- 0.5%, there would be no goodwill impairment.

If terminal value multiples were adjusted by a range of +/- 0.5, there would be no goodwill impairment.

14. Financial assets

Available-for-sale financial assets – Group

	Listed[(1)] €m	Unlisted €m	Total €m
At 1 January 2009	1	30	31
Additions	–	1	1
At 31 December 2009	1	31	32
At 31 December 2010	**1**	**31**	**32**

(1) Listed on a recognised stock exchange.

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other things, the duration and extent to which the fair value of an investment is less than cost, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flows.

At 31 December 2010 available-for-sale assets for which impairment provisions had been recorded amounted to €23 million.

Investment in subsidiaries – Company

	2010 €m	2009 €m
At 1 January	**1,964**	1,961
Capital contribution	**4**	3
At 31 December	**1,968**	1,964

15. Investment in associates

	2010 €m	2009 €m
At 1 January	**13**	14
Share of profit/(loss) for the year	**2**	(1)
Dividends received from associates	**(1)**	(1)
Reclassification	**–**	1
Foreign currency translation adjustment	**2**	–
At 31 December	**16**	13

16. Biological assets

	2010 €m	2009 €m
At 1 January	**99**	87
Increases due to new plantations	**15**	15
Harvested timber transferred to inventories	**(8)**	(6)
Change in fair value less estimated costs to sell	**(8)**	1
Foreign currency translation adjustment	**(3)**	2
At 31 December	**95**	99
Current	**7**	8
Non-current	**88**	91
At 31 December	**95**	99
Approximate harvest by volume (tonnes '000)	**781**	698

The Group's biological assets consist of 105,000 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 nationalisation of foreign owned companies and assets by the Venezuelan government has intensified and would suggest that the risk of similar such action against the Group's operations in Venezuela has heightened. Market value compensation is either negotiated or arbitrated under applicable treaties in these cases. However, the amount and timing of such compensation is necessarily uncertain.

Regulatory and environmental risks

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

Supply and demand risk

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

Climate and other risks

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

17. Deferred tax assets and liabilities

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

	2010 €m	2009 €m
Deferred income tax assets:		
Deficits on Group defined benefit pension obligations	**69**	86
Tax losses	**220**	205
Temporary differences principally arising in respect of property, plant and equipment	**35**	72
Revaluation of derivative financial instruments to fair value	**6**	6
Other	**72**	57
	402	426
Deferred tax assets/liabilities available for offset	**(268)**	(146)
	134	280

	2010 €m	2009 €m
Deferred income tax liabilities:		
Taxable temporary differences principally attributable to accelerated depreciation and fair value adjustments arising on acquisition	**381**	377
Taxable temporary differences on intangible assets	**29**	22
Revaluation of biological assets to fair value	**3**	2
Revaluation of derivative financial instruments to fair value	**1**	–
Temporary differences arising on provisions	**31**	37
Temporary differences arising on debt issue costs	**2**	3
Other items	**27**	30
	474	471
Deferred tax assets/liabilities available for offset	**(268)**	(146)
	206	325

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

17. Deferred tax assets and liabilities [continued]

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

	2010 €m	2009 €m
Tax losses	**167**	128
Pension/employee benefits	**8**	9
Derivative financial instruments	**3**	5
	178	142

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

No deferred tax assets have been recognised in respect of gross tax losses amounting to €603 million (2009: €480 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 2010 €m
Expiry 1 January 2011 to 31 December 2011	**1**
Expiry 1 January 2012 to 31 December 2012	**–**
Expiry 1 January 2013 to 31 December 2013	**5**
Expiry 1 January 2014 to 31 December 2014	**13**
Expiry 1 January 2015 to 31 December 2015	**–**
Other expiry	**397**
Indefinite	**187**
	603

The movement in deferred tax during the year is:

	2010 €m	2009 €m
At 1 January	**(45)**	(96)
Movement recognised in the Group Income Statement (Note 10)	**19**	15
Movement recognised in the Group Statement of Comprehensive Income (Note 10)	**(8)**	45
Acquisitions and disposals	**(9)**	–
Transfer between current and deferred tax	**(8)**	28
Hyperinflation adjustment	**(24)**	(36)
Foreign currency translation adjustment	**3**	(1)
At 31 December	**(72)**	(45)

18. Inventories

	2010 €m	2009 €m
Raw materials	**180**	169
Work in progress	**22**	38
Finished goods	**302**	240
Consumables and spare parts	**134**	139
	638	586

19. Trade and other receivables

	Group 2010 €m	Group 2009 €m	Company 2010 €m	Company 2009 €m
Amounts falling due within one year:				
Trade receivables	**1,179**	1,005	**–**	–
Less: provision for impairment of receivables	**(41)**	(43)	**–**	–
Trade receivables – net	**1,138**	962	**–**	–
Amounts receivable from associates	**5**	3	**–**	–
Other receivables	**118**	117	**–**	–
Prepayments and accrued income	**31**	23	**–**	–
Amounts due from Group companies	**–**	–	**23**	12
	1,292	1,105	**23**	12
Amounts falling due after more than one year:				
Other receivables	**5**	4	**–**	–
	1,297	1,109	**23**	12

The Group has securitised €249 million (2009: €223 million) of its trade receivables. 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 this 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 the Group Balance Sheet.

The fair values of trade and other receivables are not materially different to the carrying amounts.

19. Trade and other receivables [continued]

Impairment losses

At 31 December 2010 trade receivables of €168 million (2009: €164 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:

	2010 €m	2009 €m
Past due 0 – 30 days	**115**	106
Past due 30 – 60 days	**38**	38
Past due 60 – 90 days	**9**	13
Past due 90 + days	**6**	7
	168	164

At 31 December 2010 trade receivables of €38 million (2009: €39 million) were considered impaired and provided for. The ageing of this provision was as follows:

	2010 €m	2009 €m
Not past due	**1**	3
Past due 0 – 30 days	**–**	1
Past due 30 – 60 days	**–**	1
Past due 60 – 90 days	**2**	1
Past due 90 + days	**35**	33
	38	39

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

	2010 €m	2009 €m
At 1 January	**43**	36
Charged in the year	**7**	12
Utilised in the year	**(9)**	(5)
At 31 December	**41**	43

The creation and release of provisions for impaired receivables have been included in administrative expenses in the Group Income Statement (Note 6). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

19. Trade and other receivables [continued]

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 2010 and 2009, the level of trade receivables that were past due 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.

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.

20. Cash and cash equivalents and restricted cash

Cash and cash equivalents

	Group 2010 €m	Group 2009 €m	Company 2010 €m	Company 2009 €m
Cash and current accounts	**86**	103	**–**	–
Short-term deposits	**409**	498	**–**	2
Cash and cash equivalents	**495**	601	**–**	2

Cash and cash equivalents for the purposes of the cash flow statement

	Group 2010 €m	Group 2009 €m	Company 2010 €m	Company 2009 €m
Cash and cash equivalents	**495**	601	**–**	2
Bank overdrafts and demand loans used for cash management purposes	**(14)**	(14)	**–**	–
Cash and cash equivalents in the Group Cash Flow Statement	**481**	587	**–**	2

20. Cash and cash equivalents and restricted cash [continued]

Restricted cash – Group

	2010 €m	2009 €m
Total restricted cash	**7**	43

At 31 December 2010, cash of €5 million (2009: €41 million) was held in restricted securitisation bank accounts which were not available for transfer to other Group subsidiaries or for use outside the Group. A further €2 million (2009: €2 million) of restricted cash was held in other Group subsidiaries.

21. Assets held for sale

There were no assets held for sale at 31 December 2010. Assets held for sale of €4 million at 31 December 2009 related to a property in the Netherlands.

	2010 €m	2009 €m
Property, plant and equipment	**–**	4

22. Capital and reserves

Group

		Capital and other reserves								
	Equity share capital €m	Share premium €m	Reverse acquisition reserve €m	Cash flow hedging reserve €m	Foreign currency translation reserve €m	Reserve for share-based payment €m	Retained earnings €m	Total attributable to the owners of the Parent €m	Non-controlling interests €m	Total equity €m
At 1 January 2009	–	1,928	575	(27)	(203)	57	(679)	1,651	145	1,796
Total comprehensive income and expense	–	–	–	(17)	40	–	(237)	(214)	20	(194)
Hyperinflation adjustment	–	–	–	–	(11)	–	247	236	21	257
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(7)	(7)
Share-based payment (Note 25)	–	–	–	–	–	3	–	3	–	3
At 31 December 2009	–	1,928	575	(44)	(174)	60	(669)	1,676	179	1,855
At 1 January 2010	–	1,928	575	(44)	(174)	60	(669)	1,676	179	1,855
Shares issued	–	9	–	–	–	–	–	9	–	9
Total comprehensive income and expense	–	–	–	(1)	(50)	–	76	25	4	29
Hyperinflation adjustment	–	–	–	–	–	–	40	40	6	46
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(5)	(5)
Purchase of non-controlling interests	–	–	–	–	–	–	–	–	(2)	(2)
Other movements	–	–	–	–	8	–	1	9	(9)	–
Share-based payment (Note 25)	–	–	–	–	–	4	–	4	–	4
At 31 December 2010	**–**	**1,937**	**575**	**(45)**	**(216)**	**64**	**(552)**	**1,763**	**173**	**1,936**

22. Capital and reserves [continued]

Company

	Equity share capital €m	Capital and other reserves: Share premium €m	Capital and other reserves: Reserve for share-based payment €m	Retained earnings €m	Total attributable to the owners of the Parent €m
At 1 January 2009	–	1,928	29	1	1,958
Total comprehensive income and expense	–	–	–	(1)	(1)
Share-based payment	–	–	3	–	3
At 31 December 2009	–	1,928	32	–	1,960
At 1 January 2010	–	1,928	32	–	1,960
Shares issued	–	9	–	–	9
Total comprehensive income and expense	–	–	–	(1)	(1)
Share-based payment	–	–	4	–	4
At 31 December 2010	**–**	**1,937**	**36**	**(1)**	**1,972**

Share capital

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

Restriction on transfer of shares

The Directors, 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 Registered Office or at such other place as the Directors may appoint; b) accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; c) in respect of only one class of shares; and d) in favour of not more than four transferees.

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

22. Capital and reserves [continued]

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 firstly be 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 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.

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.

22. Capital and reserves [continued]

	2010 €m	2009 €m
Authorised		
Ordinary shares		
9,910,931,085 Ordinary shares of €0.001 each	**10**	10
Convertible shares of €0.001 each		
2,356,472 Class A1	**–**	–
2,356,471 Class A2	**–**	–
2,355,972 Class A3	**–**	–
30,000,000 Class B	**–**	–
30,000,000 Class C	**–**	–
75,000,000 Class D	**–**	–
	10	10

22. Capital and reserves [continued]

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

	Convertible shares of €0.001 each						Ordinary shares of €0.001 each		
	Class B number	Class C number	Class A2 number	Class A3 number	Class D number	Total number	Ordinary number	Total number	€m
At 1 January 2009	2,598,240	2,598,240	539,495	539,459	9,035,075	15,310,509	218,022,794	233,333,303	–
New class B and class C convertible shares issued	1,090,580	1,090,580	–	–	–	2,181,160	–	2,181,160	–
Conversion of class A2 and A3 convertible shares	–	–	(539,495)	(22,713)	562,208	–	–	–	–
Conversion of class D convertibles to ordinary shares	–	–	–	–	(9,209)	(9,209)	9,209	–	–
Issued on exercise of warrants	–	–	–	–	–	–	1,662	1,662	–
At 31 December 2009	3,688,820	3,688,820	–	516,746	9,588,074	17,482,460	218,033,665	235,516,125	–
At 1 January 2010	3,688,820	3,688,820	–	516,746	9,588,074	17,482,460	218,033,665	235,516,125	–
New class B and class C convertible shares issued	74,940	74,940	–	–	–	149,880	–	149,880	–
Conversion of class A3 convertible shares	–	–	–	(516,746)	516,746	–	–	–	–
Conversion of class D convertibles to ordinary shares	–	–	–	–	(2,004,255)	(2,004,255)	2,004,255	–	–
Issued on exercise of warrants	–	–	–	–	–	–	26,543	26,543	–
At 31 December 2010	**3,763,760**	**3,763,760**	**–**	**–**	**8,100,565**	**15,628,085**	**220,064,463**	**235,692,548**	**–**

At 31 December 2010 ordinary shares represent 93.4% and convertible shares represent 6.6% of issued share capital.

The called up, issued and fully paid share capital of the Company at 31 December 2010 was €235,000 (2009: €235,000).

22. Capital and reserves [continued]

Share premium

The share premium of €1,937 million relates to the share premium arising on share issues.

Reverse acquisition reserve

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

Cash flow hedging reserve

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

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency translation adjustments arising from the translation of the Group's net investment in foreign operations 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 payment

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

	2010 €m	2009 €m
Senior credit facility		
Revolving credit facility[1] – interest at relevant interbank rate + 3% on RCF 1 and + 3.25% on RCF 2[8]	**(8)**	(13)
Tranche A term loan[2a] – interest at relevant interbank rate + 3%[8]	**164**	219
Tranche B term loan[2b] – interest at relevant interbank rate + 3.125%[8]	**816**	809
Tranche C term loan[2c] – interest at relevant interbank rate + 3.375%[8]	**814**	808
U.S. Yankee bonds (including accrued interest)[3]	**219**	203
Bank loans and overdrafts	**75**	76
Receivables securitisation variable funding notes 2015[4]	**149**	208
2015 cash pay subordinated notes (including accrued interest)[5]	**370**	358
2017 senior secured notes (including accrued interest)[6]	**488**	485
2019 senior secured notes (including accrued interest)[7]	**490**	489
Total debt before finance leases	**3,577**	3,642
Finance leases	**26**	41
Total debt including finance leases	**3,603**	3,683
Balance of revolving credit facility reclassified to debtors	**9**	13
Total debt after reclassification	**3,612**	3,696
Analysed as follows:		
Current	**142**	133
Non current	**3,470**	3,563
	3,612	3,696

(1) Revolving credit facility ('RCF') of €525 million split into RCF 1 and RCF 2 of €152 million and €373 million (available under the senior credit facility) to be repaid in full in 2012 and 2013 respectively. (Revolver loans – Nil, drawn under ancillary facilities and facilities supported by letters of credit – €1.1 million)

(2a) Term loan A due to be repaid in certain instalments up to 2012

(2b) Term loan B due to be repaid in full in 2013

(2c) Term loan C due to be repaid in full in 2014

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

(4) Receivables securitisation variable funding notes due November 2015

(5) €217.5 million 7.75% senior subordinated notes due 2015 and US$200 million 7.75% senior subordinated notes due 2015

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

(7) €500 million 7.75% senior secured notes due 2019

23. Borrowings [continued]

(8) Effective 2 July 2009 the margins applicable to the senior credit facility were amended to the following:

Debt/EBITDA ratio	Tranche A and RCF1	Tranche B	Tranche C	RCF2
Greater than 4 : 1	3.25%	3.375%	3.625%	3.50%
4 : 1 or less but more than 3.5 : 1	3.00%	3.125%	3.375%	3.25%
3.5 : 1 or less but more than 3.0 : 1	2.75%	3.125%	3.375%	3.00%
3.0 : 1 or less	2.50%	3.125%	3.375%	2.75%

Included within the carrying value of debt are deferred debt issue costs of €67 million (2009: €82 million), all of which will be recognised in finance costs in the Group 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):

	Million
U.S. Yankee bonds 7.50% due 2025	US$292
Receivables securitisation variable funding notes due 2015	€153
Senior secured notes 7.25% due 2017	€500
Senior secured notes 7.75% due 2019	€500
Senior credit facility due between 2012 and 2014	€1,822

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

	Million
Cash pay subordinated notes 7.75% due 2015	€218
Cash pay subordinated notes 7.75% due 2015	US$200
Sundry short-term bank loans and overdrafts	€75

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 €4,205 million (2009: €4,180 million) of which €3,582 million (2009: €3,668 million) was utilised at 31 December 2010. The weighted average period until maturity of undrawn committed facilities is 3.0 years (2009: 3.7 years).

23. Borrowings [continued]

Maturity of undrawn committed facilities

	2010 €m	2009 €m
Within 1 year	**–**	–
Between 1 and 2 years	**153**	–
More than 2 years	**470**	512
	623	512

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

Certain subsidiaries are party to a senior credit facility. The senior credit facility comprises a €164 million amortising A Tranche maturing in 2012, an €816 million B Tranche maturing in 2013 and an €814 million C Tranche maturing in 2014. In addition, the senior credit facility includes a €525 million revolving credit facility of which €1.1 million was drawn at 31 December 2010 under facilities supported by letters of credit.

The following table sets out the average interest rates at 31 December 2010 and 2009 for each of the drawings under the term loans.

	Currency	2010 Interest rate	2009 Interest rate
Term loan A	EUR	**3.81%**	4.00%
Term loan B	EUR	**4.04%**	4.01%
	US$	**3.41%**	3.66%
Term loan C	EUR	**4.24%**	4.18%
	US$	**3.66%**	3.91%

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 2011 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 2010, there was €1.1 million drawn under the revolving credit facility by way of drawings on ancillary facilities and facilities supported by documentary letters of credit. The original €600 million revolving credit facility maturing in December 2012 was converted in 2009 into two tranches totalling €525 million of which €152 million terminates in December 2012 and €373 million terminates in December 2013.

At 31 December 2010 the Group had outstanding €217.5 million 7.75% senior subordinated notes due 2015 and US$200 million 7.75% senior subordinated notes due 2015. In addition, the Group had outstanding US$292.3 million 7.5% senior debentures due 2025 and a further €153 million floating rate notes issued under an accounts receivable securitisation programme maturing in 2015.

In November 2009 the Group successfully issued €1 billion senior secured notes. The debt is split into two tranches of €500 million maturing in December 2017 and December 2019 at a coupon of 7.25% and 7.75% respectively. The net proceeds of the offering were used to repay a portion of its three outstanding term loans under the senior credit facility.

23. Borrowings [continued]

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

In November 2010, the Group successfully completed a €250 million five year trade receivables securitisation programme. Proceeds were used to refinance the Group's existing €210 million securitisation programme which had a 2011 maturity. Receivables generated by certain of our operating companies in the UK, Germany and France are sold to special purpose subsidiaries and entities to support the funding provided by Lloyds Banking Group. The sale of the securitised receivables is not intended to, and does not, meet the requirements for derecognition under IAS 39, with the result that the sold receivables continue to be shown on the face of the Group 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 2010 was €249 million (2009: €223 million). At 31 December 2010 cash of €5 million (2009: €41 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 UK, the Netherlands, Ireland and Germany. The most recent formal valuations of the significant funded defined benefit plans were carried out as follows: UK on 31 March 2008; the Netherlands on 31 December 2009; Ireland on 1 January 2010.

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

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

	2010 €m	**2009 €m**	**2008 €m**	**2007 €m**	**2006 €m**
Present value of funded or partially funded obligations	**(1,548)**	(1,447)	(1,210)	(1,498)	(1,565)
Fair value of plan assets	**1,357**	1,208	1,080	1,411	1,419
Deficit in funded or partially funded plans	**(191)**	(239)	(130)	(87)	(146)
Present value of wholly unfunded obligations	**(404)**	(414)	(387)	(395)	(439)
Net employee benefit liabilities	**(595)**	(653)	(517)	(482)	(585)

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

24. Employee benefits [continued]

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

	Europe %	USA %	Latin America %
31 December 2010			
Rate of increase in salaries	1.20 – 5.00	3.50	3.00 – 4.75
Rate of increase to pensions in payment	Nil – 3.75	Nil	Nil – 4.51
Discount rate for plan liabilities	2.50 – 5.60	5.25	5.75 – 9.52
Inflation	1.75 – 3.40	2.00	2.30 – 4.51

	Europe %	USA %	Latin America %
31 December 2009			
Rate of increase in salaries	1.20 – 5.00	3.50	4.00 – 6.48
Rate of increase to pensions in payment	Nil – 3.20	Nil	Nil – 6.48
Discount rate for plan liabilities	2.60 – 5.70	5.75	5.75 – 11.59
Inflation	1.75 – 3.20	2.00	2.50 – 6.48

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

	Europe %	USA %	Latin America %
31 December 2010			
Equities	6.75 – 7.75	8.00	7.60 – 13.00
Bonds	3.40 – 5.10	4.50	4.50 – 8.67
Property	6.25 – 7.00	n/a	n/a
Other	0.50 – 4.60	3.50	1.80

	Europe %	USA %	Latin America %
31 December 2009			
Equities	7.25 – 7.75	8.00	8.75 – 13.00
Bonds	3.60 – 5.60	4.50	4.25 – 8.67
Property	6.50 – 7.00	n/a	n/a
Other	0.50 – 5.20	3.50	3.30

24. Employee benefits [continued]

Mortality assumptions

In assessing the Group's post retirement liabilities, the mortality assumptions chosen for the principal plans above are based on the country's population mortality, large pension scheme mortality experience and the plan's own mortality experience. In 2008, a mortality investigation was carried out in the UK, and this review concluded assumptions set out below make sufficient allowance for future improvements in mortality rates. These will be reviewed in the 2011 actuarial valuation. In the Netherlands, the assumption was updated in 2010 to take account of latest national longevity statistics which showed significant improvements. In Ireland, the assumptions used were those in the latest 2010 actuarial valuation and allow for increasing life expectancies. In Germany, the mortality table chosen is the appropriate one laid down by statutory authorities and also allows for future improvements.

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

	31 December 2010			
	Ireland	**UK**	**Netherlands**	**Germany**
Longevity at age 65 for current pensioners				
Males	20.6	19.7	19.9	18.3
Females	22.9	22.4	22.8	22.4
Longevity at age 65 for current member aged 45				
Males	22.6	20.9	21.8	21.0
Females	24.9	23.7	23.8	25.0

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

Sensitivity analysis

The following table illustrates the key sensitivities to the amounts included in the Financial Statements arising from adjusting certain key actuarial assumptions. Each item shown below assumes all other assumptions would remain unchanged:

	0.25% Increase	0.25% Decrease
	Increase/ (decrease) €m	Increase/ (decrease) €m
Effect of adjusting the discount rate used on liabilities reflected in the Group Balance Sheet as at 31 December 2010	(72)	77
Effect of adjusting the inflation rate used on liabilities reflected in the Group Balance Sheet as at 31 December 2010	38	(35)
Effect of changing the expected return on assets on the charge to the Group Income Statement for the year ended 31 December 2010	(3)	3

24. Employee benefits [continued]

Furthermore, the impact of increasing the expected longevity for pension members by one year would result in an increase in the Group Balance Sheet liability of €36 million as at 31 December 2010. 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:

	2010 €m	2010 %	2009 €m	2009 %
Equities	**622**	**45.8**	501	41.5
Bonds	**636**	**46.9**	591	48.9
Property	**40**	**3.0**	51	4.2
Other	**59**	**4.3**	65	5.4
	1,357	**100.0**	1,208	100.0

The average expected long-term rate of return on assets is 5.70%. 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 126.

At 31 December 2010 the pension scheme assets within equities included shares held in Smurfit Kappa Group plc amounting to €1 million and property to the value of €2 million, which relates to the Gosport plant in the UK.

The actual return on plan assets for the year ended 31 December 2010 was positive €139 million (2009: positive €98 million).

The market values of the assets of the plans and the present value of plan liabilities were as follows:

31 December 2010	Europe €m	USA €m	Latin America €m	Total €m
Assets:				
Equities	594	15	13	**622**
Bonds	608	11	17	**636**
Property	40	–	–	**40**
Other	59	–	–	**59**
Fair value of plan assets	1,301	26	30	**1,357**
Present value of plan liabilities	(1,857)	(46)	(49)	**(1,952)**
Defined benefit liability	(556)	(20)	(19)	**(595)**

24. Employee benefits [continued]

31 December 2009	Europe €m	USA €m	Latin America €m	Total €m
Assets:				
Equities	478	12	11	501
Bonds	570	9	12	591
Property	51	–	–	51
Other	64	–	1	65
Fair value of plan assets	1,163	21	24	1,208
Present value of plan liabilities	(1,772)	(40)	(49)	(1,861)
Defined benefit liability	(609)	(19)	(25)	(653)

Analysis of the amount charged in the Group Income Statement

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

	2010 €m	2009 €m
Current service cost	**29**	40
Past service cost	**(1)**	6
Gain on settlements	**(1)**	–
Gain on curtailments	**(1)**	(4)[1]
Actuarial gains arising on long-term employee benefits other than defined benefit schemes	**–**	(1)
Charged to operating profit	**26**	41
Expected return on plan assets	**(71)**	(68)
Interest cost on plan liabilities	**101**	96
	56	69

(1) Included in the gain on curtailments was an amount of €2 million which related to the rationalisation of our Cork corrugated plant in Ireland. This was treated as an exceptional item within other operating expenses in the Group Income Statement.

The defined benefit cost for 2010 includes €5 million (2009: €9 million) which relates to other long-term employee benefits.

24. Employee benefits [continued]

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

	2010 €m	2009 €m
Cost of sales	**12**	24
Distribution costs and administrative expenses	**14**	19
Other operating expenses	**–**	(2)
Finance costs	**101**	96
Finance income	**(71)**	(68)
	56	69

Movement in present value of defined benefit obligation

	2010 €m	2009 €m
Present value of liability for defined benefit obligations as at 1 January	**(1,861)**	(1,597)
Current service cost	**(29)**	(39)[(1)]
Past service cost	**1**	(6)
Contributions by plan participants	**(7)**	(7)
Benefits paid by plans	**103**	108
Increase arising on settlements	**(3)**	(3)
Reduction arising on curtailments	**1**	4
Interest cost	**(101)**	(96)
Actuarial gains and losses	**(36)**	(188)
Transfers	**4**	–
Disposals	**6**	–
Foreign currency translation adjustments	**(30)**	(37)
Present value of liability for defined benefit obligations as at 31 December	**(1,952)**	(1,861)

(1) The current service cost expense for 2009 excludes the hyperinflationary adjustment of €1 million as it has no effect on the closing pension liability in the Group Balance Sheet.

24. Employee benefits [continued]

Movement in fair value of plan assets

	2010 €m	2009 €m
Fair value of plan assets as at 1 January	**1,209**	1,083
Contributions by employer	**82**	94
Contributions by plan participants	**7**	7
Expected return on plan assets	**71**	68
Benefits paid by plans	**(103)**	(108)
Transfers	**–**	1
Disposals	**(3)**	–
Increase arising on settlements	**4**	3
Actual return less expected return on pension plan assets	**68**	29
Foreign currency translation adjustments	**23**	32
Value of plan assets as at 31 December before IFRIC14 adjustment	**1,358**	1,209
IFRIC14 adjustment for unrecoverable surplus	**(1)**	(1)
Fair value of plan assets as at 31 December	**1,357**	1,208

Analysis of actuarial gains and losses recognised in the Group Statement of Comprehensive Income

	2010 €m	2009 €m
Actuarial gain arising on plan assets	**68**	29
Actuarial gain arising on experience of plan liabilities	**9**	14
Loss arising from changes in assumptions	**(45)**	(204)
IFRIC14 adjustment including currency adjustment	**–**	2
Total gain/(loss) recognised in the Group Statement of Comprehensive Income during the year	**32**	(159)

	2010 €m	2009 €m
Cumulative statement of comprehensive income amount at 1 January	**(130)**	26
Recognised during the year	**32**	(159)
Foreign currency translation adjustments	**(3)**	3
Cumulative statement of comprehensive income amount at 31 December	**(101)**	(130)

24. Employee benefits [continued]

History of experience gains and losses

	2010 €m	2009 €m	2008 €m	2007 €m	2006 €m
Actuarial gain/(loss) on plan assets:					
Amount	**68**	29	(269)	(70)	24
Percentage of plan assets	**5.0%**	2.4%	24.9%	4.9%	1.7%
Experience gain/(loss) on plan liabilities:					
Amount	**9**	14	19	(1)	(7)
Percentage of plan liabilities	**0.5%**	0.8%	1.2%	0.1%	0.4%
Total actuarial gain/(loss) recognised in the Group Statement of Comprehensive Income:					
Amount	**32**	(159)	(82)	49	87
Percentage of plan liabilities	**1.6%**	8.5%	5.2%	2.6%	4.4%

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 2011 for the funded schemes are €7 million and €50 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2011 are €33 million. The defined contribution pension scheme expense for the year ended 31 December 2010 was €36 million (2009: €37 million).

25. Share-based payment

Share-based payment expense recognised in the Group Income Statement

	2010 €m	2009 €m
Charge arising from fair value calculated at grant date	**4**	3

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 would vest over a three year period ending on 31 December 2007. Class B and class C convertible shares would vest over the same time period if certain internal rate of return performance requirements were met. Vesting for all three classes of convertible shares was 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 had a life of seven years from the date of issuance of the class A, class B or class C convertible shares. Also, certain restrictions applied on transferring convertible or ordinary shares.

25. Share-based payment [continued]

In February 2004, the 2002 Plan was amended (the '2004 Plan') and restated to, among other things, provide a clause that created variability in the exercise price for the equity awards based upon interest accrued on the senior PIK notes of Smurfit Kappa Holdings. In addition, the awards were exchanged for an identical number of shares in Smurfit Kappa Investments 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 period was 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 converted into class I convertible shares upon vesting which then could be converted into ordinary shares of SKIL. The vesting provisions for class H convertible shares were 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.

Modification in 2007

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 vested on the first, second and third anniversaries respectively of the IPO. 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.

Acceleration in 2007

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.

In March 2007, SKG plc adopted the 2007 Share Incentive Plan (the '2007 SIP'). The 2007 SIP was amended in May 2009. Incentive awards under the 2007 SIP 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 conversion price. The conversion price for each D convertible share is the average market value of an ordinary share for the three dealing days immediately prior to the date that the Participant was invited to subscribe less the nominal subscription price. Each award has a life of ten years from the date of issuance of the new class B and new class C convertible shares. The performance period for the new class B and new class C convertible shares is three financial years.

25. Share-based payment [continued]

The performance conditions for the new class B and new class C convertible shares awarded under the 2007 SIP prior to 2009 are as follows. The new class B convertible shares automatically convert into D convertible shares if the growth in the Company's earnings per share over the performance period is a percentage equal to at least five per cent per annum plus the annual percentage increase in the Consumer Price Index of Ireland, compounded. The new class C convertible shares are subject to that same performance condition. In addition, the new class C convertible shares are subject to a performance condition based on the Company's total shareholder return over the three-year period relative to the total shareholder return of a peer group of companies ('TSR Condition'). Under that condition, 30% of the new class C convertible shares convert into D convertible shares if the Company's total shareholder return is at the median performance level and 100% convert if the Company's total shareholder return is at or greater than the upper quartile of the peer group. A sliding scale applies for performance between the median and upper quartiles. The awards made in 2007 lapsed in March 2010 and ceased to be capable of conversion to D convertible shares. The awards made in 2008 lapsed in March 2011 and ceased to be capable of conversion to D convertible shares.

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

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

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.

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

25. Share-based payment [continued]

A summary of the activity under the 2002 Plan, as amended, and the 2007 SIP, as amended, for the period from 1 January 2009 to 31 December 2010 is presented below.

	Weighted average exercise price per share € per share	Number of convertible shares
At 1 January 2009	7.74	14,791,012
Forfeited in the year	13.42	(407,415)
Granted in the year	4.36	2,579,240
Exercised in the year	4.28	(9,209)
At 31 December 2009	7.07	16,953,628
Forfeited in the year	6.78	(259,346)
Lapsed in the year	18.28	(2,346,760)
Granted in the year	6.50	2,603,840
Exercised in the year	4.67	(2,004,255)
At 31 December 2010	**5.53**	**14,947,107**

The weighted average market price on the date the convertible shares were exercised in the year to 31 December 2010 was €7.04 (2009: €6.50).

At 31 December 2010, 7,663,087 (2009: 9,223,187) were exercisable and were convertible to ordinary shares. The weighted average exercise price for all shares exercisable at 31 December 2010 was €4.54 (2009: €4.58).

The weighted average exercise price for all shares outstanding under the 2002 Plan, as amended, at 31 December 2010 was €4.54. The weighted average remaining contractual life of the awards issued under the 2002 Plan, as amended, at 31 December 2010 was 2.1 years.

The weighted average exercise price for shares outstanding under the 2007 SIP, as amended, at 31 December 2010 was €6.57. The weighted average remaining contractual life of the awards issued under the 2007 SIP, as amended, at 31 December 2010 was 8.4 years.

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

25. Share-based payment [continued]

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

	Expected volatility	Vesting periods (months)	Risk-free rate	Dividend yield	Fair value
Granted 30 September 2009:					
New B convertible	68.62% - 52.18%	36	3.363% - 0.719%	2.97%	€2.59 - €2.76
New C convertible	68.62% - 52.18%	36	3.363% - 0.719%	2.97%	€2.59 - €2.76
Granted 25 March 2010:					
New B convertible	59.67% - 45.85%	36	3.308% - 0.613%	2.97%	€1.62 - €1.86
New C convertible	59.67% - 45.85%	36	3.308% - 0.613%	2.97%	€1.62 - €1.86

26. Provisions for liabilities and charges

	2010 €m	2009 €m
Current	**29**	45
Non-current	**49**	44
	78	89

26. Provisions for liabilities and charges [continued]

	Deferred consideration €m	Restructuring €m	Environmental €m	Legal €m	Other €m	Total €m
At 1 January 2009	9	24	9	7	45	94
Provisions made during the year	–	35	–	3	12	50
Provisions released during the year	–	(1)	(1)	(1)	(3)	(6)
Provisions utilised in the year	(9)	(23)	(1)	(3)	(16)	(52)
Reclassifications	–	–	–	–	2	2
Currency adjustment	–	–	–	–	1	1
At 31 December 2009	–	35	7	6	41	89
Provisions made during the year	10	16	–	2	18	**46**
Provisions released during the year	–	(5)	–	(2)	(3)	**(10)**
Provisions utilised in the year	–	(25)	(1)	(3)	(23)	**(52)**
Subsidiaries acquired	–	–	–	–	3	**3**
Subsidiaries disposed	–	(4)	–	–	–	**(4)**
Reclassifications	–	(1)	1	–	5	**5**
Currency adjustment	–	–	–	–	1	**1**
At 31 December 2010	**10**	**16**	**7**	**3**	**42**	**78**

Deferred consideration

Deferred consideration represents the deferred element of acquisition and disposal consideration payable. The balance at 31 December 2010 relates to the disposal of the Rol Pin wood products operation in France.

Restructuring

These provisions relate to irrevocable commitments relating to restructuring programmes throughout the Group. The provisions made in 2010 relate to the closure of the Mettet corrugated plant in Belgium and to the restructuring of Piteå paper mill in Sweden, the Vandra sheet plant in the Netherlands and the packaging operations in Ireland. The provisions made in 2009 relate to the closure of the Sturovo mill in Slovakia and the restructuring of Rol Pin in France and the Cork plant in Ireland. The Group expects that the majority of the provision balance remaining at 31 December 2010 will be utilised during 2011.

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.

26. Provisions for liabilities and charges [continued]

Legal

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

Other

Other comprises a number of provisions including: liabilities arising from onerous contracts, mainly relating to property leases amounting to €14 million; deferred employee profit sharing provisions in certain of the countries in which we operate amounting to €5 million; and numerous other items which are not individually material and are not readily grouped together. The property leases generally have lives ranging from five to ten years.

27. Trade and other payables

	Group 2010 €m	Group 2009 €m	Company 2010 €m	Company 2009 €m
Amounts falling due within one year:				
Trade payables	**808**	685	**–**	–
Amounts owed to associates – trading balances	**5**	4	**–**	–
Payroll taxes	**29**	28	**–**	–
Value added tax	**36**	30	**–**	–
Social welfare	**52**	48	**–**	–
Accruals and deferred income	**358**	338	**–**	–
Capital payables	**42**	56	**–**	–
Other payables	**21**	22	**–**	–
Amounts due to Group companies	**–**	–	**19**	18
	1,351	1,211	**19**	18
Amounts falling due after more than one year:				
Other payables	**7**	3	**–**	–
	1,358	1,214	**19**	18

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

28. Financial instruments

Financial instruments by category

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

31 December 2010	Loans and receivables €m	Assets at fair value through Group Income Statement €m	Derivatives used for hedging €m	Available-for-sale €m	Total €m
Assets as per Group Balance Sheet:					
Available-for-sale financial assets	–	–	–	32	**32**
Derivative financial instruments	–	7	3	–	**10**
Trade and other receivables	1,261	–	–	–	**1,261**
Cash and cash equivalents	495	–	–	–	**495**
Restricted cash	7	–	–	–	**7**
	1,763	7	3	32	**1,805**

The financial assets of the Company of €23 million consist of loans and receivables.

31 December 2010	Liabilities at fair value through Group Income Statement €m	Derivatives used for hedging €m	Other financial liabilities €m	Total €m
Liabilities as per Group Balance Sheet:				
Borrowings	–	–	3,612	**3,612**
Derivative financial instruments	76	52	–	**128**
Trade and other payables	–	–	876	**876**
	76	52	4,488	**4,616**

The financial liabilities of the Company of €19 million consist of other financial liabilities.

28. Financial instruments [continued]

31 December 2009	Loans and receivables €m	Assets at fair value through Group Income Statement €m	Available-for-sale €m	Total €m
Assets as per Group Balance Sheet:				
Available-for-sale financial assets	–	–	32	32
Derivative financial instruments	–	3	–	3
Trade and other receivables	1,083	–	–	1,083
Cash and cash equivalents	601	–	–	601
Restricted cash	43	–	–	43
	1,727	3	32	1,762

The financial assets of the Company of €14 million consist of loans, receivables and cash.

31 December 2009	Liabilities at fair value through Group Income Statement €m	Derivatives used for hedging €m	Other financial liabilities €m	Total €m
Liabilities as per Group Balance Sheet:				
Borrowings	–	–	3,696	3,696
Derivative financial instruments	120	50	–	170
Trade and other payables	–	–	767	767
	120	50	4,463	4,633

The financial liabilities of the Company of €18 million consist of other financial liabilities.

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

28. Financial instruments [continued]

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

Financial and credit risk management

The operating parameters and policies of the Group's treasury management function are established under formal Board authority. The 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 programs and for general corporate purposes. Additionally, financial instruments, including derivative instruments are used to hedge exposure to interest rate, commodity and foreign currency risks. The Group does not use financial instruments for trading purposes. The Group mitigates the risk that counterparties to derivatives will fail to perform by contracting with major financial institutions having high credit ratings and considers the likelihood of counterparty failure to be 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.

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 2010, the Group had fixed an average of 76% (2009: 83%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2010 a one percentage point increase in variable interest rates would have had an estimated impact on pre-tax interest expense of approximately €5 million (including the effect of interest rate swaps) 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.

28. Financial instruments [continued]

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 Fuerte) and Eastern Europe (comprising mainly the Polish Zloty and the Czech Koruna). At the end of 2010 approximately 93% (2009: 93%) of our non euro denominated net assets consisted of the Swedish Krona 26% (2009: 23%), Sterling 9% (2009: 7%), Latin American currencies 47% (2009: 52%) and Eastern European currencies 11% (2009: 11%). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2010 rate would reduce shareholders' equity by approximately €24 million (2009: €23 million).

Commodity price risk

Containerboard

The Group is exposed to commodity price risks through its dependence on recovered paper, the principal raw material used in the manufacture of recycled containerboard. The price of recovered paper is dependent on both demand and supply conditions. Demand conditions include the production of recycled containerboard in Europe and the demand for recovered paper for the production of recycled containerboard outside of Europe, principally in Asia. Supply conditions include the rate of recovery of recovered paper, itself dependant on historic pricing related to the cost of recovery, and some slight seasonal variations.

Just over 1.05 metric tonnes of recovered paper are required to manufacture 1.0 metric tonne of recycled containerboard. Consequently, an increase in the price of recovered paper of, for example, €20 per tonne would increase the cost of production of recycled containerboard by approximately €21 per tonne. Historically, increases in the cost of recovered paper, if sustained, have led to a rise in the price of recycled containerboard, with a lag of one to two months.

The price of recovered paper can fluctuate significantly within a given year, affecting the operating results of 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 31 December 2010 and 2009 there were no derivatives held to mitigate such risks.

In addition, developing policy changes in the EU with regard to renewable energy sources have created an additional demand for wood, the principal raw material used in the manufacture of kraftliner. This has the effect of potentially increasing the price of wood and consequently the cost of the Group's raw materials.

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 volatility in recent years, with a corresponding effect on Group production costs. Oil prices started the year at US$80 per barrel and increased to a high of US$95 at the end of the year. The Group has entered into a limited level of energy derivative contracts to economically hedge a portion of its energy costs in Sweden. The Group has also fixed a certain level of its energy costs through contractual arrangements directly with its energy suppliers. As a result, the Group's energy costs were broadly stable compared to 2009.

The Group's energy derivatives have been further detailed in the tables below.

28. Financial instruments [continued]

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:

	2010 €m	2009 €m
Cash and cash equivalents	**495**	601
Committed undrawn facilities	**623**	512
Liquidity reserve	**1,118**	1,113
Current liabilities – borrowings due within one year	**(353)**	(353)
Net position	**765**	760

Management monitors rolling cash flow forecasts on an ongoing basis to determine the adequacy of the liquidity position of the Group. This process also incorporates a longer term liquidity review to ensure refinancing risks are adequately catered for as part of the Group's strategic planning. The Group has considered the impact of the current credit crisis. The Group continues to benefit from its existing financing package and debt profile. In addition, the Group's operating activities are cash generative and expect to be so over the foreseeable future; the Group has committed undrawn facilities of €623 million at 31 December 2010; and the Group has cash and cash equivalents of €495 million at 31 December 2010. 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.

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 EBITDA (earnings before exceptional items, share-based payment expense, net finance costs, taxation, depreciation and intangible asset amortisation). Maximum levels for this ratio are set under Board approved policy. At 31 December 2010 the net debt to EBITDA ratio of the Group was 3.4x (net debt of €3,110 million) which compares to 4.1x (net debt of €3,052 million) at the end of 2009. This gives the Group continuing headroom compared to the actual covenant level at 31 December 2010 of 5.1x.

28. Financial instruments [continued]

On the basis of pre-exceptional operating profit, the Group's return on capital employed was 9.9% compared to 6.6% in 2009, reflecting an increase of almost 52% in our pre-exceptional operating profit. Our return on capital employed in 2009 was adversely affected by the entries recorded in respect of hyperinflationary accounting for Venezuela, which reduced our operating profit by €26 million and increased our capital employed at December 2009 by €225 million. Excluding these entries, our return on capital employed in 2009 would have been 7.2%. The return on capital employed comprises pre-exceptional operating profit plus share of associates' profit as a percentage of average capital employed (where capital employed is the sum of total equity and net debt at year end; 2010: €5,046 million, (2009: €4,907 million)). The post-exceptional return on capital employed was 8.3% in 2010 and (2009: 5.4%).

The capital employed of the Company at 31 December 2010 was €1,968 million (2009: €1,964 million).

Credit risk

Credit risk arises from credit exposure to trade debtors, cash and cash equivalents including deposits with banks and financial institutions, derivative financial instruments and investments.

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 2010 of €502 million, 25% was with financial institutions in the A rating category of Standard and Poor's or Moody's and 68% 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. At 31 December 2010 derivative transactions were with counterparties with ratings ranging from BBB to AAA with Standard & Poor's or Baa3 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.

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.

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.

Investments are occasionally made in listed and unlisted entities of strategic importance to the Group and the policy for assessing impairment thereon is set out in Note 14.

28. Financial instruments [continued]

Derivative positions

Derivative financial instruments recognised as assets and liabilities in the 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:

	2010 €m	2009 €m
Non-current derivative assets		
Cash flow hedges:		
Cross currency swaps	**2**	–
Total non-current derivative assets	**2**	–
Current derivative assets		
Cash flow hedges:		
Cross currency swaps	**1**	–
Not designated as hedges:		
Cross currency swaps	**3**	–
Foreign currency forwards	**2**	2
Energy and pulp hedging contracts	**2**	1
Total current derivative assets	**8**	3
Total derivative assets	**10**	3
Non-current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	**(30)**	(31)
Not designated as hedges:		
Cross currency swaps	**(71)**	(49)
Total non-current derivative liabilities	**(101)**	(80)
Current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	**(22)**	(19)
Not designated as hedges:		
Foreign currency forwards	**(1)**	(1)
Cross currency swaps	**(4)**	(67)
Interest rate swaps	**–**	(2)
Energy and pulp hedging contracts	**–**	(1)
Total current derivative liabilities	**(27)**	(90)
Total derivative liabilities	**(128)**	(170)
Net (liability) on derivative financial instruments	**(118)**	(167)

28. Financial instruments [continued]

Fair value hierarchy

Fair value measurement at 31 December 2010	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Available-for-sale financial assets (Note 14):				
Listed	1	–	–	**1**
Unlisted	–	6	25	**31**
Derivative financial instruments:				
Assets at fair value through Group Income Statement	–	7	–	**7**
Derivatives used for hedging	–	3	–	**3**
Derivative financial instruments:				
Liabilities at fair value through Group Income Statement	–	(76)	–	**(76)**
Derivatives used for hedging	–	(52)	–	**(52)**
	1	(112)	25	**(86)**

Fair value measurement at 31 December 2009	**Level 1 €m**	**Level 2 €m**	**Level 3 €m**	**Total €m**
Available-for-sale financial assets (Note 14):				
Listed	1	–	–	1
Unlisted	–	6	25	31
Derivative financial instruments:				
Assets at fair value through Group Income Statement	–	3	–	3
Derivative financial instruments:				
Liabilities at fair value through Group Income Statement	–	(120)	–	(120)
Derivatives used for hedging	–	(50)	–	(50)
	1	(161)	25	(135)

28. Financial instruments [continued]

The fair value of the derivative financial instruments set out above has been measured in accordance with level 2 of the fair value hierarchy. All are plain derivative instruments, valued with reference to observable foreign exchange rates, interest rates or broker prices. Further details of the available-for-sale financial assets are set out in Note 14.

Cash flow hedging

As more fully set out in the table above, the Group principally utilises interest rate swaps to swap its variable rate debt into fixed rates. These swaps are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying debt being hedged. They have accordingly been determined by the Group to be highly effective in achieving offsetting cash flows for its variable rate debt, and no material level of ineffectiveness has been recorded in the Group Income Statement in relation to these hedges in 2010 and 2009. 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 Comprehensive Income. These fair value gains and losses are expected to impact on profit and loss over the period from 2012 to 2014, in line with the underlying debt being hedged. In addition, certain subsidiaries use foreign currency forward contracts to hedge forecast foreign currency sales and purchases. Such forward contracts are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying cash flows and have been highly effective in achieving offsetting cashflows with no ineffectiveness recorded. These fair value gains and losses are expected to impact on profit and loss over the period from 2011 to 2012.

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 recognised at fair value through the Group Income Statement. All such interest rate swaps not designated as hedges expired by 30 June 2010.

The Group also utilises a combination of foreign currency forward contracts and cross currency swaps in order to economically hedge on balance sheet debtor, creditor and borrowing exposures which are denominated in currencies other than the euro. Formal hedge accounting as permitted by IAS 39 is not applied to these derivative instruments because a natural offset is effectively already achieved through fair valuing the derivatives through the Group Income Statement as required by IAS 39, while also retranslating the related balance sheet foreign currency denominated monetary assets or liabilities at appropriate closing rates at each balance sheet date, as required by IAS 21.

The Group has also entered into certain energy hedging contracts to mitigate the associated price risks which occur as a result of the Group's normal operations. These have not been designated as hedges in accordance with IAS 39 and are recognised at fair value through the Group Income Statement as required by that standard.

28. Financial instruments [continued]

The principal terms of the Group's material derivative contracts have been set out further below:

Outstanding interest rate swap agreements at 31 December 2010 are summarised as follows:

Currency	Notional principal (Millions)	Termination dates	% Fixed payable	% Variable receivable
EUR	350	2012	3.730-4.094	Euribor(1)
EUR	150	2013	4.650-4.798	Euribor
EUR	610	2014	2.630-4.435	Euribor

(1) European Interbank Offered Rate.

Outstanding interest rate swap agreements at 31 December 2009 are summarised as follows:

Currency	Notional principal (Millions)(2)	Termination dates	% Fixed payable	% Variable receivable
EUR	720	2010	1.300-4.652	Euribor(1)
EUR	350	2012	3.730-4.094	Euribor
EUR	150	2013	4.650-4.798	Euribor
EUR	610	2014	2.630-4.435	Euribor

(1) European Interbank Offered Rate.

(2) Where we enter forward starting swaps to replace maturing swaps, the year of maturity is determined by the maturity date of the forward starting swap. The table does not include notionals for forward starting swaps which amounted to €50 million with an effective start date in January 2010 and a maturity date of January 2014.

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 2010 the Group had entered into €109 million (2009: €147 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2010 the Group had also entered into further short-term currency swaps of €218 million equivalent (2009: €234 million) as part of its short-term liquidity management.

28. Financial instruments [continued]

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 U.S. dollar debt, which are set out in more detail in the tables below.

Outstanding currency swap agreements at 31 December 2010 are summarised as follows:

Currency swapped (Millions)	Currency received (Millions)	Maturity date	Interest rate paid	Interest rate received
US$ 21	EUR 16	2011	Euribor	Libor
US$ 204	EUR 183	2012	9.98	9.65
US$ 88	EUR 84	2013	Euribor + 3.11	Libor(1) + 3.25
US$ 200	EUR 149	2014	7.20	7.75
US$ 88	EUR 83	2014	6.56	7.50

(1) London Interbank Offered Rate.

Outstanding currency swap agreements at 31 December 2009 are summarised as follows:

Currency swapped (Millions)	Currency received (Millions)	Maturity date	Interest rate paid	Interest rate received
US$ 176	EUR 168	2010	Euribor + 2.06	Libor(1) + 2.00
US$ 32	EUR 23	2010	Euribor	Libor
US$ 200	EUR 153	2010	6.61	7.75
US$ 204	EUR 183	2012	9.98	9.65

(1) London Interbank Offered Rate.

Energy risk management

The Group had the following energy hedging contracts outstanding at the end of 2010 and 2009. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

	2010		2009	
	Notional	Maturity	Notional	Maturity
Energy contracts	**€10m**	**Q1 2011 - Q4 2012**	€9m	Q1 2010 - Q4 2011

28. Financial instruments [continued]

Effective interest rates and repricing analysis

In respect of income earning financial assets and interest bearing financial liabilities, the following tables indicate their average effective interest rates at the reporting date and the periods in which they reprice:

31 December 2010

Fixed rate instruments	Average effective interest rate	6 months or less €m	6-12 months €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:							
U.S. Yankee bonds	7.59%	–	–	–	–	219	**219**
2015 cash pay notes	8.11%	–	–	–	370	–	**370**
2017 secured notes	8.02%	–	–	–	–	488	**488**
2019 secured notes	8.33%	–	–	–	–	490	**490**
Bank loans/overdrafts	3.62%	–	–	3	8	5	**16**
Effect of interest rate swaps	–	–	–	350	760	–	**1,110**
Total		–	–	353	1,138	1,202	**2,693**
Finance leases	7.60%	5	5	9	3	1	**23**
Total fixed rate liabilities		**5**	**5**	**362**	**1,141**	**1,203**	**2,716**
Floating rate instruments							
Assets:							
Cash and cash equivalents	0.62%	495	–	–	–	–	**495**
Restricted cash	0.01%	7	–	–	–	–	**7**
Total floating rate assets		**502**	**–**	**–**	**–**	**–**	**502**
Liabilities:							
Senior credit facility	4.87%	1,786	–	–	–	–	**1,786**
Receivables securitisation	3.01%	149	–	–	–	–	**149**
Bank loans/overdrafts	4.39%	59	–	–	–	–	**59**
Effect of interest rate swaps	2.56%	(1,110)	–	–	–	–	**(1,110)**
Total		884	–	–	–	–	**884**
Finance leases	1.66%	–	–	2	1	–	**3**
Total floating rate liabilities		**884**	**–**	**2**	**1**	**–**	**887**
Total net position		**(387)**	**(5)**	**(364)**	**(1,142)**	**(1,203)**	**(3,101)**

28. Financial instruments [continued]

31 December 2009

Fixed rate instruments	Average effective interest rate €m	6 months or less €m	6-12 months €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:							
U.S. Yankee bonds	7.60%	–	–	–	–	203	203
2015 cash pay notes	8.14%	–	–	–	–	358	358
2017 secured notes	8.03%	–	–	–	–	485	485
2019 secured notes	8.34%	–	–	–	–	489	489
Bank loans/overdrafts	2.13%	–	1	3	1	6	11
Effect of interest rate swaps	–	720	–	–	1,110	–	1,830
Total		720	1	3	1,111	1,541	3,376
Finance leases	7.76%	7	7	9	13	1	37
Total fixed rate liabilities		727	8	12	1,124	1,542	3,413
Floating rate instruments							
Assets:							
Cash and cash equivalents[1]	1.06%	601	–	–	–	–	601
Restricted cash	0.00%	43	–	–	–	–	43
Total floating rate assets		644	–	–	–	–	644
Liabilities:							
Senior credit facility	5.00%	1,823	–	–	–	–	1,823
Receivables securitisation	1.82%	208	–	–	–	–	208
Bank loans/overdrafts	5.46%	65	–	–	–	–	65
Effect of interest rate swaps	2.77%	(1,830)	–	–	–	–	(1,830)
Total		266	–	–	–	–	266
Finance leases	2.00%	1	–	1	2	–	4
Total floating rate liabilities		267	–	1	2	–	270
Total net position		(350)	(8)	(13)	(1,126)	(1,542)	(3,039)

(1) Of which €2 million relates to the Company.

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 into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

31 December 2010	Weighted average period until maturity	No fixed term €m	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:							
Trade and other payables		–	876	–	–	–	**876**
Senior credit facility	3.2 yrs	–	145	166	1,762	–	**2,073**
Receivables securitisation	4.9 yrs	–	4	4	163	–	**171**
Bank loans/overdrafts	1.3 yrs	12	43	6	8	8	**77**
U.S. Yankee bonds	14.8 yrs	–	16	16	49	383	**464**
2015 cash pay notes	4.2 yrs	–	28	28	453	–	**509**
2017 secured notes	6.8 yrs	–	36	36	109	573	**754**
2019 secured notes	8.8 yrs	–	39	39	116	655	**849**
		12	1,187	295	2,660	1,619	**5,773**
Finance leases	3.0 yrs	–	12	11	6	2	**31**
		12	1,199	306	2,666	1,621	**5,804**
Derivative liabilities		–	19	18	12	–	**49**
Total liabilities		**12**	**1,218**	**324**	**2,678**	**1,621**	**5,853**

28. Financial instruments [continued]

31 December 2009	Weighted average period until maturity	No fixed term €m	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:							
Trade and other payables		–	767	–	–	–	767
Senior credit facility	4.1 yrs	–	134	145	1,922	–	2,201
Receivables securitisation	1.7 yrs	–	2	212	–	–	214
Bank loans/overdrafts	1.4 yrs	14	46	4	4	11	79
U.S. Yankee bonds	15.8 yrs	–	15	15	46	369	445
2015 cash pay notes	5.1 yrs	–	28	28	83	363	502
2017 secured notes	7.8 yrs	–	36	36	109	605	786
2019 secured notes	9.8 yrs	–	39	39	116	689	883
		14	1,067	479	2,280	2,037	5,877
Finance leases	3.7 yrs	–	19	9	14	2	44
		14	1,086	488	2,294	2,039	5,921
Derivative liabilities		–	22	14	17	–	53
Total liabilities		14	1,108	502	2,311	2,039	5,974

The financial liabilities of the Company of €19 million (2009: €18 million) are repayable on demand.

The following table sets out the liquidity analysis with regard to derivatives which do not net settle in the normal course of business (primarily foreign exchange contracts and currency swaps). The table shows the estimated timing of cash flows on the liability side of the contracts only:

31 December 2010	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:					
Cross currency swaps	270	219	333	–	**822**
Foreign currency forwards	109	–	–	–	**109**
	379	219	333	–	**931**

28. Financial instruments [continued]

31 December 2009	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:					
Cross currency swaps	594	18	191	–	803
Foreign currency forwards	147	–	–	–	147
	741	18	191	–	950

Currency analysis

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

31 December 2010	Euro €m	Sterling €m	Latin America[1] €m	U.S. dollar €m	Other €m	Total €m
Trade and other receivables	815	106	189	38	113	**1,261**
Available-for-sale financial assets	32	–	–	–	–	**32**
Cash and cash equivalents	204	15	27	56	193	**495**
Restricted cash	4	–	2	–	1	**7**
Total assets	**1,055**	**121**	**218**	**94**	**307**	**1,795**
Trade and other payables	630	57	79	32	78	**876**
Senior credit facility	1,705	–	–	81	–	**1,786**
Receivables securitisation	107	42	–	–	–	**149**
Bank loans/overdrafts	39	–	25	10	1	**75**
U.S. Yankee bonds	–	–	–	219	–	**219**
2015 cash pay notes	217	–	–	153	–	**370**
2017 secured notes	488	–	–	–	–	**488**
2019 secured notes	490	–	–	–	–	**490**
	3,676	99	104	495	79	**4,453**
Finance leases	17	8	–	–	1	**26**
Total liabilities	**3,693**	**107**	**104**	**495**	**80**	**4,479**
Impact of foreign exchange contracts	298	89	–	(449)	126	**64**
Total (liabilities)/assets	**(2,936)**	**(75)**	**114**	**48**	**101**	**(2,748)**

The Company has no financial assets or liabilities denominated in foreign currencies.

28. Financial instruments [continued]

31 December 2009	Euro €m	Sterling €m	Latin America[1] €m	U.S. dollar €m	Other €m	Total €m
Trade and other receivables	709	66	182	29	97	1,083
Available-for-sale financial assets	32	–	–	–	–	32
Cash and cash equivalents	313	38	67	35	148	601
Restricted cash	39	2	1	–	1	43
Total assets	1,093	106	250	64	246	1,759
Trade and other payables	571	36	86	11	63	767
Senior credit facility	1,748	–	–	75	–	1,823
Receivables securitisation	208	–	–	–	–	208
Bank loans/overdrafts	38	–	29	9	–	76
U.S. Yankee bonds	–	–	–	203	–	203
2015 cash pay notes	216	–	–	142	–	358
2017 secured notes	485	–	–	–	–	485
2019 secured notes	489	–	–	–	–	489
	3,755	36	115	440	63	4,409
Finance leases	29	11	–	–	1	41
Total liabilities	3,784	47	115	440	64	4,450
Impact of foreign exchange contracts	321	112	–	(425)	94	102
Total (liabilities)/assets	(3,012)	(53)	135	49	88	(2,793)

The Company has no financial assets or liabilities denominated in foreign currencies.

(1) Latin America includes currencies such as the Mexican Peso, Colombian Peso and Venezuelan Bolivar Fuerte. These have been grouped together principally owing to their size and impact on the currency analysis tables within this note.

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.

28. Financial instruments [continued]

Fair value

The following table sets out the fair value of the Group's principal financial assets and liabilities. The determination of these fair values is based on the descriptions set out within Note 2.

	2010		2009	
	Carrying value €m	Fair value €m	Carrying value €m	Fair value €m
Trade and other receivables	**1,261**	**1,261**	1,083	1,083
Available-for-sale financial assets	**32**	**32**	32	32
Cash and cash equivalents	**495**	**495**	601	601
Derivative assets	**10**	**10**	3	3
Restricted cash	**7**	**7**	43	43
	1,805	**1,805**	1,762	1,762
Trade and other payables	**876**	**876**	767	767
Senior credit facility(1)	**1,786**	**1,781**	1,823	1,799
Receivables securitisation	**149**	**149**	208	208
Bank overdrafts	**75**	**75**	76	76
U.S. Yankee bonds(1)	**219**	**202**	203	177
2015 cash pay notes(1)	**370**	**379**	358	349
2017 secured notes(1)	**488**	**509**	485	488
2019 secured notes(1)	**490**	**515**	489	498
	4,453	**4,486**	4,409	4,362
Finance leases	**26**	**26**	41	40
	4,479	**4,512**	4,450	4,402
Derivative liabilities	**128**	**128**	170	170
	4,607	**4,640**	4,620	4,572
Total net position	**(2,802)**	**(2,835)**	(2,858)	(2,810)

(1) Fair value is based on broker prices at the Balance Sheet date.

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

29. Contingent liabilities

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

29. Contingent liabilities [continued]

No provision has been recognised in relation to the above matter, as the Directors believe that this is a contingent liability on the basis that 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:

	2010 €m	2009 €m
Within one year	**56**	51
Within two to five years	**92**	91
Over five years	**35**	30
	183	172

The Group leases a number of properties under operating leases. The leases typically run for a period of three to ten years. Rents are generally reviewed every five years. The Group also leases vehicles under various agreements that typically run for a period of between two and five years. The agreements do not include 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:

	2010		2009	
	Minimum payments €m	Present value of minimum payments €m	Minimum payments €m	Present value of minimum payments €m
Within one year	**12**	**10**	19	16
Within two to five years	**16**	**15**	28	24
Over five years	**2**	**1**	1	1
Total minimum lease payments	**30**	**26**	48	41
Less: amounts allocated to future finance costs	**(4)**	**–**	(7)	–
Present value of minimum lease payments	**26**	**26**	41	41

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 12 for the capitalised values of these finance leases.

30. Lease obligations [continued]

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 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

Details of Directors remuneration and interests as required by the Listing Rules are set out in the Report on Directors Remuneration on pages 49 to 56.

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 pages 72 and 73. A listing of the principal subsidiaries is provided on pages 162 to 164 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

	2010 €m	2009 €m
Sale of goods	**13**	12
Purchase of goods	**(12)**	(12)
Receiving of services	**(6)**	(4)

These transactions are undertaken and settled on an arms length basis. No guarantees are given or received by either party.

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

31. Related party transactions [continued]

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 2010 and 2009 relating to balances with related parties.

Transactions with other related parties

In 2010, the Group purchased, in the normal course of business, approximately 39,000 metric tonnes (2009: 40,000) of paper amounting to approximately €17 million (2009: €18 million) from Savon Sellu, a company controlled by Dermot Smurfit together within his brothers Dr. Michael Smurfit, former Chairman of the Group and Alan Smurfit. An amount of €4 million (2009: €4 million) was owed by the Group to Savon Sellu at 31 December 2010.

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.

	2010 €m	2009 €m
Short-term employee benefits	**7**	6
Post employment benefits	**1**	1
Share-based payment expense	**–**	1
	8	8

Parent Company

The Parent Company is an investment holding company and as a result, holds investments in the Group subsidiaries as financial assets. The Parent Company also has receivables and payables with its subsidiaries entered into in the normal course of business. These balances are repayable on demand. The notes to the Parent Company Balance Sheet disclose these various balances. The Parent Company loss for the year was €1 million (2009: loss for the year of €1 million).

32. Acquisitions and disposals

Mondi asset swap

In May 2010, the Group completed a sequence of transactions with Mondi. Although the transactions were separate and had two separate sets of legal agreements, completion of each transaction was contingent on completion of the other. For this reason the Group refers to these transactions collectively as the "Mondi asset swap". The asset swap resulted in the Group acquiring 100% of the equity of Mondi's corrugated operations in the UK while Mondi acquired the Group's Western European sack converting operations. The transaction allowed the Group to dispose of loss making operations whilst acquiring profit making operations that are consistent with the Group's core business.

32. Acquisitions and disposals [continued]

Mondi's UK corrugated operations, comprised three corrugated box plants. The three facilities reported a combined 2009 full year EBITDA of €8 million and a profit before tax of €2 million. The disposal of the Western European sack converting operations comprised four plants in France, three in Spain, and one in Italy, as well as a number of sales offices. In 2009, these operations reported an EBITDA loss of €4 million and a loss before tax of €13 million.

The total cash cost of the asset swap for the Group was €58 million, €2 million of which was deferred until 2011. The cash cost includes €2 million of net cash disposed. The consideration paid for the UK corrugated operations amounted to €45 million and was in the form of cash and shares in the sack converting operations. The cash paid was equal to the fair value of the business acquired. The goodwill of €7 million arising from the transaction mainly represents synergies from further integration of the Group's UK operations. The value of the Group's equity in the sack operations was €36 million, which was written-off.

Acquisition of UK corrugated operations

Consideration paid was based on an EBITDA multiple of past and projected results, which were established as part of the due diligence process. Goodwill of €7 million, being the excess of the fair value of consideration paid over the fair value of the net assets acquired, was recognised on the acquisition.

Fair value amounts equate to net book values acquired with the exception of non-current assets, with the book value of land and buildings being reduced by €2 million following a fair value exercise. The book values of other asset and liabilities were deemed to be valid based on due diligence carried out prior to the transaction. No contingent liabilities were recognised on the acquisition.

	Book value €m	**Revaluation €m**	**Fair value €m**
Total non-current assets	34	(2)	32
Inventories	4	–	4
Trade and other receivables	20	–	20
Cash and cash equivalents	2	–	2
Total non-current liabilities	(2)	–	(2)
Trade and other payables	(17)	–	(17)
Provisions for liabilities and charges	(1)	–	(1)
Net assets acquired	40	(2)	38
Goodwill			7
Consideration			**45**
Settled by:			
Cash			45
Shares			–
Consideration			**45**

32. Acquisitions and disposals [continued]

Since acquisition the UK corrugated operations contributed revenue of €76.5 million and profit before tax of €0.5 million. The revenue and profit of the Group for the year ended 31 December 2010 would not have been materially different from that reported on page 60 had the acquisition taken place at the start of the current reporting period.

Disposal of shares in SKG's Western European sack converting operations

The cash cost to the Group of disposing of these operations was €14 million, included as part of the €58 million attributed to the Mondi asset swap in the Group Cash Flow Statement. The net asset amount disposed, excluding cash, of €21 million is comprised of long lived assets of €4 million, working capital of €20 million and liabilities of €3 million. In addition an onerous lease of €6 million has been provided for as part of the disposal.

Other disposals

On 30 October 2010, the Group sold its French wood products operation, Rol Pin. The cash cost of the disposal was €14 million, with payments of €10 million deferred until 2011. On 31 December 2010, the Group sold its Polish paper sack plant to Mondi for a consideration of €3 million with payment deferred until 2011. The net asset amount disposed, excluding cash, of €11 million is comprised of long lived assets of €8 million, working capital of €6 million and liabilities of €3 million.

33. Events after the balance sheet date

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

34. Profit dealt with in the Parent Company

In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual Income Statement to the Annual General Meeting and from filing it with the Registrar of Companies. A loss of €1 million (2009: a loss of €1 million) has been dealt with in the Income Statement of the Company.

35. Comparative figures

Certain figures for the prior period have been adjusted to conform with 2010 classifications and disclosure requirements.

36. 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 2010 on 3 March 2011.

37. Principal subsidiaries

Each of Smurfit Kappa Group plc, Smurfit Kappa Investments Limited, Smurfit Kappa Holdings Limited, Smurfit Kappa Corporation Limited, Smurfit Kappa Funding plc, and Smurfit Kappa Acquisitions are holding companies with no operations of their own. Smurfit Kappa Acquisitions is an unlimited public company with an address at Beech Hill, Clonskeagh, Dublin 4. A listing of the principal subsidiaries is set out below:

Subsidiaries	Principal Activities	Country of Incorporation	Holding %
Cartón de Colombia, S.A. Apartado Aereo 219, Cali, Colombia	Manufacture and sale of paperboard and packaging products	**Colombia**	70
Cartón de Venezuela, S.A. Apartado Aereo 609, Caracas, Venezuela	Manufacture and sale of paperboard and packaging products	**Venezuela**	88
Grupo Smurfit México, S.A. de C.V. World Plaza, Av. Santa Fe 481, Piso 15 Col. Cruz Manca, México, D.F. 05349	Manufacture and sale of paperboard and packaging products	**Mexico**	100
Nettingsdorfer Papierfabrik AG & Co KG Nettingsdorfer Straße 40, 4053 Haid bei Ansfelden, Austria	Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board	**Austria**	100
Smurfit International B.V. Zwaanstraat 1, Eindhoven, 5651 CA, The Netherlands	Principal international holding company	**The Netherlands**	100
Smurfit Kappa B.V. Zwaanstraat 1, Eindhoven, 5651 CA, The Netherlands	International holding company	**The Netherlands**	100
Smurfit Kappa de Argentina, S.A. Paque Saenz Pena 308 – 8th Floor, Buenos Aires, Argentina	Manufacture and sale of paperboard and packaging products	**Argentina**	100
Smurfit Kappa Deutschland GmbH Tilsiter Straße 144, 22047 Hamburg, Germany	Holding company for German operations which manufacture and sell paperboard and packaging products	**Germany**	100
Smurfit Kappa Holdings Italia, S.p.A. Strada Serravalle 30, 15067 Novi Ligure (AL), Italy	Holding company for Italian operations whose principal activities are the manufacture and sale of paperboard and packaging products	**Italy**	100

37. Principal subsidiaries [continued]

Subsidiaries	Principal Activities	Country of Incorporation	Holding %
Smurfit Kappa Investments UK Limited Cunard Building, Pier Head, Liverpool, LS3 1SF, UK	Holding company for UK operations whose principal activities are the manufacture and sale of paperboard and packaging products	**The UK**	100
Smurfit Kappa Ireland Limited Beech Hill, Clonskeagh, Dublin 4, Ireland	Manufacture and sale of paperboard and packaging products	**Ireland**	100
Smurfit Kappa Kraftliner Piteå AB SE – 941 86, Piteå, Sweden	Manufacture and sale of containerboard and holding company for operations in Sweden and other countries which manufacture packaging products	**Sweden**	100
Smurfit Kappa Nederland B.V. Zwaanstraat 1, Eindhoven, 5651 CA, The Netherlands	Holding company for Dutch operations which manufacture containerboard, solid board and packaging products	**The Netherlands**	100
Smurfit Kappa Nervión, S.A. B Arriandi s/n, 48215 lurreta, Vizcaya, Spain	Manufacture and sale of sack paper and holding company for Spanish and Portuguese operations whose principal activities are the manufacture and sale of paperboard and packaging	**Spain**	100
Smurfit Kappa Participations SAS 5, Avenue du Général de Gaulle 94160 Saint Mandé, France	Holding company for French operations whose activities are the manufacture and sale of paperboard and packaging products	**France**	100
Smurfit Kappa Treasury Funding Limited Beech Hill, Clonskeagh, Dublin 4, Ireland	Finance company	**Ireland**	100

(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.

37. Principal subsidiaries [continued]

Section 17 Guarantees

Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, Smurfit Kappa Group plc has irrevocably guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the filing provisions of Section 7, Companies (Amendment) Act, 1986. Smurfit Kappa Group plc also has, in accordance with Article 403, Book 2 of the Dutch Civil Code, guaranteed the debts of its following Dutch subsidiaries – Smurfit International B.V., Smurfit Corrugated B.V., Smurfit Holdings B.V., Smurfit Investments B.V., Packaging Investments Netherlands B.V., Packaging Investments Holdings B.V., Packaging Investments International B.V., Smurfit Kappa B.V., Kappa Packaging International B.V., CE International B.V., Kappa Packaging Nederland Holding B.V., Smurfit Kappa Nederland B.V., Smurfit Kappa Solid Board B.V., Smurfit Kappa Shared Services B.V., Smurfit Kappa Sourcing Services B.V., Smurfit Kappa Mercurius B.V., Kappa Packaging Insurances B.V., Smurfit Kappa Corrugated Division B.V., Smurfit Kappa Corrugated Benelux B.V., Smurfit Kappa TwinCorr B.V., Smurfit Kappa De Zeeuw Golfkarton B.V., Smurfit Kappa Van Dam Golfkarton B.V., Smurfit Kappa Vandra B.V., Cobra Golfkarton B.V., Smurfit Kappa Orko-Pak B.V., Smurfit Kappa Elcorr B.V., Smurfit Kappa Zedek B.V., Smurfit Kappa European Paper Services B.V., Smurfit Nederland Holding B.V., Smurfit Kappa Specialties Division B.V., Smurfit Kappa Solid Board B.V., Smurfit Kappa GSF B.V., Smurfit Kappa Recycling B.V., Kappa Graphic Board USA B.V., Smurfit Kappa Development Centre B.V., Smurfit Kappa Trimbach B.V., Carton Creations B.V., Steijn Vastgoed B.V., Smurfit Kappa Paper Services B.V., Smurfit Kappa Roermond Papier B.V., Kappa Holding (Nederland) B.V., Smurfit Kappa RapidCorr Eindhoven B.V., Smurfit Kappa Hermes N.V., Smurfit Kappa Paper Sales Benelux B.V., Smurfit Kappa Group IS Nederland B.V.

Shareholder Information

CREST

Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

Ordinary shareholdings

On 31 December 2010, 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	579	38.3	318	0.1
1,001 - 5,000	503	33.3	1,264	0.6
5,001 - 10,000	119	7.9	889	0.4
10,001 - 50,000	136	9.0	3,267	1.5
50,001 - 100,000	49	3.2	3,781	1.7
100,001 - 500,000	75	5.0	16,566	7.5
over 500,000	50	3.3	193,979	88.2
	1,511	100	220,064	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	6 May 2011
Interim results announcement	10 August 2011

Website

The Investors section on the Group's website, *www.smurfitkappa.com*, provides the full text of the financial results and copies of presentations to analysts and investors. Press releases are also made available in this section of the website immediately after release to the stock exchanges.

Shareholder Information [continued]

Registrars

Enquiries concerning shareholdings shares should be directed to the Company's Registrars:

Capita Registrars (Ireland) Limited,
P.O. Box 7117,
Dublin 2.

Tel: +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.

Smurfit Kappa Group plc

TOP LINE LEFT TO RIGHT

1 Jaime Cruz at the Cali paper mill, CO
2 Christophe Camin and Joel Cazenave, Training Department, at the Facture paper mill, near Bordeaux, FR
3 Sample of products manufactured by Smurfit Kappa UK operations
4 John Heijnen and Michael Szostec at the Roermond paper mill, NL
5 Benny van Veggel at the TWINCORR corrugated plant, Hoogeveen, NL
6 Gaëlle Chouteau and Maha Gharbi at the bag-in-box plant, Epernay, FR
7 Paper reels ready for transport
8 Geoffrey Meijering at the Coevorden solid board mill, NL

BOTTOM LINE LEFT TO RIGHT

9 Trevor Mullen, Finance Department, Group HQ, Dublin, IR
10 Royal 2000 kraftliner manufactured at the Piteå paper mill, SE
11 Marcela Zapata at a forestry plantation at Puerto Isaacs, Yumbo, CO
12 Andre Portier, John Beugelink and Ramon Steenburgen at the TWINCORR plant, Hoogeveen, NL
13 Gustavo Guzman and Carlos Higuita at paper machine 6, Cali paper mill, CO
14 Wim Wanten and Mat Vaes at the Roermond paper mill, NL
15 Eve Faure-Biguet, HR Department, Group HQ, Dublin, IR
16 Jason Darcy and George Kane at the Walkinstown corrugated plant, Dublin, IR

Printed on paper sourced from sustainably managed forests


SKINNER'S
SHARP'S
DOOM BAR
Eden
TRIBUTE
THE ALE OF CORNWALL
Cornish
Born & Brewed



HYSTER 90



Smurfit Kappa