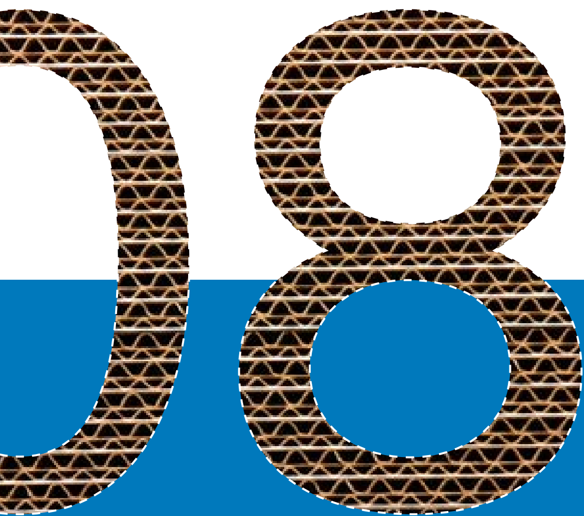
Smurfit Kappa Group plc



Mission

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

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As a market-facing company, Smurfit Kappa Group knows innovation is of strategic importance in securing and retaining our customers' business, especially in these challenging times. Innovative design is a unique selling point for the Group and serves to differentiate us in the marketplace. To foster innovation, we share best practice among the plants and divisions in the Group using our web-based tools such as Innobook. Also, internal competitions are held in both Europe and Latin America, with judging panels drawn from our customer base. These measures promote the pursuit of excellence in design and a close alignment with the needs of our customers.

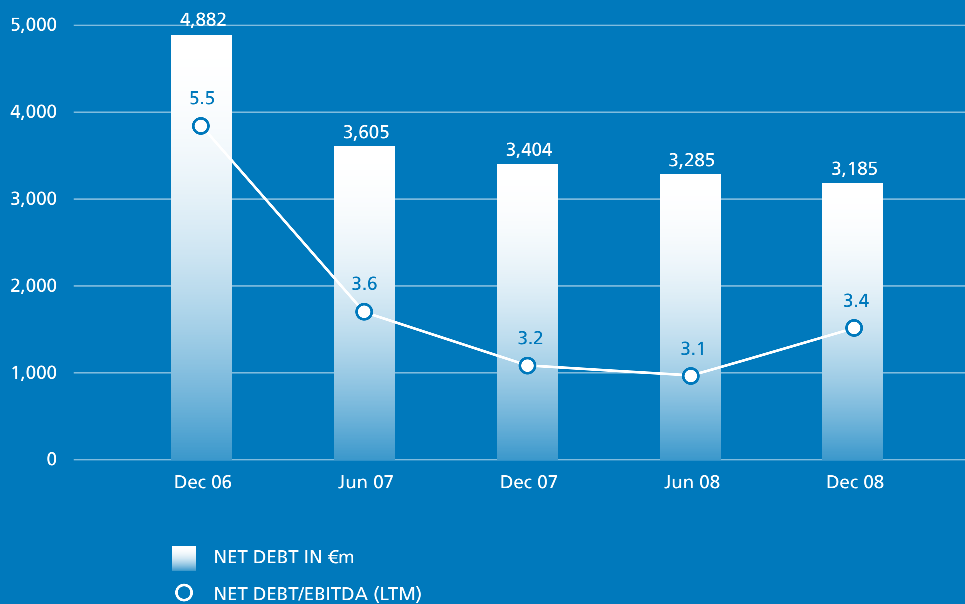
2008 Financial Performance Overview

	FY 2008 €m	FY 2007 €m
Revenue	**€7,062**	€7,272
EBITDA before exceptional items and share-based payment expense	**€941**	€1,064
EBITDA Margin	**13.3%**	14.6%
Operating Profit	**€282**	€562
(Loss)/Profit before Tax	**(€11)**	€170
Free Cash Flow	**€281**	€186
Net Debt	**€3,185**	€3,404
Net Debt to EBITDA (LTM)	**3.4x**	3.2x

Let's invent together

SKG Half-Yearly Net Debt and Leverage Progression

Significant and Continued Net Debt Reduction



Group Profile

EUROPEAN OPERATIONS

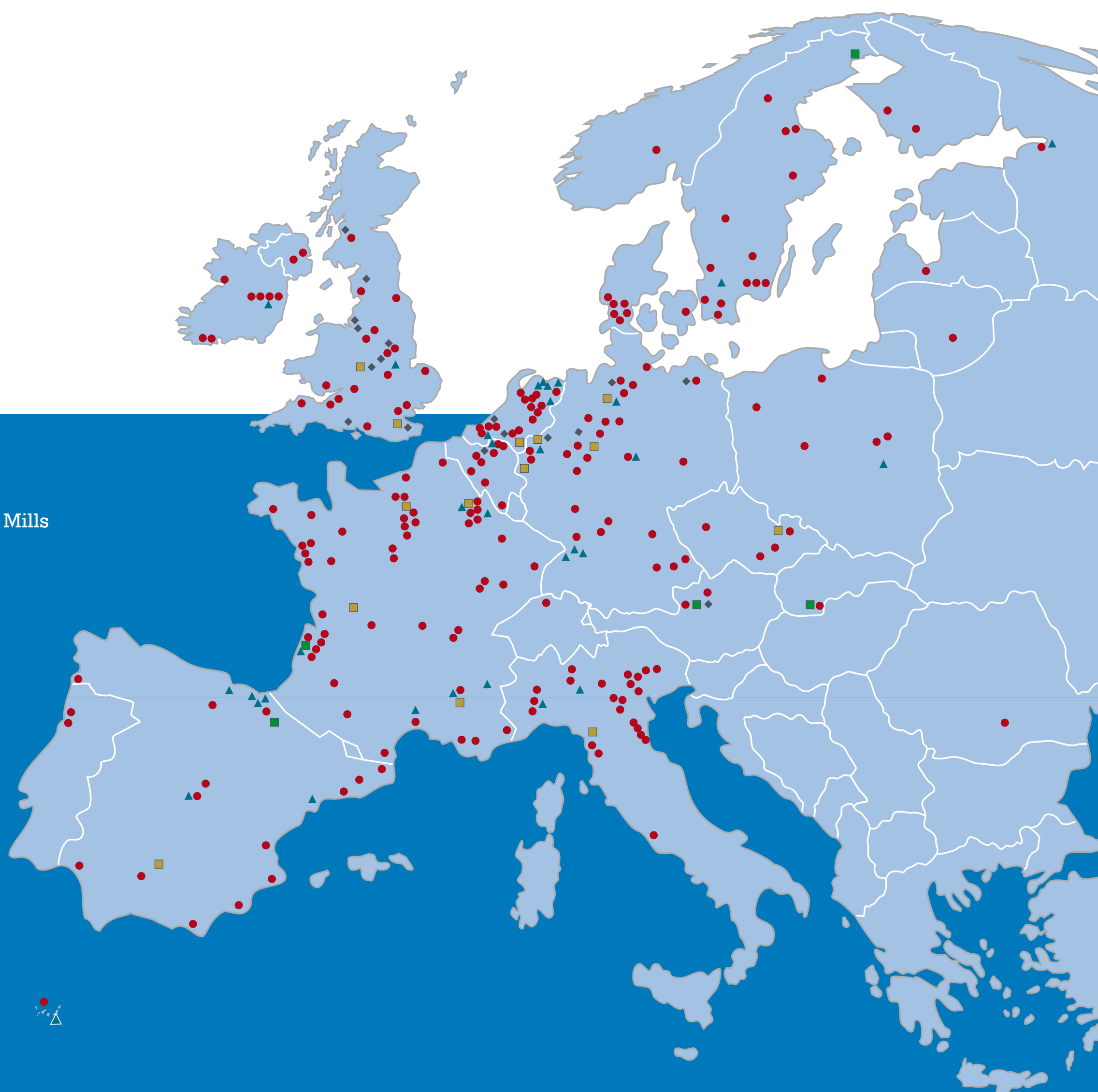
Virgin Mills (5)

Other Paper and Board Mills (23)

Corrugated (168)

Paper Sacks (11)

Other (78)



EUROPEAN PACKAGING

Sales Volumes	(million tonnes)
Recycled Containerboard	3.0
Kraftliner	1.5
Semi-Chemical	0.2
Corrugated	4.5

EUROPEAN SPECIALTIES DIVISION

Sales Volumes	(million tonnes)
Solidboard	1.0
Solidboard Packaging	0.4
Sack Paper	0.1
Sacks	0.1

LATIN AMERICA PACKAGING

Sales Volumes	(million tonnes)
Containerboard	0.7
Corrugated	0.8

LATIN AMERICAN OPERATIONS

Virgin Mills (2)

Other Paper and Board Mills (9)

Corrugated (28)

Paper Sacks (5)

Other (30)

Virgin Mills

Recycled Mills

Corrugated

Specialty

Recovered Fibre

Forestry

SKG at a Glance

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

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

The corrugated market is a localised market and corrugated box plants need to be close to customers (generally no more than 250 to 300 kilometres), due to the relatively high cost of transporting the product.

Approximately 60% of the Group's corrugated customers are in food and beverage related businesses, the remainder being split across a wide range of different industries.

The packaging segment accounted for approximately 87% of the Group's revenue in 2008. The remainder was generated by the Group's specialties segment, which consists of the graphicboard and solidboard businesses, along with the carton, sack, and bag-in-box operations.

At the date of this report, the Group owns 39 mills (28 of which produce containerboard), 247 converting plants (most of which convert containerboard into corrugated boxes), 42 reclamation facilities (which provide recovered paper for the Group's mills) and 31 other production facilities carrying on other related activities.

Chairman’s Statement

Smurfit Kappa Group is pleased to report strong free cash flow generation of €281 million and continued reduction of net debt.

Year in Review

SKG has reported EBITDA of €941 million, free cash flow generation of €281 million and continued net debt reduction of €219 million. These results were achieved in the challenging business conditions faced by the Group in 2008, and benefited from the Group’s integrated model; the resilience of its downstream corrugated business; and the profitability of its Latin American operations, together with an increased focus on the Group’s cash flow generation capability.

On behalf of the Board I would like to acknowledge the huge commitment shown by our employees in delivering these results in such challenging markets. The results are testimony to the professionalism and efforts of the whole team.

Governance and Board

The SKG Board 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. The Company continues to work towards meeting this recommendation.

I would like to welcome Paul Stecko, Rosemary Thorne and Thomas Brodin, who were co-opted to the Board as independent, non-executive Directors during the year. Sean Fitzpatrick resigned from the Board in December

2008. I would like to thank all of the Directors for their contributions to the development and effectiveness of the Board and its various Committees during the year.

Operational Visit

As part of an ongoing programme, the Board visited Colombia in August 2008. We visited one of the Group's large forest plantations outside Cali to see how our supply of sustainable wood and fibre is preserved and to view the various world class research programmes being carried out there. We also had the pleasure of inaugurating the state-of-the-art Cali Recovery boiler which will result in significant energy savings going forward. The project is part of an ongoing investment to create one of the most significant mill complexes in the region.

Sustainability

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

In that context, we produced our first sustainability report in mid 2008. It dealt with all aspects of our interaction with the environment, the constituencies impacted by us, our current position and our general commitments for the future. A summary of the report is contained on pages 24 to 27 of this report. We intend to issue a second such report later this year.

Dividends and Dividend Policy

In order to maximise cash available for net debt reduction in light of the challenging economic outlook the Board does not propose to pay a final dividend for 2008, nor an interim dividend for 2009. Future dividend policy will be considered relative to prevailing market conditions and capital structure.

Outlook

With negative growth forecast for many European economies in 2009, and the global economic downturn also likely to affect our Latin American operations, the Group expects a continuation of difficult operating conditions as 2009 progresses. In an industry where supply demand balance is important to sustain a commercial marketplace, the planned introduction of excessive new capacity in 2009 is exacerbating this difficult general economic situation and will continue to do so unless a significant change takes place in the industry's landscape. In that environment the Group's focus will remain on maximising our free cash flow generation and net debt reduction.

Liam O'Mahony
Chairman

Chief Executive's Review

"Against an increasingly difficult market backdrop, the Group is pleased to deliver a relatively strong financial outcome for 2008 in line with market expectations."

Positioning Smurfit Kappa Group

SKG has evolved from a period of private equity ownership, a merger between Jefferson Smurfit Group and Kappa Packaging ('Kappa') and a subsequent all primary IPO to form a focused paper-based packaging industry leader. SKG is a customer-oriented business with leading market positions underpinned by an unrelenting focus on operating efficiencies leading to strong financial performance.

The Group has operations in 22 countries across Europe, and in 9 in Latin America. Our market coverage allows us to service a diverse customer base, and our scale allows us to share ideas, know how and innovation across a broad collegiate.

2008 Overview

In 2008 SKG continued to deliver strong free cash flow generation in an increasingly challenging operating environment. Despite lower EBITDA, the Group's free cash flow generation of €281 million was over 50% higher than in 2007, primarily reflecting the Group's reduced debt servicing costs, tight working capital control and continued drive for greater cost efficiency.

As a result of its financial and operating management efforts, the Group reduced its net debt by approximately €219 million in 2008, a 6% reduction over the 2007 level.

The 2008 results in Europe were achieved against a backdrop of the weaker demand faced by our converting operations. This in turn contributed to weaker market conditions faced by the Group's paper operations, particularly the recycled containerboard system, where a demand and supply imbalance caused materially lower prices and, when combined with higher average input costs generated significant margin compression. Demand weakness in converting was experienced across our product ranges of corrugated containers, solidboard packaging and paper sacks.

In Latin America, despite lower demand, the Group's operations continued to perform well in 2008, reflecting Smurfit Kappa's strong positioning across the region. As a result of its sustained performance, Latin America represented approximately 18% of the Group's EBITDA for the full year, although the average strength of the euro in 2008 negatively impacted the contribution of the region to the overall Group earnings.

Despite some expected relief in input costs, the Group expects a continuation of difficult operating conditions throughout 2009, with demand conditions likely to be weaker in light of the global economic slowdown. Paper supply and demand is likely to remain in an imbalanced situation, due to the weak demand and the inopportune introduction of excessive new containerboard capacity. This will inevitably put further downward pressure on pricing and margins. In that environment, the Group's priority remains one of maximising free cash flow generation for net debt reduction. In order to assist these efforts, an increased cost take out programme has been announced and capital expenditure will be curtailed during these recessionary times.

Efficient Capacity Management

In the context of the market conditions, following the closure of a number of our higher cost mills over the past three years, the Group continues to benefit from a lower cost, more competitive containerboard system. The pressure that higher cost producers are experiencing is indicated by the slowly increasing number of capacity closures and idled capacity announced in the fourth quarter of 2008 and early in 2009.

Furthermore, to adjust for lower demand and to avoid further inventory increases, increasing levels of market related downtime were taken throughout the industry in 2008, primarily in the fourth quarter. The Group took 95,000 tonnes of downtime in its recycled containerboard mills in the fourth quarter. In total for 2008, the Group has reduced its recycled containerboard output by approximately 230,000 tonnes, the equivalent of over 7% of its capacity.

Chief Executive's Review [continued]

In 2009, new recycled containerboard capacity will come on stream in a declining demand environment, and despite some expected relief in input costs, the Group anticipates that sustained pricing pressure should result in some non-integrated and/or higher cost paper producers closing or idling further capacity.

Acquisitions and Disposals

SKG was engaged in no significant acquisition activity in 2008. Disposals of businesses or non-productive assets amounting to €82 million were undertaken, including the disposal of our 40% stake in Duropack AG (a Central European based corrugated and containerboard manufacturer), a small UK educational publishing business and a number of property and equipment assets across Europe.

Capital Expenditure

The Group's full year capital expenditure of €346 million equates to 98% of depreciation. The figure included some strategic expenditure on the Cali mill in Colombia, our Nervion Sack Kraft mill in Spain and our recycled containerboard mills in Roermond in the Netherlands and Saillat in France. Capital expenditure is expected to reduce to approximately 60% of depreciation in 2009.

People

In a difficult industry where winning and retaining customer loyalty is a continuous challenge, I have no doubt that our over 40,000 colleagues in the 31 countries in which we serve our customers are our major point of differentiation. I would like to acknowledge the great loyalty and commitment of our people over the years and commend them in particular for their efforts in 2008. Our people really make the difference!

Gary McGann
Group Chief Executive Officer

The Sirocco Display

The Sirocco display system is an answer to customers' need to give their product maximum effect on the shop floor and to do so cost-effectively. It comes in an efficient flat-pack size, but is sturdy enough to endure the in-store environment. The assembly is intuitive and is completed in under 10 seconds. It is printable both inside and out for strong branding, adding value to the product as a whole, and it can be adapted to suit different brands. It meets the three principles of Reduce, Reuse, Recycle: it is made of recycled board, it can be easily replenished in-store, and when the promotion ends it can simply be collapsed and recycled.

It is competitively priced and no merchandisers are required, meaning that the Sirocco provides savings to the customer. It has been distributed across Europe, a two-year licence has been sold to Australia, and negotiations are underway with Greece. The Sirocco acts as a flagship for Smurfit Kappa's creativity and innovation.

PREMIUM BRANDS

Operations Review

Overall trading in 2008 underperformed 2007. This reflected more difficult market conditions particularly in recycled containerboard in Europe, together with reduced corrugated demand. Pricing in all grades reduced during the year. This trend was particularly reflected in the reduced demand encountered by the converting operations in the Specialties division. Cost increases, particularly for energy, were also experienced and offset the otherwise successful ongoing cost reduction programme within the Group.

In Latin America, the Group's operations benefited from a combination of higher pricing and, in some instances, increased volumes, although some countries began to feel the effects of the global slowdown, reflected in reduced demand.

Packaging Division

The Group's Packaging division comprises our integrated European paper and corrugated operations, as well as our Latin American operations. Revenue for the division in 2008 was €6.1 billion, an underlying decrease of 3% over 2007. Segmental pre-exceptional EBIT was €530 million, a decrease of almost 12% over €599 million for 2007.

SKG's European packaging operations consist of three kraftliner mills, in Sweden, France and Austria, which between them produced 1.5 million tonnes of brown and white kraftliner in 2008; a semi chemical fluting mill in Slovakia which produced 0.2 million tonnes of paper; and 15 recycled containerboard mills which produced 3.0 million tonnes of paper plus a number of recovered fibre collection facilities, a wood products business and some wood procurement operations.

Operations Review [continued]

Our European packaging operations also include: 111 corrugated plants in 22 countries in both Western and Eastern Europe, with combined production in 2008 of 4.5 million tonnes (8.2 billion square metres); 57 sheet plants in 15 countries with a combined production of 0.2 million tonnes (0.4 billion square metres) in 2008, 22 plants in 11 countries which produce litho laminated corrugated products, preprint or display units; and a number of other small plants producing paper tubes, pallets, fulfilment activities and other packaging solutions.

SKG's Latin American operations consist of 11 paper mills in 4 countries (Colombia, Mexico, Venezuela and Argentina) producing containerboard, boxboard, sack paper and printing and writing paper, with a combined production of 1.0 million tonnes; 28 corrugated plants in 6 countries with a 2008 production of 0.8 million 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; 26 recovered fibre plants in 5 countries and forestry operations in Colombia and Venezuela.

Packaging: Europe

The Group's corrugated volumes in Europe in 2008 decreased by 3% year-on-year, which compares to an overall market contraction of approximately 2%, reflecting the overall slowing economic environment. The steeper decline in the Group's deliveries reflects its continued commitment to maximise profitability over volumes.

Despite lower deliveries and significant market-related downtime in its paper system, Packaging Europe's results reflect the benefits of its integrated model, supported by the sustained performance of its downstream corrugated business. While under pressure, the Group's corrugated pricing held-up relatively well through 2008 reflecting the calibre of its customer base, the international product offering, and the Group's focus on quality and service.

Paper Division – new White Top Liners

There is increasing demand for quality printing on corrugated packaging which means even greater performance demands being placed on white kraftliners.

Smurfit Kappa is now upgrading its White Top Kraftliners "Royal White" and "CeluStar" produced in the Piteå (Sweden) and Facture (France) mills respectively. This follows an extensive research programme undertaken in both mills. The improved papers have enhanced smoothness, superior brightness, improved shade and excellent sheet formation.

These qualities help to produce superior print results, thus enabling the packaging to stand out clearly on the retail shelf. With their improved brightness characteristics, the quality of these new white top kraftliners brings them one step closer to the traditional brightness levels of coated products.

Furthermore, taking into account the increasing need for liners with maximum purity, the new "Royal White" and "CeluStar" white top papers have been developed to be compliant for use in various food applications.

TEAM WORK

The performance in 2008 also reflects the sustained overall competitiveness of the Group's recycled containerboard system despite significant margin compression throughout the year, characterised by lower pricing and higher average input costs. In the current challenging operating environment, the Group benefits from its continually improving cost base, following the permanent closure of 20% of its less efficient capacity since 2005 and the focus on synergies and a major cost take out programme. The Group also benefits from its integrated corrugated plant network.

Although the Group operates a relatively low cost system and is a net buyer of recycled containerboard, it took approximately 160,000 tonnes of downtime, and permanently closed down another paper machine in Spain in July, removing an additional 70,000 tonnes from the market in 2008. As a result of the significant capacity removal, the Group's recycled containerboard inventories reduced by 13% in 2008, despite the lower level of demand and were at a healthy level going into 2009.

Against the difficult market conditions, the Group's performance in 2008 also reflects its leading market position in kraftliner across Europe. Despite pressure from US imports in the first half of 2008, prices for the premium kraftliner grades showed reasonable resilience throughout the year, and underlying volumes grew by 1%. The Group expects kraftliner prices to remain less volatile than other containerboard grades through the industry cycle, notwithstanding continued American imports.

Packaging: Latin America

In 2008, the Group's corrugated volumes in Latin America were 5% lower than in the previous year, primarily reflecting the impact of the US recession on the export and domestic activity in Mexico, a transport strike in Colombia and the impact of the farmers' strike in Argentina which reduced activity in the country for a significant period.

Operations Review [continued]

Against that backdrop and excluding currency effects, the Group's Latin American operations delivered unchanged EBITDA in 2008 compared to 2007. This performance reflects the Group's strong position in the region, and the diversified portfolio of markets and businesses.

While the profitability in Mexico was negatively affected by weaker demand and higher input costs, price improvements contributed to reducing the margin compression.

The Group's Colombian operations benefited from positive pricing momentum in 2008, but profitability was negatively impacted by higher input costs, especially for energy. On the positive side, the weakening Colombian Peso is strengthening the competitiveness of the Group's printing and writing paper exports business. Furthermore, our Latin American sack business, despite a 4% decline in volumes, continued to perform strongly in 2008.

The Group's businesses in Argentina, Venezuela and the Dominican Republic performed satisfactorily despite the challenging local conditions.

Specialties Division

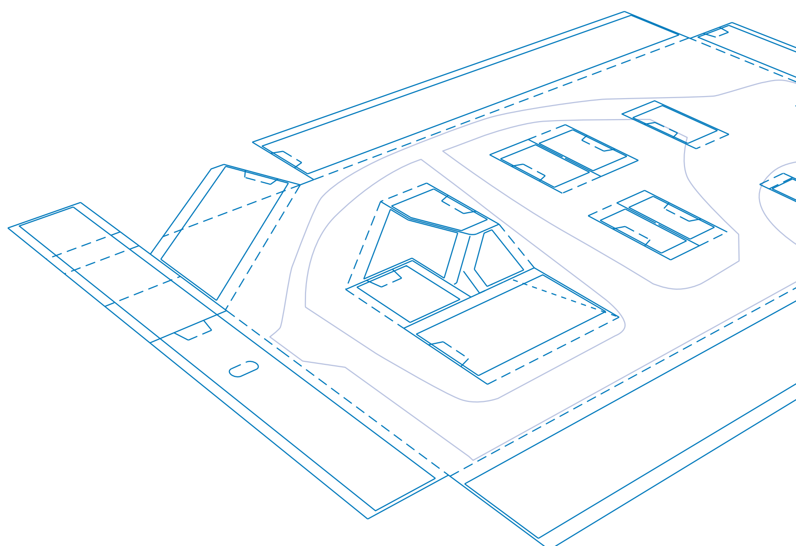
In 2008, the Specialties division contributed approximately 10% of the Group's EBITDA, broadly in line with 2007.

The positive environment for sack paper experienced in the first half of 2008, which was primarily driven by exports, worsened significantly in the second half as the collapse in the construction industry became widespread. In the second half of 2008, the Group's sack paper volumes declined by 23% compared to the second half of 2007. This collapse was compounded by a substantial fall in the price of sack paper in the fourth quarter. This trend is continuing into 2009. While the outlook for this grade remains extremely challenging, the sack division represents approximately 2% of the Group's EBITDA.

Industrial Packaging

Large car parts have to be handled carefully: the traditional method was to pack them in large wooden frames, protected by foam pads, and held together with metal brackets. Smurfit Kappa provided an elegantly simple alternative: a single sheet of cardboard, which can be folded to form a lightweight but durable box. Both sides of the box use the same basic sheet, folded differently. The box is easily sealed by pressing together the coated adhesive panels on the sheets which form a strong bond in seconds.

This innovative one-piece construction is lighter, cheaper, easier to ship and easier to store or recycle than its predecessor. As It comprises a single material, customers can rely on Smurfit Kappa to produce all their packaging needs thus ensuring the safe transportation and storage of their products. There is no known competing application in the marketplace and this product provides very significant cost benefits for customers.



DESIGN EXPERTISE

The Group's solidboard business was negatively impacted by higher average input costs on the mill side, especially for fibre and energy. This was offset by the benefits of a relatively stable pricing environment across Europe on the converting side supported by a strong customer service proposition, and some volume increase in the early part of the year in the Benelux following the bankruptcy of a local competitor. This volume trend reversed in the fourth quarter. In volatile trading conditions, the Group's solidboard earnings again benefited from its integrated operating model.

Although affected by the overall economic slowdown, the Group's bag-in-box business continued to show volume and earnings growth in 2008 and has some interesting prospects in the pipeline.

Synergy/Cost Take-Out Programme

In 2008 SKG successfully completed a 3-year synergy programme which followed from the completion of the merger with Kappa in December 2005. The cumulative result delivered synergies of €180 million, exceeding the merger target of €160 million.

To further strengthen the competitiveness of its operations in increasingly challenging times, the Group initiated a new 3-year cost take out programme in 2008, which delivered approximately €75 million of savings in the year. The Group is continuing its focus on cost reduction, and expects to deliver at least €125 million of additional saving benefits between 2009 and 2010, with €75 million being targeted for 2009.

Finance Review

Results

The Group's pre-exceptional operating profit for 2008 was €540 million compared to €618 million in 2007 with part of the €78 million decrease reflecting negative currency movements (€13 million). With the benefit of lower net finance costs in 2008 largely offset by a reduced contribution from associates, pre-exceptional profit before income tax decreased by €76 million to €265 million.

Third party sales revenue decreased by less than 3% to €7.1 billion in 2008. The decrease was partly due to negative currency movements which, as a result of the relative strength of the euro during the year, reduced comparable revenue by almost €120 million. Allowing for the impact of currency and of acquisitions, disposals and closures, the underlying move in sales revenue was a decrease of approximately €70 million, the equivalent of less than 1%.

Pre-exceptional operating profit was €540 million in 2008 compared to €618 million in 2007. The year-on-year decrease arose mainly within the packaging segment, which comprises the integrated European paper and corrugated operations together with all the Group's operations in Latin America. The profitability of the specialties segment was also lower in 2008 reflecting the negative impact of a weak fourth quarter, particularly in the sack division. This segment comprises mainly those European mills which produce grades of paper other than containerboard, together with the related converting operations.

Depreciation, depletion and amortisation in 2008 consists of a depreciation charge of €344.5 million (2007: €357.2 million), depletion of biological assets of €7.2 million (2007: €3.1 million) and amortisation of intangible assets €44.7 million (2007: €45.3 million).

The Group's pre-exceptional net finance costs amounted to €277 million (costs of €464 million less income of €187 million) in 2008, compared to €289 million in 2007. The lower net charge in 2008 primarily reflected a reduced level of net cash interest expense resulting from the benefit in 2008 of the net debt reduction which took place in 2007 as a result of the IPO and of the margin reduction achieved in the subsequent refinancing of the Group's debt. In addition, the benefit of on-going cash generation more than offset the slight increase in average interest rates year-on-year. The benefit of a lower net cash interest expense was partly offset by a higher net charge for the combination of currency movements and fair value adjustments in respect of financial instruments.

Including the Group's share of associates' operating profit of €3 million, pre-exceptional profit before income tax was €265 million in 2008 compared to €341 million in 2007. The year-on-year decrease in the contribution from associates resulted primarily from the sale of the Group's shareholding in Duropack AG.

Exceptional Items

Exceptional items, which in total resulted in an operating loss of €258 million in 2008, comprised asset impairments of €237 million and reorganisation and restructuring costs of €21 million. In 2007, exceptional items resulted in an operating loss of €56 million and comprised asset impairments, disposal gains and reorganisation and restructuring costs.

Of the asset impairments, which are charged within cost of sales, €171 million related to goodwill and was booked in the fourth quarter following the completion

of the Group's annual goodwill impairment review. The Group also booked a fixed asset impairment charge of €66 million, largely in respect of its paper sack operations, reflecting their reduced profitability potential, and the closure of the Valladolid containerboard mill in Spain. The impairment provisions of €6 million in 2007 related mainly to the closure of the Alaincourt containerboard mill in France.

The reorganisation and restructuring costs of €21 million, reported as other operating expenses, related to the closure in July 2008 of the Valladolid recycled containerboard mill and the announced closure of the Iuretta paper sack plant, both in Spain. Exceptional other operating expenses of €62 million in 2007 related mainly to reorganisation and restructuring costs incurred within the Group's European operations. Exceptional other operating income of almost €13 million in 2007 related to disposal gains, mainly in respect of surplus property.

The exceptional finance cost of €12 million in 2008 relates to the impairment of available-for-sale financial assets while the loss on disposal of associate resulted from the sale of the Group's shareholding in its principal associate, Duropack AG. Exceptional finance costs of €115 million arose in 2007 following the use of the proceeds from the IPO to pay down debt. These costs comprised refinancing costs of €85 million and the non-cash accelerated amortisation of debt costs of €30 million.

(Loss)/Profit Before Income Tax

After exceptional items, the Group's total loss before income tax amounted to €11 million in 2008, comprising the pre-exceptional profit of €265 million and net exceptional costs of €277 million. In 2007, the profit of €170 million comprised the pre-exceptional profit of €341 million and net exceptional costs of €171 million.

Income Tax Expense

The accounting tax expense for 2008 was €21 million (comprising a current tax charge of €89 million net of a deferred tax credit of €68 million) compared to €4 million (comprising a current tax charge of €71 million net of a deferred tax credit of €67 million) in 2007. The higher current tax charge in 2008 arose largely from some one-off events.

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

Earnings Per Share

The basic loss per share amounted to 22.8 cent in 2008 compared to an earnings per share of 74.3 cent in 2007. There is no difference between the basic and diluted loss per share in 2008, since the inclusion of the dilutive impact of the convertible shares would have the effect of reducing the basic loss per share. On a diluted basis, the earnings per share in 2007 was 71.7 cent.

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 218,015,000 compared to 198,188,000 in 2007. The average in 2007 reflected the number of shares both pre and post the IPO. Ordinary shares in issue at 31 December 2008 amounted to 218,022,794 (2007: 217,985,995).

Financial Performance Indicators

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

	2008	2007
Pre-exceptional EBITDA* (€ million)	**941**	1,064
EBITDA margin to third party revenue (%)	**13.3**	14.6
Net borrowing (€ million)	**3,185**	3,404
Net borrowing to EBITDA (times)	**3.4**	3.2
Free cash flow (€ million)	**281**	186
Return on average capital employed** (%)	**10.3**	11.3
Revenue	**7,062**	7,272

Reconciliation of (Loss)/Profit to EBITDA

	2008 € million	2007 € million
(Loss)/profit for the financial period	**(32)**	166
Income tax expense	**21**	4
Share of associates' operating income	**(3)**	(13)
Loss on disposal of associates	**7**	–
Loss on sale of assets and operations – subsidiaries	**–**	(13)
Reorganisation and restructuring costs	**21**	62
Impairment of assets	**237**	6
Total net interest	**289**	405
Depreciation, depletion (net) and amortisation	**397**	422
Share-based payment expense	**4**	25
EBITDA before exceptional items and share-based payment expense	**€941**	€1,064

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

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

- **Pre-exceptional EBITDA and EBITDA Margin**
The Group uses pre-exceptional EBITDA as a measure of the relative performance of its operations both over time and in comparison to its peer group. In addition, we believe that pre-exceptional EBITDA provides useful information to investors because it is frequently used by securities analysts, lenders and others in their evaluation of companies. Management also believes that pre-exceptional 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.

  Pre-exceptional EBITDA decreased by 12% to €941 million in 2008 from €1,064 million in 2007, representing a margin of 13.3% of third party sales revenue in 2008 compared to 14.6% in 2007. Allowing for the overall impact of currency moves and for net disposals and closures, the underlying decrease in pre-exceptional EBITDA was 10%.

- **Net Borrowing to EBITDA**
Leverage is an important measure of the Group's overall financial performance. Net borrowing amounted to €3,185 million at December 2008 compared to €3,404 million at December 2007.

  Despite the reduction in net borrowing, leverage increased from 3.2 times at December 2007 to almost 3.4 times at December 2008 as a result of the decline in EBITDA year-on-year. Prior to the third quarter of 2008, the Group's leverage had progressively reduced to less than 3.1 times at June, although it increased to over 3.1 times at September.

  The ratio of 3.4 times is at the bottom end of the target range of 3.25 to 4.25 indicated at the time of the IPO.

- **Free Cash Flow**
Free cash flow is shown in the Summary Cash Flow, the format of which was developed in order to show the cash generated by the Group's operations and the overall change in our net borrowing. Free cash flow is the result of cash inflows and outflows from the Group's 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.

  Free cash flow increased strongly to €281 million in 2008 from €186 million in 2007. While EBITDA was lower in 2008, the significant improvement in cash flow primarily reflects the positive impact of a working capital inflow in 2008 compared to an outflow in 2007. Cash interest payments were also lower in 2008 as were outflows in respect of restructuring costs and capital expenditure (including the change in capital creditors).

- **Return on Capital Employed**
Although the Group's pre-exceptional operating profit was lower in 2008, this was partly offset by a lower average level of capital employed. As a result, the Group's return on capital employed decreased to 10.3% in 2008 from 11.3% in 2007.

Cash Generation

Free cash flow for the year to December 2008 was a net inflow of €281 million, compared to €186 million in 2007. While pre-exceptional EBITDA was €123 million lower in 2008, the significant improvement in cash flow primarily reflects the positive impact of a working capital inflow in 2008 together with lower cash interest payments, lower levels of restructuring costs and lower net capital outflows.

Summary Cash Flow[1]

	2008 € million	2007 € million
Pre-exceptional EBITDA	**941**	1,064
Exceptional items	**(6)**	(36)
Cash interest expense	**(243)**	(275)
Working capital change	**86**	(25)
Current provisions	**(36)**	(80)
Capital expenditure	**(346)**	(324)
Change in capital creditors	**29**	(36)
Tax paid	**(97)**	(73)
Sale of fixed assets	**10**	29
Other	**(57)**	(58)
Free cash flow	**281**	186
Purchase of investments	**(20)**	(14)
Sale of businesses and investments	**57**	11
Dividends	**(77)**	(7)
Shares issued through IPO net of costs	**–**	1,433
Refinancing costs	**–**	(84)
Derivative termination receipts/(payments)	**2**	(44)
Net cash inflow	**243**	1,481
Net borrowing disposed	**–**	2
Deferred debt issue costs amortised	**(15)**	(47)
Non-cash interest accrued	**–**	(12)
Currency translation adjustments	**(9)**	54
Decrease in net borrowing	**€219**	€1,478

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

The principal differences are as follows:

a) The summary cash flow details movements in net borrowing. 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

	2008 € million	2007 € million
Free cash flow	**281**	186
Add back:		
Cash interest	**243**	275
Capital expenditure (net of change in capital creditors)	**317**	360
Tax payments	**97**	73
Less:		
Sale of fixed assets	**(10)**	(29)
Profit on sale of assets and businesses – non-exceptional	**(15)**	(4)
Receipt of capital grants (in 'Other' per summary cash flow)	**(1)**	(2)
Dividends from associates (in 'Other' per summary cash flow)	**(5)**	(4)
Cash generated from operations	**€907**	€855

Working capital decreased by €86 million in 2008, reflecting the Group's tight working capital control as well as the impact of weaker pricing. The major factors impacting the 2008 year and number were reduced inventories driven by increased downtime and reduced debtors reflecting weaker trading and a strong collection focus. In 2007, working capital increased by €25 million, mainly as a result of higher pricing and inventory volumes, partly as a result of stock builds for planned maintenance downtime in 2008. In total, working capital at December 2008 amounted to €527 million and represented 8.1% of annualised fourth quarter sales revenue compared to 9.1% at December 2007.

Cash interest of €243 million in 2008 was €32 million lower than in 2007, reflecting the benefit in 2008 of the debt reduction which took place in 2007 as a result of the IPO and of the margin reduction achieved in the subsequent refinancing of our debt. While average interest rates were slightly higher in 2008, the impact was more than offset by the benefit of on-going cash generation.

Outflows for exceptional costs, primarily restructuring costs, were lower in 2008 as was the current provisions outflow, which, at €80 million in 2007, related principally to restructuring and reorganisation costs provided in 2006 but not paid until 2007.

Due to the phasing of projects and to the progression of some large-scale projects, capital expenditure in the fourth quarter of 2008 was considerably higher than in 2007. For the full year, capital expenditure in 2008 amounted to €346 million (representing 98% of depreciation) compared to €324 million (representing 90% of depreciation) in 2007. The cash impact of the expenditure in 2008 was partly offset by a positive

move of €29 million in respect of capital creditors, which resulted in lower net capital outflows in 2008 compared with 2007.

Tax payments in 2008 were €97 million compared to €73 million in 2007, with the increase arising largely from some one-off events. Other net outflows of €57 million in 2008 relate mainly to movements in the Group's non-current liabilities for employee benefits.

Investment and financing activities in 2008 amounted to a net outflow of €38 million, giving a total surplus for the year of €243 million compared to €1,481 million in 2007 when the Group had the benefit of the proceeds from the IPO. The outflow of €38 million comprised mainly dividends payments and investments, partly offset by the disposal proceeds of €57 million, primarily from the sale of the Group's shareholding in Duropack AG. At €20 million, the investment outflow related mainly to the buyout of certain minority interests in Italy and to the payment of part of the deferred consideration in respect of Plasticos, the bag-in-box business in Spain which was acquired in 2007.

Excluding the IPO and the costs of the subsequent refinancing, cash flows in 2007 from financing and investment activity amounted to a net outflow of €54 million and comprised dividend payments, investments and derivative termination payments offset by disposal proceeds. The relatively large outflow in 2007 in respect of derivatives included those contracts terminated as a result of debt paydown following the IPO and cash flows arising on maturing currency swaps.

The reconciliation of net cash inflow to the decrease in net borrowing includes certain non-cash items. For 2008, these include €15 million in respect of the amortisation of debt issue costs and a negative currency movement on borrowing of €9 million, related to the strengthening of the U.S. dollar against the euro during the second half of the year. In 2007, a positive currency movement of €54 million was offset by €47 million in respect of the amortisation of debt issue costs (€30 million of which was accelerated by the paydown of debt) and €12 million of non-cash interest accrued. In total, Group's net borrowing decreased by €219 million in 2008 to €3,185 million compared to €3,404 million at the start of the year. In 2007, with the benefit of the net proceeds from the IPO, net borrowing decreased by €1,478 million.

Fixed assets net book value amounted to €3,038.2 million at 31 December 2008 (2007: €3,251.5 million) and includes capital expenditure of €322.9 million in 2008 (2007: €303.3 million). A €66.0 million impairment charge was recorded during the year.

Cash and cash equivalents amounted to €699.6 million at 31 December 2008 (2007: €401.6 million). The €298.0 million increase was driven predominately by the Group's free cash flow of €281 million as highlighted in the Group's Summary Cash Flow Statement.

Net employee benefit liabilities increased from €482.5 million in 2007 to €516.7 million in 2008. This was primarily due to a decline in the fair value of plan assets, offset partially by a decline in the present value of funded or partially funded obligations.

Net borrowings at 31 December 2008 include non-current liabilities of €3,751.4 million, current borrowings of €152.2 million, offset by cash & cash equivalents and restricted cash of €699.6 million and €19.4 million respectively.

Capital Resources and Liquidity

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,439 million, of which €3,853 million was utilised at December 2008. The weighted average period until maturity of undrawn committed facilities is four years. The Group's debt portfolio is well structured and has a relatively long-term maturity profile. The nearest maturity of any significance is towards the end of 2011, when the Group's receivables securitisation matures.

The weighted average interest rate on the Group's debt was 5.8% at December 2008, compared to 6.2% at December 2007. In terms of financial sensitivity, 55% of the Group's interest cost is fixed over the next twelve months.

The Group's primary sources of liquidity are cash flow from operations and borrowings under the committed revolving credit facility of €600 million (renewable in 2012). The Group's primary uses of cash are for debt service and capital expenditure.

In view of the challenging economic environment and consistent with its prudent financial approach, the Group announced that it was suspending dividend payment in 2009, thereby increasing its debt paydown capability by €70 million compared to 2008. The Group will re-evaluate future dividend policy depending on the then prevailing market conditions and capital structure requirements.

In February 2009, we launched a €100 million cash tender offer to buy back part of our senior bank debt. Since our debt is trading at a discount to par, this is expected to reduce our net debt and annual cash interest charge and the results of the tender will be reported with our Quarter One 2009 results.

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 investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. At December 2008 the Group had fixed an average of 55% of its interest cost on borrowings over the following twelve months.

The Group's fixed rate debt comprised mainly €217.5 million 7.75% senior subordinated notes due 2015, US$200 million 7.75% senior subordinated notes due 2015 and US$292.3 million 7.50% senior debentures due 2025. In addition the Group also had €1,750 million in interest rate swaps with maturity dates ranging from February 2009 to February 2014.

The Group's earnings are affected by changes in short-term interest rates as a result of its floating rate borrowings. If variable interest rates for these borrowings increase by 1%, the Group's interest expense would increase by approximately €19 million over the succeeding twelve months. Interest income on the Group's cash balances would increase by approximately €7 million assuming a 1% increase in interest rates earned on such balances over the succeeding twelve months.

The Group uses foreign currency borrowings, currency swaps and forward contracts in the management of its foreign currency exposures in the context of treasury policies and objectives set by the Board of Directors.

Solidboard Packaging

In 2008, Smurfit Kappa came up with an innovative, more sustainable packaging solution for Toshiba Europe. Previously, Toshiba had utilised plastic blisters and a single item could require up to five separate pieces of packaging. Now all packaging is produced entirely from solidboard, with no more than two pieces per item. This makes Toshiba's products easy to pack, attractive on shop shelves and easy for the consumer to unpack. High-quality printing on the outer box dispenses with the need for paper inside the blister and PET is used instead of PVC foil. The end product is lighter, which reduces shipping costs, and is more environmentally friendly.

This new design passed the Toshiba green procurement test, a stringent 22-point environmental performance survey.

SUSTAINABILITY

2008 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 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 as a company is 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 first Sustainability Report in May 2008 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, health and safety, social citizenship and corporate governance. A roadmap was included in the report which set specific commitments to be met over a three year period together with longer term intentions. Included in SKG's commitments for 2008 was the creation of specific policy statements on key areas of sustainability. These have now been formulated and are integral in the drive to improve SKG's performance going forward. These policy statements cover 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 Financial Monitoring Policy, a Treasury Compliance Programme, and a Competition Compliance Programme.

SKG will continue to drive the sustainability agenda and its objective is to improve its performance every year. SKG's second Sustainability Report will be issued later this year and SKG will be reporting on its progress against the targets and commitments made for 2008 using the Guidelines issued by the Global Reporting Initiative ('GRI').

A report on Corporate Governance is detailed on pages 30 to 37 of this Annual Report and a short overview on SKG's performance in the other key areas now follows.

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 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 the efficient use of natural resources
- Meeting reasonable stakeholder expectations on environmental performance in forestry, product manufacture, distribution and end use.

SKG has made significant investments in biomass as an energy source to replace fossil fuels where appropriate and today over 45% of all primary energy used by SKG in its European paper mills is biomass based. An €82 million investment in 2007 in a biomass boiler and steam turbine at the kraftliner mill in Piteå, Sweden has resulted in a reduction in CO_2 emissions and a reduction in fuel oil consumption. A similar such project is being progressed by Dalkia on the Facture mill site in France from which SKG's sustainability targets will benefit.

In terms of Forestry SKG committed that a further two mills in Europe would be certified "Chain of Custody" during 2008. Chain of Custody refers to the traceability of the origins of a product through all its transformations from raw material to finished product. This has now been achieved in Facture, Piteå and Štúrovo in Slovakia.

Sustainability [continued]

SKG's Sustainability Report details the performance of its other environmental commitments in the areas of energy, emissions to air, water and soil and waste.

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.

Group-wide improvements were recorded in accident frequency and accident severity during the last year.

Social Citizenship

SKG conducts its commitments 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 host communities, is an essential ingredient in creating and maintaining a sustainable future.

Hydroponic Clonal Gardens

For many years, Smurfit Kappa Carton de Colombia (SKCC) has planted eucalyptus using vegetative propagation by way of cuttings taken from the stumps of cut trees.

More recently, SKCC has developed hydroponic clonal gardens where cuttings from genetically superior trees are planted in sand beds to form "mother" plants from which further cuttings can be repeatedly harvested to be used in the field. On these beds, tailored and precise combinations of nutrients and water are provided through drip irrigation to the mother plants.

Historically, propagation of pine was done by planting seeds, a slow and somewhat erratic process since pine seed production is low in the tropics. Following the experience of the eucalyptus hydroponic clonal gardens, SKCC carried out research to replicate this process for pines. This has been successful and they now have a viable vegetative propagation system for pines, thus putting SKCC at the forefront of this area of tropical forestry technology.

NATURAL RESOURCES

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 will be the key determinant in recruitment and promotion.

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

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

SKG continues to train and develop its employees through various programmes that vary from language skills training to horizontal knowledge sharing and from sales training to management development programmes.

The European Works Council which was created to assist in the development of an open two way communication process for all employees on all such matters, met on two occasions during the year. Matters typically discussed include employment opportunities, financial status, projected developments, relocation, curtailment or business closures and health and safety.

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

Board of Directors

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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 a Director of CRH plc and Project Management Limited. He was the Chief Executive Officer of CRH plc from January 2000 until his retirement in December 2008, prior to which he held a number of senior management positions within the CRH Group including Chief Operations Officer of its US operations and Managing Director, Republic of Ireland and UK companies. He is a member of The Irish Management Institute Council. (Age 62)

2 Frits Beurskens

Frits Beurskens has been a Director of the Group since December 2005. He joined the Kappa Group in 1990 and held various Managing Director positions until his appointment as its President in 1996 which he held until the Merger with Smurfit. He is immediate past Chairman of the Confederation of European Paper Industries and a member of its executive board and he is a former Chairman of the International Corrugated Cases Association. In December 2007 he was appointed by the Dutch Queen as Officer in the Order of Oranje Nassau. (Age 61)

3 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 a Director of Aon MacDonagh Boland Group Limited and United Drug plc. (Age 58)

4 Anthony Smurfit

Anthony Smurfit was appointed as Group Chief Operations Officer in November 2002. He has worked in various parts of the Smurfit Group both in Europe and the United States since he joined the Group over twenty years ago. He was Chief Executive of Smurfit Europe 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 45)

5 Ian Curley

Ian Curley was appointed as Group Chief Financial Officer in January 2000. He joined the Group in 1989 having previously worked for a number of multinationals in Ireland. He was appointed Chief Financial Officer of Smurfit Europe in 1997, prior to which he served as financial controller of Smurfit Continental Europe for a number of years based in the United Kingdom and France. (Age 46)

6 Christopher McGowan

Christopher McGowan has served as a Director of the Group since September 2002. He has been employed principally by Madison Dearborn since 1999 where he currently serves as a Managing Director. He has significant experience working with companies in a wide range of industrial sectors. He is a member of the Board of Directors of Forest Products Holdings, LLC (d.b.a. Boise Cascade). (Age 37)

7 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 Trustees of Brown University and the Art Institute of Chicago. (Age 52)

8 Gordon Moore

Gordon Moore has served as a Director of the Group since December 2006. He was previously a partner of Cinven having been part of their investment team for over 11 years. He has held Directorships with a number of Cinven's investee companies including Fitness First Holdings Limited, Odeon Cinemas, NCP and most recently Sweden DIA (Sweden) AB. He has significant experience working with companies in a wide range of industrial sectors. He is a member of the Institute of Chartered Accountants of Scotland. He is also a Director of Worth School. (Age 42)

Board Committees 2008

Audit
R. Thorne, *Chairman*
T. Brodin
C. McGowan
G. Moore
P. Stecko

Compensation
P. Stecko, *Chairman*
L. O'Mahony
R. van Rappard
S. Mencoff

Nominations
N. Restrepo, *Chairman*
L. O'Mahony
R. Thorne
T. Brodin
G. McGann

Senior Independent Director
N. Restrepo

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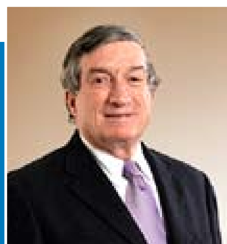
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9 Nicanor Restrepo

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 (Casino), Carvajal International and Conconcreto. He has extensive business experience having occupied several positions in the private sector and has received many awards both in Colombia and internationally. (Age 67)

10 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 48)

11 Paul Stecko

Paul Stecko joined the Board on 7 February 2008. He has been Chairman and Chief Executive Officer of Packaging Corporation of America ('PCA') since 1999. Prior to 1999 he served as President and Chief Operating Officer of Tenneco Inc and other senior positions within Tenneco including President and Chief Executive Officer of Tenneco Packaging Inc which 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 64)

12 Rosemary Thorne

Rosemary Thorne joined the Board on 20 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 Abbey National plc. She also currently sits on the Council of the Royal College of Art in London. (Age 57)

13 Thomas Brodin

Thomas Brodin joined the Board on 2 April 2008. He is currently Head of Equity Research and a member of the executive management team at Erik Penser 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 45)

Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance and this statement describes how Smurfit Kappa Group applies the principles of the Combined Code on Corporate Governance ('Combined Code') published in June 2006. Except where stated, the Directors believe that the Group has complied with the provisions of the Combined Code throughout the year under review.

Board of Directors

The Board is primarily responsible for setting the Group's strategic aims, for the leadership and control of the Company and for reviewing the Group's system of internal control. There is a clear division of responsibilities within the Group between the Board and executive management, with the Board retaining control of 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 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.

Membership

At present there are thirteen Directors on the Board, comprising: a non-executive Chairman, three executive Directors and nine non-executive Directors. Biographical details are set out on pages 28 and 29.

The Combined Code recommends that, apart from the Chairman, at least half of the Board of Directors of a listed company should comprise non-executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Director's judgement. Of the non-executive Directors, the Board has determined that Nicanor Restrepo, Paul Stecko, Rosemary Thorne and Thomas Brodin are independent. In reaching that conclusion the Board took into account the principles relating to independence contained in the Combined Code and the factors that might appear to affect the independence of some of the Directors, including cross Directorships. The Board is completely satisfied that the independence of the relevant Directors

is not compromised by these factors. With three new independent non-executive Directors appointed during the year, the Board is continuing its work towards enhancing the composition of the Board to comply with the above recommendation of the Combined Code.

Experience and Skills

Each of the executive Directors has extensive experience of the paper-based packaging industry. Their 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 to the Board

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first annual general meeting after his appointment and all Directors are subject to re-election at intervals of no more than three years. The procedures governing the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

The standard letter of appointment of non-executive Directors is available, on request, from the Company Secretary.

Pursuant to the Articles of Association of the Company, MDCP III, MDCP IV and MSDE III have the right to nominate up to two persons for appointment as Directors and have nominated Sam Mencoff and Chris McGowan. Similarly Smurfit Kappa Feeder G.P. Limited also has the right to nominate up to two persons for appointment as Directors and has nominated 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.

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

Senior Independent Director

Nicanor Restrepo was appointed the Group's Senior Independent Director ('SID') in December 2008 following the appointment of Liam O'Mahony as Chairman. His duties include being available to shareholders if they have concerns which cannot be resolved through the Chairman or Group Chief Executive Officer. The SID also reviews the Chairman's performance in conjunction with the other non-executive Directors on an annual basis.

Group Secretary

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

Meetings

The Board meets at least five times each year with additional meetings as required. The Board met six times in 2008. Details of the meetings held during the period, both of the Board and of the Board Committees, are contained in the schedule on page 37, which also includes information on individual attendance. The Board holds at least one of its meetings each year at a Group operation to give the Directors an opportunity to meet with management and see the Group's operations. In 2008 the August Board meeting was held at the Cali plant in Colombia. The Board is supplied on a timely basis with information in a form and of a quality to enable it to discharge its duties effectively.

Induction and Development

On appointment, all non-executive Directors receive comprehensive briefing documents on the Group and its operations and are given the opportunity to visit sites and meet with the management. During the year Directors meet with senior management 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 the related Group's activities.

Performance Evaluation

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

Board Committees

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

The current membership of each Committee is set out on page 29. 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 Committees is an independent non-executive Director.

Audit Committee

The Audit Committee chaired by Rosemary Thorne comprises four 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 who reports directly to the Chairman of the Audit Committee, the Group Compliance Manager and senior members of the finance team normally attend meetings of the Committee. The external auditors also attend and have direct access to the Committee Chairman at all times.

The role and responsibilities of the Audit Committee are set out in written terms of reference and include:

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

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

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

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 to the approval of 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 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 83.

The Nominations Committee

The Nominations Committee chaired by Nicanor Restrepo comprises three non-executive Directors and the Group Chief Executive Officer. The Committee met twice 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 uses the services of external advisers from time to time to facilitate the search in identifying potential candidates.

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

The Compensation Committee

The Compensation Committee was chaired by Liam O'Mahony during the year under review. Paul Stecko replaced Liam O'Mahony as Chairman subsequent to the year end. The Committee comprises three non-executive Directors.

The Committee met four 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 where necessary.

Communication with Shareholders

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

The papers for each Board meeting include a report prepared by the Group Chief Financial Officer summarising investor relations activity during the preceding period including contacts between executive management and current and prospective institutional shareholders. The views and issues highlighted by shareholders are also covered 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 Irish Stock Exchange. The Company's Annual General Meeting affords each shareholder the opportunity to question the Chairman of the Board, the Chairmen of all Committees and all other Board members. The notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting. In addition, the Company responds throughout the year to numerous queries from shareholders on a broad range of issues.

Sustainability

Sustainability is concerned with ensuring that the human and natural environment remains intact both today and into the future as we continue to use natural resources. Smurfit Kappa Group manages its business in a way which recognises its key responsibilities in all aspects of its corporate social responsibility especially in the areas of the Environment, Sustainable Forestry, Social Citizenship and Health and Safety. The Group's principles are summarised on pages 24 to 27 and are described in detail in the Sustainability report 2007 which is available on the Group's website. The Sustainability report 2008 is expected to be published in mid 2009.

Internal Control

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

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

Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified, evaluated and appropriate risk management strategies are implemented at each level. The key business risks are identified by the senior management team. The Board in conjunction with senior management reviews the major business risks faced by the Group and determines the appropriate course of action to manage these risks. The Group internal audit function monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee meets with the Group internal auditor at least quarterly in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant issues considered by the Committee.

The Directors confirm that they have conducted an annual review of the effectiveness of the 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 38 to 40), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

Going Concern

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

Attendance at scheduled meetings for the year to 31 December 2008

Name	Board		Audit		Compensation		Nomination	
	A*	**B***	**A***	**B***	**A***	**B***	**A***	**B***
L. O'Mahony	6	6	–	–	4	4	2	2
F. Beurskens	6	6	–	–	–	–	–	–
G. Moore	6	6	5	5	–	–	1	1
S. Mencoff	6	5	1	1	4	4	–	–
C. McGowan	6	6	4	4	–	–	1	1
N. Restrepo	6	6	1	1	–	–	–	–
R. van Rappard	6	3	1	–	4	1	–	–
P. Stecko	5	5	4	4	3	2	–	–
R. Thorne	5	5	4	4	–	–	1	1
T. Brodin	5	5	4	4	–	–	1	1
G. McGann	6	6	–	–	–	–	2	2
A. Smurfit	6	6	–	–	–	–	–	–
I. Curley	6	6	–	–	–	–	–	–
S. Fitzpatrick**	5	5	–	–	4	4	1	1

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

*** Resigned on 19 December 2008.*

Directors' Report

Report of the Directors

The Directors submit their Report and Financial Statements for the year ended 31 December 2008.

Principal Activity and Business Review

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

The Chairman's statement, the Group Chief Executive's review, the Operations review and the Finance review (including financial risk management policies) on pages 6 to 23 report on the performance of the Group during the year, on events since 31 December 2008 and on future developments.

Results for the Year

The results for the year are set out in the Group Income Statement on page 51. The loss attributable to the Equity holders of the Company amounted to €50 million (2007: profit of €147 million).

Key financial performance indicators are set out in the Finance review on pages 18 to 19. The Financial Statements for the year ended 31 December 2008 are set out in detail on pages 51 to 141.

Dividends

An interim dividend of 16.5 cents per share was paid on 31 October 2008. The Board does not propose to pay a final dividend, thereby giving a total dividend for the year of 16.5 cent per share.

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 €2.6 million.

Books and Records

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

Directors

The members of the current Board of Directors are named on pages 28 to 29, together with a short biographical note on each Director.

Paul Stecko was appointed to the Board on 7 February 2008, Rosemary Thorne was appointed to the Board on 20 March 2008 and Thomas Brodin was appointed to the Board on 2 April 2008. Sean Fitzpatrick resigned from the Board on 19 December 2008. Liam O'Mahony was appointed Chairman of the Board on 22 December 2008 in place of Sean Fitzpatrick.

Sam Mencoff, Chris McGowan, Rolly van Rappard and Gordon Moore retire from the Board by rotation and, being eligible, offer themselves for re-election.

Directors' and Secretary's Interests

Details of the Directors' and Company Secretary's interests in the share capital are set out in the Report on Directors' remuneration on pages 45 to 47.

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 effects of the current economic slowdown exacerbate or the slowdown is 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 with current and future laws and regulations may negatively affect the Group's business
- The Group is exposed to potential risks in relation to its Venezuelan operations
- The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates
- Substantial future sales of shares by the existing major shareholders may depress the share price.

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

Corporate Governance

The Directors' Statement on Corporate Governance is set out on pages 30 to 37. The Report on Directors' Remuneration is set out on pages 41 to 47.

Purchase of own Shares

Special resolutions will be proposed at the Annual General Meeting to renew the authority of the Company, or any of its subsidiaries, to purchase up to 10% of the Company's Ordinary Shares in issue at the date of the Annual General Meeting and in relation to the maximum and minimum prices at which treasury shares (effectively shares purchased and not cancelled) may be re-issued off-market by the Company. If granted, the authority will expire on the earlier of the date of the Annual General Meeting in 2010 or 7 August 2010.

Change of Control

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

Subsidiary and Associated Undertakings

A list of principal subsidiaries and associates as at 31 December 2008 is set out on pages 139 to 140.

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 6 March 2009 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 Limited	53,181,884	24.39%
Madison Dearborn Capital Partners	46,790,055	21.46%
Bestinver Gestion S.A. SGIIC	13,126,481	6.02%
Causeway Capital LLC	11,136,274	5.11%
Midocean Europe GP (Jersey) Limited	7,500,000	3.44%
JP Morgan Chase & Co.	7,345,775	3.37%

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

Auditors

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

Directors

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

6 March 2009

Remuneration Report

Report on Directors' Remuneration

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

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

Remuneration Policy

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

Executive Directors' Remuneration

Salary and Benefits

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

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

Annual Bonus

Executive Directors participate in an annual bonus scheme under which they can earn a bonus of up to 100 per cent of their base salaries for superior performance and achievement. The bonus payments are made based on the achievement of clearly defined annual financial targets set by the Compensation Committee at the start of the year. For 2008 predefined targets were set for the achievement of EBITDA, Cash Flow and Return on Capital Employed. Targets and the weighting of targets are reviewed each year by the Compensation Committee in the context of the strategic goals of the Group.

Long-Term Incentive Plans

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

2007 Share Incentive Plan

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

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

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

Details of restriction on transfer of shares are set out in Note 22 on page 101. Details of the executive Directors' subscriptions to date are set out on page 46 and 47.

2002 Convertible Share Scheme

This scheme expired in 2007 for the purpose of issuing invitations to subscribe for convertible shares, however a number of earlier convertibles remain extant. In March 2007 upon the IPO becoming effective, all of the then class A, E, F and H convertible shares and 80% of the class B convertible shares vested and were converted into D convertible shares. The class C, class G and 20% of the class B convertible shares did not vest and were re-designated as A1, A2 and A3 convertible shares. See Note 22 on page 100 of the Annual Report.

The A1 convertible shares vested in March 2008 and the A2 and A3 convertible shares will vest and automatically convert on a one-for-one basis into D convertible shares on the second and third anniversaries respectively of the IPO, provided their holder ('Relevant Holder') remains an employee or his/her spouse or family trust remains their holder at the relevant anniversary (the latter condition is subject to exceptions in a number of cases including the retirement or death of the Relevant Holder). The A2 and A3 convertible shares may be vested at the discretion of the Board at any time if they are of the view that the circumstances warrant it.

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

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

Details of restriction on transfer of shares are set out in Note 22 on page 101.

Details of the executive Directors holdings of convertible shares are set out on page 46.

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.

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

	2008 €'000	2007 €'000
Executive Directors		
Basic salary	**2,882**	2,761
Annual bonus	**1,015**	1,934
Pension	**1,215**	1,053
Benefits	**123**	120
Executive Directors' remuneration	**5,235**	5,868
Average number of executive Directors	**3**	3
Non-executive Directors		
Fees	**1,144**	2,340
Non-executive Directors' remuneration	**1,144**	2,340
Average number of non-executive Directors	**10**	8
Directors' remuneration	**6,379**	8,208
Compensation for loss of office (non-executive)	**–**	9,026
Total	**6,379**	17,234

Individual remuneration for the year ended 31 December 2008

	Basic salary and fees €'000	Annual bonus €'000	Pension €'000	Benefits €'000	Total 2008 €'000	Total 2007 €'000
Executive Directors						
G. McGann	1,262	406	625	59	2,352	2,593
A. Smurfit	874	322	318	22	1,536	1,773
I. Curley	746	287	272	42	1,347	1,502
	2,882	1,015	1,215	123	5,235	5,868
Non-executive Directors						
L. O'Mahony (I)	125				125	104*
F. Beurskens (II)	125				125	973
G. Moore	70				70	58*
S. Mencoff	70				70	58*
C. McGowan	70				70	58*
N. Restrepo (III)	110				110	93*
R. van Rappard	70				70	58*
P. Stecko (IV)	64				64	–
R. Thorne (V)	87				87	–
T. Brodin (VI)	53				53	–
S. Fitzpatrick (VII)	300				300	250*
M.W.J. Smurfit (VIII)	–				–	9,714
	1,144				1,144	11,366

I. Mr. O'Mahony became Chairman of the Board in December 2008. He was the Senior Independent Director prior to becoming Chairman of the Board.

II. 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 €75,000 for services as a Director of a Group subsidiary.

III. Mr. Restrepo is Chairman of the Nominations Committee. He became Senior Independent Director in December 2008.

IV. Mr. Stecko received Directors' fees from February 2008 when he joined the Board. He became Chairman of the Compensation Committee in January 2009.

V. Ms. Thorne received Directors' fees from March 2008 when she joined the Board. She became Chairman of the Audit Committee in May 2008.

VI. Mr. Brodin received Directors' fees from April 2008 when he joined the Board.

VII. Mr. Fitzpatrick resigned from the Board in December 2008.

VIII. Dr. Smurfit resigned from the Board with effect from immediately prior to Admission. See Related Party transactions Note 31 on page 137 for details of the terms of Dr. Smurfit's resignation.

** The highlighted Directors received fees from 20 March 2007.*

During 2008 G. McGann acted as a non-executive Director of Anglo Irish Bank plc, United Drug plc, Aon MacDonagh Boland Group Limited and the Dublin Airport Authority plc and retained fees totalling €254,200 in respect of these appointments.

Pension Entitlements – Defined Benefit

	Increase in accrued pension during year €'000	Transfer value of increase in accrued pension (I) €'000	2008 Total accrued pension (II) €'000
Executive Directors			
A. Smurfit	23	161	297
I. Curley	27	224	250

I. These transfer values have been calculated on the basis of actuarial advice. These transfer values do not represent sums paid or due, but are the amounts that the pension scheme would transfer to another pension scheme in relation to the benefits accrued in 2008 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 2008

The interests of the Directors and Secretary in the shares of the Company as at 31 December 2008 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 2008	31 December 2007
Directors		
L. O'Mahony	**19,829**	6,060
F. Beurskens	**25,000**	–
T. Brodin	**20,000**	–
P. Stecko	**6,000**	–
R. Thorne	**10,000**	–
G. McGann	**390,792**	231,697
A. Smurfit	**572,621**	460,515
I. Curley	**286,191**	192,424
Secretary		
M. O'Riordan	**47,151**	47,151

There were no transactions in the above Directors' and Secretary's interests between 31 December 2008 and 6 March 2009.

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

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

Convertible Shares

		31 December 2007	Granted	31 December 2008	Note	Conversion Price	Expiry Date
Directors							
G. McGann	D (converted from E, F)	384,894		384,894	1	4.28	Dec 2012
	D (converted from H)	420,996		420,996	1	5.69	Dec 2012
	D (converted from A1)	32,075		32,075	1	4.28	Mar 2014
	A2 (converted from G)	32,075		32,075	1	4.28	Mar 2014
	A3 (converted from G)	32,074		32,074	1	4.28	Mar 2014
	B	49,320		49,320	2	18.28	Apr 2017
	C	49,320		49,320	2	18.28	Apr 2017
	B		45,880	45,880	2	9.08	Mar 2018
	C		45,880	45,880	2	9.08	Mar 2018
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
	A2 (converted from G)	26,796		26,796	1	4.28	Mar 2014
	A3 (converted from G)	26,797		26,797	1	4.28	Mar 2014
	B	34,790		34,790	2	18.28	Apr 2017
	C	34,790		34,790	2	18.28	Apr 2017
	B		31,750	31,750	2	9.08	Mar 2018
	C		31,750	31,750	2	9.08	Mar 2018
I. Curley	D (converted from E, F)	302,070		302,070	1	4.28	Dec 2012
	D (converted from H)	420,996		420,996	1	5.69	Dec 2012
	D1 (converted from A1)	25,172		25,172	1	4.28	Mar 2014
	A2 (converted from G)	25,172		25,172	1	4.28	Mar 2014
	A3 (converted from G)	25,173		25,173	1	4.28	Mar 2014
	B	29,160		29,160	2	18.28	Apr 2017
	C	29,160		29,160	2	18.28	Apr 2017
	B		27,130	27,130	2	9.08	Mar 2018
	C		27,130	27,130	2	9.08	Mar 2018
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
	A2 (converted from G)	5,684		5,684	1	4.28	Mar 2014
	A3 (converted from G)	5,684		5,684	1	4.28	Mar 2014
	B	10,720		10,720	2	18.28	Apr 2017
	C	10,720		10,720	2	18.28	Apr 2017
	B		9,970	9,970	2	9.08	Mar 2018
	C		9,970	9,970	2	9.08	Mar 2018

None of the executive Directors' or the Secretary's convertible shares lapsed or were converted to ordinary shares during the year. The market price of the Company's shares at 31 December 2008 was €1.82 and the range during 2008 was €1.09 to €11.36.

1. Issued under the 2002 Convertible share scheme. The D convertible shares are convertible on a one to one basis into ordinary shares upon the payment by the holder of the conversion price. In March 2008, the A1 shares vested and converted into D shares. The A2 and A3 convertible shares will automatically convert into D convertible shares in March 2009 and March 2010 respectively provided their holder remains an employee.
2. Issued under the 2007 Share Incentive Plan – see Note on page 42. The shares will automatically convert into D convertible shares to the extent that the performance conditions are achieved at the end of three years post the invitation to subscribe.

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 International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group.

In preparing these financial statements the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are 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 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and 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 governing 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 28 and 29, confirms that, to the best of each person's knowledge and belief:

- the Financial Statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Company and the Group and of the loss 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

6 March 2009

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

We have audited the Group and parent company Financial Statements (the 'Financial Statements') of Smurfit Kappa Group plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

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

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises the 2008 Financial Performance Overview, the Group Profile, the Chairman's Statement, the Chief Executive's Review, 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 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 2008 and of its loss and cash flows for the year then ended;
- the parent company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2006, of the state of the parent company's affairs as at 31 December 2008 and cash flows for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company Balance Sheet is in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the Financial Statements.

The net assets of the Company, as stated in the Company Balance Sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2008 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin, Ireland

6 March 2009

Group Income Statement

For the Year Ended 31 December 2008

	Note	2008 Pre-exceptional €'000	2008 Exceptional €'000	2008 Total €'000	2007 Pre-exceptional €'000	2007 Exceptional €'000	2007 Total €'000
Continuing operations							
Revenue	5	**7,061,880**	**–**	**7,061,880**	7,271,657	–	7,271,657
Cost of sales		**(5,058,487)**	**(236,986)**	**(5,295,473)**	(5,236,787)	(6,433)	(5,243,220)
Gross profit		**2,003,393**	**(236,986)**	**1,766,407**	2,034,870	(6,433)	2,028,437
Distribution costs	6	**(577,550)**	**–**	**(577,550)**	(583,542)	–	(583,542)
Administrative expenses	6	**(890,029)**	**–**	**(890,029)**	(882,086)	–	(882,086)
Other operating income	6	**3,995**	**–**	**3,995**	48,489	12,513	61,002
Other operating expenses	6	**–**	**(20,963)**	**(20,963)**	–	(61,797)	(61,797)
Operating profit	5	**539,809**	**(257,949)**	**281,860**	617,731	(55,717)	562,014
Finance costs	9	**(463,771)**	**(12,000)**	**(475,771)**	(492,158)	(115,427)	(607,585)
Finance income	9	**186,599**	**–**	**186,599**	202,961	–	202,961
Loss on disposal of associate	15	**–**	**(6,905)**	**(6,905)**	–	–	–
Share of associates' profit (after tax)	7	**2,731**	**–**	**2,731**	12,513	–	12,513
(Loss)/profit before income tax		**265,368**	**(276,854)**	**(11,486)**	341,047	(171,144)	169,903
Income tax expense	10			**(20,568)**			(3,503)
(Loss)/profit for the financial year				**(32,054)**			166,400
Attributable to:							
Equity holders of the Company				**(49,656)**			147,169
Minority interest				**17,602**			19,231
(Loss)/profit for the financial year				**(32,054)**			166,400
Earnings per share							
Basic (loss)/earnings per share – cent	11			**(22.8)**			74.3
Diluted (loss)/earnings per share – cent	11			**(22.8)**			71.7

G. McGann

I. Curley

Directors

6 March 2009

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

Group Statement of Recognised Income and Expense

For the Year Ended 31 December 2008

	Note	2008 €'000	2007 €'000 Restated
Items of income and expense recognised directly within equity:			
Foreign currency translation adjustments		**(165,218)**	(92,101)
Defined benefit pension schemes:			
— Actuarial (loss)/gain including payroll tax		**(84,057)**	49,242
— Movement in deferred tax	10	**15,542**	(15,616)
Effective portion of changes in fair value of cash flow hedges:			
— Movement out of reserve		**(15,356)**	(11,818)
— New fair value adjustments into reserve		**(31,833)**	11,121
— Movement in deferred tax	10	**4,614**	(25)
Net change in fair value of available-for-sale financial assets	14	**(799)**	564
Net income and expense recognised directly within equity		**(277,107)**	(58,633)
(Loss)/profit for the financial year		**(32,054)**	166,400
Total recognised income and expense for the financial year		**(309,161)**	107,767
Attributable to:			
Equity holders of the Company		**(331,098)**	99,430
Minority interest		**21,937**	8,337
		(309,161)	107,767
Effects of changes in accounting policy:			
Attributable to:			
Equity holders of the Company			(876)
Minority interest			–
			(876)

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

Company Statement of Recognised Income and Expense

For the Year Ended 31 December 2008

	2008 €'000	2007 €'000
Profit/(loss) for the financial year	**71,277**	(380)
Total recognised income and expense for the financial year	**71,277**	(380)
Attributable to:		
Equity holders of the Company	**71,277**	(380)
	71,277	(380)

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

Group Balance Sheet

At 31 December 2008

	Note	2008 €'000	2007 €'000 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	12	**3,038,207**	3,251,479
Goodwill and intangible assets	13	**2,154,212**	2,416,785
Available-for-sale financial assets	14	**30,651**	43,511
Investment in associates	15	**14,038**	79,307
Biological assets	16	**78,166**	74,758
Trade and other receivables	19	**4,098**	6,716
Derivative financial instruments	28	**153**	4,301
Deferred income tax assets	17	**228,061**	257,234
		5,547,586	6,134,091
Current assets			
Inventories	18	**623,185**	682,169
Biological assets	16	**8,122**	6,862
Trade and other receivables	19	**1,210,631**	1,379,105
Derivative financial instruments	28	**14,681**	28,261
Restricted cash	20	**19,408**	13,096
Cash and cash equivalents	20	**699,554**	401,622
		2,575,581	2,511,115
Non-current assets held for sale	21	**10,482**	15,999
Total assets		**8,133,649**	8,661,205
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Equity share capital	22	**229**	228
Capital and other reserves	22	**2,329,613**	2,538,047
Retained earnings	22	**(679,224)**	(486,126)
Total equity attributable to equity holders of the Company		**1,650,618**	2,052,149
Minority interest	22	**144,723**	137,443
Total equity		**1,795,341**	2,189,592

Group Balance Sheet [continued]

At 31 December 2008

	Note	2008 €'000	2007 €'000 Restated
LIABILITIES			
Non-current liabilities			
Borrowings	23	**3,751,361**	3,667,618
Employee benefits	24	**516,665**	482,497
Derivative financial instruments	28	**19,227**	–
Deferred income tax liabilities	17	**324,563**	446,461
Non-current income tax liabilities		**18,538**	19,704
Provisions for liabilities and charges	26	**48,343**	77,698
Capital grants		**13,026**	14,176
Other payables		**3,591**	8,535
		4,695,314	4,716,689
Current liabilities			
Borrowings	23	**152,193**	150,976
Trade and other payables	27	**1,311,012**	1,402,687
Current income tax liabilities		**24,926**	25,650
Derivative financial instruments	28	**108,907**	121,058
Provisions for liabilities and charges	26	**45,956**	54,553
		1,642,994	1,754,924
Total liabilities		**6,338,308**	6,471,613
Total equity and liabilities		**8,133,649**	8,661,205

G. McGann

I. Curley

Directors

6 March 2009

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

Company Balance Sheet

At 31 December 2008

	Note	2008 €'000	2007 €'000
ASSETS			
Non-current assets			
Financial assets	14	**1,960,701**	1,956,328
		1,960,701	1,956,328
Current assets			
Amounts receivable from Group companies	19	**12,374**	11,844
Cash and cash equivalents	20	**2,425**	38
		14,799	11,882
Total assets		**1,975,500**	1,968,210
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Equity share capital	22	**229**	228
Capital and other reserves	22	**1,957,180**	1,952,688
Retained earnings	22	**897**	(380)
Total equity		**1,958,306**	1,952,536
LIABILITIES			
Current liabilities			
Trade and other payables	27	**17,194**	15,674
Total liabilities		**17,194**	15,674
Total equity and liabilities		**1,975,500**	1,968,210

G. McGann

I. Curley

Directors

6 March 2009

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

Group Cash Flow Statement

For the Year Ended 31 December 2008

	Note	2008 €'000	2007 €'000
Cash flows from operating activities			
(Loss)/profit for the financial year		**(32,054)**	166,400
Adjustment for			
Income tax expense	10	**20,568**	3,503
Profit on sale of assets and businesses		**(15,249)**	(16,933)
Amortisation of capital grants	6	**(1,575)**	(2,157)
Impairment of property, plant and equipment	12	**65,986**	6,433
Equity settled share-based payment expense	25	**4,373**	24,741
Amortisation of intangible assets	13	**44,656**	45,304
Impairment of goodwill	13	**171,000**	–
Reduction in goodwill	13	**–**	16,068
Share of profit of associates and loss on disposal of associate		**4,174**	(12,513)
Depreciation charge	12	**344,482**	357,225
Net finance costs	9	**289,172**	404,624
Change in inventories		**35,353**	(68,645)
Change in biological assets		**7,216**	3,053
Change in trade and other receivables		**136,006**	(55,438)
Change in trade and other payables		**(83,523)**	100,265
Change in provisions		**(34,647)**	(62,347)
Change in employee benefits		**(49,629)**	(55,294)
Foreign currency translation adjustments		**900**	678
Cash generated from operations		**907,209**	854,967
Interest paid		**(283,126)**	(409,871)
Income taxes paid:			
Irish corporation tax paid		**(14,204)**	(4,296)
Overseas corporation tax (net of tax refunds) paid		**(82,403)**	(69,175)
Net cash inflow from operating activities		**527,476**	371,625
Cash flows from investing activities			
Interest received	9	**36,213**	28,612
Business disposals		**2,675**	10,720
Purchase of property, plant and equipment and biological assets		**(308,022)**	(349,744)
Purchase of intangible assets		**(9,418)**	(6,796)
Receipt of capital grants		**560**	2,424
Purchase of available-for-sale financial assets	14	**(311)**	(106)
Increase in restricted cash	20	**(6,312)**	(2,779)
Disposal of property, plant and equipment		**24,223**	32,949
Disposal of investments		**274**	–
Dividends received from associates	15	**4,528**	3,617
Disposals of/investments in associates		**54,973**	408
Purchase of subsidiaries and minorities		**(15,437)**	(12,013)
Deferred and contingent acquisition consideration paid		**(4,217)**	(14)
Net cash (outflow) from investing activities		**(220,271)**	(292,722)

Group Cash Flow Statement [continued]

For the Year Ended 31 December 2008

	Note	2008 €'000	2007 €'000
Cash flows from financing activities			
Proceeds from issue of new ordinary shares		**120**	1,496,244
Costs associated with issuing new shares		**–**	(62,208)
Increase in interest-bearing borrowings		**152,324**	91,853
Repayment of finance lease liabilities		**(14,008)**	(20,256)
Repayments of interest-bearing borrowings		**(57,273)**	(1,464,927)
Derivative termination receipts/(payments)		**2,576**	(45,186)
Deferred debt issuance costs		**(306)**	(8,213)
Dividends paid to shareholders		**(70,000)**	–
Dividends paid to minority interests		**(6,695)**	(7,282)
Net cash inflow/(outflow) from financing activities		**6,738**	(19,975)
Increase in cash and cash equivalents		**313,943**	58,928
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**375,390**	321,494
Currency translation adjustment		**(6,641)**	(5,032)
Increase in cash and cash equivalents		**313,943**	58,928
Cash and cash equivalents at 31 December	20	**682,692**	375,390

An analysis of cash and cash equivalents and restricted cash is presented in Note 20 to the financial information.

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 2008

	Note	2008 €'000	2007 €'000
Cash flows from operating activities			
Profit/(loss) for the financial year		**71,277**	(380)
Adjustment for			
Income tax expense		**42**	–
Net finance costs		**(913)**	(392)
Change in trade and other payables		**(111)**	244
Cash generated from operations		**70,295**	(528)
Interest paid		**–**	(3)
Income taxes paid:			
Irish corporation tax paid		**(42)**	–
Net cash inflow/(outflow) from operating activities		**70,253**	(531)
Cash flows from investing activities			
Interest received		**913**	396
Purchase of subsidiaries and minorities		**–**	(1,436,409)
Net cash inflow/(outflow) from investing activities		**913**	(1,436,013)
Cash flows from financing activities			
Proceeds from issue of new ordinary shares		**120**	1,496,244
Costs associated with issuing new shares		**–**	(62,208)
Group loan movements		**1,101**	2,546
Dividends paid to shareholders		**(70,000)**	–
Net cash (outflow)/inflow from financing activities		**(68,779)**	1,436,582
Increase in cash and cash equivalents		**2,387**	38
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**38**	–
Increase in cash and cash equivalents		**2,387**	38
Cash and cash equivalents at 31 December	20	**2,425**	38

An analysis of cash and cash equivalents is presented in Note 20 to the financial information.

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 2008

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.

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

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

The Consolidated Financial Statements presented are for the years ended 31 December 2008 and 31 December 2007. The principal companies within the Group during the years ended 31 December 2008 and 31 December 2007 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 thousand, have been prepared under the historical cost convention except for the following:

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

The preparation of financial information in conformity with IFRS requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities 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 2008 which are relevant to the Group

IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction
The Group adopted IFRIC 14 from 1 January 2008. Comparative information has been restated where required. IFRIC 14 provides general guidance on how to assess the limit in IAS 19 – Employee Benefits, on the amount of a surplus that can be recognised as an asset. It also explains how the pension's asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The adoption of IFRIC 14 impacted on a number of the Group's pension arrangements. The adoption resulted in an increase in the Group's defined benefit pension liability at 31 December 2008 of €2,872,000 (2007: €1,533,000, 2006: €281,000) with an increase of €861,000 (2007: €460,000, 2006: €84,000) in deferred income tax assets. The effect of this interpretation reduced the gains recognised in the Statement of Total Recognised Income and Expense in 2008 by €938,000 (2007: €876,000). The impact on opening equity at 1 January 2007 was a reduction of €197,000.

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions
The Group has applied IFRIC 11 from 1 January 2008. IFRIC 11 addresses two issues: (a) whether certain transactions should be accounted for as equity-settled or as cash-settled under IFRS 2; and (b) how share-based payment arrangements that affect more than one company in a group are accounted for in each company's Financial Statements. On adoption this interpretation did not have a material effect on the Group Financial Statements.

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

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

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

IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance (Amended)
IAS 20 as amended is effective for annual accounting periods beginning on or after 1 January 2009. This amendment is part of the IASB's annual improvements project published in May 2008. It states that the benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 – Financial Instruments: Recognition and Measurement, and the proceeds received. The benefit is accounted for in accordance with IAS 20. The amendment is not expected to have a material effect on the Group Financial Statements.

IAS 1 – Presentation of Financial Statements (Amended)
IAS 1 as amended specifies details of the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. All owner changes in equity will be presented in a statement of changes in equity. All non-owner changes in equity (comprehensive income) will be presented either in one statement of comprehensive income or, in two statements – a separate income statement and a statement of comprehensive income. The components of other comprehensive income must be displayed in the statement of comprehensive income and the income tax relating to each component of other comprehensive income must be disclosed. Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirements to present a balance sheet at the end of the current period and comparative period. The Group will apply IAS 1 as amended from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as separate performance statements.

IFRS 2 – Share-based Payment (Amended)
The amendment to the standard deals with vesting conditions and cancellations. It clarifies that vesting conditions consist of service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features should be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. The Group will apply IFRS 2 as amended from 1 January 2009. It is not expected to have an impact on the Group Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 27 – Consolidated and Separate Financial Statements (Amended)
The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate Financial Statements of the investor. The Group will apply the amended standards from 1 January 2009 and they are not expected to have an impact on the Group Financial Statements.

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 and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 as revised prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 – Business Combinations (Revised)
The revised IFRS 3 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 through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the 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 will be expensed. The Group will apply the revised IFRS 3 prospectively to all business combinations from 1 January 2010.

IAS 41 – Agriculture (Amended)
IAS 41 as amended is effective for annual accounting periods beginning on or after 1 January 2009. The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment is not expected to have a material effect on the Group Financial Statements.

IAS 19 – Employee Benefits (Amended)
The amendment is part of the IASB's annual improvements project published in May 2008.

The amended standard clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

The distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after twelve months of employee service being rendered.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, requires contingent liabilities to be disclosed, but not recognised. IAS 19 has been amended to be consistent.

The Group will apply IAS 19 as amended from 1 January 2009. The amended standard is not expected to have an effect on the Group Financial Statements.

IAS 39 – Financial Instruments: Recognition and Measurement (Amended)
The amendment is part of the IASB's annual improvements project published in May 2008.

This amendment clarifies that there may be movements into and out of the fair value 'through profit or loss' category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedges.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8 *Operating Segments*, which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates contracts with Group Treasury as fair value or cash flow hedges so that the hedges are reported in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision maker), but the Group will not formally document and test this relationship.

When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

The Group will apply the amended IAS 39 from 1 January 2010. It is not expected to have an impact on the Group Financial Statements.

IAS 29 – Financial Reporting in Hyperinflationary Economies (Amended)
IAS 29 as amended is effective for annual accounting periods beginning on or after 1 January 2009. The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Group Financial Statements as none of the Group's subsidiaries or associates currently operate in hyperinflationary economies as defined in the standard.

Basis of consolidation

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

Subsidiaries

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

Associates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under the equity method, the Group Income Statement reflects the Group share of the profit after tax of each associate. The Group share of post acquisition movements in the equity of each associate is recognised in the Group Statement of Recognised Income and Expense. Investments in associates are carried in the Group Balance Sheet at cost adjusted for the Group share of post-acquisition changes in the associate's net assets, less any impairment in value. Where indicators of impairment arise, 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 purchase method in accounting for the acquisition of subsidiaries and associates. The cost of a business combination is measured as the aggregate of the fair 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 and the adjustment can be reliably measured, the cost on the combination is adjusted to include the contingent amount on a discounted basis.

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

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

Segmental reporting

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

Foreign currency

Functional and presentation currency

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign exchange differences arising on translation are recognised in the Group Income Statement with the exception of differences on foreign currency borrowing that qualifies as a hedge of the Group's net investment in foreign operations. The portion of exchange gains or losses on foreign currency borrowing used to provide a hedge against a net investment in a foreign operation and that is determined to be an effective hedge is recognised in the Statement of Recognised Income and Expense. The ineffective portion is recognised immediately in the Group Income Statement.

Foreign operations

The assets and liabilities of entities that do not have the euro as their functional currency, including goodwill arising on consolidation, are translated to euro at the foreign exchange rates ruling at the balance sheet date. The revenues, expenses and cash flows of entities that do not have the euro as their functional currency are translated to euro at average exchange rates during the year. Foreign exchange differences arising on translation of net investments including those arising on long-term intragroup loans deemed to be quasi equity in nature, are recognised directly in equity, in the foreign currency translation reserve.

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

Property, plant and equipment

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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.

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 not subsequently remeasured.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date.

Financial instruments

Non-derivative financial instruments

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

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire, are extinguished, or if the Group transfers the financial asset to 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted cash

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

Short-term bank deposits

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

Available-for-sale financial assets

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

Borrowings

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

Securitised assets

The Group has entered into a series of securitisation transactions involving certain of its trade receivables and the establishment of certain special purpose entities to effect these transactions. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The fair value of various derivative instruments used for hedging purposes are disclosed in the *Financial Instruments* note. Movements on the cash flow hedging reserve in shareholders' equity are shown in the *Capital and Reserves* note. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than one year; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than one year. Derivatives not designated as hedges are classified within current assets or liabilities.

Cash flow hedges

Changes in the fair value of the derivative hedging instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective. Amounts accumulated in equity are recycled into the Group Income Statement in the periods when the hedged item affects profit or loss. The recycled gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Group Income Statement within finance costs.

The gain or loss relating to the ineffective portion is recognised in the Group Income Statement within finance income or expense respectively. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar manner to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Group Income Statement within finance income or expense respectively. Gains and losses accumulated in equity are recycled to the Group Income Statement when the foreign operation is sold (proportionately if partially sold).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 equity, in which case the related tax is also recognised directly in equity.

Current tax

Current tax is the expected tax payable or recoverable on the taxable income for the year, using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax

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

Government grants

Government grants are recognised at their fair value 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 lease but convey the right to use an asset in return for payment, or a series of payments, are assessed to determine whether the arrangement contains a lease.

Employee benefits

Short-term employee benefits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Statement of Recognised Income and Expense.

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

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

The net surplus or deficit arising on the Group's defined benefit pension plans, together with the liabilities associated with the unfunded plans, is shown either within non-current assets or non-current liabilities 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The fair value is measured at grant date and expensed over the period during which the awards are expected to vest. The fair value is measured using a binomial lattice model, 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.

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 other income in profit or loss offset by the carrying value of the units derecognised. The Group has a policy of only selling certificates where the level of projected emissions over the relevant compliance period has been reliably estimated and the allowances available to offset such emissions are greater than those projected emissions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Earnings per share

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

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

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, profit or loss on disposal or termination of operations, major litigation costs and settlements, profit or loss on disposal of assets and impairment of assets. Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, are disclosed in the Group Income Statement and related notes as exceptional items.

Discontinued operations

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

Dividend distributions

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group 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.

Intangible assets

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

Biological assets

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

Inventory

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

Investments in equity securities

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

Cash, short-term deposits and liquid investments

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

Trade and other receivables and payables

The fair value of trade and other receivables and payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Derivatives

The fair value of forward foreign currency and energy 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 an entity 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. Losses currently recognised in the Financial Statements are expected to be utilised within seven years.

Fair value of derivatives and other financial instruments

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

Impairment of available-for-sale financial assets

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

Measurement of defined benefit obligations

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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 a binomial lattice model 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 change them as necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned. Changes in asset lives can have a significant impact on depreciation charges for the period. It is not practical to quantify the impact of changes in asset lives on an overall basis, as asset lives are individually determined and there are a significant number of asset lives in use. Details of 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.

5. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format for segmental reporting is business segments. The secondary format for reporting segmental information is geographical. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Additionally, there are central costs which represent corporate governance costs, including executive costs, and costs of the Group's legal, company secretarial, pension administration, tax, treasury and controlling functions and other administrative costs.

Analysis by business segment (primary format)

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

5. SEGMENTAL REPORTING (CONTINUED)

	Packaging 2008 €'000	Specialties 2008 €'000	Total 2008 €'000
Revenue and results			
Third party revenue	6,121,609	940,271	**7,061,880**
Segment results before exceptional items	529,578	47,153	**576,731**
Exceptional items	(222,988)	(34,961)	**(257,949)**
Segment results	306,590	12,192	**318,782**
Unallocated centre costs			**(36,922)**
Operating profit			**281,860**
Share of associates' profit (after tax)	2,731	–	**2,731**
Loss on disposal of associate	(6,905)	–	**(6,905)**
Finance costs			**(475,771)**
Finance income			**186,599**
(Loss) before income tax			**(11,486)**
Income tax expense			**(20,568)**
(Loss) for the financial year			**(32,054)**
Assets			
Segment assets	6,268,944	935,480	**7,204,424**
Investments in associates	14,038	–	**14,038**
Group centre assets			**915,187**
Total assets			**8,133,649**
Liabilities			
Segment liabilities	1,594,364	272,983	**1,867,347**
Group centre liabilities			**4,470,961**
Total liabilities			**6,338,308**

5. SEGMENTAL REPORTING (CONTINUED)

	Packaging 2008 €'000	Specialties 2008 €'000	Total 2008 €'000
Other segmental disclosures:			
Capital expenditure, including additions of goodwill and intangible assets and biological assets:			
Segment expenditure	279,642	67,828	**347,470**
Group centre expenditure			**1,497**
Total expenditure			**348,967**
Depreciation:			
Segment depreciation	302,170	42,257	**344,427**
Group centre depreciation			**55**
Total depreciation			**344,482**
Amortisation:			
Segment amortisation	31,470	9,686	**41,156**
Group centre amortisation			**3,500**
Total amortisation			**44,656**
Other significant non-cash charges:			
Impairment of goodwill included in cost of sales	171,000	–	**171,000**
Impairment of property, plant and equipment included in cost of sales	36,149	29,837	**65,986**

	Packaging 2007 €'000	Specialties 2007 €'000	Total 2007 €'000
Revenue and results			
Third party revenue	6,313,553	958,104	**7,271,657**
Segment results before exceptional items	598,781	55,582	**654,363**
Segment exceptional items	(23,825)	(4,965)	**(28,790)**
Segment results	574,956	50,617	**625,573**
Unallocated centre costs			**(36,632)**
Unallocated exceptional items			**(26,927)**
Operating profit			**562,014**
Share of associates' profit (after tax)	12,513	–	**12,513**
Finance costs			**(607,585)**
Finance income			**202,961**
Profit before income tax			**169,903**
Income tax expense			**(3,503)**
Profit for the financial year			**166,400**

5. SEGMENTAL REPORTING (CONTINUED)

	Packaging 2007 €'000	Specialties 2007 €'000	Total 2007 €'000 Restated
Assets			
Segment assets	6,925,687	976,063	**7,901,750**
Investments in associates	79,307	–	**79,307**
Group centre assets			**680,148**
Total assets			**8,661,205**
Liabilities			
Segment liabilities	1,724,598	273,059	**1,997,657**
Group centre liabilities			**4,473,956**
Total liabilities			**6,471,613**
Other segmental disclosures:			
Capital expenditure, including additions of goodwill and intangible assets and biological assets:			
Segment expenditure	281,518	54,562	**336,080**
Group centre expenditure			**5,577**
Total expenditure			**341,657**
Depreciation:			
Segment depreciation	317,722	39,361	**357,083**
Group centre depreciation			**142**
Total depreciation			**357,225**
Amortisation:			
Segment amortisation	36,422	5,382	**41,804**
Group centre amortisation			**3,500**
Total amortisation			**45,304**
Other significant non-cash charges:			
Reduction in goodwill included in cost of sales	16,068	–	**16,068**
Impairment of property, plant and equipment included in cost of sales	6,433	–	**6,433**

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

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

5. SEGMENTAL REPORTING (CONTINUED)

Analysis by geographic segment (secondary format)

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

	Revenue 2008 €'000	Segment assets 2008 €'000	Segment capital expenditure 2008 €'000
Eurozone	4,651,745	4,864,333	225,545
Sweden	183,044	493,887	16,720
United Kingdom	491,178	360,118	13,965
Mexico	302,754	217,783	12,933
Other	1,433,159	1,268,303	78,307
	7,061,880	7,204,424	347,470

	Revenue 2007 €'000	Segment assets 2007 €'000 Restated	Segment capital expenditure 2007 €'000
Eurozone	4,716,026	5,295,118	194,971
Sweden	199,026	593,874	26,676
United Kingdom	602,068	483,420	10,426
Mexico	314,858	245,239	12,001
Other	1,439,679	1,284,099	92,006
	7,271,657	7,901,750	336,080

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

6. OPERATING COSTS AND INCOME

	2008 €'000	2007 €'000
Operating costs:		
Distribution costs	**577,550**	583,542
Administrative expenses	**890,029**	882,086
Other operating expenses	**20,963**	61,797
	1,488,542	1,527,425

6. OPERATING COSTS AND INCOME (CONTINUED)

	2008 €'000	2007 €'000
Other operating income:		
Capital grants amortisation	**1,575**	2,157
Net income on sale of assets and operations	**–**	12,513
Insurance proceeds received	**2,420**	46,332
	3,995	61,002

Other operating income in 2007 included insurance proceeds of €46 million in respect of a fire in the Group's mill in Facture, France. The costs of the fire and related downtime were included in the appropriate cost headings within operating profit.

	2008 €'000	2007 €'000
The following items are regarded as exceptional in nature:		
Reorganisation and restructuring costs	**(20,963)**	(61,797)
Net income on sale of assets and operations	**–**	12,513
Impairment loss on property, plant and equipment	**(65,986)**	(6,433)
Impairment of goodwill	**(171,000)**	–
Total exceptional items included in operating costs/income	**(257,949)**	(55,717)

The reorganisation and restructuring costs in 2008 relate to the announced closure of our Valladolid recycled containerboard mill, which was permanently closed in July 2008 and our Iuretta sack plant, both in Spain.

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

Net income on sale of assets and operations in 2007 of €12.5 million included gains on the sale of land and buildings in Spain, Italy, the UK and Venezuela. We also sold a small sack plant in Sweden and a small solidboard operation in Mexico.

In 2008, the impairment of property, plant and equipment amounts to €66.0 million, a portion of which relates to the Group's sack business and to the Valladolid mill in Spain. In 2007 the impairment charge of €6.4 million resulted mainly from the closure of the containerboard mill in France. See Note 12 for further details.

In 2008, following the completion of our annual goodwill impairment review, €171 million of an impairment was booked. See Note 13 for further details.

6. OPERATING COSTS (CONTINUED)

	2008 €'000	2007 €'000
Expenses by nature		
Changes in inventories of finished goods and work in progress	**42,952**	(19,438)
Raw materials and consumables used	**2,153,623**	2,355,960
Movement in provisions for impairment against receivables (Note 19)	**10,343**	1,425
Movement in stock obsolescence provisions	**3,464**	176
Transportation expenses	**569,595**	575,097
Employee benefit expense excluding redundancy	**1,664,746**	1,674,884
Reorganisation and restructuring costs – redundancy	**18,006**	22,890
Reorganisation and restructuring costs – non-redundancy	**16,250**	38,907
Impairment of property, plant and equipment (Note 12)	**65,986**	6,433
Net changes in fair value of biological assets (Note 16)	**887**	(3,266)
Depletion of biological assets (Note 16)	**6,329**	6,319
Advertising costs	**9,883**	13,902
Depreciation of property, plant and equipment (Note 12)		
— owned assets	**332,669**	347,438
— under finance lease	**11,813**	9,787
Amortisation of intangible assets (Note 13)	**44,656**	45,304
Auditor's remuneration		
— audit	**9,200**	9,510
— audit related – PwC	**326**	941
— non-audit – PwC	**272**	2,298
Operating lease rentals		
— plant and machinery	**38,466**	36,046
— transport	**34,206**	29,414
— other	**13,492**	14,614
Research and development costs	**2,575**	2,655
Foreign exchange gains and losses	**5,129**	1,428
Impairment of goodwill (Note 13)	**171,000**	–
Reduction in goodwill (Note 13)	**–**	16,068
Other expenses	**1,558,147**	1,581,853
Total expenses	**6,784,015**	6,770,645

Directors statutory disclosures

	2008 €'000	2007 €'000
Directors' remuneration – other services	**5,235**	5,868
Directors' remuneration – services as a Director	**1,144**	2,340
Compensation for loss of office (Note 31)	**–**	9,026
Cash awards (Note 31)	**–**	5,310

7. SHARE OF ASSOCIATES' PROFIT AFTER TAX

	2008 €'000	2007 €'000
Operating profit	**5,096**	17,227
Finance costs (net)	**(958)**	(1,543)
Profit before tax	**4,138**	15,684
Income tax expense	**(1,407)**	(3,171)
Profit after tax	**2,731**	12,513

8. EMPLOYEE BENEFIT EXPENSE

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

	2008 Number	2007 Number
Europe	**31,108**	31,929
Latin America	**9,798**	9,532
	40,906	41,461

	2008 €'000	2007 €'000 Restated
The employee benefit cost comprises:		
Wages and salaries	**1,317,370**	1,310,211
Social welfare	**262,468**	259,734
Equity settled share-based payment expense (Note 25)	**4,373**	24,741
Expenses related to defined benefit plans and long-term employee benefits (Note 24)	**43,332**	46,334
Defined contribution benefit	**37,203**	33,864
Reorganisation and restructuring costs – redundancy	**9,612**	–
Charged to operating profit – pre exceptional	**1,674,358**	1,674,884
Charged to operating profit – exceptional	**8,394**	22,890
Charged to finance income and costs (Note 24)	**13,894**	8,961
Actuarial loss/(gain) on pension schemes recognised in equity (Note 24)	**82,257**	(49,242)
Total employee benefit cost	**1,778,903**	1,657,493

9. FINANCE INCOME AND COSTS

	2008 €'000	2007 €'000
Finance cost		
Interest payable on bank loans and overdrafts	**209,869**	206,193
Interest payable on finance leases and hire purchase contracts	**5,749**	7,217
Interest payable on other borrowings	**78,301**	117,825
Finance costs associated with debt restructuring	**–**	115,427
Impairment loss on available-for-sale financial assets (Note 14)	**12,017**	447
Other finance costs	**1,864**	–
Unwinding of discount element of provisions (Note 26)	**870**	921
Foreign currency translation loss on debt	**50,630**	23,049
Fair value loss on commodity derivatives not designated as hedges	**3,701**	–
Fair value loss on other derivatives not designated as hedges	**10,698**	40,158
Interest cost on employee benefit plan liabilities (Note 24)	**102,072**	96,348
Total finance cost	**475,771**	607,585
Finance income		
Other interest receivable	**(36,213)**	(28,612)
Foreign currency translation gain on debt	**(28,074)**	(80,447)
Fair value gain on commodity derivatives not designated as hedges	**–**	(4,081)
Fair value gain on other derivatives not designated as hedges	**(34,134)**	(2,434)
Expected return on employee benefit plan assets (Note 24)	**(88,178)**	(87,387)
Total finance income	**(186,599)**	(202,961)
Net finance cost	**289,172**	404,624

Exceptional finance costs of €12 million in 2008 relate to the impairment of available-for-sale financial assets. The exceptional finance costs of €115 million in 2007 arose following our use of the proceeds from the IPO to pay down debt. These costs comprised refinancing cost of €85 million and the non-cash accelerated amortisation of debt costs of €30 million.

10. INCOME TAX EXPENSE

Income tax expense recognised in the Group Income Statement

	2008 €'000	2007 €'000
Current taxation:		
Europe	**46,743**	47,764
United States and Canada	**169**	(1,715)
Latin America	**42,441**	25,316
	89,353	71,365
Deferred taxation	**(68,785)**	(67,862)
Income tax expense	**20,568**	3,503

Current tax is analysed as follows:

	2008 €'000	2007 €'000
Ireland	**10,167**	11,018
Foreign	**79,186**	60,347
	89,353	71,365

10. INCOME TAX EXPENSE (CONTINUED)

A net credit of €2.4 million in respect of current tax and €19.6 million in respect of deferred tax is included in the 2008 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:

	2008 €'000	2007 €'000
(Loss)/profit before tax	**(11,486)**	169,903
(Loss)/profit before tax multiplied by the standard rate of tax of 12.5% (2007: 12.5%)	**(1,436)**	21,238
Effects of:		
Income subject to different rates of tax	**59,663**	47,383
Other items (including non-deductible expenditure)	**(19,964)**	(245)
Adjustment to prior period tax	**1,234**	(3,028)
Effect of previously unrecognised losses	**(17,522)**	(58,674)
Net impact of associates	**(1,407)**	(3,171)
	20,568	3,503

Income tax recognised directly in equity

	2008 €'000	2007 €'000 Restated
Arising on actuarial gains/losses on defined benefit plans	**(15,542)**	15,616
Arising on qualifying derivative cash flow hedges	**(4,614)**	25
	(20,156)	15,641

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.

11. EARNINGS PER SHARE

Basic

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

	2008 €'000	2007 €'000
(Loss)/profit attributable to equity holders of the Company	**(49,656)**	147,169
Weighted average number of ordinary shares in issue ('000)	**218,015**	198,188
Basic (loss)/earnings per share (cent per share)	**(22.8)**	74.3

Diluted

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

	2008[1] €'000	2007 €'000
(Loss)/profit attributable to equity holders of the Company	**(49,656)**	147,169
Weighted average number of ordinary shares in issue ('000)	**218,015**	198,188
Potential dilutive ordinary shares assumed	**–**	7,141
Diluted weighted average ordinary shares	**218,015**	205,329
Diluted (loss)/earnings per share (cent per share)	**(22.8)**	71.7

(1) There is no difference between basic and diluted loss per share in 2008 as the inclusion of the dilutive impact of the convertible shares would have the effect of reducing the loss per share.

At 31 December 2008 there were 1,847,221 potential ordinary shares in issue that could dilute EPS in the future, but that were not included in the computation of diluted EPS in the year because they were antidilutive.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings €'000	Plant and equipment €'000	Total €'000
At 31 December 2006			
Cost or deemed cost	1,449,378	3,922,202	5,371,580
Accumulated depreciation and impairment losses	(233,501)	(1,756,098)	(1,989,599)
Net book amount	**1,215,877**	**2,166,104**	**3,381,981**
Year ended 31 December 2007			
Opening net book amount	1,215,877	2,166,104	3,381,981
Reclassification	34,382	(34,941)	(559)
Acquisitions	772	6,783	7,555
Additions	14,547	288,742	303,289
Transfer to assets held for sale	(9,123)	(1,026)	(10,149)
Depreciation charge for the year	(51,406)	(305,819)	(357,225)
Impairment losses recognised in the Group Income Statement	(225)	(6,208)	(6,433)
Retirements and disposals	(10,703)	(7,934)	(18,637)
Foreign currency translation adjustment	(17,427)	(30,916)	(48,343)
At 31 December 2007	**1,176,694**	**2,074,785**	**3,251,479**
At 31 December 2007			
Cost or deemed cost	1,440,179	3,898,255	5,338,434
Accumulated depreciation and impairment losses	(263,485)	(1,823,470)	(2,086,955)
Net book amount	**1,176,694**	**2,074,785**	**3,251,479**
Year ended 31 December 2008			
Opening net book amount	1,176,694	2,074,785	3,251,479
Reclassification	28,867	(30,594)	(1,727)
Additions	10,019	312,900	322,919
Depreciation charge for the year	(49,719)	(294,763)	(344,482)
Impairment losses recognised in the Group Income Statement	(12,977)	(53,009)	(65,986)
Retirements and disposals	(2,728)	(2,908)	(5,636)
Foreign currency translation adjustment	(41,967)	(76,393)	(118,360)
At 31 December 2008	**1,108,189**	**1,930,018**	**3,038,207**
At 31 December 2008			
Cost or deemed cost	1,398,705	3,859,115	5,257,820
Accumulated depreciation and impairment losses	(290,516)	(1,929,097)	(2,219,613)
Net book amount	**1,108,189**	**1,930,018**	**3,038,207**

Land and Buildings

Included in property, plant and equipment is an amount for land of €357.9 million (2007: €386.2 million).

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Capitalised leased assets

Included in the net book amount of property, plant and equipment is an amount for capitalised leased assets of €76.9 million (2007: €91.7 million). The depreciation charge for capitalised leased assets was €11.8 million (2007: €9.8 million) and the related finance charges amounted to €5.7 million (2007: €7.2 million). The net carrying amount by class of assets at each balance sheet date is as follows:

	2008 €'000	2007 €'000
Cogeneration facilities (Note 30)	**51,994**	60,845
Other plant and equipment	**6,550**	12,181
Plant and equipment	**58,544**	73,026
Buildings	**18,343**	18,681
	76,887	91,707

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:

	2008 €'000	2007 €'000
Contracted for	**117,982**	88,249
Not contracted for	**56,696**	127,201
	174,678	215,450

Impairments

Impairment tests for items of property, plant and equipment are performed on an entity level basis and resulted in the Group recognising impairment costs of €66.0 million and €6.4 million in 2008 and 2007, respectively. The recoverable amounts in property, plant and equipment are based on value-in-use calculations. The same cash flow projections and discount rates for items of property, plant and equipment were used for the goodwill impairment calculations (Note 13). Impairment charges are recognised within cost of sales in the Group Income Statement.

Of the impairment charge of €66.0 million booked in 2008, €36.2 million arose in the Packaging segment and related to the closure of our Valladolid mill in Spain and to several other restructured corrugated box plants in Spain. The remaining €29.8 million booked in the Specialties segment related mainly to our sack business, reflecting their reduced profitability potential.

The impairment charge of €6.4 million in 2007 was booked in the Packaging segment and resulted mainly from the closure of a containerboard mill in France and a corrugated box plant in Italy.

13. GOODWILL AND INTANGIBLE ASSETS

	Goodwill €'000	Intangible Assets Marketing related €'000	Customer related €'000	Software assets €'000	Total €'000
At 31 December 2006					
Cost or deemed cost	2,283,359	35,000	176,986	42,586	**2,537,931**
Accumulated amortisation and impairment losses	–	(3,789)	(33,707)	(15,288)	**(52,784)**
Net book amount	**2,283,359**	**31,211**	**143,279**	**27,298**	**2,485,147**
Year ended 31 December 2007					
Opening net book amount	2,283,359	31,211	143,279	27,298	**2,485,147**
Additions	16,505	–	–	9,587	**26,092**
Reduction arising from recognition of deferred tax assets	(16,068)	–	–	–	**(16,068)**
Amortisation charge (Note 6)	–	(3,500)	(31,132)	(10,672)	**(45,304)**
Disposals	(721)	–	–	–	**(721)**
Reclassification	(328)	–	–	328	**–**
Foreign currency translation adjustment	(32,090)	–	–	(271)	**(32,361)**
Closing net book amount	**2,250,657**	**27,711**	**112,147**	**26,270**	**2,416,785**
At 31 December 2007					
Cost or deemed cost	2,250,657	35,000	176,986	52,200	**2,514,843**
Accumulated amortisation and impairment losses	–	(7,289)	(64,839)	(25,930)	**(98,058)**
Net book amount	**2,250,657**	**27,711**	**112,147**	**26,270**	**2,416,785**
Year ended 31 December 2008					
Opening net book amount	2,250,657	27,711	112,147	26,270	**2,416,785**
Additions	2,553	–	–	9,559	**12,112**
Amortisation charge (Note 6)	–	(3,500)	(31,089)	(10,067)	**(44,656)**
Impairment charge	(171,000)	–	–	–	**(171,000)**
Reclassification	–	–	–	3,244	**3,244**
Foreign currency translation adjustment	(58,860)	–	(2,925)	(488)	**(62,273)**
Closing net book amount	**2,023,350**	**24,211**	**78,133**	**28,518**	**2,154,212**
At 31 December 2008					
Cost or deemed cost	2,194,350	35,000	174,061	64,515	**2,467,926**
Accumulated amortisation and impairment losses	(171,000)	(10,789)	(95,928)	(35,997)	**(313,714)**
Net book amount	**2,023,350**	**24,211**	**78,133**	**28,518**	**2,154,212**

The reduction of goodwill arising from deferred tax assets in 2007 relates to the requirement of IAS 12 *Income Taxes* to reduce goodwill for the subsequent recognition of deferred tax assets on acquired tax losses which were not originally recognised as part of the business combinations.

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

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 2008 of €2.5 million arises on the acquisition of our minority interest in Italy.

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 primary and secondary segments determined in accordance with IAS 14 *Segment Reporting*. A total of 15 groups (2007: 15) of cash-generating units have been identified and these are analysed as follows:

	2008	2007
Packaging – Eurozone	**6**	6
Packaging – Sweden	**1**	1
Packaging – United Kingdom	**1**	1
Packaging – Mexico	**1**	1
Packaging – Other	**5**	5
Specialties – Eurozone	**1**	1
	15	15

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

	2008 €'000	2007 €'000
Packaging – Eurozone	**1,203,490**	1,371,937
Packaging – Sweden	**122,555**	138,453
Packaging – United Kingdom	**106,736**	129,872
Packaging – Mexico	**67,726**	79,772
Packaging – Other	**217,089**	224,869
Specialties – Eurozone	**305,754**	305,754
	2,023,350	2,250,657

An impairment charge of €171 million arose in three groups of CGUs during the course of 2008. All three CGUs are located within the Packaging-Eurozone (France: €74 million, Italy: €65 million and Spain & Portugal: €32 million). The impairment results from an increasingly challenging global operating environment in the near-term and the impact on management's forecasted operating cash flows and discount rates in the value-in-use model.

The carrying amount of each CGU has been reduced to its recoverable amount based on value-in-use, as estimated based on the methodology outlined below. The related impairment charge is reflected in cost of sales in the Group Income Statement.

13. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Impairment testing methodology and results

The recoverable amounts of groups of cash-generating units are based on value-in-use calculations. The cash flow forecasts for the purposes of these calculations are based on a nine year plan approved by management. Cash flow forecasts for years five to nine use growth factors consistent with historical growth rates as adjusted for the cyclical nature of the business. In general, these adjusted growth rates are equal to or lower than the historical or long-term growth rates. The terminal value is estimated based on using an appropriate earnings multiple in year nine. We believe a nine year forecast is more appropriate to use for the impairment test, due to the cyclical nature of the business in which we operate and the long-term lives of our assets.

Forecasts are generally derived from a combination of internal and external factors based on historical experience and take into account the cyclicality of cash flows typically associated with these groups of CGUs. The cash flows, including terminal value estimations, are discounted using appropriate discount rates reflecting the risk associated with the individual future cash flows and the risk free rate based on past experience and consistent with appropriate external indices.

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

Of the goodwill allocated to each of the 15 groups of CGUs, four units individually account for between 10% and 20% of the total carrying amount of €2,023 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	€306 million
Basis of recoverable amount	Value-in-use	Value-in-use	Value-in-use	Value-in-use
Discount rate applied	9.8	9.8	9.8	9.8
Earnings multiple used for terminal value	7.1	7.1	7.1	7.1
Excess of value-in-use	–	€115 million	€150 million	€9 million

The carrying amount of goodwill for Packaging – Italy and Packaging – Spain & Portugal amounts to €111 million and €133 million, respectively, at 31 December 2008. The discount rates applied when calculating the value-in-use for these CGUs was 9.8%. An earnings multiple of 7.1 was used in calculating the terminal value for both CGUs.

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 was 9% and the earnings multiple used was 7.1.

Management have determined forecast profitability based on past performance and its expectation of the current poor market conditions taking into account the cyclical nature of the business. The long-term growth rates used are consistent with GDP forecasts for each country.

If management's estimates of future profitability were adjusted over a range of +/- 5% per annum over the nine year forecast, goodwill impairment would be within the range of €65 million to €314 million at 31 December 2008.

If estimated discount rates applied to the cash flows were adjusted by a range of +/- 0.5%, goodwill impairment would be within the range of €118 million to €234 million at 31 December 2008.

If terminal value multiples were adjusted by a range of +/- 0.5%, goodwill impairment would be within the range of €105 million to €254 million at 31 December 2008.

14. FINANCIAL ASSETS

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

	Listed[1] €'000	Unlisted €'000	Total €'000
At 1 January 2007	5,787	38,626	**44,413**
Additions	–	106	**106**
Change in fair value recognised in equity	564	–	**564**
Reclassification	83	(118)	**(35)**
Disposals	–	(204)	**(204)**
Impairment loss recognised in the Group Income Statement	–	(447)	**(447)**
Foreign currency translation adjustment	3	(889)	**(886)**
At 31 December 2007	**6,437**	**37,074**	**43,511**
Additions	238	73	**311**
Change in fair value recognised in equity	(799)	–	**(799)**
Disposals	–	(274)	**(274)**
Impairment loss recognised in the Group Income Statement	–	(12,017)	**(12,017)**
Foreign currency translation adjustment	(7)	(74)	**(81)**
At 31 December 2008	**5,869**	**24,782**	**30,651**

(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 flow.

In 2008 the financial position of one of the Group's significant unlisted investments deteriorated arising from a continued and accelerated decline in operating performance of the investee during 2008. The fair value calculated by reference to discounted cash flows based on all financial information available to the Group at 31 December has been calculated by management and resulted in an impairment loss of €12 million recorded in the Group Income Statement within finance costs.

At 31 December 2008 available-for-sale assets for which impairment provisions had been recorded amounted to €23 million.

14(b). Investment in subsidiaries – Company

	2008 €'000	2007 €'000
At 1 January	**1,956,328**	–
Shares issued	**–**	495,178
Capital contribution	**4,373**	1,461,150
At 31 December	**1,960,701**	1,956,328

15. INVESTMENT IN ASSOCIATES

	2008 €'000	2007 €'000
At 1 January	**79,307**	76,668
Share of profits for the year	**2,731**	12,513
Dividends received from associates	**(4,528)**	(3,617)
Loss on disposal of associate	**(6,905)**	–
Disposals	**(55,418)**	(3,810)
Transfer to subsidiaries	**–**	(2,000)
Reclassification	**–**	631
Foreign currency translation adjustment	**(1,149)**	(1,078)
At 31 December	**14,038**	79,307

On 15 May 2008 the Group sold its principal associate Duropack AG, Brunnerstrasse 75, A-1230 Wien, Austria to Constantia Packaging, for a consideration of €55 million.

16. BIOLOGICAL ASSETS

	2008 €'000	2007 €'000
At 1 January	**81,620**	75,898
Increases due to new plantations	**13,936**	12,276
Harvested timber transferred to inventories	**(6,329)**	(6,319)
Change in fair value less estimated costs to sell	**(887)**	3,266
Foreign currency translation adjustments	**(2,052)**	(3,501)
At 31 December	**86,288**	81,620
Current	**8,122**	6,862
Non-current	**78,166**	74,758
At 31 December	**86,288**	81,620
Approximate harvest by volume (tonnes '000)	**780**	600

The Group's biological assets consist of 103,990 hectares of forest plantations in Colombia and Venezuela. These plantations provide the Group's mills in that region with a significant proportion of their total wood fibre needs.

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

Political risks in Venezuela

The Group's forestry and other assets in Venezuela could be subject to political risks, i.e. risk of nationalisation. While we believe that the Group's assets are not currently a target for nationalisation, the Group actively monitors the situation and is in regular contact, both directly and indirectly, with the Venezuelan government.

Regulatory and environmental risks

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

16. BIOLOGICAL ASSETS (CONTINUED)

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:

	2008 €'000	2007 €'000 Restated
Deferred Income Tax Assets:		
Deficits on Group defined benefit pension obligations(1)	**51,511**	51,831
Tax losses	**191,882**	185,072
Temporary differences principally arising in respect of property, plant and equipment	**61,153**	26,653
Revaluation of derivative financial instruments to fair value	**4,523**	–
Other	**70,368**	77,319
	379,437	340,875
Deferred tax assets/liabilities available for offset	**(151,376)**	(83,641)
	228,061	257,234

(1) The 2007 deficit on Group defined benefit pension obligations has been restated by €460,000 to reflect the adoption of IFRIC 14.

	2008 €'000	2007 €'000 Restated
Deferred Income Tax Liabilities:		
Taxable temporary differences principally attributable to accelerated depreciation and fair value adjustments arising on acquisition	**372,168**	397,053
Revaluation of intangible assets to fair value	**31,418**	42,870
Revaluation of biological assets to fair value	**2,254**	2,359
Revaluation of derivative financial instruments to fair value	**183**	1,403
Temporary differences arising on provisions and accelerated depreciation	**33,331**	23,635
Temporary differences arising on debt issue costs	**4,752**	5,826
Other items	**31,833**	56,956
	475,939	530,102
Deferred tax assets/liabilities available for offset	**(151,376)**	(83,641)
	324,563	446,461

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. The Group has also applied this approach to offset in the comparative period and as a result, both the comparative deferred tax asset and liability have been reduced by €83 million.

17. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

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

	2008 €'000	2007 €'000
Tax losses	**101,182**	137,104
Pension/employee benefits	**9,487**	8,129
Derivative financial instruments	**725**	2,262
	111,394	147,495

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 €457 million (2007: €608 million) that can be carried forward against future taxable income. The expiry dates in respect of these losses are as follows:

	Amount of tax losses 2008 €'000
Expiry 1 January 2009 to 31 December 2009	**440**
Expiry 1 January 2010 to 31 December 2010	**–**
Expiry 1 January 2011 to 31 December 2011	**78,665**
Expiry 1 January 2012 to 31 December 2012	**455**
Expiry 1 January 2013 to 31 December 2013	**1,455**
Other expiry	**130,316**
Indefinite	**246,000**
	457,331

The movement in temporary differences during the year is:

	2008 €'000	2007 €'000 Restated
At 1 January	**(189,227)**	(241,630)
Movement recognised in the Group Income Statement (Note 10)	**68,785**	67,862
Movement recognised directly in Equity (Note 10)	**20,156**	(15,641)
Acquisitions	**–**	(95)
Transfer to current tax	**7,148**	3,752
Currency adjustment	**(3,364)**	(3,475)
At 31 December	**(96,502)**	(189,227)

The deferred tax movement recognised in the Group Income Statement includes deferred tax assets recognised on losses of €72 million, offset by deferred tax assets which have been derecognised during the year of €55 million.

18. INVENTORIES

	2008 €'000	2007 €'000
Raw materials	**231,137**	267,283
Work in progress	**32,650**	31,378
Finished goods	**270,894**	295,452
Consumables and spare parts	**88,504**	88,056
	623,185	682,169

19. TRADE AND OTHER RECEIVABLES

	Group 2008 €'000	Group 2007 €'000	Company 2008 €'000	Company 2007 €'000
Amounts falling due within one year:				
Trade receivables	**1,131,961**	1,283,102	**–**	–
Less: provision for impairment of receivables	**(36,295)**	(36,927)	**–**	–
Trade receivables – net	**1,095,666**	1,246,175	**–**	–
Amounts receivable from associates	**3,792**	6,219	**–**	–
Other receivables	**86,973**	81,243	**–**	–
Prepayments and accrued income	**24,200**	45,468	**–**	–
Amounts due from Group companies	**–**	–	**12,374**	11,844
Classified as current	**1,210,631**	1,379,105	**12,374**	11,844
Amounts falling due after more than one year:				
Other receivables	**4,098**	6,716	**–**	–
	1,214,729	1,385,821	**12,374**	11,844

The Group has entered into a securitisation transaction relating to €248 million (2007: €265 million) of the above trade receivable values. This transaction was entered into for the purpose of generating financing for the Group, details of which have been more fully provided in Note 23. As a result of the above transaction, the Group retained substantially all of the risks and rewards associated with the related receivables and, accordingly, has continued to recognise these and the related financing raised on its Balance Sheet.

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

Impairment losses

At 31 December 2008 trade receivables of €181 million (2007: €213 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:

	2008 €'000	2007 €'000
Past due 0-30 days	**128,853**	152,916
Past due 30-60 days	**32,543**	39,811
Past due 60-90 days	**9,194**	12,787
Past due 90+ days	**10,719**	7,710
	181,309	213,224

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

At 31 December 2008 trade receivables of €34.2 million (2007: €34.8 million) were considered impaired and provided for. The ageing of this provision was as follows:

	2008 €'000	2007 €'000
Not past due	**1,172**	1,887
Past due 0-30 days	**646**	142
Past due 30-60 days	**526**	624
Past due 60-90 days	**1,665**	2,289
Past due 90+ days	**30,160**	29,876
	34,169	34,818

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

	2008 €'000	2007 €'000
At 1 January	**36,927**	42,268
Charged in the year	**10,343**	1,425
Utilised in the year	**(9,452)**	(6,396)
Acquisitions and disposals	**(783)**	93
Foreign currency translation adjustment	**(740)**	(463)
At 31 December	**36,295**	36,927

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.

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 2008 and 2007, the level of trade receivables that were past due was not significant and such amounts are not automatically considered to be impaired. Trade receivables that are less than three months past due are generally not considered impaired unless specific evidence of impairment is identified. All receivables are monitored on an ongoing basis for evidence of impairment. Assessments are undertaken both for individual accounts and on a portfolio basis.

Provisions against specific balances

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

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 2008 €'000	Group 2007 €'000	Company 2008 €'000	Company 2007 €'000
Cash and current accounts	**124,430**	137,621	**3**	38
Short-term deposits	**575,124**	264,001	**2,422**	–
Cash and cash equivalents	**699,554**	401,622	**2,425**	38
Cash and cash equivalents for the purposes of the cash flow statement				
Cash and cash equivalents	**699,554**	401,622	**2,425**	38
Bank overdrafts and demand loans used for cash management purposes	**(16,862)**	(26,232)	**–**	–
Cash and cash equivalents in the Group Cash Flow Statement	**682,692**	375,390	**2,425**	38

Restricted cash – Group

	2008 €'000	2007 €'000
Total restricted cash	**19,408**	13,096

At 31 December 2008, cash of €18.1 million (2007: €13.1 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 €1.3 million (2007: Nil) of restricted cash was held in other Group subsidiaries.

21. ASSETS HELD FOR SALE

Assets held for sale were €10.5 million at 31 December 2008 compared to €16.0 million at 31 December 2007. The €10.5 million relates to two properties held in Ireland and one property in Italy. In 2007, the €16.0 million related to two properties held in Ireland, one property in Italy and one property in the Netherlands. These assets are expected to be sold within the next 12 months.

	2008 €'000	2007 €'000
Assets classified as held for sale		
Property, plant and equipment	**10,482**	15,999

22. CAPITAL AND RESERVES

Group

	Share capital €'000	Share premium €'000	Reverse acquisition reserve €'000	Available-for-sale reserve €'000	Cash flow hedging reserve €'000	Foreign currency translation reserve €'000	Reserve for share-based payment €'000	Retained earnings €'000	Total attributable to equity holders of the Company €'000	Minority interest €'000	Total equity €'000
		Capital and other reserves									
At 1 January 2007	136	1,088,672	(18,203)	21	16,260	43,576	28,422	(663,706)	495,178	136,343	631,521
Adjustment in respect of the implementation of IFRIC 14	–	–	–	–	–	–	–	(197)	(197)	–	(197)
At 1 January 2007 as adjusted	136	1,088,672	(18,203)	21	16,260	43,576	28,422	(663,903)	494,981	136,343	631,324
Shares issued	92	839,275	593,630	–	–	–	–	–	1,432,997	–	1,432,997
Total recognised income and expense	–	–	–	564	(722)	(78,189)	–	177,777	99,430	8,337	107,767
Dividends paid to minorities	–	–	–	–	–	–	–	–	–	(5,775)	(5,775)
Purchase of minorities	–	–	–	–	–	–	–	–	–	(1,462)	(1,462)
Share-based payment (Note 25)	–	–	–	–	–	–	24,741	–	24,741	–	24,741
At 31 December 2007 as adjusted	**228**	**1,927,947**	**575,427**	**585**	**15,538**	**(34,613)**	**53,163**	**(486,126)**	**2,052,149**	**137,443**	**2,189,592**
At 1 January 2008	228	1,927,947	575,427	585	15,538	(34,613)	53,163	(486,126)	2,052,149	137,443	2,189,592
Shares issued	1	119	–	–	–	–	–	–	120	–	120
Total recognised income and expense	–	–	–	(799)	(42,575)	(169,552)	–	(118,172)	(331,098)	21,937	(309,161)
Other movements	–	–	–	–	–	–	–	(4,926)	(4,926)	4,926	–
Dividends paid to shareholders	–	–	–	–	–	–	–	(70,000)	(70,000)	–	(70,000)
Dividends paid to minorities	–	–	–	–	–	–	–	–	–	(6,695)	(6,695)
Purchase of minorities	–	–	–	–	–	–	–	–	–	(12,888)	(12,888)
Share-based payment (Note 25)	–	–	–	–	–	–	4,373	–	4,373	–	4,373
At 31 December 2008	**229**	**1,928,066**	**575,427**	**(214)**	**(27,037)**	**(204,165)**	**57,536**	**(679,224)**	**1,650,618**	**144,723**	**1,795,341**

22. CAPITAL AND RESERVES (CONTINUED)

Company

		Capital and other reserves			
	Share capital €'000	Share premium €'000	Reserve for share-based payment €'000	Retained earnings €'000	Total attributable to equity holders of the Company €'000
At 24 January 2007	–	–	–	–	**–**
Total recognised income and expense	–	–	–	(380)	**(380)**
Shares issued	228	1,927,947	–	–	**1,928,175**
Share-based payment (Note 25)	–	–	24,741	–	**24,741**
At 31 December 2007	**228**	**1,927,947**	**24,741**	**(380)**	**1,952,536**
At 1 January 2008	228	1,927,947	24,741	(380)	**1,952,536**
Total recognised income and expense	–	–	–	71,277	**71,277**
Dividends paid to shareholders	–	–	–	(70,000)	**(70,000)**
Shares issued	1	119	–	–	**120**
Share-based payment (Note 25)	–	–	4,373	–	**4,373**
At 31 December 2008	**229**	**1,928,066**	**29,114**	**897**	**1,958,306**

Share Capital

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

In March 2007 upon the IPO becoming effective, all of the then class A, E, F and H convertible shares and 80% of the class B convertible shares vested and were converted into D convertible shares. The class C, class G and 20% of the class B convertible shares did not vest and were re-designated as A1, A2 and A3 convertible shares.

In March 2007, SKG plc adopted the 2007 Share Incentive Plan (the '2007 SIP'). Incentive awards under the 2007 SIP are in the form of new class B and new class C convertible shares issued in equal proportions to participants at a nominal value of €0.001 per share.

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

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)

	2008 €'000	2007 €'000
Authorised		
Ordinary shares		
9,910,931,085 Ordinary shares of €0.001 each	**9,911**	9,911
Convertible shares of €0.001 each		
2,356,472 Class A1	**2**	2
2,356,471 Class A2	**2**	2
2,355,972 Class A3	**2**	2
30,000,000 Class B	**30**	30
30,000,000 Class C	**30**	30
75,000,000 Class D	**75**	75
	10,052	10,052

22. CAPITAL AND RESERVES (CONTINUED)

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

	Class B number	Class C number	Class A1 number	Class A2 number	Class A3 number	Convertible of €0.001 each Class A number	Class B number	Class C number	Class D number	Class E number	Class F number	Class G number	Class H number	Total number
At 1 January 2007	–	–	–	–	–	130,734	413,199	206,598	282,465	2,923,495	2,923,495	1,461,744	2,062,878	10,404,608
New class B and class C convertible shares issued	1,374,600	1,374,600	–	–	–	–	–	–	–	–	–	–	–	2,749,200
Vested on IPO	–	–	–	–	–	(130,734)	(330,559)	–	8,371,161	(2,923,495)	(2,923,495)	–	(2,062,878)	–
Conversion to class A1, A2 and A3 convertible shares	–	–	583,672	583,672	583,638	–	(82,640)	(206,598)	–	–	–	(1,461,744)	–	–
Conversion of class D convertibles to ordinary shares	–	–	–	–	–	–	–	–	(253,780)	–	–	–	–	(253,780)
At 31 December 2007	**1,374,600**	**1,374,600**	**583,672**	**583,672**	**583,638**	**–**	**–**	**–**	**8,399,846**	**–**	**–**	**–**	**–**	**12,900,028**
At 1 January 2008	1,374,600	1,374,600	583,672	583,672	583,638	–	–	–	8,399,846	–	–	–	–	12,900,028
New class B and class C convertible shares issued	1,223,640	1,223,640	–	–	–	–	–	–	–	–	–	–	–	2,447,280
Conversion of class A1, A2 and A3 convertible shares	–	–	(583,672)	(44,177)	(44,179)	–	–	–	672,028	–	–	–	–	–
Conversion of class D convertibles to ordinary shares	–	–	–	–	–	–	–	–	(36,799)	–	–	–	–	(36,799)
At 31 December 2008	**2,598,240**	**2,598,240**	**–**	**539,495**	**539,459**	**–**	**–**	**–**	**9,035,075**	**–**	**–**	**–**	**–**	**15,310,509**

22. CAPITAL AND RESERVES (CONTINUED)

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

	Shares of €0.001 each				Convertible of €0.001 each		
	Ordinary number	'A' Ordinary number	'B' Ordinary number	Total number	Total number	Total number	Total €'000
At 1 January 2007	–	73,656,404	52,683,911	126,340,315	10,404,608	136,744,923	136
Re-designated as ordinary shares	126,340,315	(73,656,404)	(52,683,911)	–	–	–	–
Issued at IPO	91,104,033	–	–	91,104,033	–	91,104,033	90
New class B and class C convertible shares issued	–	–	–	–	2,749,200	2,749,200	2
Conversion of class D convertibles to ordinary shares	253,780	–	–	253,780	(253,780)	–	–
Issued on exercise of warrants	287,867	–	–	287,867	–	287,867	–
At 31 December 2007	**217,985,995**	**–**	**–**	**217,985,995**	**12,900,028**	**230,886,023**	**228**
At 1 January 2008	217,985,995	–	–	217,985,995	12,900,028	230,886,023	228
New class B and class C convertible shares issued	–	–	–	–	2,447,280	2,447,280	1
Conversion of class D convertibles to ordinary shares	36,799	–	–	36,799	(36,799)	–	–
At 31 December 2008	**218,022,794**	**–**	**–**	**218,022,794**	**15,310,509**	**233,333,303**	**229**

At 31 December 2008 ordinary shares represent 93.4% and convertible shares represent 6.6% of issued share capital.

22. CAPITAL AND RESERVES (CONTINUED)

Share premium

The share premium of €1,928 million relates to the share premium arising on the share 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.

Available-for-sale reserve

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

Cash flow hedging reserve

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

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency translation adjustments arising from the translation of the Group's net investment in foreign operations including the translation of the profits of such operations from the average exchange rate for the year to the exchange rate at the balance sheet date, as well as from the translation of liabilities that hedge those net assets.

Reserve for share-based 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

	2008 €'000	2007 €'000
Senior credit facility		
Revolving credit facility[1] – interest at relevant interbank rate + 1.5%	**(8,506)**	(10,746)
Restructuring facility[2] – interest at relevant interbank rate + 1.5%	**–**	103,200
Tranche A term loan[3] – interest at relevant interbank rate + 1.5%	**405,410**	422,214
Tranche B term loan[4] – interest at relevant interbank rate + 1.875%	**1,289,194**	1,187,045
Tranche C term loan[5] – interest at relevant interbank rate + 2.125%	**1,287,839**	1,186,147
US Yankee bonds (including accrued interest)[6]	**210,246**	198,674
Bank loans and overdrafts[7]	**87,632**	89,728
Receivables securitisation floating rate notes 2011[8]	**206,882**	205,815
2015 cash pay subordinated notes (including accrued interest)[9]	**361,982**	352,985
Total debt before finance leases	**3,840,679**	3,735,062
Finance leases	**54,369**	72,786
Total debt including finance leases	**3,895,048**	3,807,848
Balance of revolving credit facility reclassified to debtors	**8,506**	10,746
Total debt after reclassification	**3,903,554**	3,818,594

Analysed as follows:

Current	**152,193**	150,976
Non-current	**3,751,361**	3,667,618
	3,903,554	3,818,594

(1) Revolving credit facility of €600 million (available under senior facility) to be repaid in full 2012. (Revolver Loans – Nil, drawn under ancillary facilities and facilities supported by letters of credit – €0.09 million, letters of credit issued in support of other liabilities – €16.4 million)

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

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

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

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

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

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

(8) Receivables securitisation floating rate notes mature September 2011

(9) €217.5 million 7.75% senior subordinated notes due 2015 and $200 million of 7.75% senior subordinated notes due 2015

Included within the carrying value of debt are deferred debt issue costs of €66.2 million (2007: €81.1 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.

23. BORROWINGS (CONTINUED)

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

	'000
US Yankee bonds 7.50% due 2025	**$292,300**
Receivables securitisation floating rate due 2011	**€210,000**
Senior credit facility due between 2012 and 2014	**€3,030,615**

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

	'000
Cash pay subordinated notes 7.75% due 2015	**€217,500**
Cash pay subordinated notes 7.75% due 2015	**$200,000**
Sundry short-term bank loans and overdrafts	**€87,632**

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 €4,439 million (2007: €4,526 million) of which €3,853 million (2007: €3,771 million) was utilised at 31 December 2008. The weighted average period until maturity of undrawn committed facilities is 3.9 years (2007: 4.0 years).

Maturity of Undrawn Committed Facilities

	2008 €'000	2007 €'000
Within one year	**501**	171,918
Between one and two years	**–**	–
More than two years	**585,046**	582,947
	585,547	754,865

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 €405 million amortising A Tranche maturing in 2012, a €1,289 million B Tranche maturing in 2013 and a €1,288 million C Tranche maturing in 2014. In addition, the senior credit facility includes a €600 million revolving credit facility of which €0.09 million was drawn at 31 December 2008 under facilities supported by letters of credit.

On 1 December 2008 Group borrowings which totalled €227 million under the restructuring facility converted into €37 million Tranche A and €95 million under each of Tranche B and C of the Senior Credit Facility. The unutilised portion of the restructuring facility was cancelled on conversion.

23. BORROWINGS (CONTINUED)

The following table sets out the average interest rates at 31 December 2008 and 2007 for each of the drawings under the term loans.

	Currency	2008 Interest rate	2007 Interest rate
Term loan A	EUR	**4.58%**	6.26%
Term loan B	EUR	**5.38%**	6.66%
	USD	**6.16%**	7.12%
Term loan C	EUR	**5.57%**	6.87%
	USD	**6.41%**	7.37%

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 2009 to December 2012. The term loan B must be repaid in December 2013. The term loan C must be repaid in December 2014. As at 31 December 2008, there was €0.09 million drawn under the revolving credit facility by way of drawings on ancillary facilities and facilities supported by documentary letters of credit. Letters of credit issued under the revolving credit facility in support of other liabilities amounted to €16.4 million. The revolving credit facility will terminate in December 2012.

At 31 December 2008, the Group had outstanding debt of €217.5 million 7.75% senior subordinated notes due 2015 and $200 million 7.75% senior subordinated notes due 2015. In addition, the Group had outstanding $292.3 million 7.5% senior debentures due 2025 and a further €210 million floating rate notes issued under an accounts receivables securitisation programme maturing in 2011.

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

In September 2004, the Group initiated a securitisation transaction which raised seven year funding of €210 million, which was used to repay a portion of our term loans under our then existing senior credit facility. Receivables generated by certain of our operating companies in the United Kingdom, Germany and France are sold to special purpose subsidiaries and entities to support the funding provided by JP Morgan, Deutsche Bank and ABN Amro conduits, divided equally. The sale of the securitised receivables is not intended to, and does not, meet the requirements for derecognition under IAS 39, with the result that the sold receivables continue to be shown on the face of the Balance Sheet and the notes issued which fund the purchase of these receivables continue to be shown as liabilities. The gross amount of receivables collateralising the receivables securitisation at 31 December 2008 was €248 million (2007: €265 million). At 31 December 2008 cash of €18.1 million (2007: €13.1 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

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

24. EMPLOYEE BENEFITS

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

The principal plans are in the United Kingdom, the Netherlands, Ireland and Germany. The most recent formal valuations of the significant funded defined benefit plans were carried out as follows: United Kingdom on 31 March 2008; the Netherlands on 31 December 2007; Ireland on 1 January 2007.

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

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

	2008 €'000	2007 €'000 Restated	2006 €'000 Restated	2005 €'000	2004 €'000
Present value of funded or partially funded obligations	**(1,210,486)**	(1,498,547)	(1,565,210)	(1,633,243)	(844,217)
Fair value of plan assets	**1,080,129**[(1)]	1,411,223[(1)]	1,418,783[(1)]	1,316,681	655,105
Deficit in funded or partially funded plans	**(130,357)**	(87,324)	(146,427)	(316,562)	(189,112)
Present value of wholly unfunded obligations	**(386,308)**	(395,173)	(438,448)	(388,380)	(281,018)
Net employee benefit liabilities	**(516,665)**	(482,497)	(584,875)	(704,942)	(470,130)

(1) The fair value of plan assets is shown net of the IFRIC 14 adjustment of €2.9 million at 31 December 2008 (2007: €1.5 million; 2006: €0.3 million).

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

Principal actuarial assumptions

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

Financial assumptions

	Europe %	USA %	Latin America %
December 2008			
Rate of increase in salaries	1.20-5.25	3.50	3.25-5.15
Rate of increase to pensions in payment	Nil-2.50	Nil	Nil
Discount rate for scheme liabilities	3.00-6.50	6.25	6.00-10.19
Inflation	1.75-3.00	2.00	2.50-3.50

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

24. EMPLOYEE BENEFITS (CONTINUED)

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

	Europe %	USA %	Latin America %
December 2008			
Equities	7.75-8.00	8.50	8.75-13.00
Bonds	4.00-6.25	4.50	4.25-8.50
Property	6.75-7.00	n/a	n/a
Other	2.00-7.50	3.50	3.50

	Europe %	USA %	Latin America %
December 2007			
Equities	7.75	8.50	8.25-13.00
Bonds	4.00-5.50	4.50	8.50
Property	6.75	n/a	n/a
Other	2.50-7.50	3.50	3.50

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 2007, mortality investigations were carried out in the UK, Ireland and the Netherlands and these reviews concluded that the mortality assumptions set out below currently include sufficient allowance for future improvements in mortality rates. In Germany, the mortality table chosen is the appropriate one laid down by statutory authorities and also allows for future improvements.

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

	31 December 2008			
	Ireland	UK	Netherlands	Germany
Longevity at age 65 for current pensioners				
Males	18.5	19.5	17.7	18.0
Females	21.5	22.3	20.9	22.1
Longevity at age 65 for current member aged 45				
Males	19.9	20.8	19.5	20.7
Females	22.8	23.6	21.7	24.7

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

24. EMPLOYEE BENEFITS (CONTINUED)

Sensitivity analysis

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

	1% Increase	1% Decrease
	Increase/(decrease) (€ millions)	Increase/(decrease) (€ millions)
Effect of adjusting the discount rate used on liabilities reflected in the Group Balance Sheet at 31 December 2008	(219)	270
Effect of adjusting the discount rate used on the charge to the Group Income Statement for the year ended 31 December 2008	(7)	7
Effect of changing the expected return on assets on the charge to the Group Income Statement for the year ended 31 December 2008	(14)	14

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 €33 million at 31 December 2008 together with an increase in the charge to the Group Income Statement of €3 million for the year. An insignificant element of the employee liabilities relate to healthcare plans, mainly in the USA and the Group is therefore not materially exposed to change in medical cost trend rates.

Analysis of plan assets and liabilities

Plan assets are comprised as follows:

	2008 €'000	2008 %	2007 €'000 Restated	2007 %
Equities	**386,178**	**35.8**	627,970	44.4
Bonds	**520,516**	**48.2**	553,768	39.3
Property	**75,928**	**7.0**	104,319	7.4
Other	**97,507**	**9.0**	125,166	8.9
	1,080,129	**100.0**	1,411,223	100.0

The average expected long-term rate of return on assets is 6.2%. 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 111.

At 31 December 2008 the pension scheme assets within equities included shares held in SKG plc amounting to €0.1 million and property to the value of €1.6 million, which relates to the Gosport plant in the UK.

The actual return on plan assets for the year ended 31 December 2008 was a loss of €181.1 million (2007: gain of €17.6 million).

24. EMPLOYEE BENEFITS (CONTINUED)

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

	Europe €'000	USA €'000	Latin America €'000	Total €'000
December 2008				
Assets				
Equities	365,147	10,399	10,632	386,178
Bonds	505,305	7,329	7,882	520,516
Property	75,928	–	–	75,928
Other	96,517	406	584	97,507
Fair value of plan assets	1,042,897	18,134	19,098	1,080,129
Present value of scheme liabilities	(1,513,492)	(39,538)	(43,764)	(1,596,794)
Defined benefit liability	(470,595)	(21,404)	(24,666)	(516,665)

	Europe €'000 Restated	USA €'000	Latin America €'000	Total €'000 Restated
December 2007				
Assets				
Equities	600,521	13,977	13,472	627,970
Bonds	533,801	9,850	10,117	553,768
Property	104,319	–	–	104,319
Other	123,916	546	704	125,166
Fair value of plan assets	1,362,557	24,373	24,293	1,411,223
Present value of scheme liabilities	(1,813,510)	(35,627)	(44,583)	(1,893,720)
Defined benefit liability	(450,953)	(11,254)	(20,290)	(482,497)

Analysis of the amount charged in the Group Income Statement

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

	2008 €'000	2007 €'000
Current service cost	**42,686**	50,255
Past service cost	**3,312**	4,706
(Gain) on settlements	**(351)**	(30)
(Gain) on curtailments	**(173)**	(5,079)
Actuarial (gains) arising on long-term employee benefits other than defined benefit schemes	**(2,142)**	(3,518)
Charged to operating profit	**43,332**	46,334
Expected return on plan assets	**(88,178)**	(87,387)
Interest cost on plan liabilities	**102,072**	96,348
	57,226	55,295

The defined benefit cost for 2008 includes €5.7 million (2007: €5.1 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:

	2008 €'000	2007 €'000
Cost of sales	**23,077**	25,984
Distributions costs and administrative expenses	**20,255**	20,350
Finance costs	**102,072**	96,348
Finance income	**(88,178)**	(87,387)
	57,226	55,295

The past service cost recognised in the year ended 31 December 2008 was mainly due to early retirement plans in Germany and Belgium. The liabilities arise only at the moment employees decide to take up an early retirement offer and therefore they give rise to an immediate recognition of past service cost.

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

Movement in present value of defined benefit obligations

	2008 €'000	2007 €'000
Present value of liability for defined benefit obligations at 1 January	**(1,893,720)**	(2,003,658)
Current service cost	**(42,686)**	(50,255)
Past service cost	**(3,312)**	(4,706)
Contributions by plan participants	**(6,242)**	(5,772)
Benefits paid by plans	**100,441**	96,719
Decrease/(increase) arising on settlements	**10,469**	(434)
Reduction arising on curtailments	**173**	5,079
Interest cost	**(102,072)**	(96,348)
Actuarial gains and losses	**190,614**	123,769
Transfers	**(1,970)**	(20,730)
Acquisitions	**–**	(11,603)
Foreign currency translation adjustments	**151,511**	74,219
Present value of liability for defined benefit obligations at 31 December	**(1,596,794)**	(1,893,720)

Movement in fair value of plan assets

	2008 €'000	2007 €'000 Restated
Fair value of plan assets at 1 January	**1,412,756**	1,419,064
Contributions by employer	**92,961**	104,207
Contributions by plan participants	**6,242**	5,772
Expected return on plan assets	**88,178**	87,387
Benefits paid by plans	**(100,441)**	(96,719)
Transfers	**–**	18,568
Acquisitions	**–**	9,386
(Decrease)/increase arising on settlements	**(10,118)**	464
Actual return less expected return on pension scheme assets	**(269,271)**	(69,756)
Foreign currency translation adjustments	**(137,306)**	(65,617)
Value of plan assets at 31 December before IFRIC 14 adjustment	**1,083,001**	1,412,756
IFRIC 14 adjustment for unrecoverable surplus	**(2,872)**	(1,533)
Fair value of plan assets at 31 December	**1,080,129**	1,411,223

24. EMPLOYEE BENEFITS (CONTINUED)

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

	2008 €'000	2007 €'000 Restated
Actuarial (loss) arising on plan assets	**(269,236)**	(69,816)
Actuarial gain/(loss) arising on plan liabilities	**19,505**	(1,317)
Gain arising from changes in assumptions	**168,931**	121,627
IFRIC 14 adjustment	**(1,457)**	(1,252)
Total (loss)/gain recognised in the SORIE during the year	**(82,257)**	49,242

	2008 €'000	2007 €'000 Restated
Cumulative SORIE amount at 1 January	**121,267**	73,458
Adjustment in respect of implementation of IFRIC 14	**(1,533)**	(281)
Adjusted cumulative SORIE amount at 1 January	**119,734**	73,177
Recognised during the year	**(82,257)**	49,242
Foreign currency translation adjustments	**(11,472)**	(2,685)
Cumulative amount at 31 December	**26,005**	119,734

History of experience gains and losses

	2008 €'000	2007 €'000 Restated	2006 €'000 Restated	2005 €'000	2004 €'000
Actuarial (loss)/gain on plan assets:					
Amount	**(269,236)**	(69,816)	24,390	77,785	464
Percentage of plan assets	**24.9%**	4.9%	1.7%	5.9%	0.1%
Experience gain/(loss) on plan liabilities:					
Amount	**19,505**	(1,317)	(7,104)	4,848	(6,256)
Percentage of plan liabilities	**1.2%**	0.1%	0.4%	0.2%	0.6%
Total actuarial (loss)/gain recognised in SORIE:					
Amount	**(82,257)**	49,242	87,420	(12,682)	(9,217)
Percentage of plan liabilities	**5.2%**	2.6%	4.4%	0.6%	0.8%

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 2009 for the funded schemes are €6.4 million and €49.1 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2009 are €54.9 million. The defined contribution pension scheme expense for the year ended 31 December 2008 was €37.2 million (2007: €33.9 million).

25. SHARE-BASED PAYMENT

Share-based payment expense recognised in the Group Income Statement

	2008 €'000	2007 €'000
Charge arising from fair value calculated at grant date	**6,742**	2,369
Incremental charge arising from modifications (see below)	**–**	9,625
Reversal of B and C shares total expense	**(2,369)**	–
Charge arising from accelerated vesting at IPO date (see below)	**–**	12,747
	4,373	24,741

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 are met. Vesting for all three classes of convertible shares is conditional on the Participant remaining employed by the Group. On vesting, each class of convertible shares would automatically convert into class D convertible shares. Subject to certain criteria, these class D convertible shares could then be converted into ordinary shares of SKCL upon payment of an agreed upon conversion price. Each award has a life of seven years from the date of issuance of the class A, class B or class C convertible shares. Also, certain restrictions apply on transferring convertible or ordinary shares.

In February 2004, the 2002 Plan was amended (the '2004 Plan') and restated to, among other things, provide a clause that creates variability in the exercise price for the equity awards based upon interest accrued on the senior PIK notes of 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 dates were changed to the three years ending 31 December 2010 and the performance criteria for the class F and class G convertible shares were slightly different to those for the class B and class C convertible shares, which they replaced. Additionally, SKIL introduced class H convertible shares, which automatically convert into class I convertible shares upon vesting which then can be converted into ordinary shares of SKIL. The vesting provisions for class H convertible shares are similar to class F convertible shares except that once converted into class I convertible shares, the exercise price was fixed at €5.6924. The life of awards of the class E, F, G, and H convertible shares ends on 1 December 2012. All other significant terms and conditions of the 2004 Plan remained unchanged with the amendment. The opportunity to exchange the convertible shares under the 2005 Plan occurred in the first quarter of 2006.

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 convertible shares vested on the first anniversary of the IPO. The A2 and A3 convertible shares will automatically convert on a one-to-one basis into D convertible shares on the second and third anniversaries respectively of the IPO, provided their holder remains an employee of the Group at the relevant anniversary. The D convertible shares resulting from these conversions are convertible on a one-to-one basis into ordinary shares, at the instance of the holder, upon the payment by the holder of the agreed conversion price. The life of the D convertible shares arising from the vesting of these new classes of convertible share ends on 20 March 2014.

25. SHARE-BASED PAYMENT (CONTINUED)

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.

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

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

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

All A1, A2 and A3 convertible shares and all new class B and new class C convertible shares will automatically convert to class D convertible shares upon the occurrence of a change of control, and thereupon a time limit can be specified by the Board for the conversion by the holders of such class D convertible shares to ordinary shares. Failing conversion within the specified time limit the class D convertible shares cease to be convertible and become redeemable at their subscription prices.

A summary of the activity under the 2002 Plan, as amended, and the 2007 SIP, for the period from allotment to 31 December 2008 is presented below.

	Average exercise price per share € per share	Number of convertible shares
At 1 January 2007	4.79	10,134,415
Forfeited in the year	9.05	(224,233)
Granted in the year	18.28	2,749,200
Exercised in the year	4.75	(253,780)
At 31 December 2007	**7.52**	**12,405,602**
Forfeited in the year	12.80	(175,711)
Granted in the year	9.08	2,597,920
Exercised in the year	4.28	(36,799)
At 31 December 2008	**7.74**	**14,791,012**

During 2008, 36,799 shares were exercised (2007: 253,780). At 31 December 2008, 8,743,155 shares had vested and were convertible to ordinary shares (2007: 8,285,922). The weighted average exercise price for all D, A2 and A3 convertible shares at 31 December 2008 was €4.56. The weighted average remaining contractual life of all the awards issued under the 2002 Plan, as amended, at 31 December 2008 was 3.97 years.

25. SHARE-BASED PAYMENT (CONTINUED)

The weighted average exercise price for all new B and new C convertible shares upon vesting at 31 December 2008 was €13.68. The weighted average remaining contractual life of all the awards issued under the 2007 SIP at 31 December 2008 was 8.77 years.

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

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

	Expected volatility	Expected vesting dates	Vesting periods (months)	Risk-free rate	Fair value
Granted 15 November 2002					
A convertible	24.58%	31-Dec-05 to 31-Dec-07	38 to 62	4.46%	€4.17
B convertible	24.58%	31-Dec-05 to 31-Dec-07	38 to 62	4.46%	€3.27
C convertible	24.58%	31-Dec-05 to 31-Dec-07	38 to 62	4.46%	€2.29
Granted 1 December 2005					
H convertible	14.46%	31-Dec-08	37	2.99%	€1.20
Granted 21 December 2006					
E convertible	16.07%	30-Jun-07	6	3.67%	€4.95
F convertible	16.07%	30-Jun-07	6	3.67%	€0.06
G convertible	16.07%	30-Jun-07	6	3.67%	€0.00

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

	Expected volatility	Revised expected vesting dates	Remaining vesting periods (months)	Risk-free rate	Incremental fair value
Modification at 19 January 2006					
A convertible converted to E convertible	16.12%	31-Dec-08	36	3.06%	€3.31
B convertible converted to F convertible	16.12%	31-Dec-08	36	3.06%	€0.91
C convertible converted to G convertible	16.12%	31-Dec-08	36	3.06%	€0.23

25. SHARE-BASED PAYMENT (CONTINUED)

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

	Expected volatility	Expected vesting dates	Remaining vesting periods (months)	Risk-free rate	Incremental fair value
Modifications at 20 March 2007					
B, C and G convertibles converted to A1 convertible	19.28%	20-Mar-08	12	4.00%	€14.15
B, C and G convertibles converted to A2 convertible	17.27%	20-Mar-08 to 20-Mar-09	24	3.93%	€13.74
B, C and G convertibles converted to A2 convertible	16.45%	20-Mar-08 to 20-Mar-10	36	3.91%	€13.36

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

	Expected volatility	Expected vesting dates	Vesting periods (months)	Risk-free rate	Fair value
Granted 13 April 2007					
New B convertible	26.32%-22.42%	13-Apr-10	36	4.158%-4.154%	€3.59-€4.79
New C convertible	26.32%-22.42%	13-Apr-10	36	4.158%-4.154%	€3.06-€3.86
Granted 1 May 2007					
New B convertible	25.93%-22.58%	1-May-10	36	4.143%-4.120%	€4.41-€5.57
New C convertible	25.93%-22.58%	1-May-10	36	4.143%-4.120%	€4.17-€4.70
Granted 26 March 2008					
New B convertible	32.70%-25.08%	26-Mar-11	36	3.924%-3.460%	€0.81-€1.50
New C convertible	32.70%-25.08%	26-Mar-11	36	3.924%-3.460%	€0.62-€0.71

26. PROVISIONS FOR LIABILITIES AND CHARGES

	2008 €'000	2007 €'000
Current	**45,956**	54,553
Non-current	**48,343**	77,698
	94,299	132,251

	Deferred consideration €'000	Restructuring €'000	Environmental €'000	Legal €'000	Other €'000	Total €'000
At 1 January 2007	–	78,164	9,684	33,071	76,181	**197,100**
Provisions made during the year	11,910	43,842	1,365	1,500	52,837	**111,454**
Provisions released during the year	–	(3,735)	(2,640)	(5,835)	(6,337)	**(18,547)**
Provisions utilised in the year	–	(73,427)	(958)	(14,683)	(53,296)	**(142,364)**
Reclassifications	–	(6,223)	206	(1,055)	(5,118)	**(12,190)**
Unwinding of discount	130	46	78	387	280	**921**
Currency adjustment	–	(346)	(12)	(991)	(2,774)	**(4,123)**
At 31 December 2007	**12,040**	**38,321**	**7,723**	**12,394**	**61,773**	**132,251**
Provisions made during the year	88	17,974	2,530	1,375	13,450	**35,417**
Provisions released during the year	–	(2,828)	(1,027)	(1,263)	(5,213)	**(10,331)**
Provisions utilised in the year	(4,217)	(28,418)	(1,170)	(5,173)	(21,857)	**(60,835)**
Reclassifications	569	168	494	(102)	(534)	**595**
Unwinding of discount	55	44	84	31	656	**870**
Currency adjustment	–	(620)	(26)	251	(3,273)	**(3,668)**
At 31 December 2008	**8,535**	**24,641**	**8,608**	**7,513**	**45,002**	**94,299**

Deferred consideration

Deferred consideration represents the deferred element of acquisition consideration payable. The balance at 31 December 2008 and at 31 December 2007 relates to the acquisition of the Plasticos bag-in-box operation in Spain. The Group expects that this balance will be utilised in 2009.

Restructuring

These provisions relate to irrevocable commitments relating to restructuring programmes throughout the Group. During 2006, following the completion of the merger with Kappa Packaging in December 2005, the Group undertook a significant programme of restructuring with the objective of fully integrating the combined operations of the Jefferson Smurfit Group and Kappa Packaging in order to achieve planned synergy benefits. This programme continued into 2007 and was substantially concluded by the 2007 year end. The provisions made in 2008 relate to the closure of Valladolid recycled containerboard mill and the Iurreta sack plant, both in Spain. The Group expects that the majority of the provision balance remaining at 31 December 2008 will be utilised during 2009.

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.

The most significant provision amounted to €2.2 million and €5.3 million at 31 December 2008 and 2007 respectively, and related to the outstanding element of the settlement of litigation in the Dominican Republic. This litigation arose from the acquisition in 1996 of a controlling interest in a local corrugator owned by Industria Cartonera Dominicana. This matter was settled on 13 December 2006. The outstanding amount was paid in January 2009. Other legal provisions are uncertain as to timing and amount as they are the subject of ongoing cases.

Other

Other comprises a number of provisions including: liabilities arising from onerous contracts, mainly relating to property leases amounting to €7.7 million; deferred employee profit sharing provisions in certain of the countries in which we operate amounting to €6.7 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 2008 €'000	Group 2007 €'000	Company 2008 €'000	Company 2007 €'000
Trade payables	**805,282**	898,882	**–**	–
Amounts owed to associates – trading balances	**3,673**	2,733	**–**	–
Payroll taxes	**26,743**	27,828	**–**	–
Value added tax	**12,094**	16,639	**–**	–
Social welfare	**46,238**	47,983	**–**	–
Accruals and deferred income	**317,754**	337,056	**133**	244
Capital payables	**80,310**	47,600	**–**	–
Other payables	**18,918**	23,966	**–**	–
Amounts due to Group companies	**–**	–	**17,061**	15,430
	1,311,012	1,402,687	**17,194**	15,674

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

28. FINANCIAL INSTRUMENTS

Financial instruments by category

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

At 31 December 2008

	Loans and receivables €'000	Assets at fair value through Group Income Statement €'000	Derivatives used for hedging €'000	Available-for-sale €'000	Total €'000
Assets as per Group Balance Sheet:					
Available-for-sale financial assets	–	–	–	30,651	30,651
Derivative financial instruments	–	14,222	612	–	14,834
Trade and other receivables	1,186,737	–	–	–	1,186,737
Cash and cash equivalents	699,554	–	–	–	699,554
Restricted cash	19,408	–	–	–	19,408
	1,905,699	14,222	612	30,651	1,951,184

The financial assets of the Company (cash and intercompany balances) of €14.8 million are included in loans and receivables.

	Liabilities at fair value through Group Income Statement €'000	Derivatives used for hedging €'000	Other financial liabilities €'000	Total €'000
Liabilities as per Group Balance Sheet:				
Borrowings	–	–	3,903,554	3,903,554
Derivative financial instruments	99,969	28,165	–	128,134
Trade and other payables	–	–	908,183	908,183
	99,969	28,165	4,811,737	4,939,871

The financial liabilities of the Company of €17.2 million are included in other financial liabilities.

At 31 December 2007

	Loans and receivables €'000	Assets at fair value through Group Income Statement €'000	Derivatives used for hedging €'000	Available-for-sale €'000	Total €'000
Assets as per Group Balance Sheet:					
Available-for-sale financial assets	–	–	–	43,511	43,511
Derivative financial instruments	–	13,662	18,900	–	32,562
Trade and other receivables	1,334,133	–	–	–	1,334,133
Cash and cash equivalents	401,622	–	–	–	401,622
Restricted cash	13,096	–	–	–	13,096
	1,748,851	13,662	18,900	43,511	1,824,924

The financial assets of the Company of €11.9 million are included in loans and receivables.

	Liabilities at fair value through Group Income Statement €'000	Derivatives used for hedging €'000	Other financial liabilities €'000	Total €'000
Liabilities as per Group Balance Sheet:				
Borrowings	–	–	3,818,594	3,818,594
Derivative financial instruments	121,058	–	–	121,058
Trade and other payables	–	–	973,181	973,181
	121,058	–	4,791,775	4,912,833

The financial liabilities of the Company of €15.7 million are included in other financial liabilities.

28. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Financial and credit risk management

The operating parameters and policies of the Group's treasury management function are established under formal Board authority. The formal treasury policy covers the areas of funding, counterparty risk, foreign exchange, controls and derivatives. Risk arising on counterparty default is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. The Group uses financial instruments, including fixed and variable rate debt to finance operations, for capital spending 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 2008, the Group had fixed an average of 55% (2007: 60%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2008 a one percentage point increase in variable interest rates would have had an estimated impact on pre-tax interest expense of approximately €19 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 Group has subsidiaries that operate in the following principal currency areas (other than euro): Swedish Krona, Sterling, Latin America (comprising mainly Mexican Peso, Colombian Peso and Venezuelan Bolivar) and Eastern Europe (comprising mainly the Slovak Koruna, Polish Zloty and the Czech Koruna). At the end of 2008 approximately 93% (2007: 95%) of the non-euro denominated net assets of these subsidiaries comprised Swedish Krona (29%) (2007: 32%), Sterling (10%) (2007: 9%), Latin American currencies (39%) (2007: 39%) and Eastern European currencies (15%) (2007: 15%) (10% adjusting for the conversion of the Slovak Koruna to euro on 1 January 2009). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2008 rate would reduce shareholders' equity by approximately €24 million (2007: €19 million) in respect of the subsidiaries.

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

The price of recovered paper can fluctuate significantly 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 2008 and 2007 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 increases and volatility in recent years, particularly in 2008, with a corresponding effect on Group production costs. The main drivers for the general increase in energy costs in recent years have been volatility in the price of crude oil and coal. Oil prices started the year at $95 per barrel increased to a high of $145 during the year and reduced to $40 by year end. Coal prices started the year at $105, increased to a high of $220 during the year and reduced to $95 per metric tonne by year end.

The Group has entered into a limited level of energy derivative contracts to partially economically hedge its energy costs in Sweden. The Group has also fixed a certain level of its energy costs through contractual arrangements directly with its energy suppliers.

The Group's energy derivatives on hand 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:

	2008 €'000	2007 €'000
Cash and cash equivalents	**699,554**	401,622
Committed undrawn facilities	**585,547**	754,865
Liquidity reserve	**1,285,101**	1,156,487
Current liabilities – borrowings due within one year	**(388,294)**	(404,382)
Net position	**896,807**	752,105

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 €585 million at 31 December 2008; and the Group has cash and cash equivalents of €699 million at 31 December 2008. 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 pre-exceptional EBITDA (earnings before interest, taxation, depreciation, amortisation and share-based payment expense). Maximum levels for this ratio are set under Board approved policy. At 31 December 2008 the EBITDA ratio of the Group was 3.4 times net debt of €3,185 million which compares to 3.2 times net debt of €3,819 million at the end of 2007, which gives the Group continuing headroom compared to the actual covenant level at 31 December 2008 of 4.75 times.

On a basis of pre-exceptional earnings, the Group's return on capital employed was 10.3% compared to 11.3% in 2007. On a post-exceptional basis, the return was 5.4% in 2008 compared to 10.3% in 2007. The return on capital employed comprises the 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 borrowing at year end; 2008: €4,980 million, 2007: €5,593 million).

The capital employed of the Company at 31 December 2008 was €1,973 million (2007: €1,968 million).

28. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

Credit risk arises from credit exposure to trade debtors, cash and cash equivalents including deposits with banks and financial institutions, derivative financial instruments and investments. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, excluding available-for-sale equity 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 2008 of €719 million, 61% was with financial institutions in the A rating category of Standard and Poor's or Moody's and 34% was with financial institutions in the AA/Aa rating category. The remaining 5% was represented mainly by cash held with banks in Latin America which fell outside the A and AA/Aa ratings categories. At 31 December 2008 derivative transactions were with counterparties with ratings ranging from A to AAA with Standard & Poor's or A1 to Aaa with Moody's.

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

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:

	2008 €'000	2007 €'000
Non-current derivative assets		
Cash flow hedges		
Interest rate swaps	**153**	4,301
Total non-current cash flow hedges	**153**	4,301
Current derivative assets		
Cash flow hedges		
Interest rate swaps	**459**	14,599
Not designated as hedges		
Interest rate swaps	**–**	8,541
Cross currency swaps	**10,878**	2,579
Foreign currency forwards	**2,979**	1,817
Energy and pulp hedging contracts	**365**	725
Total current derivative assets	**14,681**	28,261
Total derivative assets	**14,834**	32,562
Non-current derivative liabilities		
Cash flow hedges		
Interest rate swaps	**(19,227)**	–
Total non-current cash flow hedges	**(19,227)**	–
Current derivative liabilities		
Cash flow hedges		
Interest rate swaps	**(8,938)**	–
Not designated as hedges		
Foreign currency forwards	**(2,276)**	(964)
Cross currency swaps	**(91,364)**	(120,026)
Interest rate swaps	**(2,920)**	–
Energy and pulp hedging contracts	**(3,409)**	(68)
Total current derivative liabilities	**(108,907)**	(121,058)
Total derivative liabilities	**(128,134)**	(121,058)
Net (liability) on derivative financial instruments	**(113,300)**	(88,496)

28. FINANCIAL INSTRUMENTS (CONTINUED)

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 2008 and 2007. Amounts accounted for in the cash flow hedging reserve in respect of these swaps during the current and preceding periods have been set out in the Group Statement of Recognised Income and Expense. These fair value gains and losses are expected to impact on profit and loss over the period from 2009 to 2014, in line with the underlying debt being hedged.

Derivatives not designated as hedges

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

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 have instead been fair valued through the Group Income Statement as required by that standard.

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

Outstanding interest rate swap agreements at 31 December 2008 are summarised as follows:

Currency

	Notional principal (millions)(1)	Termination dates	% Fixed payable	% Variable receivable
EUR	590	2009	3.035-4.950	Euribor(2)
EUR	600	2010	2.350-4.652	Euribor
EUR	350	2012	3.730-4.094	Euribor
EUR	150	2013	4.650-4.798	Euribor
EUR	60	2014	3.370-4.435	Euribor

(1) 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.

(2) European Interbank Offered Rate

28. FINANCIAL INSTRUMENTS (CONTINUED)

Outstanding interest rate swap agreements at 31 December 2007 are summarised as follows:

Currency

	Notional principal (millions)	Termination dates	% Fixed payable	% Variable receivable
EUR	480	2008	3.165-3.489	Euribor
EUR	1,100	2009	3.035-3.489	Euribor
EUR	200	2010	3.723-3.790	Euribor

Foreign exchange risk management

The Group manages its Balance Sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges a portion of its currency exposure through the use of currency swaps and forward contracts. At 31 December 2008 the Group had entered into €83 million (2007: €126 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2008 the Group had also entered into further short-term currency swaps of €323 million equivalent (2007: €388 million) as part of its short-term liquidity management.

The narrative above deals with short-term currency derivatives only. The Group also enters into longer term cross currency swap arrangements in respect of its US Dollar debt, which are set out in more detail in the tables below.

Outstanding currency swap agreements at 31 December 2008 are summarised as follows:

Currency swapped (millions)	Currency received (millions)	Maturity date	Interest rate paid	Interest rate received
USD 176	EUR 168	2010	Euribor + 2.06	Libor(1) + 2.00
USD 87	EUR 62	2009	Euribor	Libor
USD 200	EUR 153	2010	6.61	7.75
USD 204	EUR 183	2012	9.98	9.65

(1) London Interbank Offered Rate

Outstanding currency swap agreements at 31 December 2007 are summarised as follows:

Currency swapped (millions)	Currency received (millions)	Maturity date	Interest rate paid	Interest rate received
USD 176	EUR 168	2010	Euribor + 2.06	Libor + 2.00
USD 87	EUR 59	2008	Euribor	Libor
USD 200	EUR 153	2010	6.61	7.75
USD 204	EUR 183	2012	9.98	9.65

Energy risk management

The Group had the following energy hedging contracts outstanding at the end of 2008 and 2007. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

	2008 Notional (€ millions)	2008 Maturity	2007 Notional (€ millions)	2007 Maturity
Energy contracts	**9.9**	**Q1 2009 - Q4 2011**	8.9	Q1 2008 - Q4 2009

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:

2008

	Average Effective Interest rate	6 months or less €'000	6-12 months €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000	Total €'000
Fixed rate instruments							
Liabilities							
US Yankee bonds	7.60%	–	–	–	–	210,246	**210,246**
2015 cash pay notes	8.16%	–	–	–	–	361,982	**361,982**
Bank loans/ overdrafts	2.70%	249	1,174	2,999	3,307	3,815	**11,544**
Effect of interest rate swaps	–	490,000	100,000	600,000	500,000	60,000	**1,750,000**
Total		490,249	101,174	602,999	503,307	636,043	**2,333,772**
Finance leases	7.69%	6,062	6,063	14,523	20,371	1,480	**48,499**
Total fixed rate liabilities		**496,311**	**107,237**	**617,522**	**523,678**	**637,523**	**2,382,271**
Floating rate instruments							
Assets							
Cash and cash equivalents[1]	2.33%	699,554	–	–	–	–	**699,554**
Restricted cash	0.66%	19,408	–	–	–	–	**19,408**
Total floating rate assets		**718,962**	**–**	**–**	**–**	**–**	**718,962**
Liabilities							
Senior credit facility	6.11%	2,973,937	–	–	–	–	**2,973,937**
Receivables securitisation	4.18%	206,882	–	–	–	–	**206,882**
Bank loans/ overdrafts	9.38%	76,088	–	–	–	–	**76,088**
Effect of interest rate swaps	(0.12%)	(1,750,000)	–	–	–	–	**(1,750,000)**
Total		1,506,907	–	–	–	–	**1,506,907**
Finance leases	5.54%	1,103	1,103	719	1,910	1,035	**5,870**
Total floating rate liabilities		**1,508,010**	**1,103**	**719**	**1,910**	**1,035**	**1,512,777**
Total net position		**(1,285,359)**	**(108,340)**	**(618,241)**	**(525,588)**	**(638,558)**	**(3,176,086)**

(1) Of which €2.4 million relates to the Company.

28. FINANCIAL INSTRUMENTS (CONTINUED)

2007

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

(1) Of which €38,000 relates to the Company.

Intragroup receivable balances in the Company's accounts are interest-bearing and reprice on a monthly basis with an average effective interest rate of Libor plus 1%.

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:

Liquidity table 2008

	Weighted average period until maturity	No fixed term €'000	Less than 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000	Total €'000
Liabilities							
Trade and other payables		–	908,183	–	–	–	**908,183**
Senior credit facility	5.0 yrs	–	236,697	248,493	2,016,515	1,384,664	**3,886,369**
Receivables securitisation	2.7 yrs	–	7,431	7,431	215,334	–	**230,196**
Bank loans and overdrafts	1.1 yrs	16,772	55,228	6,475	6,793	6,850	**92,118**
US Yankee bonds	16.8 yrs	–	15,752	15,752	47,257	397,440	**476,201**
2015 cash pay notes	6.1 yrs	–	27,994	27,994	83,981	396,201	**536,170**
		16,772	1,251,285	306,145	2,369,880	2,185,155	**6,129,237**
Finance leases	4.3 yrs	–	18,389	18,229	25,857	3,486	**65,961**
		16,772	1,269,674	324,374	2,395,737	2,188,641	**6,195,198**
Derivative liabilities		–	12,891	8,813	12,783	7	**34,494**
Total liabilities		**16,772**	**1,282,565**	**333,187**	**2,408,520**	**2,188,648**	**6,229,692**

Liquidity table 2007

	Weighted average period until maturity	No fixed term €'000	Less than 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000	Total €'000
Liabilities							
Trade and other payables		–	973,181	–	–	–	**973,181**
Senior credit facility	5.9 yrs	–	257,505	265,206	876,005	2,769,290	**4,168,006**
Receivables securitisation	3.7 yrs	–	12,091	12,058	231,044	–	**255,193**
Bank loans and overdrafts	1.0 yrs	26,232	47,737	3,496	8,629	6,225	**92,319**
US Yankee bonds	17.8 yrs	–	14,892	14,892	44,676	390,625	**465,085**
2015 cash pay notes	7.1 yrs	–	27,385	27,385	82,156	414,978	**551,904**
		26,232	1,332,791	323,037	1,242,510	3,581,118	**6,505,688**
Finance leases	5.1 yrs	–	19,913	22,958	39,507	7,496	**89,874**
		26,232	1,352,704	345,995	1,282,017	3,588,614	**6,595,562**
Derivative liabilities		–	68	–	–	–	**68**
Total liabilities		**26,232**	**1,352,772**	**345,995**	**1,282,017**	**3,588,614**	**6,595,630**

The financial liabilities of the Company of €17.2 million (2007: €15.7 million) are repayable on demand.

28. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity table 2008

	Less than 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000	Total €'000
Liabilities					
Cross currency swaps	417,910	341,820	196,558	–	**956,288**
Foreign currency forwards	82,038	–	–	–	**82,038**
Total	499,948	341,820	196,558	–	**1,038,326**

Liquidity table 2007

	Less than 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000	Total €'000
Liabilities					
Cross currency swaps	487,716	38,333	498,216	–	**1,024,265**
Foreign currency forwards	115,739	–	–	–	**115,739**
Total	603,455	38,333	498,216	–	**1,140,004**

Currency analysis

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

Year ended 31 December 2008

	Euro €'000	Sterling €'000	Latin America[1] €'000	US Dollar €'000	Other €'000	Total €'000
Trade and other receivables	872,703	61,229	140,792	9,184	102,829	**1,186,737**
Available-for-sale financial assets	29,590	–	474	–	587	**30,651**
Cash and cash equivalents	478,815	28,534	37,351	62,407	92,447	**699,554**
Restricted cash	15,410	2,684	1,250	–	64	**19,408**
Total assets	**1,396,518**	**92,447**	**179,867**	**71,591**	**195,927**	**1,936,350**
Trade and other payables	677,152	44,718	73,564	18,767	93,982	**908,183**
Senior credit facility	2,847,832	–	–	126,105	–	**2,973,937**
Receivables securitisation	206,882	–	–	–	–	**206,882**
Bank loans and overdrafts	49,298	–	29,187	7,239	1,908	**87,632**
US Yankee bonds	–	–	–	210,246	–	**210,246**
2015 cash pay notes	215,489	–	–	146,493	–	**361,982**
	3,996,653	44,718	102,751	508,850	95,890	**4,748,862**
Finance leases	40,402	12,232	–	–	1,735	**54,369**
Total liabilities	**4,037,055**	**56,950**	**102,751**	**508,850**	**97,625**	**4,803,231**
Impact of foreign exchange contracts	415,456	95,046	–	(479,477)	47,661	**78,686**
Total (liabilities)/assets	**(3,055,993)**	**(59,549)**	**77,116**	**42,218**	**50,641**	**(2,945,567)**

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

28. FINANCIAL INSTRUMENTS (CONTINUED)

Year ended 31 December 2007

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

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

(1) Latin America includes currencies such as Mexican Pesos, Colombian Pesos and Venezuelan Bolivars. 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 presentational 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.

	2008 Carrying value €'000	2008 Fair value €'000	2007 Carrying value €'000	2007 Fair value €'000
Trade and other receivables	1,186,737	1,186,737	1,334,133	1,334,133
Available-for-sale financial assets	30,651	30,651	43,511	43,511
Cash and cash equivalents	699,554	699,554	401,622	401,622
Derivative assets	14,834	14,834	32,562	32,562
Restricted cash	19,408	19,408	13,096	13,096
	1,951,184	1,951,184	1,824,924	1,824,924
Trade and other payables	908,183	908,183	973,181	973,181
Senior credit facility[1]	2,973,937	1,837,136	2,887,860	2,748,272
Receivables securitisation	206,882	206,882	205,815	205,815
Bank overdrafts	87,632	87,632	89,728	89,728
US Yankee bonds[1]	210,246	124,133	198,674	176,832
2015 cash pay notes[1]	361,982	226,994	352,985	330,155
	4,748,862	3,390,960	4,708,243	4,523,983
Finance leases	54,369	57,363	72,786	74,445
	4,803,231	3,448,323	4,781,029	4,598,428
Derivative liabilities	128,134	128,134	121,058	121,058
	4,931,365	3,576,457	4,902,087	4,719,486
Total net position	**(2,980,181)**	**(1,625,273)**	**(3,077,163)**	**(2,894,562)**

(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 the carrying value.

29. CONTINGENT LIABILITIES

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

On 16 January 2007, representatives of the *Autoridade da Concorrência* (Portuguese National Competition Authority) visited the Group's Portuguese corrugated plant, located in São Paio de Oleiros, as part of what appears to be a local investigation affecting several Portuguese companies in the packaging sector. Smurfit Kappa Portugal has cooperated fully with the *Autoridade da Concorrência* and as of this date has not received any communication and there have been no developments.

29. CONTINGENT LIABILITIES (CONTINUED)

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

No provisions have been recognised in relation to the above matters, as the Directors believe that these liabilities are contingent liabilities 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:

	2008 €'000	2007 €'000
Within one year	**42,542**	48,456
Within two to five years	**71,396**	101,605
Over five years	**29,176**	43,182
	143,114	193,243

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

	2008 Minimum payments €'000	2008 Present value of minimum payments €'000	2007 Minimum payments €'000	2007 Present value of minimum payments €'000
Within one year	**18,329**	**14,332**	18,866	14,606
Within two to five years	**43,724**	**37,455**	60,031	51,756
Over five years	**3,022**	**2,582**	7,280	6,424
Total minimum lease payments	**65,075**	**54,369**	86,177	72,786
Less: amounts allocated to future finance costs	**(10,706)**	**–**	(13,391)	–
Present value of minimum lease payments	**54,369**	**54,369**	72,786	72,786

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.

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 43 to 47.

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 63 to 64. A listing of the principal subsidiaries is provided on pages 139 to 140 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

	2008 €'000	2007 €'000
Sale of goods	**23,006**	31,284
Purchase of goods	**(23,416)**	(19,152)
Rendering of services	**888**	1,447
Receiving of services	**(4,956)**	(3,408)

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 sales. The receivables are unsecured in nature and bear no interest.

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

No provision has been made in 2008 and 2007 relating to balances with related parties.

Transactions with other related parties

In 2008, the Group purchased, in the normal course of business, approximately 52,000 metric tonnes (2007: 56,800) of paper amounting to approximately €25.5 million (2007: €28.0 million) from Savon Sellu, a company controlled by Dermot Smurfit together with his brothers Dr. Michael Smurfit, former Chairman of the Group, and Alan Smurfit. An amount of €6.4 million (2007: €6.7 million) was owed by the Group to Savon Sellu at 31 December 2008.

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.

31. RELATED PARTY TRANSACTIONS (CONTINUED)

	2008 €'000	2007 €'000
Short-term employee benefits	**6,055**	8,121
Post employment benefits	**1,047**	1,989
Share-based payment expense	**1,071**	5,723
Compensation for loss of office*	**–**	9,026
Total	**8,173**	24,859

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

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

32. EVENTS AFTER THE BALANCE SHEET DATE

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

33. PROFIT DEALT WITH IN THE PARENT COMPANY

In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual Income Statement to the Annual General Meeting and from filing it with the Registrar of Companies. Profits of €71.3 million (2007: loss of €0.4 million) have been dealt with in the Income Statement of the Company.

34. DIVIDENDS PER SHARE

Dividends paid in 2008 reflect the final dividend for the year ended 31 December 2007 of 16.05 cent per share and an interim dividend in respect of the year ended 31 December 2008 of 16.05 cent per share.

35. COMPARATIVE FIGURES

Certain figures for the prior period have been adjusted to conform with 2008 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 2008 on 6 March 2009.

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. A listing of the principal subsidiaries is set out below:

Subsidiaries	Principal Activities	Country of Incorporation	Holding %
Carton de Colombia, S.A. Apartado Aereo 219, Cali, Colombia	Manufacture and sale of paperboard and packaging products	**Colombia**	70
Carton de Venezuela, S.A. Apartado Aereo 609, Caracas, Venezuela	Manufacture and sale of paperboard and packaging products	**Venezuela**	88
Grupo Smurfit Mexico, S.A. de C.V. Jaime Balmes, No. 11 Torre D. 7 Piso, Col. Los Morales Polanco 11510, Mexico D.F., Mexico	Manufacture and sale of paperboard and packaging products	**Mexico**	100
Smurfit Kappa Kraftliner AB SE – 941 86, Piteå, Sweden	Manufacture and sale of containerboard and holding company for operations in Sweden and other countries which manufacture specialty papers and packaging products	**Sweden**	100
Smurfit Kappa Nederland B.V. Zwaanstraat 1, 5651 CA Eindhoven The Netherlands	Holding company for Dutch operations which manufacture containerboard, solidboard and packaging products	**The Netherlands**	100
Nettingsdorfer Papierfabrik AG & Co KG A-4054 Nettingsdorf-Fabrik, Austria	Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board	**Austria**	100
Smurfit 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 Treasury Funding Limited Beech Hill, Clonskeagh, Dublin 4, Ireland	Finance company	**Ireland**	100
Smurfit Kappa Deutschland GmbH Tilsiter Strasse 144, 22047 Hamburg, Germany	Holding company for German operations which manufacture and sell paperboard and packaging products	**Germany**	100

37. PRINCIPAL SUBSIDIARIES (CONTINUED)

Subsidiaries	Principal Activities	Country of Incorporation	Holding %
Smurfit International B.V. Zwaanstraat 1, 5651 CA Eindhoven The Netherlands	Principal international holding company	**The Netherlands**	100
Smurfit Kappa B.V. Zwaanstraat 1, 5651 CA Eindhoven The Netherlands	International holding company	**The Netherlands**	100
Smurfit Kappa Participations SAS 5 Avenue du General de Gaulle, 94160 Saint Mande, France	Holding company for French operations whose activities are the manufacture and sale of paperboard and packaging products	**France**	100
Smurfit Kappa Investments UK Limited Darlington Road, West Auckland, Bishop Auckland, Co. Durham DL14 9PE, United Kingdom	Holding company for UK operations whose principal activities are the manufacture and sale of paperboard and packaging products	**United Kingdom**	100
Smurfit Kappa Ireland Limited Beech Hill, Clonskeagh, Dublin 4, Ireland	Manufacture and sale of paperboard and packaging products and printing	**Ireland**	100
Smurfit Kappa Nervion, S.A. B Arriandi s/n, 48215 Iurreta, Vizcaya, Spain	Manufacture and sale of sack paper and holding company for Spanish, Portuguese and sack converting operations whose principal activities are the manufacture and sale of paperboard, packaging and paper sack products	**Spain**	100
Smurfit Kappa Holdings Italia, S.p.A Viale Regina Margerhita, 3 20122 Milan (MI), Italy	Manufacture and sale of paperboard and packaging products	**Italy**	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, SKG 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. SKG 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 Oudenbosch Golfkarton 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 2008, 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	516	37.8	282	0.1
1,001-5,000	420	30.7	1,084	0.5
5,001-10,000	116	8.5	867	0.4
10,001-50,000	175	12.8	4,129	1.9
50,001-100,000	36	2.6	2,675	1.2
100,001-500,000	58	4.2	13,011	6.0
over 500,000	46	3.4	195,975	89.9
Totals	1,367	100	218,023	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	8 May 2009
Interim results announcement	12 August 2009

Website

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

Registrars

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

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

Telephone: +353 (0)1 810 2400
Fax: +353 (0)1 810 2422
Website: *www.capitaregistrars.ie*

CREST Proxy Voting

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

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