Smurfit Kappa Group plc

ANNUAL REPORT 2009

Raw materials

The raw material for paper-based packaging comes from renewable sources and the end product is recycled many times making all forms of SKG's paper-based packaging the most environmentally friendly available. SKG recovers almost 5 million tonnes of recycled paper each year in Europe where it is the European leader in recycling and 0.8 million tonnes in Latin America where it also holds a leading position. Almost all of this is sourced through our own recovery systems.


Tampella

Modern mills

The Group produces well over 6 million tonnes of paper, primarily in the containerboard, solidboard and sackpaper grades, at its 38 mills across the world. The Group is the leading producer of containerboard in Europe and one of the largest in Latin America using wood and recovered paper to manufacture kraftliner and recycled paper grades respectively. Our containerboard production is integrated into our corrugated operations.


Smurfit Kappa

Operating excellence

The product range of our containerboard mills covers the complete spectrum of paper and board including features such as weight, colour and printability. On the packaging side, our extensive presence in 21 European and 9 Latin American countries allows us to offer customers a "one stop shop" for all their packaging needs and a differentiated quality of service. With a strong focus on innovative packaging solutions, our operations are supported by outstanding research and development facilities with a view to enhancing the customer offering.

Senseo
Classic
Senseo

Design expertise/Innobook

In SKG we have created "Innobook", a library with over 3,000 proven design solutions, which is available to the more than 500 designers within our worldwide group and to both our sales and customer support people. This allows us to present our customers with advanced packaging and cost effective solutions and to ensure that our packaging provides safe, reliable and imaginative performance characteristics for our customer from factory floor through the distribution chain to the consumer.


Strelitzia
elitzia

Diverse packaging/versatility

Corrugated containers are a secure, economical and value added means of transporting and displaying a diverse range of consumer and industrial products. Approximately 60% of the Group's corrugated customers are in food, beverage and household consumables. While corrugated is the most widely used form of paper-based packaging, solidboard and paper sacks are also suitable for certain products and the evolving "bag in box" business offers progressively innovative methods for selling and dispensing our customers' products.

Power to attract/POS impact

Well designed and attractive packaging is important for brand owners and retailers in successfully promoting their products at the ultimate point of sale. We aim to increase the impact of our customers' products by offering a broad range of innovative in-store shelf and stand alone display solutions.

Back to the start

Retailers and consumers recycle their used packaging which is then fed back into the recovered paper system thus restarting the whole paper and packaging process.

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Annual Report 2009

2009 FINANCIAL PERFORMANCE OVERVIEW

	2009 €m	2008 €m
Revenue	**€6,057**	€7,062
EBITDA before exceptional items and share-based payment expense ('EBITDA')	**€741**	€941
EBITDA Margin	**12.2%**	13.3%
Operating Profit	**€267**	€282
Loss before Tax	**(€52)**	(€11)
Free Cash Flow	**€172**	€281
Net Debt	**€3,052**	€3,185
Net Debt to EBITDA (LTM)	**4.1x**	3.4x

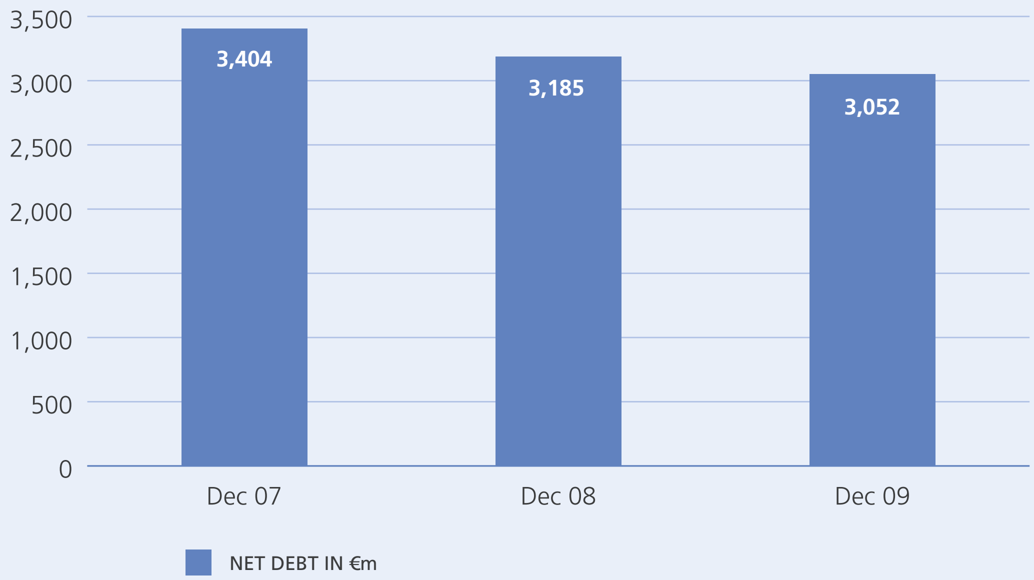
MISSION

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

COMBINED TRANSPORT AND DISPLAY BOX

SKG NET DEBT

SIGNIFICANT AND CONTINUED NET DEBT REDUCTION



GROUP PROFILE

EUROPEAN OPERATIONS

Virgin Mills (4)

Recycled Containerboard Mills (15)

Other Paper and Board Mills (8)

Corrugated (162)

Paper Sacks (10)

Other (76)

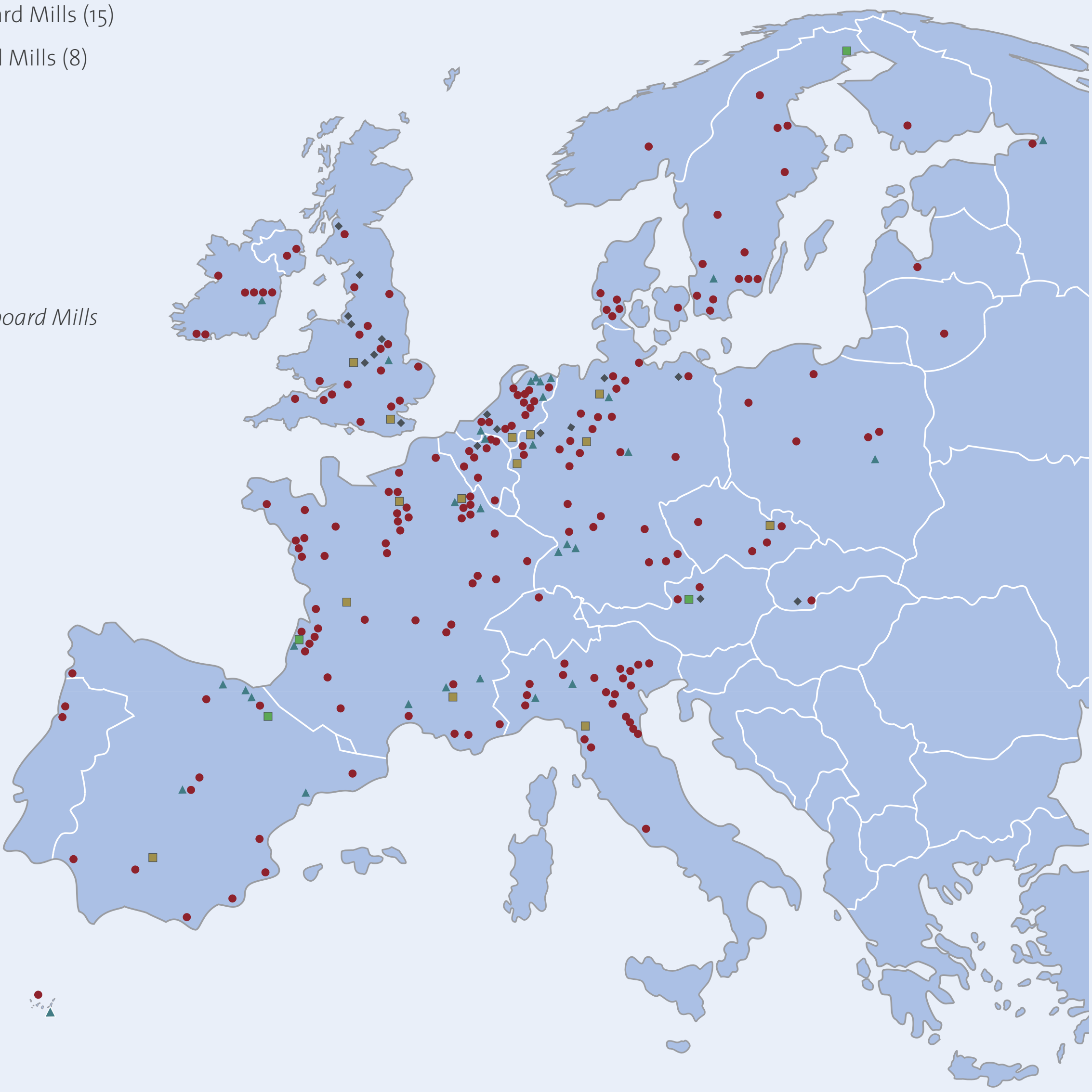
■ *Virgin Mills*

■ *Recycled Containerboard Mills*

● *Corrugated*

▲ *Specialty*

◆ *Recovered Fibre*



PACKAGING EUROPE

Sales Volumes	**(million tonnes)**
Recycled Containerboard	2.8
Kraftliner	1.4
Corrugated	4.1

SPECIALTIES EUROPE

Sales Volumes	**(million tonnes)**
Solidboard & Graphicboard	0.9
Solidboard Packaging	0.3
Sack Paper	0.1
Sacks	0.1

LATIN AMERICA

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

LATIN AMERICAN OPERATIONS

Virgin Mills (2)

Recycled 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

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

The Group operates in 21 countries in Europe and is the European leader in containerboard, corrugated containers, solidboard and solidboard packaging and has a key position in several other paper packaging market segments. The Group operates in 9 countries in Latin America where it is the only pan-regional operator. In terms of world market positions, the Group is the second largest producer of corrugated containers, one of the two largest producers of graphicboard and the third largest producer of containerboard.

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

In 2009, the Group's European Packaging and Specialties segments accounted for 69% and 14% of third party sales revenue respectively, with Latin America accounting for 17% of third party sales revenue.

At the date of this report, the Group owns 38 mills (27 of which produce containerboard), 240 converting plants (most of which convert containerboard into corrugated boxes), 42 reclamation facilities (which provide recovered paper for the Group's mills) and 29 other production facilities carrying on other related activities. In addition, the Group owns approximately 105,000 hectares of forest plantations.

CHAIRMAN'S STATEMENT

"Strengthened balance sheet and enhanced financial flexibility"

Year in Review

Against the backdrop of a global downturn and a significant collapse in market demand and pricing, SKG has reported EBITDA of €741 million, free cash flow generation of €172 million and net debt reduction of €133 million. SKG further strengthened its balance sheet and enhanced financial flexibility during the year by extending its average debt maturity profile, diversifying its sources of funding through the successful conclusion of a €1 billion bond offering and increasing its covenant headroom.

On behalf of the Board, I would like to acknowledge the resilience, dedication and innovation of our employees, both operational and financial, in delivering these results in the current environment.

Governance and Board

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

The Combined Code recommends that, apart from the Chairman, at least half of the Board of Directors of a listed company should comprise non-executive Directors determined by the Board to be independent. Mindful of the rights of our two major shareholders to appoint four directors in total and the need to keep the Board at a size that is not unwieldy, the Company is continuing its work towards enhancing the composition of the Board to comply with this recommendation.

2009 was my first full year as your Chairman and I would like to thank all of the Directors for their support and their contributions to the development and effectiveness of the Board and its various Committees during the year.

Operational Visits

During 2009, I visited a range of our mills, corrugated plants and specialty operations in Germany, the Netherlands, Belgium and Mexico, and while in the Netherlands I visited the SKG Development Centre for Service and Innovation, a state-of-the-art facility which hosts many of our customers throughout the year.

In August 2009, together with your Board and the senior management team in Germany, we visited the heavy duty corrugated plant in Dusseldorf and the recycled containerboard mill in Zulpich where a significant investment in a new boiler has been made allowing for the production of more electricity and steam on the site and resulting in significant energy savings going forward.

GIFT BASKET FOR FRUIT
AND VEGETABLES

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.

During 2009, we produced our second Sustainability Report. It dealt with all aspects of our interaction with the environment, the constituencies impacted by us, our current position and most importantly our general commitments for the future. A summary of the report is contained on pages 23 to 25 of this report.

Dividends and Dividend Policy

Due to ongoing challenging economic circumstances and continuing the focus on maximising cash available for net debt reduction, the Board does not propose to pay a final dividend for 2009. However, at the appropriate time, the restoration of dividends will be considered in the context of the then overall sustainable outlook.

Outlook

On the demand side, the Group started to experience a return to positive volume growth in the last two months of 2009, and continues to see improving order books into 2010. In the same period, recovered fibre costs also increased and this, combined with the inventory discipline that continues to prevail in the market, supports recent containerboard price momentum and in turn higher corrugated box prices.

The sustainability of the expected recovery is dependent on continuing supply side discipline in the European market, bearing in mind the start-up of a new containerboard machine in the second quarter of 2010. The Group for its part is maintaining its focus on operating efficiency and free cash flow generation. Given that focus, the significant input cost pressures and the extent to which this supports price increases, notwithstanding the near-term margin compression the Group expects to deliver meaningful overall EBITDA growth in 2010.

Liam O'Mahony
Chairman

CHIEF EXECUTIVE'S REVIEW

"In the context of a significant collapse in market demand and pricing in 2009, the outcome demonstrates the benefits of the Group's ongoing attention to cost and operating efficiency"

2009 Overview

The Group reported an EBITDA outcome of €741 million and an EBITDA margin of 12.2% for 2009. In the context of a significant collapse in market demand and pricing in 2009, the outcome demonstrates the benefits of the Group's ongoing customer focus, integrated business model, and attention to cost and operating efficiency with €140 million of incremental cost take-out delivered in the year. It also reflects SKG's profit rather than volume driven strategy. The Group's performance in 2009 also outlines the continuing strong contribution of its Latin American operations, which reported an EBITDA growth of 15% year-on-year, and a strong margin of 18.5%.

At industry level, the progressively deteriorating operating conditions that prevailed since the middle of 2008 in the European containerboard market triggered significant capacity rationalisation actions. These included the permanent closure of approximately 2.0 million tonnes of less-efficient capacity, and a material amount of market-related downtime. SKG took approximately 310,000 tonnes of downtime in 2009, or 7% of its capacity, and also announced the permanent closure of its mill in Slovakia, which will close at the end of March 2010.

Widespread supply discipline facilitated a 30% reduction in recycled containerboard inventory levels across the market from March to September 2009, despite the simultaneous introduction of new capacity in Eastern Europe. Improved inventory levels combined with increasing input cost pressure created the conditions for SKG to lead a number of containerboard pricing initiatives since the beginning of September. At the end of 2009, public market indices had confirmed increases of €90 per tonne for recycled containerboard, the equivalent of a 40% increase.

Supply side discipline continued to prevail throughout the industry in the fourth quarter, which together with improving demand trends contributed to maintain inventory levels at two-year lows in December. This sustained discipline, in part, reflects the need for further price increases as a result of continued upward pressure on recovered fibre costs towards the year-end and early in 2010. Consequently, in January 2010 the Group announced a further price increase of €60 per tonne for recycled containerboard.

Notwithstanding the negative impact on margins in the short-term, higher recovered fibre costs support the recent containerboard pricing momentum, which in turn is the catalyst for corrugated box price increases. In that context, the Group's corrugated pricing started to increase slightly in the fourth quarter for sheets, after having bottomed in September 2009. The Group's priority through 2010 will be to recover the higher input costs through box price increases.

BAG IN TUBE WITH VITOP TAP

Net Debt Reduction & Capital Structure

The Group's financial priority continues to be one of maximising free cash flow generation for further net debt reduction. In 2009 the Group reduced its net debt by €133 million. Since the end of 2007, SKG's strong cash flow generation contributed to a net debt reduction of over €350 million, the equivalent of approximately 10%.

In July 2009, the Group secured amendments to its Senior Credit Facility, which provides it with increased covenant headroom for the next three years and extends the maturity of a major portion of its Revolving Credit Facility by one year.

In November 2009 the Group issued a total of €1 billion of bonds, of which 50% have an 8-year maturity and 50% have a 10-year maturity. The bond issue and subsequent bank debt repayment extended SKG's average debt maturity profile from 4.6 years to 5.8 years. The Group's next significant debt maturity is more than 3.5 years away, in December 2013. SKG continues to maintain a strong liquidity position, with €601 million in cash and cash equivalents on its balance sheet at the end of December 2009, and undrawn committed credit facilities of approximately €512 million.

In addition to debt paydown, the amendments to SKG's capital structure in 2009 significantly enhances the Group's financial flexibility, thereby enabling it to fully focus on operating efficiency, customer service and business expansion, to maximise returns through the industry cycle.

Capital Expenditure

To maximise its debt paydown capability, and in response to the conditions prevailing in the industry and the economy in general, the Group reduced its level of capital expenditure to 63% of depreciation in 2009, compared to its normalised level of approximately 90% through the cycle. As markets start to recover in 2010, SKG will gradually increase its capital expenditure back towards its normalised levels.

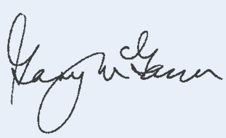
Customers

As a paper-based packaging company, SKG seeks to differentiate itself in the market through superior service, quality innovation and customer relationships across its unique market footprint in both Europe and Latin America.

I would like to thank our customers on both continents for the confidence and trust they placed in us in 2009. We look forward to serving them in 2010 and beyond.

People

Our goal is to recruit, develop, motivate, retain and keep safe our employees as we believe that our people really make the difference. I would like to acknowledge our over 39,000 employees in the 31 countries in which we operate for delivering the 2009 result despite the very difficult trading conditions that prevailed throughout the year.



Gary McGann
Group Chief Executive Officer

OPERATIONS REVIEW

After the significant demand decline that prevailed in the first nine months of 2009, conditions improved towards the end of the year. Although our European corrugated volumes were lower on average than in 2008 for the fourth quarter as a whole, they grew by 2% year-on-year in November and December, reflecting improved demand in France, the UK, Italy and Eastern Europe, and especially with our customers in the fast moving consumer goods sectors. In Latin America, the Group experienced positive volume growth throughout the fourth quarter, primarily driven by improving demand in Mexico.

Packaging Europe

The Packaging Europe segment, which comprises our integrated containerboard mills and corrugated operations, is the Group's largest segment, accounting for 69% of its revenue in 2009.

The Group has facilities in 21 countries, in both Western and Eastern Europe. On the mill side, the operations consist of 3 kraftliner mills, in Sweden, France and Austria, which between them produced approximately 1.4 million tonnes of brown and white kraftliner in 2009, and 15 recycled containerboard mills which produced 2.8 million tonnes of paper. We also have a number of recovered fibre collection facilities, a wood products business and some wood procurement operations. During 2009, the Group announced the closure of the Sturovo semi-chemical fluting mill in Slovakia. This mill, which produced 0.2 million tonnes of paper in 2009, will close at the end of March 2010. On the conversion side, the operations comprise 106 corrugated plants, which produced approximately 4.1 million tonnes (7.5 billion square metres) in 2009 and 56 sheet plants. In addition, we have 22 plants which produce litho laminated corrugated products, preprint or display units and a number of other small plants producing paper tubes, pallets, fulfilment activities and other packaging solutions.

Revenue for the segment in 2009 was €4.2 billion compared to €5.2 billion in 2008. Segmental EBITDA was €496 million, a decrease of almost 30% on €705 million in 2008.

The Group's European corrugated volumes were 8% lower in 2009 than in 2008. After a significant drop in the first half of the year, demand for the Group's products stabilised in the third quarter, albeit at a low level, and started to pick-up in the last two months of the year.

Following the significant pricing pressure that prevailed in the containerboard market since the beginning of 2008, the Group's corrugated prices declined materially in the first nine months of 2009. The implementation of containerboard price increases in September and October 2009 allowed the Group's corrugated pricing to start recovering in November and December, reflecting price increases initially in the corrugated sheet business.

Despite ongoing pressure on volume and price, the EBITDA outcome for 2009 primarily reflects the resilience of the integrated model, together with intensified cost take-out efforts. Cost take-out sources included the reduction of production waste, optimisation of distribution flows within our total system, and closure or rationalisation of underperforming operations. Overall, since the merger of Smurfit and Kappa in 2005, the Group has closed over 40 operating units, thereby sustainably improving the competitiveness of its asset base.

IN-STORE DISPLAY UNIT FOR
A VARIETY OF CHOCOLATES

The Group's continued restructuring actions, including the integration activity from acquisitions made to date, and our careful capital allocations towards operating efficiency investments and for the acquisition of equipment to support our corrugated customers' developments are, in our view, the factors that underpin our progress in the paper packaging industry. In quarter four the Group announced its decision to upgrade its German mill system. The investment forms part of the Group's ongoing capital expenditure programme, and will equip SKG with state-of-the-art, lower cost lightweight and white-top containerboard capacity, at a fraction of what the investments would cost new.

The Group's relatively strong margins in 2009 also reflect a material reduction in energy and wood costs. On the other hand, recovered fibre costs increased by €35 per tonne during 2009. Early in 2010, recovered fibre prices increased by a further €15 per tonne, reflecting significant buying from China, combined with increased demand in Europe as a result of new capacity starting in 2009 and 2010.

Downward pricing momentum and increasing recovered fibre costs generated significant margin compression throughout the recycled containerboard industry in 2009. Consequently, approximately 2.0 million tonnes of less-efficient capacity have been permanently closed, or announced for closure, over the past 18 months. In total, these closures represent approximately 9% of the corresponding European containerboard capacity.

In addition to permanent closures, the Group estimates that the industry took approximately 1.5 million tonnes of recycled containerboard downtime in 2009 (approximately 7.5% of capacity). Despite being a net buyer of recycled containerboard, the Group took approximately 205,000 tonnes of downtime within its recycled containerboard system in 2009, and an additional 105,000 tonnes within its kraftliner system.

As a result of the widespread production curtailments, and notwithstanding the start-up of three new or converted paper machines in 2009, containerboard inventory levels across the market reduced to two-year lows in December. Lower inventory levels combined with the continued increase in input costs are supporting the recent upward momentum in containerboard prices.

Up to the end of December 2009, price increases of approximately €90 per tonne have been implemented for recycled containerboard. A further increase has been announced in early 2010, the implementation of which would bring the total increase to €150 per tonne, the equivalent of a 65% increase from the trough of August 2009. Nevertheless, European recycled containerboard prices would still be €80 per tonne below their 2007 peak.

On the kraftliner side, increases of approximately €100 per tonne have been implemented between the fourth quarter of 2009 and early 2010, the equivalent of over 25%. This reflects an increasingly tight kraftliner market in Europe.

The sustainability of higher containerboard prices in the medium-term will depend on the prevailing supply-demand balance in the European market.

On the back of higher containerboard prices, the Group has announced price increases to all its corrugated customers. As is normal, SKG anticipates it will take up to six months for the Group to fully offset higher containerboard prices through box price increases.

Specialties Europe

The Specialties Europe segment consists of operations which manufacture and supply solidboard and solidboard packaging, boxboard, graphicboard, sack paper, sacks, bag-in-box, taps, cartons and other related products. With facilities in 13 countries, the operations comprise 9 mills, a wood procurement operation, 18 conversion plants and 5 bag-in-box plants (including 1 in Canada). In 2009, the mills produced approximately 700,000 tonnes of solidboard and boxboard and 200,000 tonnes of graphicboard while the conversion plants produced over 300,000 tonnes of solidboard packaging, paper sacks and cartons, using a portion of the paper produced by the mills.

Revenue for the segment in 2009 was €821 million, representing almost 14% of total revenue for the Group, compared to €940 million in 2008. Segmental EBITDA was €80 million, a decrease of 19% on €99 million in 2008, reflecting a decline in the profitability of the sacks and solidboard businesses. On the other hand, our bag-in-box business delivered good earnings growth in the year.

The improved performance of our bag-in-box operations reflected particularly strong demand in the second and third quarters, benefiting from good weather in Europe and some market share gains at the expense of other liquid packaging solutions, especially for wine applications in France, Russia and Canada.

The Group's sack division significantly underperformed in 2009, primarily as a result of lower sack kraft paper prices and weak converting volumes. The poor market balance that prevailed through the fourth quarter did not allow for the implementation of the announced €70 per tonne price increase for sack kraft paper. The Group is continuing to push for that increase in early 2010.

In 2009, the Group's solidboard business was affected by lower volumes on the converting side, somewhat offset by the solidboard mills who reported positive EBITDA growth. Early in 2010, increasingly higher recovered paper prices are continuing to negatively impact the profitability of this business, although this should be somewhat offset by our continued cost take-out activities, and improving solidboard packaging demand.

Latin America

The Group'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 in 2009; 28 corrugated plants in 6 countries with a 2009 production of 0.7 million tonnes (1.1 billion square metres); 1 preprint facility; 5 paper sack converting plants in 4 countries; 3 folding carton plants, 2 in Mexico and 1 in Venezuela; 26 recovered fibre plants in 5 countries and forestry operations in Colombia and Venezuela.

LIGHTWEIGHT POINT OF SALE PACKAGE

Our Latin American operations maintained a strong performance in 2009, reporting an EBITDA margin of 18.5%. While our Latin America segment represented approximately 17% of the Group's revenue in 2009, it delivered 26% of its EBITDA, reflecting its superior margin levels. Despite lower sales volumes, Latin American EBITDA in 2009 was approximately 15% higher year-on-year in euro terms. This positive financial outcome primarily reflects higher earnings in Mexico and in Venezuela, offset by slightly weaker profits in Colombia and a challenging year in Argentina.

The good Mexican performance reflects a significantly lower cost base, supported by reduced energy prices and lower containerboard purchases from the United States. Lower imports were compensated by higher integration levels into our own mills and some domestic purchases, taking advantage of a weaker Mexican Peso. Following a strong fourth quarter, improving demand trends continued to prevail in Mexico in early 2010. Moreover, containerboard price increases implemented in North America in January 2010 are starting to positively impact the Mexican pricing environment.

In Colombia, the Group's lower EBITDA in 2009 reflects lower prices and volumes, partly offset by a reduction in energy costs following the installation of a new recovery boiler and turbo generator in our Cali mill complex. SKG currently anticipates a return to positive demand growth in the first half of 2010 in its Colombian business.

In Argentina, earnings were affected by reduced pricing for all grades, reflecting the continuing challenges facing the economy and the excess capacity in the market. In Venezuela, although the high inflationary environment was challenging for business, it was countered by the Group's commercial and operating efficiencies in 2009.

The operations in the Dominican Republic, Chile, Puerto Rico, Costa Rica and Ecuador continued to perform well in line with expectations.

While some Latin American countries are expected to emerge out of the economic downturn quicker than others, the region remains one of the world's higher growth markets. We anticipate that it will continue to benefit from its unique portfolio of countries in the region and from the proven ability of its management team to drive and grow its business through the cycle.

Synergy/Cost Take-Out Programme

Early in 2008, the Group initiated a cost take-out programme to further strengthen the competitiveness of its operations in the challenging circumstances that prevailed. In the full year 2008, the programme delivered just over €70 million of sustainable cost savings.

In 2009, the Group delivered €140 million of cost take-out, with €40 million delivered in quarter four. Despite the challenging operating environment that prevailed in 2009, the Group's full year EBITDA margin of 12.2% demonstrates the benefit of those cost reduction actions.

The Group is maintaining its cost take-out efforts, and is raising its three-year savings objective from €250 million to at least €300 million, to be achieved by the end of 2010. In the full year 2010, the Group therefore expects to achieve at least a further €90 million of cost take-out.

FINANCE REVIEW

Results

The Group's EBITDA for 2009 was €741 million compared to €941 million in 2008, with €25 million of the €200 million decrease reflecting negative currency movements. Allowing also for the closure of certain loss-making operations, comparable EBITDA was €177 million lower year-on-year, representing a decrease of 19%. The lower earnings in 2009 reflected reduced demand and lower pricing, somewhat offset by the continued benefit of the Group's cost reduction and operating efficiency programmes.

Driven primarily by lower sales volumes and lower average pricing, third party sales revenue decreased by 14% to €6.1 billion in 2009 from €7.1 billion in 2008. The decrease also reflected negative currency movements which, as a result of the relative strength of the euro during the year, reduced comparable revenue by over €180 million. Allowing for the impact of currency and of acquisitions and closures, the underlying move in sales revenue was a decrease of over €790 million, the equivalent of approximately 11%.

The year-on-year decrease in EBITDA arose mainly within the Packaging Europe segment, which comprises our integrated European paper and corrugated operations. The profitability of our Specialties Europe segment was also lower in 2009 reflecting mainly the difficult market conditions faced by our sack and solidboard converting businesses. This segment comprises mainly those European mills which produce grades of paper other than containerboard, together with the related converting operations as well as our bag-in-box business. In contrast to our European operations, our Latin American segment performed strongly in 2009 with increased EBITDA year-on-year.

In terms of operating profit, the year-on-year decrease in EBITDA was accentuated by a higher depreciation charge in 2009, largely because of a hyperinflationary adjustment of approximately €25 million in Venezuela. As a result, our pre-exceptional operating profit (EBITDA less depreciation, depletion and amortisation and share-based payment expense) of €325 million in 2009 was €215 million lower than the €540 million generated in 2008.

Our pre-exceptional net finance costs amounted to €304 million (costs of €410 million less income of €106 million) in 2009, compared to €277 million in 2008. Although cash interest was lower in 2009 than in 2008, the benefit was more than offset by higher non-cash finance costs, mainly in respect of pensions, derivatives and currency movements. In addition, our interest charge in 2009 included a net monetary loss of €8 million in respect of hyperinflationary accounting for Venezuela.

Cash interest of €225 million in 2009 was €18 million lower than in 2008, reflecting the lower interest rate environment together with the continued net debt reduction throughout 2009. The year-on-year decrease arose in the half-year to June, with the impact of the higher margins agreed under the Senior Credit Facility amendments resulting in a slight increase in interest in both the third and fourth quarters. In addition, the higher cost of the bonds issued in November added to our cash interest in the latter part of the year.

EASY TO USE STACKABLE BELL PEPPER TRAY

The benefit of a lower net cash interest expense was more than offset by the negative impact of higher net non-cash costs in 2009. The net finance cost in respect of pensions was higher in 2009 because of a reduction in the expected return and a decline in the market value of fund assets while the lower interest rate environment in 2009 resulted in fair value losses on interest rate derivatives where hedges had been entered into at higher rates.

Including a net loss of €1 million in respect of our share of associates' earnings, the Group's pre-exceptional profit before income tax was €20 million in 2009 compared to €266 million in 2008. The year-on-year decrease in the contribution from associates resulted primarily from the sale of our shareholding in Duropack AG in June 2008.

Exceptional Items

Exceptional items, which in total resulted in an operating loss of €58 million in 2009, comprised asset impairments of €33 million and reorganisation and restructuring costs of €25 million. In 2008, exceptional items resulted in an operating loss of €258 million and comprised asset impairments of €237 million and reorganisation and restructuring costs of €21 million.

The asset impairments of €33 million, which are charged within cost of sales, related to property, plant and equipment at the Sturovo mill in Slovakia, the permanent closure of this mill having been announced in 2009. The reorganisation and restructuring costs of €25 million, reported as other operating expenses, related mainly to the closure of the Sturovo mill and to the rationalisation of our Cork corrugated plant in Ireland and our Rol Pin wood products business in France.

Of the asset impairments of €237 million charged in 2008, €171 million related to goodwill and was booked in the fourth quarter following the completion of our annual goodwill impairment review. We also booked an impairment charge of €66 million relating to property, plant and equipment, largely in respect of our paper sack operations and the Valladolid containerboard mill. The reorganisation and restructuring costs of €21 million, reported as other operating expenses, related to the closure in July 2008 of the Valladolid containerboard mill and the closure of our Iuretta paper sack plant, both in Spain.

The exceptional finance costs of €22 million in 2009 arose following our use of proceeds from the 2017 and 2019 bond issuance to pay down debt. These costs comprise the non-cash accelerated amortisation of debt costs arising on the early pay down of debt. The exceptional finance income of €8 million relates to the gain on the Group's debt buy-back. In February, the Group launched an auction process to buy back up to €100 million of its senior bank debt. In total, just over €100 million of offers were received, of which €43 million were accepted at an average discount of 24% to par.

In 2008, the exceptional finance costs of €12 million related to the impairment of available-for-sale assets while the loss on disposal of associate resulted from the sale of the Group's investment in Duropack AG.

Profit before Income Tax

After exceptional items, our total loss before income tax amounted to €52 million in 2009, comprising the pre-exceptional profit of €20 million and net exceptional costs of €72 million. In 2008, the loss of €11 million comprised the pre-exceptional profit of €266 million and net exceptional costs of €277 million.

Income Tax Expense

The accounting tax expense for 2009 was €55 million (comprising a current tax charge of €70 million net of a deferred tax credit of €15 million) compared to €21 million (comprising a current tax charge of €89 million net of a deferred tax credit of €68 million) in 2008. The significantly higher deferred tax credit in 2008 resulted from the recognition of deferred tax assets, not previously recognised, in relation to losses in certain European countries.

Earnings per Share

The basic loss per share amounted to 55.8 cent in 2009 compared to 22.8 cent in 2008. There is no difference shown between the loss per share on a basic and diluted basis, since the inclusion of the dilutive impact of the convertible shares would have the effect of reducing the basic loss per share.

The earnings per share figures are calculated on the basis of the weighted average number of ordinary shares in issue during the year, which was 218,024,000 compared to 218,015,000 in 2008. Ordinary shares in issue at 31 December 2009 amounted to 218,033,665 (2008: 218,022,794).

Financial Performance Indicators

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

	2009	2008
EBITDA* (€ m)	**741**	941
EBITDA margin to third party revenue (%)	**12.2**	13.3
Net borrowing (€ m)	**3,052**	3,185
Net borrowing to EBITDA (times)	**4.1**	3.4
Free cash flow (€ m)	**172**	281
Return on average capital employed** (%)	**6.6**	10.3

SHIPPING CONTAINER WITH
SHELF-READY TRAY

Reconciliation of Loss to EBITDA

	2009 €m	2008 €m
Loss for the financial year	**(107)**	(32)
Income tax expense	**55**	21
Share of associates' operating loss/(income)	**1**	(3)
Loss on disposal of associate	**-**	7
Reorganisation and restructuring costs	**25**	21
Impairment of assets	**33**	237
Net finance costs	**318**	289
Depreciation, depletion (net) and amortisation	**413**	397
Share-based payment expense	**3**	4
EBITDA before exceptional items and share-based payment expense	**741**	941

* *Earnings before exceptional items, 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).*

ANNUAL REPORT 2009

- **EBITDA and EBITDA margin**

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

EBITDA decreased by 21% to €741 million in 2009 from €941 million in 2008. Allowing for the overall impact of currency moves and for net disposals and closures, the underlying decrease in EBITDA was 19%. Our reported EBITDA represented a margin of 12.2% of third party sales revenue in 2009 compared to 13.3% in 2008.

- **Net Borrowing to EBITDA**

Leverage is an important measure of our overall financial position. Net borrowing amounted to €3,052 million at 31 December 2009 compared to €3,185 million at 31 December 2008.

Although our net borrowing decreased by €133 million over the course of 2009, as a result of the decline in EBITDA our leverage increased from 3.4x at 31 December 2008 to 4.1x at 31 December 2009, comfortably within the Senior Credit Facility covenant limit of 5.4x (4.5x pre-amendment).

In July 2009, the Group secured amendments to its Senior Credit Facility, which further enhanced its financial flexibility. These amendments provided the Group with increased covenant headroom for the next three years and extended the maturity of a major portion of its Revolving Credit Facility by one year.

- **Free Cash Flow**

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

- **Return on Capital Employed**

Although the average level of capital employed was lower in 2009, this was more than outweighed by a 40% decrease in our pre-exceptional operating earnings. As a result, the Group's return on capital employed decreased to 6.6% in 2009 from 10.3% in 2008.

Our return on capital employed in 2009 was adversely affected by the entries recorded in respect of hyperinflationary accounting for Venezuela, which reduced our operating earnings by €26 million and increased our capital employed at December 2009 by €225 million (see Note 4). Excluding these entries, our return on capital employed in 2009 would increase to 7.2%, which is more comparable to 2008's 10.3%.

Cash generation

Free cash flow amounted to €172 million in 2009 compared to €281 million in 2008. While EBITDA was €200 million lower year-on-year, reductions in capital expenditure and cash interest mitigated the impact on free cash flow. Reflecting the Group's continued strong working capital control, the move in 2009 was positive, albeit at a lesser amount than in 2008, despite the upward pressure on raw material and containerboard prices in the latter part of the year.

Summary Cash Flow[1]

	2009 €m	2008 €m
Pre-exceptional EBITDA	**741**	941
Exceptional items	**(10)**	(6)
Cash interest expense	**(225)**	(243)
Working capital change	**65**	86
Current provisions	**(14)**	(36)
Capital expenditure	**(229)**	(346)
Change in capital creditors	**(19)**	29
Tax paid	**(95)**	(97)
Sale of fixed assets	**4**	10
Other	**(46)**	(57)
Free cash flow	**172**	281
Gain on debt buy-back	**9**	-
Purchase of investments	**(9)**	(20)
Sale of businesses and investments	**-**	57
Dividends	**(7)**	(77)
Derivative termination (payments)/receipts	**(4)**	2
Net cash inflow	**161**	243
Deferred debt issue costs amortised	**(43)**	(15)
Currency translation adjustments	**15**	(9)
Decrease in net borrowing	**133**	219

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

The principal differences are as follows:

a) *The summary cash flow details movements in net 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 Net Cash Inflow from Operations

	2009 €m	2008 €m
Free cash flow	**172**	281
Add back:		
Cash interest	**225**	243
Capital expenditure (net of change in capital creditors)	**248**	317
Tax payments	**95**	97
Less:		
Sale of fixed assets	**(4)**	(10)
Profit on sale of assets and businesses – non-exceptional	**(6)**	(15)
Receipt of capital grants (in 'Other' per summary cash flow)	**(3)**	(1)
Dividends from associates (in 'Other' per summary cash flow)	**(1)**	(5)
Cash generated from operations	**726**	907

Cash interest of €225 million in 2009 was €18 million lower than in 2008, reflecting the lower interest rate environment together with the continued net debt reduction throughout 2009.

The Group's cash flow generation in 2009 was supported by an overall working capital inflow of €65 million compared to €86 million in 2008. Working capital of €484 million at the end of December 2009 represented 7.9% of annualised net sales revenue for the fourth quarter, compared to 8.1% at December 2008.

The outflow of €14 million in respect of current provisions relates to amounts charged in prior years and includes the payment of reorganisation and restructuring costs.

To maximise its debt pay down capability, and in response to the conditions prevailing in the industry and the economy in general, the Group reduced its level of capital expenditure to 63% of depreciation in 2009, compared to its normalised level of approximately 90% through the cycle. At €229 million, capital expenditure in 2009 was €117 million lower than in 2008. In cash terms, however, the year-on-year decrease in capital expenditure was partly offset by a negative swing of €48 million in the movement in capital creditors from an inflow in 2008 to an outflow in 2009. Together, the net capital outflow was €69 million lower year-on-year.

Tax payments in 2009 were €95 million compared to €97 million in 2008, but included non-recurring items of approximately €20 million.

After investment and financing cash movements, comprising mainly an inflow of €9 million on our debt buy-back programme, the payment of the final part of the deferred consideration for Plasticos (the Spanish bag-in-box business acquired in 2007) and minority dividends of €7 million, the net cash inflow for 2009 was €161 million compared to €243 million in 2008.

PALLET DISPLAY

The reconciliation of the net cash inflow to the decrease in net borrowing includes certain non-cash items. For 2009, these include €43 million in respect of the amortisation of debt issue costs and a positive currency movement on borrowing of €15 million, related to the relative weakening of the U.S. dollar against the euro over the course of the year. The amortisation of debt issue costs of €43 million in 2009 included exceptional costs of €22 million which mainly related to the debt paid down following the bond issue.

In total, the Group's net borrowing decreased by €133 million in 2008 to €3,052 million compared to €3,185 million at the start of the year. In 2008, net borrowing decreased by €219 million.

Venezuela

Venezuela was designated a hyperinflationary economy during the fourth quarter 2009, having had cumulative inflation in excess of 100% over a three year period. In accordance with IFRS the Group has applied IAS 29, *Financial Reporting in Hyperinflationary Economies* for 2009 for its Venezuelan subsidiaries. While the effect on the Group's EBITDA was negligible, the hyperinflation resulted in an increase in its depreciation charge of €25 million in the fourth quarter of 2009, reflecting the increase in the carrying value of the Group's Venezuelan assets.

Further, on 8 January 2010, the Venezuelan currency, the Bolivar Fuerte ('VEF'), was devalued from a fixed rate of 2.15 VEF/US$ to a fixed rate of 4.30 VEF/US$. This will result in a reduction in the euro value of the Group's cash balances by approximately €30 million in the first quarter of 2010. While the devaluation is also expected to negatively impact the country's contribution to the Group's earnings in 2010, it should be largely offset by pricing and volume growth in SKG's other businesses in the Latin American region. Overall, in comparison to 2009, the impact of the devaluation on the Group's 2010 EBITDA is not expected to be material.

Capital Resources and Liquidity

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,180 million, of which €3,668 million was utilised at December 2009. The weighted average period until maturity of undrawn committed facilities is approximately four years. Our debt portfolio is well structured and has a relatively long-term maturity profile. Our nearest significant debt maturity is towards the end of 2013, when Tranche B of the Senior Credit Facility matures.

In February 2009, the Group launched an auction process to buy back up to €100 million of its senior bank debt. In total, just over €100 million of offers were received, of which €43 million were accepted at an average discount of 24% to par. This resulted in a gain and net debt reduction of €8 million.

On 2 July 2009 an amendment to the terms of the Senior Credit Facility became effective. Lenders comprising in excess of 98% of the Facility consented to the proposed amendments, providing the Group with (i) the ability to raise longer dated financing to refinance a portion of its existing bank facilities and (ii) increased leverage and interest cover covenant headroom.

In addition, lenders holding 75% of the Group's Revolving Credit Facility elected to extend their commitments by one year. The original €600 million Revolving Credit Facility maturing in December 2012 was converted into two tranches totalling €525 million of which €152 million matures in December 2012 and €373 million in December 2013.

In November 2009 the Group successfully issued €1 billion senior secured notes through its wholly owned subsidiary Smurfit Kappa Acquisitions. The debt is split into two tranches of €500 million each maturing in 2017 and 2019 at a coupon of 7.25% and 7.75% respectively. The net proceeds of the offering were used to repay a portion of its three outstanding term loans under the Senior Facility Agreement, originally dated 30 November 2005, as amended, thereby extending the overall maturity profile of Group debt.

The weighted average interest rate on our debt was 7.0% at December 2009, compared to 5.8% at December 2008. The year-on-year increase reflects the increased margin payable following the amendment to the terms of the Senior Credit Facility in July 2009 and the €1 billion bond issuance in November at an average rate of 7.5%.

The Group's primary sources of liquidity are cash flow from operations and borrowings under the committed Revolving Credit Facility. The Group's primary uses of cash are for debt service and capital expenditure.

Market Risk and Risk Management Policies

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

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. At 31 December 2009 the Group had fixed an average of 83% of its interest cost on gross borrowings over the following twelve months.

Our fixed rate debt comprised mainly €500 million 7.25% senior secured notes due 2017, €500 million 7.75% senior secured notes due 2019, €217.5 million 7.75% senior subordinated notes due 2015, US$200 million 7.75% senior subordinated notes due 2015 and US$292.3 million 7.50% senior debentures due 2025. In addition the Group also has €1,830 million in interest rate swaps with maturity dates ranging from January 2010 to July 2014.

Our earnings are affected by changes in short-term interest rates as a result of our floating rate borrowings. If LIBOR interest rates for these borrowings increase by one percent, our interest expense would increase, and income before taxes would decrease, by approximately €8 million over the following twelve months. Interest income on our cash balances would increase by approximately €6 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

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

SUSTAINABILITY

Sustainability Report

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

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

SKG published its second Sustainability Report in August 2009 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 corporate governance, social citizenship including health and safety and the environment. A roadmap was included in the report which outlines SKG's commitment to continued progress and performance improvement in the areas which we have identified as those underpinning the concept of sustainability. SKG also reports on its progress against the targets and commitments made for 2008 using the guidelines issued by the Global Reporting Initiative. SKG will continue to drive the sustainability agenda and its objective is to improve its performance every year. A further Sustainability Report will be issued later this year, which will advance SKG's commitments in this area.

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

A report on Corporate Governance is detailed on pages 28 to 35 of this Annual Report and a short overview on SKG's performance in the other key areas now follows.

Social Citizenship

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

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

In Venezuela, the Group sponsors health brigades which distribute much-needed medicines to the local communities.

SUSTAINABILITY [CONTINUED]

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

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

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

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

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

Health and Safety

"People are our greatest asset"

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.

Students on a field trip at the Group operated Agroforestry Technical School in Venezuela.

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

Environment

The principles SKG applies in terms of the environment include:

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

One of the highlights of our sustainability performance was the awarding of the prestigious Colombian National Portfolio Prize to our subsidiary Smurfit Kappa Carton de Colombia for its contribution to the protection of the environment. Actions supporting SKG's long-term commitment to sustainability are our key investments in the Cali (Colombia) paper mill and the contract signed with Dalkia France to build a new biomass boiler for the production of green energy at our kraft paper mill at Facture (France) which is scheduled for start up in 2010. These developments, which follow on from the major investment in the biomass boiler in Pitea (Sweden) in 2007, are simultaneously targeting energy efficiency as well as the reduction of our carbon footprint through energy systems based on non-fossil biomass.

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

BOARD OF DIRECTORS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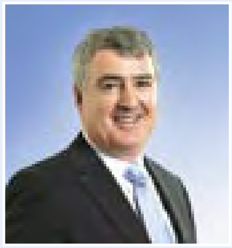
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1 Liam O'Mahony

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 Chairman of IDA Ireland and a Director of CRH plc and Project Management Ltd. He was the Chief Executive Officer of CRH plc from January 2000 until his retirement in December 2008, prior to which he held a number of senior management positions within the CRH Group including Chief Executive of its US operations and Managing Director, Republic of Ireland and UK companies. He is a member of The Irish Management Institute Council. (Age 63)

2 Gary McGann

Gary McGann was appointed Group Chief Executive Officer in November 2002. He was previously President and Chief Operations Officer of the Smurfit Group since January 2000. He joined the Smurfit Group in 1998 as Chief Financial Officer. He had held a number of senior positions in both the private and public sectors over the previous 20 years, including Chief Executive of Gilbeys of Ireland Group and Aer Lingus Group plc. He is Chairman of Aon Ireland and United Drug plc and a member of the European Round Table of Industrialists (ERT). (Age 59)

3 Anthony Smurfit

Anthony Smurfit was appointed Group Chief Operations Officer in November 2002. He has worked in various parts of the Smurfit Group both in Europe and the United States since he joined the Group over twenty years ago. He was Chief Executive of Smurfit Europe from October 1999 to 2002 prior to which he was Deputy Chief Executive of Smurfit Europe and previously Chief Executive Officer of Smurfit France. (Age 46)

4 Ian Curley

Ian Curley was appointed Group Chief Financial Officer in January 2000. He joined the Group in 1989 having previously worked for a number of multinationals in Ireland. He was appointed Chief Financial Officer of Smurfit Europe in 1997, prior to which he served as financial controller of Smurfit Continental Europe for a number of years based in the United Kingdom and France. (Age 47)

5 Frits Beurskens

Frits Beurskens has been a Director of the Group since December 2005. He joined the Kappa Group in 1990 and held various Managing Director positions until his appointment as its President in 1996 which he held until the merger with Smurfit. He is a former Chairman of both the Confederation of European Paper Industries and the International Corrugated Cases Association. In December 2007 he was appointed by the Dutch Queen as Officer in the Order of Oranje Nassau. (Age 62)

6 Thomas Brodin

Thomas Brodin joined the Board in 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 46)

7 Christopher McGowan

Christopher McGowan has served as a Director of the Group since September 2002. He has been employed principally by Madison Dearborn since 1999 where he currently serves as a Managing Director. He has significant experience working with companies in a wide range of industrial sectors. He is a member of the Board of Directors of Forest Products Holdings, LLC (d.b.a. Boise Cascade). (Age 38)

8 Samuel Mencoff

Samuel Mencoff has served as a Director of the Group since September 2002. He has been employed principally by Madison Dearborn since 1993 and currently serves as a co-Chief Executive Officer. From 1987 until 1993, he served as Vice President of First Chicago Venture Capital. He has extensive business experience due to his involvement with many investee companies. He is a member of the Board of Directors of Forest Products Holdings, LLC (d.b.a. Boise Cascade), Northshore University HealthSystem and Packaging Corporation of America, and a member of the Board of Trustees of Brown University and the Art Institute of Chicago. (Age 53)

Board Committees 2009

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

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

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

Senior Independent Director
N. Restrepo


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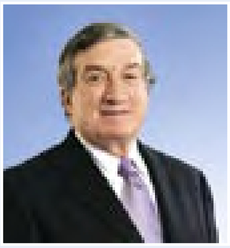
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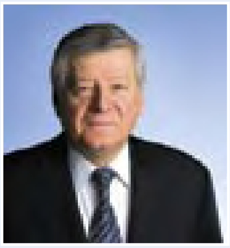
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9 Gordon Moore

Gordon Moore has served as a Director of the Group since December 2006. He was previously a partner of Cinven having been part of their investment team for over 11 years. He has held Directorships with a number of Cinven's investee companies including Fitness First Holdings Limited, Odeon Cinemas, NCP and most recently Sweden DIA (Sweden) AB. He has significant experience working with companies in a wide range of industrial sectors. He is a member of the Institute of Chartered Accountants of Scotland. He is also a Director of Worth School. (Age 43)

10 Nicanor Restrepo

Nicanor Restrepo joined the Board upon the Company being admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. He was previously the President and Chief Executive Officer of Suramericana de Inversiones S.A. He is a Director of Sofasa (Renault/Toyota), Exito S.A. (Casino) and Conconcreto S.A. He has extensive business experience having occupied several positions in the private sector and has received many awards both in Colombia and internationally. (Age 68)

11 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 49)

12 Paul Stecko

Paul Stecko joined the Board in February 2008. He is Chairman and Chief Executive Officer of Packaging Corporation of America ('PCA') since 1999. Prior to 1999 he served as President and Chief Operating Officer of Tenneco Inc and other senior positions within Tenneco including President and Chief Executive Officer of Tenneco Packaging Inc which 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 65)

13 Rosemary Thorne

Rosemary Thorne joined the Board in March 2008. She was most recently Group Finance Director for Ladbrokes plc from 2006 to April 2007. Prior to that she was Group Finance Director at Bradford and Bingley plc from 1999 to 2005 and at J Sainsbury plc from 1992 to 1999. Ms Thorne has extensive experience as a non-executive Director and currently serves as a non-executive Director with Santander UK plc. (Age 58)

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 2008 the full text of which is available at http://www.frc.org.uk/corporate/combinedcode.cfm. Except where otherwise 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 the year end there were 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 26 and 27.

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 satisfied that the independence of the relevant Directors is not compromised by these factors. Mindful of the rights of our two major shareholders to appoint four directors in total as detailed below and the need to keep the Board at a size that is not unwieldy, the Company 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 MDSE 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. 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. 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 eight times in 2009. Details of the meetings held during the period, both of the Board and of the Board Committees, are contained in the schedule on page 35, 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 operating activities. In 2009 the August Board meeting was held at the Zulpich mill in Germany. 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 Senior Independent Director conducts an annual review of corporate governance, the operation and performance of the Board and the performance of the Chairman. This is achieved through separate discussions with each Director. The Committees undertake an annual evaluation of their performance and report back to the Board. 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 27. The Combined Code recommends that all of the members of the Audit Committee and the Compensation Committee and a majority of the Nominations Committee should be independent non-executive Directors and, while this is not currently the case, the Board is actively working to achieve this. The Chairman of each of the Audit, Compensation, and Nominations Committee is an independent non-executive Director and a majority of each of the committees comprises independent non-executive Directors.

Audit Committee

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

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

- reviewing the Group's annual and interim reports

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

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

- reviewed the Company's preliminary results announcement, annual report and accounts, offering document, 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 for approving their remuneration and terms of engagement. The Committee also monitors the effectiveness of the audit process through regular contact with the auditors, review of the audit plan, the quality of the audit reports and their findings and the quality of the advice given.

The 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 88.

The Nominations Committee

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

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

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

The Committee uses the services of external advisers from time to time to facilitate the search in identifying potential candidates.

The Compensation Committee

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

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

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

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

The Committee seeks outside independent professional advice as appropriate.

Communication with Shareholders

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

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

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

The Company's 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 Annual General Meeting and related papers together with the Annual Report and Financial Statements are sent to shareholders at least twenty working days before the meeting. In addition, the Company responds throughout the year to numerous queries from shareholders on a broad range of issues.

Shareholder Meetings and Shareholder Rights

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

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

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

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

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

Sustainability

Sustainability is concerned with ensuring that the human and natural environment remains intact both today and into the future as we continue to use natural resources. Smurfit Kappa Group manages its business in a way which recognises its key responsibilities in all aspects of its corporate social responsibility especially in the areas of Environment, Sustainable Forestry, Social Citizenship and Health and Safety. The Group's principles are summarised on pages 23 to 25 and are described in detail in the Sustainability Report for 2008 which is available on the Group's website. The Sustainability Report for 2009 will be published later this year.

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 internal audit function monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee meets with the Group Compliance Manager and the Group Internal Auditor at least quarterly in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant issues considered by the Committee.

The Directors confirm that they have conducted an annual review of the effectiveness of the 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 36 to 37), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

Financial Reporting

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, the Chief Executive's Review and the Operations Review on pages 6 to 13. The financial position of the Group, its cash generation, capital resources and liquidity and its market risk and risk management policies are described in the Finance Review on pages 14 to 22. In addition, Notes 20, 22, 23 and 28 to the Financial Statements detail cash and cash equivalents, capital and reserves, borrowings and financial instruments. Note 28 to the Financial Statements also highlights the Group's financial and credit risk management, hedging activities, liquidity risk and capital risk management.

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

Directors' Report

The Change of Control, Capital Structure and Purchase of Own Shares Information are set out on page 37 in the Directors' Report and form part of this Corporate Governance Statement.

Attendance at scheduled meetings during the year to 31 December 2009

Name	Board		Audit		Compensation		Nomination	
	A*	**B***	**A***	**B***	**A***	**B***	**A***	**B***
L. O'Mahony	8	8			5	5	3	3
T. Brodin	8	8	5	5			3	3
F. Beurskens	8	8						
G. Moore	8	7	5	5				
S. Mencoff	8	7			5	4		
C. McGowan	8	7	5	4				
N. Restrepo	8	8					3	3
R. van Rappard	8	5			5	3		
P. Stecko	8	8	5	5	5	5		
R. Thorne	8	8	5	5			3	3
G. McGann	8	8					3	3
A. Smurfit	8	8						
I. Curley	8	8						

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

DIRECTORS' REPORT

Report of the Directors

The Directors submit their Report and Financial Statements for the year ended 31 December 2009.

Principal Activity and Business Review

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

The Chairman's Statement, the Chief Executive's Review, the Operations Review, the Finance Review (including financial risk management policies) on pages 6 to 22 and Note 32 on page 151 report on the performance of the Group during the year, on events since 31 December 2009 and on future developments.

Results for the Year

The results for the year are set out in the Group Income Statement on page 48. The loss attributable to the Equity holders of the Company amounted to €122 million (2008: loss of €50 million).

Key financial performance indicators are set out in the Finance review on pages 16 to 18. The Financial Statements for the year ended 31 December 2009 are set out in detail on pages 48 to 154.

Dividends

The Board does not propose to pay a final dividend in respect of the year ended 31 December 2009.

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 million.

Books and Records

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

Directors

The members of the current Board of Directors are named on pages 26 to 27, together with a short biographical note on each Director.

Gary McGann, Tony Smurfit, Ian Curley and Frits Beurskens 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 Remuneration Report on pages 42 to 44.

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 28 to 35 and forms part of this report. The Report on Directors' Remuneration is set out on pages 38 to 44.

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 2011 or 6 August 2011.

A similar authority was granted at the Annual General Meeting in 2009, which is due to 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 and the Senior Secured Notes Indenture the Group is obliged to offer to repurchase the notes at 101% of the principal amount due.

Subsidiary and Associated Undertakings

A list of principal subsidiaries and associates as at 31 December 2009 is set out on pages 152 to 153.

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 11 March 2010 the Company had received notification of the following interests in its ordinary share capital:

	Number of Shares	% of Issued Ordinary Share Capital
Smurfit Kappa Feeder GP	53,181,884	24.39%
Madison Dearborn Capital Partners	46,790,056	21.46%
Polaris Capital Management	10,865,964	4.98%
Causeway Capital LLC	10,062,845	4.62%
Bestinver Gestion S.A. SGIIC	8,654,157	3.97%

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)

11 March 2010

REMUNERATION REPORT

Report on Directors' Remuneration

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

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

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

Remuneration Policy

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

Executive Directors' Remuneration

Salary and Benefits

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

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

Annual Bonus

Executive Directors participate in an annual bonus scheme under which they can earn a bonus of up to 100 per cent of their base salaries for superior performance and achievement. The bonus payments are made based on the achievement of clearly defined annual financial targets for the achievement of EBITDA, Cash Flow and Return on Capital Employed set by the Compensation Committee combined with a comparison of the Group's financial performance compared to that of an appropriate peer group. 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 new class B convertible shares and new class C convertible shares for which executives are invited to subscribe at a nominal value of €0.001 per share.

The maximum aggregate market value of the new class B and new class C convertible shares that may be issued in any year to an executive under the plan is 150 per cent of basic salary divided equally into new class

B and new class C convertible shares. On satisfaction of specified performance conditions, the new class B convertible shares and the new class C convertible shares will automatically convert on a one-for-one basis into D convertible shares. The D convertible shares may be converted by the holder on a one-for-one basis into ordinary shares, upon payment of a conversion price. The conversion price for each D convertible share is the average of the market value of an ordinary share for the three consecutive Dealing days immediately prior to the date the executive was invited to subscribe for the new class B or new class C convertible shares, less the nominal subscription price paid per share.

The performance period for the new class B and new class C convertible shares is three financial years. The performance conditions for the new class B and new class C convertible shares awarded under the 2007 Share Incentive Plan are as follows:

Issued prior to 2009

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 Price Index of Ireland, compounded. The C convertible shares are subject to that same performance condition. In addition, the C convertible shares are subject to a performance condition based on the Company's total shareholder return over the three-year period relative to the total shareholder return of a peer group of companies ('TSR Condition'). Under that condition, 30% of the C convertible shares will convert into D convertible shares if the Company's total shareholder return is at the median performance level and 100% will convert if the Company's total shareholder return is at or greater than the upper quartile of the peer group. A sliding scale will apply for performance between the median and upper quartiles.

Issued in and post 2009

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

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

Details of restrictions on transfer of shares are set out in Note 22 on page 108. Details of the executive Directors' subscriptions to date are set out on page 43 and 44.

2002 Management Equity Plan

This scheme expired in 2007 for the purpose of issuing invitations to subscribe for convertible shares, however a number of earlier convertible shares remain extant. In March 2007 upon the IPO becoming effective, all of the then class A, E, F and H convertible shares and 80% of the class B convertible shares vested and were converted into D convertible shares. The class C, class G and 20% of the class B convertible shares did not vest and were re-designated as A1, A2 and A3 convertible shares. See Note 22 on page 107 of the Annual Report.

The A1 and A2 convertible shares vested in March 2008 and March 2009 respectively and the A3 convertible shares will vest and automatically convert on a one-for-one basis into D convertible shares on the third anniversary 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 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 restrictions on transfer of shares are set out in Note 22 on page 108.

Details of the executive Directors holdings of convertible shares are set out on page 43.

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

Pensions

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

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

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

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

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

	2009 €'000	2008 €'000
Executive Directors		
Basic salary	**2,882**	2,882
Annual bonus	**667**	1,015
Pension	**1,178**	1,215
Benefits	**132**	123
Executive Directors' remuneration	**4,859**	5,235
Average number of executive Directors	**3**	3
Non-executive Directors		
Fees	**1,120**	1,144
Non-executive Directors' remuneration	**1,120**	1,144
Average number of non-executive Directors	**10**	10
Directors' remuneration	**5,979**	6,379

Individual Remuneration for the Year Ended 31 December 2009

	Basic salary and fees €'000	Annual bonus €'000	Pension * €'000	Benefits €'000	Total 2009 €'000	Total 2008 €'000
Executive Directors						
G. McGann	1,262	284	625	60	**2,231**	2,352
A. Smurfit	874	196	290	26	**1,386**	1,536
I. Curley	746	187	263	46	**1,242**	1,347
	2,882	667	1,178	132	**4,859**	5,235
Non-executive Directors						
L. O'Mahony (I)	300				**300**	125
T. Brodin (II)	70				**70**	53
F. Beurskens (III)	125				**125**	125
G. Moore	70				**70**	70
S. Mencoff	70				**70**	70
C. McGowan	70				**70**	70
N. Restrepo (IV)	125				**125**	110
R. van Rappard	70				**70**	70
P. Stecko (V)	110				**110**	64
R. Thorne (VI)	110				**110**	87
S. Fitzpatrick (VII)	-				**-**	300
	1,120				**1,120**	1,144

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

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

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

III. 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.

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

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

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

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

During 2009 Mr. McGann acted as a non-executive Director of United Drug plc and Aon Ireland Limited and retained fees totalling €142,000 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	2009 Total accrued pension (II) €'000
Executive Directors			
A. Smurfit	-	**25**	**297**
I. Curley	-	**28**	**250**

I. In the case of Mr. Smurfit and Mr. Curley retirement benefits payable on death in retirement continue to accrue in accordance with scheme rules so transfer values have been included and calculated on the basis of actuarial advice. These transfer values do not represent sums paid or due, but are the amounts that the pension scheme would transfer to another pension scheme in relation to the benefits accrued in 2009 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 2009

The interests of the Directors and Secretary in the shares of the Company as at 31 December 2009 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 2009	31 December 2008
Directors		
L. O'Mahony	**19,830**	19,830
F. Beurskens	**25,000**	25,000
T. Brodin	**30,000**	20,000
P. Stecko	**6,000**	6,000
R. Thorne	**10,000**	10,000
G. McGann	**390,792**	390,792
A. Smurfit	**572,621**	572,621
I. Curley	**286,191**	286,191
Secretary		
M. O' Riordan	**47,151**	47,151

There were no transactions in the above Directors' and Secretary's interests between 31 December 2009 and 11 March 2010.

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

Mr. Moore has a beneficial interest in the Company, through his holding of 180 ordinary interests and €17,130 preference capital interests in Smurfit Kappa Feeder L.P. which in turn holds 53,181,884 shares in the Company.

Convertible Shares

		31 December 2008	Granted	31 December 2009	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
	D (converted from A2)	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
	B		48,100	**48,100**	2	4.36	Sept 2019
	C		48,100	**48,100**	2	4.36	Sept 2019
A. Smurfit	D (converted from E, F)	321,558		**321,558**	1	4.28	Dec 2012
	D (converted from H)	420,996		**420,996**	1	5.69	Dec 2012
	D (converted from A1)	26,796		**26,796**	1	4.28	Mar 2014
	D (converted from A2)	26,796		**26,796**	1	4.28	Mar 2014
	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
	B		33,280	**33,280**	2	4.36	Sept 2019
	C		33,280	**33,280**	2	4.36	Sept 2019
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
	D (converted from A1)	25,172		**25,172**	1	4.28	Mar 2014
	D (converted from A2)	25,172		**25,172**	1	4.28	Mar 2014
	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
	B		28,440	**28,440**	2	4.36	Sept 2019
	C		28,440	**28,440**	2	4.36	Sept 2019
Secretary							
M. O'Riordan	D (converted from E, F)	68,210		**68,210**	1	4.28	Dec 2012
	D (converted from H)	105,249		**105,249**	1	5.69	Dec 2012
	D (converted from A1)	5,684		**5,684**	1	4.28	Mar 2014
	D (converted from A2)	5,684		**5,684**	1	4.28	Mar 2014
	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
	B		11,050	**11,050**	2	4.36	Sept 2019
	C		11,050	**11,050**	2	4.36	Sept 2019

** these shares lapsed subsequent to the year end and ceased to be capable of conversion to D convertible shares*

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 2009 was €6.20 and the range during 2009 was €1.16 to €6.50.

1. Issued under the 2002 Management Equity Plan. The D convertible shares are convertible on a one to one basis into ordinary shares upon the payment by the holder of the conversion price. The A2 convertible shares vested and converted into D convertible shares in March 2009.The A3 convertible shares will automatically convert into D convertible shares in March 2010 provided their holder remains an employee.
2. Issued under the 2007 Share Incentive Plan – see note on page 38. The shares will automatically convert into D convertible shares to the extent that the performance conditions are achieved at the end of three years.

In March 2010 the following convertible shares were subscribed for under the 2007 Share Incentive Plan with a conversion price of €6.50 per share.

Directors	B Convertible	C Convertible
G. McGann	47,480	47,480
A. Smurfit	32,860	32,860
I. Curley	28,080	28,080
Secretary		
M. O'Riordan	10,910	10,910

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

In preparing these Financial Statements the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

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

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Financial Statements comply with the Companies Acts 1963 to 2009 and, as regards the Group Financial Statements, Article 4 of the International Accounting Standards ('IAS') Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' statement pursuant to the Transparency Regulations

Each of the Directors, whose names and functions are listed on pages 26 and 27, confirms that, to the best of each person's knowledge and belief:

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

11 March 2010

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 2009 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Changes in Equity and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

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

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the 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 2009. We also report to you whether the Financial Statements have been properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the Company Balance Sheet is 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 June 2008 Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises the Group Profile, the Chairman's Statement, the Chief Executive's Review, the Operations Review, the 2009 Financial Performance Overview, the Finance Review, 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 2009 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 2009, of the state of the Parent Company's affairs as at 31 December 2009 and cash flows for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and Article 4 of the IAS Regulation.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the 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 2009 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

11 March 2010

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 Pre-exceptional €m	2009 Exceptional €m	2009 Total €m	2008 Pre-exceptional €m	2008 Exceptional €m	2008 Total €m
Continuing operations							
Revenue	5	**6,057**	**-**	**6,057**	7,062	-	7,062
Cost of sales		**(4,370)**	**(33)**	**(4,403)**	(5,058)	(237)	(5,295)
Gross profit		**1,687**	**(33)**	**1,654**	2,004	(237)	1,767
Distribution costs	6	**(515)**	**-**	**(515)**	(578)	-	(578)
Administrative expenses	6	**(850)**	**-**	**(850)**	(890)	-	(890)
Other operating income	6	**3**	**-**	**3**	4	-	4
Other operating expenses	6	**-**	**(25)**	**(25)**	-	(21)	(21)
Operating profit		**325**	**(58)**	**267**	540	(258)	282
Finance costs	9	**(410)**	**(22)**	**(432)**	(464)	(12)	(476)
Finance income	9	**106**	**8**	**114**	187	-	187
Loss on disposal of associate	15	**-**	**-**	**-**	-	(7)	(7)
Share of associates' (loss)/profit (after tax)	7	**(1)**	**-**	**(1)**	3	-	3
Loss before income tax		**20**	**(72)**	**(52)**	266	(277)	(11)
Income tax expense	10			**(55)**			(21)
Loss for the financial year				**(107)**			(32)
Attributable to:							
Equity holders of the Company				**(122)**			(50)
Minority interest				**15**			18
Loss for the financial year				**(107)**			(32)
Earnings per share							
Basic loss per share – cent	11			**(55.8)**			(22.8)
Diluted loss per share – cent	11			**(55.8)**			(22.8)

G. McGann
I. Curley
Directors

11 March 2010

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

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 €m	2008 €m
Loss for the financial year		**(107)**	(32)
Other comprehensive income:			
Foreign currency translation adjustments		**45**	(164)
Defined benefit pension schemes:			
– Actuarial (loss) including payroll tax		**(158)**	(84)
– Movement in deferred tax	10	**43**	16
Effective portion of changes in fair value of cash flow hedges:			
– Movement out of reserve		**11**	(15)
– New fair value adjustments into reserve		**(30)**	(33)
– Movement in deferred tax	10	**2**	5
Net change in fair value of available-for-sale financial assets	14	**-**	(1)
Total other comprehensive income		**(87)**	(276)
Comprehensive income and expense for the financial year		**(194)**	(308)
Attributable to:			
Equity holders of the Company		**(214)**	(330)
Minority interest		**20**	22
		(194)	(308)

G. McGann
I. Curley
Directors

11 March 2010

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

GROUP BALANCE SHEET

AT 31 DECEMBER 2009

	Note	2009 €m	2008 €m Restated	2007 €m Restated
ASSETS				
Non-current assets				
Property, plant and equipment	12	**3,066**	3,038	3,251
Goodwill and intangible assets	13	**2,222**	2,154	2,417
Available-for-sale financial assets	14	**32**	31	44
Investment in associates	15	**13**	14	79
Biological assets	16	**91**	79	75
Trade and other receivables	19	**4**	4	7
Derivative financial instruments	28	**-**	-	4
Deferred income tax assets	17	**280**	228	257
		5,708	5,548	6,134
Current assets				
Inventories	18	**586**	623	682
Biological assets	16	**8**	8	7
Trade and other receivables	19	**1,105**	1,211	1,379
Derivative financial instruments	28	**3**	15	28
Restricted cash	20	**43**	19	13
Cash and cash equivalents	20	**601**	700	402
		2,346	2,576	2,511
Non-current assets held for sale	21	**4**	10	16
Total assets		**8,058**	8,134	8,661
Equity				
Capital and reserves attributable to the equity holders of the Company				
Equity share capital	22	**-**	-	-
Capital and other reserves	22	**2,345**	2,330	2,538
Retained earnings	22	**(669)**	(679)	(486)
Total equity attributable to equity holders of the Company		**1,676**	1,651	2,052
Minority interest	22	**179**	145	137
Total equity		**1,855**	1,796	2,189

GROUP BALANCE SHEET [CONTINUED]

AT 31 DECEMBER 2009

	Note	2009 €m	2008 €m Restated	2007 €m Restated
LIABILITIES				
Non-current liabilities				
Borrowings	23	**3,563**	3,752	3,668
Employee benefits	24	**653**	517	482
Derivative financial instruments	28	**80**	107	115
Deferred income tax liabilities	17	**325**	324	446
Non-current income tax liabilities		**15**	19	20
Provisions for liabilities and charges	26	**44**	48	78
Capital grants		**13**	13	14
Other payables	27	**3**	3	9
		4,696	4,783	4,832
Current liabilities				
Borrowings	23	**133**	152	151
Trade and other payables	27	**1,211**	1,311	1,402
Current income tax liabilities		**28**	25	26
Derivative financial instruments	28	**90**	21	6
Provisions for liabilities and charges	26	**45**	46	55
		1,507	1,555	1,640
Total liabilities		**6,203**	6,338	6,472
Total equity and liabilities		**8,058**	8,134	8,661

G. McGann
I. Curley
Directors

11 March 2010

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

COMPANY BALANCE SHEET

AT 31 DECEMBER 2009

	Note	2009 €m	2008 €m
Assets			
Non-current assets			
Financial assets	14	**1,964**	1,961
		1,964	1,961
Current assets			
Amounts receivable from Group companies	19	**12**	12
Cash and cash equivalents	20	**2**	2
		14	14
Total assets		**1,978**	1,975
Equity			
Capital and reserves attributable to the equity holders of the Company			
Equity share capital	22	**-**	-
Capital and other reserves	22	**1,960**	1,957
Retained earnings	22	**-**	1
Total equity		**1,960**	1,958
Liabilities			
Current liabilities			
Amounts due to Group companies	27	**18**	17
Total liabilities		**18**	17
Total equity and liabilities		**1,978**	1,975

G. McGann
I. Curley
Directors

11 March 2010

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

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Equity share capital €m	Share premium €m	Reverse acquisition reserve €m	Available-for-sale reserve €m	Cash flow hedging reserve €m	Foreign currency translation reserve €m	Reserve for share-based payment €m	Retained earnings €m	Total attributable to equity holders of the Company €m	Minority interest €m	Total equity €m
			Capital and other reserves									
At 1 January 2008		-	1,928	575	1	16	(35)	53	(486)	2,052	137	2,189
Total comprehensive income and expense		-	-	-	(1)	(43)	(168)	-	(118)	(330)	22	(308)
Other movements		-	-	-	-	-	-	-	(5)	(5)	5	-
Dividends paid to shareholders		-	-	-	-	-	-	-	(70)	(70)	-	(70)
Dividends paid to minorities		-	-	-	-	-	-	-	-	-	(7)	(7)
Purchase of minorities		-	-	-	-	-	-	-	-	-	(12)	(12)
Share-based payment	25	-	-	-	-	-	-	4	-	4	-	4
At 31 December 2008		-	1,928	575	-	(27)	(203)	57	(679)	1,651	145	1,796
At 1 January 2009		-	1,928	575	-	(27)	(203)	57	(679)	1,651	145	1,796
Total comprehensive income and expense		-	-	-	-	(17)	40	-	(237)	(214)	20	(194)
Hyperinflation adjustment		-	-	-	-	-	(11)	-	247	236	21	257
Dividends paid to minorities		-	-	-	-	-	-	-	-	-	(7)	(7)
Share-based payment	25	-	-	-	-	-	-	3	-	3	-	3
At 31 December 2009		**-**	**1,928**	**575**	**-**	**(44)**	**(174)**	**60**	**(669)**	**1,676**	**179**	**1,855**

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

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Equity share capital €m	Capital and other reserves: Share premium €m	Capital and other reserves: Reserve for share-based payment €m	Retained earnings €m	Total attributable to equity holders of the Company €m
At 1 January 2008		-	1,928	25	-	1,953
Total comprehensive income and expense		-	-	-	71	71
Dividends paid to shareholders		-	-	-	(70)	(70)
Share-based payment	25	-	-	4	-	4
At 31 December 2008		-	1,928	29	1	1,958
At 1 January 2009		-	1,928	29	1	**1,958**
Total comprehensive income and expense		-	-	-	(1)	**(1)**
Share-based payment	25	-	-	3	-	**3**
At 31 December 2009		-	1,928	32	-	**1,960**

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

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 €m	2008 €m
Cash flows from operating activities			
Loss for the financial year		**(107)**	(32)
Adjustment for			
Income tax expense	10	**55**	21
Profit on sale of assets and businesses		**(6)**	(15)
Amortisation of capital grants	6	**(3)**	(1)
Impairment of property, plant and equipment	12	**33**	66
Equity settled share-based payment expense	25	**3**	4
Amortisation of intangible assets	13	**47**	45
Impairment of goodwill	13	**-**	171
Share of loss/(profit) of associates and loss on disposal of associate		**1**	4
Depreciation charge	12	**355**	345
Net finance costs	9	**318**	289
Change in inventories		**48**	35
Change in biological assets		**11**	7
Change in trade and other receivables		**111**	136
Change in trade and other payables		**(94)**	(84)
Change in provisions		**2**	(35)
Change in employee benefits		**(54)**	(50)
Foreign currency translation adjustments		**-**	1
Other		**6**	-
Cash generated from operations		**726**	907
Interest paid		**(230)**	(283)
Income taxes paid:			
Irish corporation tax paid		**(16)**	(14)
Overseas corporation tax (net of tax refunds) paid		**(79)**	(83)
Net cash inflow from operating activities		**401**	527
Cash flows from investing activities			
Interest received		**11**	36
Business disposals		**-**	2
Purchase of property, plant and equipment and biological assets		**(237)**	(308)
Purchase of intangible assets		**(11)**	(9)
Receipt of capital grants		**3**	1
Increase in restricted cash	20	**(24)**	(6)
Disposal of property, plant and equipment		**10**	25
Dividends received from associates	15	**1**	5
Disposals of/investments in associates		**-**	55
Purchase of subsidiaries and minorities		**-**	(16)
Deferred and contingent acquisition consideration paid		**(9)**	(4)
Net cash (outflow) from investing activities		**(256)**	(219)

GROUP CASH FLOW STATEMENT [CONTINUED]

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 €m	2008 €m
Cash flows from financing activities			
Proceeds from bond issuance		**988**	-
Increase in interest-bearing borrowings		**-**	152
Repayment of finance lease liabilities		**(14)**	(14)
Repayments of interest-bearing borrowings		**(1,162)**	(57)
Derivative termination (payments)/receipts		**(4)**	2
Deferred debt issue costs		**(58)**	-
Dividends paid to shareholders		**-**	(70)
Dividends paid to minority interests		**(7)**	(7)
Net cash (outflow)/inflow from financing activities		**(257)**	6
(Decrease)/increase in cash and cash equivalents		**(112)**	314
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**683**	375
Currency translation adjustment		**16**	(6)
(Decrease)/increase in cash and cash equivalents		**(112)**	314
Cash and cash equivalents at 31 December	20	**587**	683

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

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

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 €m	2008 €m
Cash flows from operating activities			
(Loss)/profit for the financial year		**(1)**	71
Adjustment for			
Net finance costs		-	(1)
Cash generated from operations		**(1)**	70
Net cash (outflow)/inflow from operating activities		**(1)**	70
Cash flows from investing activities			
Interest received		-	1
Net cash inflow from investing activities		-	1
Cash flows from financing activities			
Group loan movements		**1**	1
Dividends paid to shareholders		-	(70)
Net cash inflow/(outflow) from financing activities		**1**	(69)
Increase in cash and cash equivalents		-	2
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**2**	-
Increase in cash and cash equivalents		-	2
Cash and cash equivalents at 31 December	20	**2**	2

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1. General information

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

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

The Consolidated Financial Statements presented are for the years ended 31 December 2009 and 31 December 2008. The principal companies within the Group during the years ended 31 December 2009 and 31 December 2008 are disclosed in the *Principal subsidiaries* note.

2. Summary of significant accounting policies

Basis of preparation and statement of compliance

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

IFRS as adopted by the EU differ in certain respects from IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU.

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

- derivative financial instruments are stated at fair value
- available-for-sale financial assets are stated at fair value
- biological assets are stated at fair value
- pension obligations are measured at the present value of the future estimated cash flows related to benefits earned and pension assets are valued at fair value
- share-based payment expense is measured at the fair value of the awards at the date of grant
- the financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period. This is the case for our subsidiaries in Venezuela.

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

Accounting standards and interpretations effective in 2009 which are relevant to the Group

IFRS 8 – Operating Segments

IFRS 8, *Operating Segments* replaced IAS 14, *Segment Reporting* and is mandatory for the Group from the beginning of 2009. IFRS 8 sets out the requirements for disclosure of financial and descriptive information about the Group's operating segments, products, the geographical areas in which we operate and major customers. This new standard changed the requirements for identification of reportable segments. It requires the use of a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Under IAS 14 the Group had two reportable segments – Packaging and Specialties, however, under IFRS 8 the Group has identified three reportable segments – Packaging Europe, Specialties Europe and Latin America. IFRS 8 is a disclosure standard and does not affect the measurement of the Group's reported financial position or financial performance.

IAS 1 – Presentation of Financial Statements (Amended)

IAS 1, *Presentation of Financial Statements* as amended requires the presentation of all owner changes in equity in a statement of changes in equity. In addition, all non-owner changes in equity (or comprehensive income) may be presented either in one statement of comprehensive income or, in two statements – a separate income statement and a statement of comprehensive income. The Group has elected the two statement option. IAS 1 does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs. IAS 1 was also amended to clarify the classification of certain financial assets and liabilities. The effect of this amendment is that non-hedging derivatives are not required to be classified as current simply because they fall in the 'held for trading' category in IAS 39. This means that such financial assets and liabilities should only be presented as current if realisation or settlement is expected within one year or the Group does not have an unconditional right to defer payment; otherwise they should be classified as non-current. Previously the Group accounted for all non-hedging derivative assets and liabilities as current. Non-hedging derivative assets and liabilities are now accounted for as current or non-current based on expected realisation or settlement dates. As a result of this amendment the Group has reclassified €88 million of derivative liabilities from current to non-current at 31 December 2008 (31 December 2007: €115 million). In compliance with IAS 1 as amended, as these amounts have been reclassified, we have presented an additional balance sheet as at 31 December 2007.

Application of IAS 29, Financial Reporting in Hyperinflationary Economies

Inflation in Venezuela has been at relatively high levels in recent years. In the fourth quarter of 2009 cumulative three year inflation exceeded 100%. This, combined with other indicators, results in Venezuela being regarded as a hyperinflationary economy under IAS 29, *Financial Reporting in Hyperinflationary Economies*. IAS 29 has been applied to the financial statements of our Venezuelan operations from the beginning of 2009. The historical cost financial statements of our Venezuelan operations have been restated in terms of the current purchasing power of the Bolivar Fuerte ('VEF') at the period end. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period to 31 December 2009 and, restatement of non monetary items in the balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at 31 December 2009 using a general price index from the date when they were first recognised. The gain or loss on the net monetary position for the year is included in finance costs or income. Comparative amounts are not adjusted in accordance with IAS 21. Any differences arising were recorded in equity on adoption. The restated VEF income, expenses and balance sheets of our Venezuelan operations are translated at the closing rate at 31 December 2009. Differences arising on translation to euro are recognised in other comprehensive income.

2. Summary of significant accounting policies (continued)

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

	2009	2008	2007
Index at year end	**163.7**	130.9	100.0
Movement in year	**25.1%**	30.9%	22.6%

The effect of applying IAS 29 is summarised as follows: revenue increased by €34 million; EBITDA decreased by €1 million; depreciation charge increased by €25 million; net monetary loss recognised of €8 million, and; loss for the year increased by €34 million. The impact on our net assets and our total equity was an increase of €225 million.

IAS 23 – Borrowing Costs (Amended)

IAS 23, *Borrowing Costs*, 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 Group has applied IAS 23 as amended from 1 January 2009. The revised standard applies to projects commenced after 1 January 2009. To date no material amount of borrowing costs has been capitalised.

IFRS 7 – Financial Instruments: Disclosure (Amended)

The amended standard requires enhanced disclosures about fair value measurement and liquidity risk. In particular the amendment requires disclosure of fair value by level of a prescribed fair value hierarchy. IFRS 7 as amended is a disclosure standard and does not affect the measurement of the Group's reported financial position or financial performance. To comply with the additional requirements an additional table has been added to the financial instruments note setting out the required analysis under the IFRS fair value hierarchy.

In addition, the following new standards, amendments to standards and interpretations became effective in 2009, however, they either do not have an effect on the Group Financial Statements or they are not currently relevant for the Group:

- IFRS 2 (amendment), *Share-based payment*
- IAS 32 (amendment), *Financial instruments: presentation*
- IAS 41 (amendment), *Agriculture*
- IAS 19 (amendment), *Employee benefits*
- IAS 39, *Financial instruments: Recognition and measurement – annual improvement published in May 2008*
- IFRIC 9 and IAS 39 (amendments), *Embedded derivatives*
- IFRIC 13, *Customer loyalty programmes*
- IFRIC 15, *Agreements for the construction of real estate*
- IFRIC 16, *Hedges of a net investment in a foreign operation*
- IFRIC 18, *Transfers of assets from customers.*

2. Summary of significant accounting policies (continued)

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

IAS 27 – Consolidated and Separate Financial Statements (Revised)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control 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 the income statement. There is a choice on an acquisition-by-acquisition basis to measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs will be expensed. The Group will apply the revised IFRS 3 prospectively to all business combinations from 1 January 2010.

IFRS 9 – Financial Instruments

The IASB has stated that it intends to replace IAS 39, *Financial Instruments: Recognition and Measurement* by the end of 2010. IFRS 9, which is effective for financial periods beginning on or after 1 January 2013, represents the first phase of this project. It addresses classification and measurement of financial assets only. It replaces the multiple classification models in IAS 39 with two classification categories, namely amortised cost and fair value. Classification under IFRS 9 is determined by the business model for managing financial assets and the contractual characteristics of the financial assets. It removes the requirement to separate embedded derivatives from financial asset hosts. It also removes the cost exemption for unquoted equities. IFRS 9 is mandatory from 1 January 2013 and is subject to EU endorsement. The standard was issued in November 2009 and the Group is currently assessing the impact of adoption.

IAS 39 (Amendment) – Eligible Hedged Items, Financial Instruments: Recognition and Measurement

This amendment to IAS 39 clarifies how to apply the principles that determine whether a hedged risk or a portion of cash flows are eligible for designation as a hedged item. The Group will apply IAS 39 as amended from 1 January 2010 and does not expect it to have a material effect on adoption.

IFRS 2 (Amendment) – Group Cash-settled Share-based Payment Transactions

Issued in June 2009, this amendment clarifies the scope and accounting for group cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendment also incorporates the guidance contained in IFRIC 8 and IFRIC 11, both of which have been withdrawn. Subject to EU endorsement, the Group will adopt the amendment in 2010. It is not expected to have an effect on the Group Financial Statements.

2. Summary of significant accounting policies (continued)

Classification of Rights Issues (Amendment to IAS 32)

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

IAS 24 – Related Party Disclosure (Revised)

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

IFRIC 17 – Distributions of Non-cash Assets to Owners

This interpretation applies to transactions in which an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. It also clarifies that dividends should be recognised when the dividend is appropriately authorised and no longer at the discretion of the entity. The Group will adopt IFRIC 17 with effect from 1 January 2010. It is not expected to have an effect on the Group Financial Statements.

Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement

The amendment removes the unintended consequences of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. Subject to EU endorsement, it will be mandatory for the Group from the beginning of the 2012 financial year. The Group is currently assessing its impact and it is not currently expected to have a material effect on the Group Financial Statements.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

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

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.

2. Summary of significant accounting policies (continued)

Subsidiaries

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

Associates

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

Under the equity method, the Group Income Statement reflects the Group share of the profit or loss after tax of each associate. The Group share of post acquisition movements in the equity of each associate is recognised in the Group Statement of Comprehensive Income. Investments in associates are carried in the Group Balance Sheet at cost adjusted for the Group share of post-acquisition changes in the associate's net assets, less any impairment in value. Where indicators of impairment arise, the carrying amount of the associate is tested for impairment by comparing its recoverable amount with its carrying amount.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are similarly eliminated to the extent that they do not provide evidence of impairment. Accounting policies of associates have been modified to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies (continued)

Business combinations

The Group uses the purchase method in accounting for the acquisition of subsidiaries and associates. The cost of a business combination is measured as the aggregate of the fair 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 equity attributable to the equity holders of the Company.

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.

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

2. Summary of significant accounting policies (continued)

Foreign operations

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

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

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

Reporting in hyperinflationary economies

When the economy of a country in which we operate is deemed hyperinflationary and the functional currency of a Group entity is the currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non monetary items in the balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at the period end using a general price index from the date when they were first recognised. Inflation in Venezuela has been at relatively high levels in recent years. In the fourth quarter of 2009 cumulative three year inflation exceeded 100%. This, combined with other indicators, results in the Group deeming Venezuela as a hyperinflationary economy under IAS 29, *Financial Reporting in Hyperinflationary Economies*. IAS 29 is applied to the historical cost financial statements of our Venezuelan operations from the beginning of 2009. The gain or loss on the net monetary position for the year is included in finance costs or income. Comparative amounts are not adjusted. Any differences arising were recorded in equity on adoption. The restated VEF income, expenses and balance sheets of our Venezuelan operations are translated to euro at the closing rate at the end of the reporting period. Differences arising on translation to euro are recognised in other comprehensive income. The index used to reflect current values is derived from a combination of Banco Central de Venezuela's National Consumer Price Index from its initial publication in December 2007 and the Consumer Price Index for the metropolitan area of Caracas for earlier periods. The combined index at the end of 2009 was 163.7 (2008: 130.9; 2007: 100). During 2009 the index increased by 25.1% (2008: 30.9%).

2. Summary of significant accounting policies (continued)

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.

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

2. Summary of significant accounting policies (continued)

Goodwill acquired in a business combination is allocated to groups of cash-generating units that are anticipated to benefit from the combination's synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. The groups of cash-generating units represent the lowest level within the Group at which the associated goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, *Operating Segments*. Goodwill is subject to impairment testing on an annual basis and at any time during the year if an indicator of impairment is considered to exist. Goodwill impairment testing is undertaken at a consistent time each year. Impairment is determined by comparing the carrying amount to the recoverable amount of the groups of cash-generating units to which the goodwill relates. The recoverable amount is the greater of the fair value less costs to sell and value-in-use. Where the recoverable amount of the groups of cash-generating units is less than the carrying amount, an impairment loss is recognised. In the year in which a business combination is effected, and where some or all of the goodwill allocated to a particular group of cash-generating units arose in respect of that combination, the groups of cash-generating units are tested for impairment prior to the end of that year. Impairment losses arising in respect of goodwill are not reversed following recognition.

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

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

Intangible assets (other than goodwill)

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

Intangible assets acquired as part of a business combination are initially recognised separately from goodwill if the intangible asset meets the definition of an intangible asset and the fair value can be reliably measured. Subsequent to initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying values of intangible assets with finite useful lives are reviewed for indicators of impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable.

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

2. Summary of significant accounting policies (continued)

Research and development

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

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

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

Biological assets

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

2. Summary of significant accounting policies (continued)

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

Cash and cash equivalents

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

Restricted cash

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

Short-term bank deposits

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as a) loans and receivables, b) held to maturity investments or c) financial assets at fair value through profit or loss. Equity and debt investments held by the Group are classified as being available-for-sale and are stated at fair value. Any movements in fair value are recognised directly in 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 costs and income'* below).

2. Summary of significant accounting policies (continued)

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.

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:

2. Summary of significant accounting policies (continued)

(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 values of various derivative instruments used for hedging purposes are disclosed in the *Financial instruments* note. Movements on the cash flow hedging reserve in shareholders' equity are shown in the *Capital and reserves* note. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than one year; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than one year. Non-hedging derivative assets and liabilities are classified as current or non-current based on expected realisation or settlement dates. Previously the Group accounted for all non-hedging derivative assets and liabilities as current. (See above under 'IAS 1 – Presentation of Financial Statements (Amended)').

Cash flow hedges

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

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

Net investment hedges

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

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.

2. Summary of significant accounting policies (continued)

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.

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 in other comprehensive income.

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.

2. Summary of significant accounting policies (continued)

Leases

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

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

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

Employee benefits

Short-term employee benefits

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

Retirement benefit obligations

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

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

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

2. Summary of significant accounting policies (continued)

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

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. Fair value is measured at grant date and expensed over the period during which the awards are expected to vest. Fair value is measured using a binomial lattice model or Monte Carlo simulation, taking into account terms and conditions upon which the options were granted. The convertible shares issued are subject to both market-based and non-market-based vesting conditions as defined in IFRS 2.

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

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when vested convertible shares are converted into ordinary shares. To the extent that the Group receives a tax deduction relating to the services paid in shares, deferred tax in respect of share options is provided on the basis of the difference between the market price of the underlying equity at the date of the Financial Statements and the exercise price of the option; as a result, the deferred tax impact of share options will not directly correlate with the expense reported in the Group Income Statement.

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

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.

2. Summary of significant accounting policies (continued)

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

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

Revenue

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

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

2. Summary of significant accounting policies (continued)

Exceptional items

The Group has adopted an income statement format which seeks to highlight significant items within Group results for the year. The Group believe that this presentation provides additional analysis as it highlights one-off items. Such items include, 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 by market participants 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 and maintenance costs and an appropriate discount rate. Costs to sell include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

3. Determination of fair value (continued)

Inventory

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

Investments in equity securities

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

Cash, short-term deposits and liquid investments

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

Trade and other receivables and payables

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

Derivatives

The fair value of forward foreign currency and energy 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.

4. Critical accounting judgements and estimates (continued)

Estimated impairment of goodwill and other fixed assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the *Summary of significant accounting policies* note. The recoverable amounts of groups of cash-generating units have been determined based on value-in-use calculations. The critical assumptions employed in determining value-in-use, as well as the impact of any reasonable changes in these assumptions on identifying potential impairments, are detailed in the *Goodwill and intangible assets* note. Impairment tests in respect of property, plant and equipment are performed on a cash-generating unit basis. Further details are contained in the *Property, plant and equipment* note.

Income taxes

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

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

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and 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. Fair value disclosures are set out in the *Financial instruments* note.

Impairment of available-for-sale financial assets

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

Measurement of defined benefit obligations

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

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 binomial lattice or Monte Carlo simulation models in accordance with the judgemental assumptions set out in the *Share-based payment* note.

Establishing lives for depreciation purposes of property, plant and equipment

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

Establishing lives for amortisation purposes of intangible assets

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

Currency translation rate – Venezuela

Since 2003 the government of Venezuela has operated exchange controls, including a fixed official exchange rate against the U.S. dollar. The purchase and sale of foreign currency is controlled and approved by CADIVI (the Venezuelan commission for the administration of foreign currencies). Approved transactions are completed at official fixed rates. However, a parallel market of exchange also exists ('parallel rate'). At 31 December 2009 the official rate was VEF 2.15 per U.S. dollar and the parallel rate was VEF 5.97 per U.S. dollar. The Group assesses at each balance sheet date which rate to use for translation of the results and net assets of its Venezuelan operations. The Group has concluded that the official rate is the appropriate rate to use as it believes it has the ability to access funds at that rate.

4. Critical accounting judgements and estimates (continued)

On this basis, in accordance with IFRS, the income statements, statements of comprehensive income, cash flows and balance sheets of the Group's operations in Venezuela included in the Group Financial Statements were translated at the official year end rate of VEF 2.15 per U.S. dollar. At 31 December 2009 the closing U.S. dollar/euro rate applied by the Group was 1 euro = USD 1.44.

On 8 January 2010, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte, and the establishment of a dual rate exchange system. The official exchange rate has been changed from VEF 2.15 per U.S. dollar to VEF 4.3 per U.S. dollar, except for payments in respect of the import of goods classified as essential, for example food and heavy machinery, for which the rate is VEF 2.6 per U.S. dollar. It is likely that the new official rate of VEF 4.3 per U.S. dollar will apply to the operations of the Group. In accordance with IAS 10, *Events After the Reporting Period*, this is a non-adjusting event after the reporting period and, therefore, is not reflected in the Group's 2009 Financial Statements. We expect to record a currency translation loss of approximately €13 million in relation to the U.S. dollar denominated year end net payables of our Venezuelan operations which will be reflected in the Group Income Statement for the first quarter of 2010 and an additional reduction in our year-end net assets and total equity of approximately €223 million which will be reflected in our quarter one Group Statement of Comprehensive Income as a currency translation adjustment.

5. Segmental reporting

IFRS 8, *Operating Segments* applies to the Group's 2009 annual Financial Statements. 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. An operating segment is a grouping of individual business locations: engaged in business activities to generate revenues and incur expenses; whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about the allocation of resources and in assessing its performance; and for which discrete financial information is available. Segmental disclosures are presented on the same basis as that used for internal reporting purposes. In addition we present financial information on a geographical basis. In accordance with IFRS 8, we have determined the operating segments based on the reports reviewed by the Group's executive management team that are used to make strategic decisions and assess performance. The Group has identified three operating segments on the basis of which performance is assessed and resources are allocated: 1) Packaging Europe, 2) Specialties Europe and 3) Latin America.

The Packaging segment is highly integrated. It includes a system of mills and plants that produce a full line of containerboard that is converted into corrugated containers. The Specialties segment comprises activities dedicated to the needs of specific and sometimes niche markets. These include bag-in-box, solidboard and paper sacks. The Latin American segment comprises all forestry, paper, corrugated and folding carton activities in a number of Latin American countries. No operating segments have been aggregated for disclosure purposes.

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

5. Segmental reporting (continued)

	Packaging Europe 2009 €m	Specialties Europe 2009 €m	Latin America 2009 €m	Total 2009 €m
Revenue and results				
Third party revenue	4,191	821	1,045	**6,057**
EBITDA before exceptional items	496	80	193	**769**
Segment exceptional items	(25)	-	-	**(25)**
EBITDA after exceptional items	471	80	193	**744**
Unallocated centre costs				**(28)**
Share-based payment expense				**(3)**
Depreciation and depletion (net)				**(366)**
Amortisation				**(47)**
Impairment of assets				**(33)**
Finance costs				**(432)**
Finance income				**114**
Share of associates' loss (after tax)				**(1)**
Loss before income tax				**(52)**
Income tax expense				**(55)**
Loss for the financial year				**(107)**
Assets				
Segment assets	4,966	888	1,321	**7,175**
Investments in associates	2	-	11	**13**
Group centre assets				**870**
Total assets				**8,058**
Liabilities				
Segment liabilities	1,065	156	156	**1,377**
Group centre liabilities				**4,826**
Total liabilities				**6,203**

5. Segmental reporting (continued)

	Packaging Europe 2009 €m	Specialties Europe 2009 €m	Latin America 2009 €m	Total 2009 €m
Other segmental disclosures:				
Capital expenditure, including additions of goodwill and intangible assets and biological assets:				
Segment expenditure	160	25	44	**229**
Depreciation:				
Segment depreciation	265	40	50	**355**
Amortisation:				
Segment amortisation	33	10	-	**43**
Group centre amortisation				**4**
Total amortisation				**47**
Other significant non-cash charges:				
Impairment of property, plant and equipment included in cost of sales	33	-	-	**33**

	Packaging Europe 2008 €m	Specialties Europe 2008 €m	Latin America 2008 €m	Total 2008 €m
Revenue and results				
Third party revenue	5,170	940	952	7,062
EBITDA before exceptional items	705	99	168	972
Segment exceptional items	(16)	(5)	-	(21)
EBITDA after exceptional items	689	94	168	951
Unallocated centre costs				(31)
Share-based payment expense				(4)
Depreciation and depletion (net)				(352)
Amortisation				(45)
Impairment of assets				(237)
Finance costs				(476)
Finance income				187
Share of associates' profit (after tax)				3
Loss on disposal of associate				(7)
Loss before income tax				(11)
Income tax expense				(21)
Loss for the financial year				(32)

5. Segmental reporting (continued)

	Packaging Europe 2008 €m	Specialties Europe 2008 €m	Latin America 2008 €m	Total 2008 €m
Assets				
Segment assets	5,301	935	969	7,205
Investments in associates	3	-	11	14
Group centre assets				915
Total assets				8,134
Liabilities				
Segment liabilities	1,415	273	179	1,867
Group centre liabilities				4,471
Total liabilities				6,338

	Packaging Europe 2008 €m	Specialties Europe 2008 €m	Latin America 2008 €m	Total 2008 €m
Other segmental disclosures:				
Capital expenditure, including additions of goodwill and intangible assets and biological assets:				
Segment expenditure	219	68	61	348
Group centre expenditure				1
Total expenditure				349
Depreciation:				
Segment depreciation	272	42	31	345
Amortisation:				
Segment amortisation	31	10	-	41
Group centre amortisation				4
Total amortisation				45
Other significant non-cash charges:				
Impairment of goodwill included in cost of sales	171	-	-	171
Impairment of property, plant and equipment included in cost of sales	36	30	-	66

Segment profit is measured based on earnings before interest, tax, depreciation, amortisation, exceptional items and share-based payment expense ('pre-exceptional EBITDA'). Segment assets consist primarily of property, plant and equipment, biological assets, goodwill and intangible assets, inventories, trade and other receivables, deferred income tax assets and cash and cash equivalents. Group centre assets are comprised primarily of available-for-sale financial assets, derivative financial assets, deferred income tax assets, cash and cash equivalents and restricted cash. Segment liabilities are principally comprised of operating liabilities. Group centre liabilities are comprised of items such as borrowings, derivative financial instruments, deferred income tax liabilities and certain provisions.

5. Segmental reporting (continued)

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

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

Information about geographical areas

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

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

	Revenue 2008 €m	Non-current assets 2008 €m
Ireland	159	74
France	1,130	471
Germany	1,299	505
The Netherlands	662	369
Other	3,812	1,843
	7,062	3,262

Revenue is derived almost entirely from the sale of goods and is disclosed based on the location of production. Non-current assets include marketing and customer-related intangibles, software assets, investments in associates, biological assets and property, plant and equipment and are disclosed based on the location of the assets.

6. Operating costs and income

	2009 €m	2008 €m
Other operating costs:		
Distribution costs	**515**	578
Administrative expenses	**850**	890
Other operating expenses	**25**	21
	1,390	1,489

	2009 €m	2008 €m
Other operating income:		
Capital grants amortisation	**3**	1
Insurance proceeds received	**-**	3
	3	4

	2009 €m	2008 €m
The following items are regarded as exceptional in nature:		
Reorganisation and restructuring costs	**25**	21
Impairment loss on property, plant and equipment	**33**	66
Impairment of goodwill	**-**	171
Total exceptional items included in operating costs	**58**	258

The reorganisation and restructuring costs in 2009 relate to the closure of the semi-chemical fluting mill in Sturovo, Slovakia and the rationalisation of our Cork corrugated plant in Ireland and our Rol Pin business in France. The reorganisation and restructuring costs in 2008 related to the closure of our Valladolid recycled containerboard mill, and our Iuretta sack plant, both in Spain.

The impairment of property, plant and equipment in 2009 relates entirely to the Sturovo mill in Slovakia. In 2008, the impairment of property, plant and equipment amounted to €66 million, a portion of which related to the Group's sack business and to the Valladolid mill in Spain. See Note 12 for further details.

Also 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 and income (continued)

	2009 €m	2008 €m
Expenses by nature		
Changes in inventories of finished goods and work in progress	**34**	43
Raw materials and consumables used	**1,573**	2,085
Movement in provisions for impairment against receivables (Note 19)	**12**	10
Movement in stock obsolescence provisions	**-**	4
Transportation expenses	**492**	552
Employee benefit expense excluding redundancy	**1,588**	1,665
Reorganisation and restructuring costs – redundancy	**33**	18
Reorganisation and restructuring costs – non-redundancy	**14**	16
Impairment of property, plant and equipment (Note 12)	**33**	66
Net changes in fair value of biological assets (Note 16)	**(1)**	1
Depletion of biological assets (Note 16)	**6**	6
Depletion of biological assets – hyperinflation adjustment	**6**	-
Advertising costs	**9**	10
Depreciation of property, plant and equipment (Note 12)		
– owned assets	**346**	333
– under finance lease	**9**	12
Amortisation of intangible assets (Note 13)	**47**	45
Auditor's remuneration		
– audit – PwC	**8**	9
– audit related – PwC	**1**	-
– non-audit related – PwC	**-**	-
Operating lease rentals		
– plant and machinery	**34**	38
– transport	**33**	34
– other	**14**	14
Research and development costs	**2**	3
Foreign exchange gains and losses	**(1)**	5
Impairment of goodwill (Note 13)	**-**	171
Other expenses	**1,501**	1,644
Total expenses	**5,793**	6,784

Directors' statutory disclosures

	2009 €m	2008 €m
Directors' remuneration – other services	**5**	5
Directors' remuneration – services as a Director	**1**	1

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

	2009 €m	2008 €m
Operating (loss)/profit	**(1)**	5
Finance costs (net)	**-**	(1)
(Loss)/profit before tax	**(1)**	4
Income tax expense	**-**	(1)
(Loss)/profit after tax	**(1)**	3

8. Employee benefit expense

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

	2009 Number	2008 Number
Europe	**29,444**	31,108
Latin America	**9,823**	9,798
	39,267	40,906

	2009 €m	2008 €m
The employee benefit cost comprises:		
Wages and salaries	**1,250**	1,318
Social welfare	**255**	263
Equity settled share-based payment expense (Note 25)	**3**	4
Expenses related to defined benefit plans and long-term employee benefits (Note 24)	**43**	43
Defined contribution benefit	**37**	37
Reorganisation and restructuring costs – redundancy	**19**	10
Charged to operating profit – pre-exceptional	**1,607**	1,675
Charged to operating profit – exceptional	**14**	8
Charged to finance income and costs (Note 24)	**28**	14
Actuarial loss on pension schemes recognised in other comprehensive income (Note 24)	**159**	82
Total employee benefit cost	**1,808**	1,779

9. Finance income and costs

	2009 €m	2008 €m
Finance cost		
Interest payable on bank loans and overdrafts	**187**	210
Interest payable on finance leases and hire purchase contracts	**5**	6
Interest payable on other borrowings	**65**	78
Finance costs associated with debt restructuring	**22**	-
Impairment loss on available-for-sale financial assets (Note 14)	**-**	12
Other finance costs	**2**	2
Unwinding of discount element of provisions (Note 26)	**-**	1
Foreign currency translation loss on debt	**13**	50
Fair value loss on commodity derivatives not designated as hedges	**-**	4
Fair value loss on other derivatives not designated as hedges	**34**	11
Interest cost on employee benefit plan liabilities (Note 24)	**96**	102
Net monetary loss – hyperinflation	**8**	-
Total finance cost	**432**	476
Finance income		
Other interest receivable	**(11)**	(36)
Foreign currency translation gain on debt	**(24)**	(29)
Gain on debt buy-back	**(8)**	-
Fair value gain on commodity derivatives not designated as hedges	**(3)**	-
Fair value gain on other derivatives not designated as hedges	**-**	(34)
Expected return on employee benefit plan assets (Note 24)	**(68)**	(88)
Total finance income	**(114)**	(187)
Net finance cost	**318**	289

The exceptional costs of €22 million in 2009 arose following our use of proceeds from the 2017 and 2019 bond issuance to pay down debt. These costs comprise the non-cash accelerated amortisation of debt costs arising on the pay down of the debt. The exceptional finance costs of €12 million in 2008 relate to the impairment of available-for-sale assets.

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

10. Income tax expense

Income tax expense recognised in the Group Income Statement

	2009 €m	2008 €m
Current taxation :		
Europe	**36**	47
Latin America	**34**	42
	70	89
Deferred taxation	**(15)**	(68)
Income tax expense	**55**	21
Current tax is analysed as follows:		
Ireland	**7**	10
Foreign	**63**	79
	70	89

A net credit of €2 million in respect of current tax and a €1 million credit in respect of deferred tax is included in the 2009 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:

	2009 €m	2008 €m
Loss before tax	**(52)**	(11)
Loss before tax multiplied by the standard rate of tax of 12.5% (2008: 12.5%)	**(6)**	(1)
Effects of:		
Income subject to different rates of tax	**35**	60
Other items (including non-deductible expenditure)	**29**	(20)
Adjustment to prior period tax	**(1)**	1
Effect of previously unrecognised losses	**(2)**	(18)
Net impact of associates	**-**	(1)
	55	21

Income tax recognised in other comprehensive income

	2009 €m	2008 €m
Arising on actuarial gains/losses on defined benefit plans	**(43)**	(16)
Arising on qualifying derivative cash flow hedges	**(2)**	(5)
	(45)	(21)

10. Income tax expense (continued)

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.

	2009 €m	2008 €m
Loss attributable to equity holders of the Company	**(122)**	(50)
Weighted average number of ordinary shares in issue (millions)	**218**	218
Basic loss per share (cent per share)	**(55.8)**	(22.8)

Diluted

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

At 31 December 2009 there were 328,135 (2008: 1,847,221) potential ordinary shares in issue that could dilute EPS in the future, but these were not included in the computation of diluted EPS in the year because they would have the effect of reducing the loss per share. Accordingly, there is no difference between basic and diluted loss per share in 2009 and 2008.

12. Property, plant and equipment

	Land and buildings €m	Plant and equipment €m	Total €m
At 31 December 2007			
Cost or deemed cost	1,440	3,898	5,338
Accumulated depreciation and impairment losses	(264)	(1,823)	(2,087)
Net book amount	1,176	2,075	3,251
Year ended 31 December 2008			
Opening net book amount	1,176	2,075	3,251
Reclassification	29	(31)	(2)
Additions	10	313	323
Depreciation charge for the year	(50)	(295)	(345)
Impairment losses recognised in the Group Income Statement	(13)	(53)	(66)
Retirements and disposals	(3)	(3)	(6)
Foreign currency translation adjustment	(41)	(76)	(117)
At 31 December 2008	1,108	1,930	3,038
At 31 December 2008			
Cost or deemed cost	1,399	3,859	5,258
Accumulated depreciation and impairment losses	(291)	(1,929)	(2,220)
Net book amount	1,108	1,930	3,038
Year ended 31 December 2009			
Opening net book amount	1,108	1,930	3,038
Reclassification	16	(18)	(2)
Additions	4	199	203
Depreciation charge for the year	(57)	(298)	(355)
Impairment losses recognised in the Group Income Statement	(13)	(20)	(33)
Retirements and disposals	(3)	(2)	(5)
Foreign currency translation adjustment	13	28	41
Hyperinflation adjustment	83	96	179
At 31 December 2009	**1,151**	**1,915**	**3,066**
At 31 December 2009			
Cost or deemed cost	1,527	4,308	5,835
Accumulated depreciation and impairment losses	(376)	(2,393)	(2,769)
Net book amount	**1,151**	**1,915**	**3,066**

Land and Buildings

Included in property, plant and equipment is an amount for land of €404 million (2008: €358 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 €65 million (2008: €77 million). The depreciation charge for capitalised leased assets was €9 million (2008: €12 million) and the related finance charges amounted to €5 million (2008: €6 million). The net carrying amount by class of assets at each balance sheet date is as follows:

	2009 €m	2008 €m
Cogeneration facilities (Note 30)	**47**	52
Other plant and equipment	**4**	7
Plant and equipment	**51**	59
Buildings	**14**	18
	65	77

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:

	2009 €m	2008 €m
Contracted for	**65**	118
Not contracted for	**96**	57
	161	175

Impairments

Impairment tests for items of property, plant and equipment are performed on a cash-generating unit basis and resulted in the Group recognising impairment costs of €33 million and €66 million in 2009 and 2008, respectively. The recoverable amounts in property, plant and equipment are based on the higher of fair value less costs to sell and value-in-use. Value-in-use calculations are based on cash flow projections and discount rates for items of property, plant and equipment. Impairment charges are recognised within cost of sales in the Group Income Statement.

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

Of the impairment charge of €66 million booked in 2008, €36 million arose in the Packaging Europe segment and related to the closure of our Valladolid mill in Spain and to several other restructured corrugated box plants in Spain. The remaining €30 million booked in the Specialties Europe segment related mainly to our sack business, reflecting their reduced profitability potential.

13. Goodwill and intangible assets

	Goodwill €m	Intangible assets: Marketing related €m	Intangible assets: Customer related €m	Intangible assets: Software assets €m	Total €m
At 31 December 2007					
Cost or deemed cost	2,251	35	177	80	2,543
Accumulated amortisation and impairment losses	-	(7)	(65)	(54)	(126)
Net book amount	2,251	28	112	26	2,417
Year ended 31 December 2008					
Opening net book amount	2,251	28	112	26	2,417
Additions	2	-	-	10	12
Amortisation charge (Note 6)	-	(4)	(31)	(10)	(45)
Impairment charge	(171)	-	-	-	(171)
Reclassification	-	-	-	3	3
Foreign currency translation adjustment	(59)	-	(3)	-	(62)
Closing net book amount	2,023	24	78	29	2,154
At 31 December 2008					
Cost or deemed cost	2,194	35	174	93	2,496
Accumulated amortisation and impairment losses	(171)	(11)	(96)	(64)	(342)
Net book amount	2,023	24	78	29	2,154
Year ended 31 December 2009					
Opening net book amount	2,023	24	78	29	**2,154**
Additions	-	-	-	11	**11**
Amortisation charge (Note 6)	-	(4)	(30)	(13)	**(47)**
Reclassification	-	-	-	6	**6**
Hyperinflation adjustment	82	-	-	-	**82**
Foreign currency translation adjustment	15	-	1	-	**16**
Closing net book amount	2,120	20	49	33	**2,222**
At 31 December 2009					
Cost or deemed cost	2,291	35	175	110	**2,611**
Accumulated amortisation and impairment losses	(171)	(15)	(126)	(77)	**(389)**
Net book amount	**2,120**	**20**	**49**	**33**	**2,222**

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 million arose on the acquisition of a 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 IFRS 8, *Operating Segments*. A total of 13 groups (2008: 13) of CGUs have been identified and these are analysed as follows:

	2009 Number	2008 Number
Packaging – Eurozone	**5**	5
Packaging – Eastern Europe	**1**	1
Packaging – Scandinavia	**1**	1
Packaging – United Kingdom	**1**	1
Packaging Europe	**8**	8
Specialties Europe	**1**	1
Latin America	**4**	4
	13	13

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

	2009 €m	2008 €m
Packaging Europe	**1,534**	1,522
Specialties Europe	**306**	306
Latin America	**280**	195
	2,120	2,023

No impairment arose in 2009 as the recoverable amount of the groups of CGUs based on value-in-use, as estimated based on the methodology outlined below, exceeded the carrying amounts.

13. Goodwill and intangible assets (continued)

An impairment charge of €171 million arose in three groups of CGUs in 2008. All three CGUs were located within the Packaging-Eurozone (France: €74 million, Italy: €65 million and Spain & Portugal: €32 million). The impairment resulted from the challenging global operating environment at that time and the impact on management's forecasted operating cash flows and discount rates in the value-in-use model. The related impairment charge was reflected in cost of sales in the Group Income Statement.

Impairment testing methodology and results

The recoverable amounts of groups of CGUs are based on value-in-use calculations. The cash flow forecasts for the purposes of these calculations are based on a nine year plan approved by management. Cash flow forecasts for years six to nine use growth factors consistent with historical growth rates as adjusted for the cyclical nature of the business. The use of adjusted growth rates where higher than the long-term rates for years six to nine has no impact on the impairment assessment. The terminal value is estimated based on using an appropriate earnings multiple in year nine. 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 13 groups of CGUs, four units individually account for between 10% and 20% of the total carrying amount of €2,120 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	10.0%	10.0%	10.0%	10.0%
Earnings multiple used for terminal value	7.1	7.1	7.1	7.1
Excess of value-in-use	€243 million	€584 million	€561 million	€138 million

The key assumptions used are consistent with those addressed above. The values applied to each of the key assumptions are derived from a combination of internal and external factors based on historical experience and take into account the cyclicality of cash flows typically associated with these groups of CGUs. In the prior year, the discount rate applied was 9.8% and the earnings multiple used was 7.1.

13. Goodwill and intangible assets (continued)

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

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

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

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

14. Financial assets

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

	Listed[1] €m	Unlisted €m	Total €m
At 1 January 2008	7	37	44
Change in fair value recognised in other comprehensive income	(1)	-	(1)
Impairment loss recognised in the Group Income Statement	-	(12)	(12)
At 31 December 2008	6	25	31
Additions	1	-	**1**
Change in fair value recognised in other comprehensive income	-	-	**-**
At 31 December 2009	**7**	**25**	**32**

(1) Listed on a recognised stock exchange

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other things, the duration and extent to which the fair value of an investment is less than cost, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash 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 2008 was calculated by management and resulted in an impairment loss of €12 million recorded in the Group Income Statement within finance costs.

At 31 December 2009 available-for-sale assets for which impairment provisions had been recorded amounted to €23 million.

14. Financial assets (continued)

14(b). Investment in subsidiaries – Company

	2009 €m	2008 €m
At 1 January	**1,961**	1,957
Capital contribution	**3**	4
At 31 December	**1,964**	1,961

15. Investment in associates

	2009 €m	2008 €m
At 1 January	**14**	79
Share of (loss)/profit for the year	**(1)**	3
Dividends received from associates	**(1)**	(5)
Loss on disposal of associate	**-**	(7)
Disposals	**-**	(55)
Reclassification	**1**	-
Foreign currency translation adjustment	**-**	(1)
At 31 December	**13**	14

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

16. Biological assets

	2009 €m	2008 €m
At 1 January	**87**	82
Increases due to new plantations	**15**	14
Harvested timber transferred to inventories	**(6)**	(6)
Change in fair value less estimated costs to sell	**1**	(1)
Foreign currency translation adjustment	**2**	(2)
At 31 December	**99**	87
Current	**8**	8
Non-current	**91**	79
At 31 December	**99**	87
Approximate harvest by volume (tonnes '000)	**698**	780

The Group's biological assets consist of 104,725 hectares of forest plantations in Colombia and Venezuela.

16. Biological assets (continued)

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 are satisfied 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.

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:

	2009 €m	2008 €m
Deferred income tax assets:		
Deficits on Group defined benefit pension obligations	**86**	52
Tax losses	**205**	192
Temporary differences principally arising in respect of property, plant and equipment	**72**	61
Revaluation of derivative financial instruments to fair value	**6**	5
Other	**57**	69
	426	379
Deferred tax assets/liabilities available for offset	**(146)**	(151)
	280	228

	2009 €m	2008 €m
Deferred income tax liabilities:		
Taxable temporary differences principally attributable to accelerated depreciation and fair value adjustments arising on acquisition	**377**	372
Revaluation of intangible assets to fair value	**22**	31
Revaluation of biological assets to fair value	**2**	2
Temporary differences arising on provisions and accelerated depreciation	**37**	33
Temporary differences arising on debt issue costs	**3**	5
Other items	**30**	32
	471	475
Deferred tax assets/liabilities available for offset	**(146)**	(151)
	325	324

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

17. Deferred tax assets and liabilities (continued)

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

	2009 €m	2008 €m
Tax losses	**128**	123
Pension/employee benefits	**9**	9
Derivative financial instruments	**5**	1
	142	133

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 €480 million (2008: €457 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 2009 €m
Expiry 1 January 2010 to 31 December 2010	**-**
Expiry 1 January 2011 to 31 December 2011	**-**
Expiry 1 January 2012 to 31 December 2012	**-**
Expiry 1 January 2013 to 31 December 2013	**1**
Expiry 1 January 2014 to 31 December 2014	**2**
Other expiry	**172**
Indefinite	**305**
	480

The movement in temporary differences during the year is:

	2009 €m	2008 €m
At 1 January	**(96)**	(189)
Movement recognised in the Group Income Statement (Note 10)	**15**	68
Movement recognised in other comprehensive income (Note 10)	**45**	21
Transfer between current and deferred tax	**28**	7
Hyperinflation adjustment	**(36)**	-
Foreign currency translation adjustment	**(1)**	(3)
At 31 December	**(45)**	(96)

18. Inventories

	2009 €m	2008 €m
Raw materials	**169**	193
Work in progress	**38**	33
Finished goods	**240**	269
Consumables and spare parts	**139**	128
	586	623

19. Trade and other receivables

	Group 2009 €m	Group 2008 €m	Company 2009 €m	Company 2008 €m
Amounts falling due within one year:				
Trade receivables	**1,005**	1,132	**-**	-
Less: provision for impairment of receivables	**(43)**	(36)	**-**	-
Trade receivables – net	**962**	1,096	**-**	-
Amounts receivable from associates	**3**	4	**-**	-
Other receivables	**117**	87	**-**	-
Prepayments and accrued income	**23**	24	**-**	-
Amounts due from Group companies	**-**	-	**12**	12
Classified as current	**1,105**	1,211	**12**	12
Amounts falling due after more than one year:				
Other receivables	**4**	4	**-**	-
	1,109	1,215	**12**	12

The Group has securitised €223 million (2008: €248 million) of its trade receivables. This transaction was entered into for the purpose of generating financing for the Group, details of which have been more fully provided in Note 23. As a result of this transaction, the Group retained substantially all of the risks and rewards associated with the related receivables and, accordingly, has continued to recognise these and the related financing raised on the Group Balance Sheet.

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

19. Trade and other receivables (continued)

Impairment losses

At 31 December 2009 trade receivables of €164 million (2008: €181 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:

	2009 €m	2008 €m
Past due 0 – 30 days	**106**	128
Past due 30 – 60 days	**38**	33
Past due 60 – 90 days	**13**	9
Past due 90 + days	**7**	11
	164	181

At 31 December 2009 trade receivables of €39 million (2008: €34 million) were considered impaired and provided for. The ageing of this provision was as follows:

	2009 €m	2008 €m
Not past due	**3**	1
Past due 0 – 30 days	**1**	1
Past due 30 – 60 days	**1**	1
Past due 60 – 90 days	**1**	2
Past due 90 + days	**33**	29
	39	34

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

	2009 €m	2008 €m
At 1 January	**36**	37
Charged in the year	**12**	10
Utilised in the year	**(5)**	(9)
Acquisitions and disposals	**-**	(1)
Foreign currency translation adjustment	**-**	(1)
At 31 December	**43**	36

19. Trade and other receivables (continued)

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 2009 and 2008, the level of trade receivables that were past due are not automatically considered to be impaired. Trade receivables that are less than three months past due are generally not considered impaired unless specific evidence of impairment is identified. All receivables are monitored on an ongoing basis for evidence of impairment. Assessments are undertaken both for individual accounts and on a portfolio basis.

Provisions against specific balances

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

Providing against the remaining population of customers

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

20. Cash and cash equivalents and restricted cash

Cash and cash equivalents

	Group 2009 €m	Group 2008 €m	Company 2009 €m	Company 2008 €m
Cash and current accounts	**103**	125	**-**	-
Short-term deposits	**498**	575	**2**	2
Cash and cash equivalents	**601**	700	**2**	2

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

	Group 2009 €m	Group 2008 €m	Company 2009 €m	Company 2008 €m
Cash and cash equivalents	**601**	700	**2**	2
Bank overdrafts and demand loans used for cash management purposes	**(14)**	(17)	**-**	-
Cash and cash equivalents in the Group Cash Flow Statement	**587**	683	**2**	2

Restricted cash – Group

	2009 €m	2008 €m
Total restricted cash	**43**	19

At 31 December 2009, cash of €41 million (2008: €18 million) was held in restricted securitisation bank accounts which were not available for transfer to other Group subsidiaries or for use outside the Group. A further €2 million (2008: €1 million) of restricted cash was held in other Group subsidiaries.

21. Assets held for sale

Assets held for sale were €4 million at 31 December 2009 compared to €10 million at 31 December 2008. The €4 million in 2009 relates to a property in the Netherlands. In 2008, the €10 million related to two properties held in Ireland and one property in Italy.

	2009 €m	2008 €m
Assets classified as held for sale		
Property, plant and equipment	**4**	10

22. Capital and reserves

Group

	Capital and other reserves										
	Equity share capital €m	Share premium €m	Reverse acquisition reserve €m	Available-for-sale reserve €m	Cash flow hedging reserve €m	Foreign currency translation reserve €m	Reserve for share-based payment €m	Retained earnings €m	Total attributable to equity holders of the Company €m	Minority interest €m	Total equity €m
At 1 January 2008	-	1,928	575	1	16	(35)	53	(486)	2,052	137	2,189
Total comprehensive income and expense	-	-	-	(1)	(43)	(168)	-	(118)	(330)	22	(308)
Other movements	-	-	-	-	-	-	-	(5)	(5)	5	-
Dividends paid to shareholders	-	-	-	-	-	-	-	(70)	(70)	-	(70)
Dividends paid to minorities	-	-	-	-	-	-	-	-	-	(7)	(7)
Purchase of minorities	-	-	-	-	-	-	-	-	-	(12)	(12)
Share-based payment (Note 25)	-	-	-	-	-	-	4	-	4	-	4
At 31 December 2008	-	1,928	575	-	(27)	(203)	57	(679)	1,651	145	1,796
At 1 January 2009	-	1,928	575	-	(27)	(203)	57	(679)	1,651	145	1,796
Total comprehensive income and expense	-	-	-	-	(17)	40	-	(237)	(214)	20	(194)
Hyperinflation adjustment	-	-	-	-	-	(11)	-	247	236	21	257
Dividends paid to minorities	-	-	-	-	-	-	-	-	-	(7)	(7)
Share-based payment (Note 25)	-	-	-	-	-	-	3	-	3	-	3
At 31 December 2009	**-**	**1,928**	**575**	**-**	**(44)**	**(174)**	**60**	**(669)**	**1,676**	**179**	**1,855**

22. Capital and reserves (continued)

Company

		Capital and other reserves			
	Equity share capital €m	Share premium €m	Reserve for share-based payment €m	Retained earnings €m	Total attributable to equity holders of the Company €m
At 1 January 2008	-	1,928	25	-	1,953
Total comprehensive income and expense	-	-	-	71	71
Dividends paid to shareholders	-	-	-	(70)	(70)
Share-based payment (Note 25)	-	-	4	-	4
At 31 December 2008	-	1,928	29	1	1,958
At 1 January 2009	-	1,928	29	1	1,958
Total comprehensive income and expense	-	-	-	(1)	(1)
Share-based payment (Note 25)	-	-	3	-	3
At 31 December 2009	**-**	**1,928**	**32**	**-**	**1,960**

Share capital

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

Restriction on transfer of shares

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

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

All convertible shares (classes 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)

	2009 €m	2008 €m
Authorised		
Ordinary shares		
9,910,931,085 Ordinary shares of €0.001 each	**10**	10
Convertible shares of €0.001 each		
2,356,472 Class A1	**-**	-
2,356,471 Class A2	**-**	-
2,355,972 Class A3	**-**	-
30,000,000 Class B	**-**	-
30,000,000 Class C	**-**	-
75,000,000 Class D	**-**	-
	10	10

22. Capital and reserves (continued)

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

	Convertible shares of €0.001 each							Ordinary shares of €0.001 each		
	Class B number	Class C number	Class A1 number	Class A2 number	Class A3 number	Class D number	Total number	Ordinary number	Total number	€m
At 1 January 2008	1,374,600	1,374,600	583,672	583,672	583,638	8,399,846	12,900,028	217,985,995	230,886,023	-
New class B and class C convertible shares issued	1,223,640	1,223,640	-	-	-	-	2,447,280	-	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)	36,799	-	-
At 31 December 2008	2,598,240	2,598,240	-	539,495	539,459	9,035,075	15,310,509	218,022,794	233,333,303	-
At 1 January 2009	2,598,240	2,598,240	-	539,495	539,459	9,035,075	15,310,509	218,022,794	233,333,303	-
New class B and class C convertible shares issued	1,090,580	1,090,580	-	-	-	-	2,181,160	-	2,181,160	-
Conversion of class A2 and A3 convertible shares	-	-	-	(539,495)	(22,713)	562,208	-	-	-	-
Conversion of class D convertibles to ordinary shares	-	-	-	-	-	(9,209)	(9,209)	9,209	-	-
Issued on exercise of warrants	-	-	-	-	-	-	-	1,662	1,662	-
At 31 December 2009	**3,688,820**	**3,688,820**	**-**	**-**	**516,746**	**9,588,074**	**17,482,460**	**218,033,665**	**235,516,125**	**-**

At 31 December 2009 ordinary shares represent 92.6% and convertible shares represent 7.4% of issued share capital.

The called up, issued and fully paid share capital of the Company at 31 December 2009 was €235,000 (2008: €229,000).

22. Capital and reserves (continued)

Share premium

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

Reverse acquisition reserve

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

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 other comprehensive income 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

	2009 €m	2008 €m
Senior Credit Facility		
Revolving credit facility[1] – interest at relevant interbank rate +3.25% on RCF 1 and + 3.5% on RCF 2[8]	**(13)**	(9)
Tranche A term loan[2a] – interest at relevant interbank rate + 3.25%[8]	**219**	405
Tranche B term loan[2b] – interest at relevant interbank rate + 3.375%[8]	**809**	1,289
Tranche C term loan[2c] – interest at relevant interbank rate + 3.625%[8]	**808**	1,288
US Yankee bonds (including accrued interest)[3]	**203**	210
Bank loans and overdrafts	**76**	89
Receivables securitisation floating rate notes 2011[4]	**208**	207
2015 cash pay subordinated notes (including accrued interest)[5]	**358**	362
2017 senior secured notes (including accrued interest)[6]	**485**	-
2019 senior secured notes (including accrued interest)[7]	**489**	-
Total debt before finance leases	**3,642**	3,841
Finance leases	**41**	54
Total debt including finance leases	**3,683**	3,895
Balance of revolving credit facility reclassified to debtors	**13**	9
Total debt after reclassification	**3,696**	3,904
Analysed as follows:		
Current	**133**	152
Non-current	**3,563**	3,752
	3,696	3,904

(1) Revolving credit facility ('RCF') of €525 million split into RCF 1 and RCF 2 of €152 million and €373 million (available under the Senior Credit Facility) to be repaid in full in 2012 and 2013 respectively. (Revolver Loans – Nil, drawn under ancillary facilities and facilities supported by letters of credit – €0.4 million, letters of credit issued in support of other liabilities – €14.1 million)

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

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

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

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

(4) Receivables securitisation floating rate notes mature September 2011

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

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

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

23. Borrowings (continued)

(8) Effective 2 July 2009 the margins applicable to the Senior Credit Facility were amended to the following:

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

Included within the carrying value of debt are deferred debt issue costs of €82 million (2008: €66 million), all of which will be recognised in finance costs in the Group Income Statement using the effective interest rate method over the remaining life of the debt.

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

	Million
US Yankee bonds 7.50% due 2025	**$292**
Receivables securitisation floating rate due 2011	**€210**
Senior secured notes 7.25% due 2017	**€500**
Senior secured notes 7.75% due 2019	**€500**
Senior credit facility due between 2012 and 2014	**€1,873**

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

	Million
Cash pay subordinated notes 7.75% due 2015	**€218**
Cash pay subordinated notes 7.75% due 2015	**$200**
Sundry short-term bank loans and overdrafts	**€76**

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 €4,180 million (2008: €4,439 million) of which €3,668 million (2008: €3,853 million) was utilised at 31 December 2009. The weighted average period until maturity of undrawn committed facilities is 3.7 years (2008: 3.9 years).

Maturity of undrawn committed facilities

	2009 €m	2008 €m
Within 1 year	**-**	1
Between 1 and 2 years	**-**	-
More than 2 years	**512**	585
	512	586

23. Borrowings (continued)

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 €219 million amortising A Tranche maturing in 2012, an €809 million B Tranche maturing in 2013 and an €808 million C Tranche maturing in 2014. In addition, the Senior Credit Facility includes a €525 million revolving credit facility of which €0.4 million was drawn at 31 December 2009 under facilities supported by letters of credit.

The following table sets out the average interest rates at 31 December 2009 and 2008 for each of the drawings under the term loans.

	Currency	2009 Interest rate	2008 Interest rate
Term loan A	EUR	**4.00%**	4.58%
Term loan B	EUR	**4.01%**	5.38%
	USD	**3.66%**	6.16%
Term loan C	EUR	**4.18%**	5.57%
	USD	**3.91%**	6.41%

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 2010 to December 2012. The term loan B must be repaid in December 2013. The term loan C must be repaid in December 2014. As of 31 December 2009, there was €0.4 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 €14.1 million. The original €600 million revolving credit facility maturing in December 2012 was converted in to two tranches totalling €525 million of which €152 million terminates in December 2012 and €373 million terminates in December 2013.

At 31 December 2009 the Group had outstanding debt of €217.5 million 7.75% senior subordinated notes due 2015 and US$200 million 7.75% senior subordinated notes due 2015. In addition, the Group had outstanding US$292.3 million 7.5% senior debentures due 2025 and a further €210 million floating rate notes issued under an accounts receivables securitisation programme maturing in 2011.

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

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.

23. Borrowings (continued)

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 Group Balance Sheet and the notes issued which fund the purchase of these receivables continue to be shown as liabilities. The gross amount of receivables collateralising the receivables securitisation at 31 December 2009 was €223 million (2008: €248 million). At 31 December 2009 cash of €41 million (2008: €18 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: the United Kingdom on 31 March 2008; the Netherlands on 31 December 2008; 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 unfunded and recognised in the Group Balance Sheet. In these countries, a full actuarial valuation of the unfunded liabilities is undertaken by independent actuaries on an annual basis. These schemes liabilities are also included in the figures presented below.

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

	2009 €m	2008 €m	2007 €m	2006 €m	2005 €m
Present value of funded or partially funded obligations	**(1,447)**	(1,210)	(1,498)	(1,565)	(1,634)
Fair value of plan assets	**1,208**	1,080	1,411	1,419	1,317
Deficit in funded or partially funded plans	**(239)**	(130)	(87)	(146)	(317)
Present value of wholly unfunded obligations	**(414)**	(387)	(395)	(439)	(388)
Net employee benefit liabilities	**(653)**	(517)	(482)	(585)	(705)

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

24. Employee benefits (continued)

Principal actuarial assumptions

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

Financial assumptions

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

	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

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 2009			
Equities	7.25 - 7.75	8.00	8.75 - 13.00
Bonds	3.60 - 5.60	4.50	4.25 - 8.67
Property	6.50 - 7.00	n/a	n/a
Other	0.50 - 5.20	3.50	3.30

	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

24. Employee benefits (continued)

Mortality assumptions

In assessing the Group's post retirement liabilities, the mortality assumptions chosen for the principal plans above are based on the country's population mortality, large pension scheme mortality experience and the plan's own mortality experience. In the last two years, mortality investigations were carried out in the UK 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 Ireland, the assumptions used for 2009 were appropriately updated to allow for increasing life expectancies. In Germany, the mortality table chosen is the appropriate one laid down by statutory authorities and also allows for future improvements.

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

	31 December 2009			
	Ireland	UK	Netherlands	Germany
Longevity at age 65 for current pensioners				
Males	20.8	19.6	17.8	18.2
Females	23.8	22.4	20.9	22.3
Longevity at age 65 for current member aged 45				
Males	22.1	20.8	19.6	20.9
Females	25.0	23.6	21.8	24.9

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

Sensitivity analysis

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

	0.25% Increase	0.25% Decrease
	Increase/ (decrease) €m	Increase/ (decrease) €m
Effect of adjusting the discount rate used on liabilities reflected in the Group Balance Sheet as at 31 December 2009	(63)	74
Effect of adjusting the inflation rate used on liabilities reflected in the Group Balance Sheet as at 31 December 2009	40	(33)
Effect of changing the expected return on assets on the charge to the Group Income Statement for the year ended 31 December 2009	(3)	3

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 €43 million as at 31 December 2009. 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.

24. Employee benefits (continued)

Analysis of plan assets and liabilities

Plan assets are comprised as follows:

	2009 €m	2009 %	2008 €m	2008 %
Equities	**501**	**41.5**	386	35.8
Bonds	**591**	**48.9**	521	48.2
Property	**51**	**4.2**	76	7.0
Other	**65**	**5.4**	97	9.0
	1,208	**100.0**	1,080	100.0

The average expected long-term rate of return on assets is 5.75%. 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 117.

At 31 December 2009 the pension scheme assets within equities included shares held in Smurfit Kappa Group plc amounting to €1 million and property to the value of €2 million, which relates to the Gosport plant in the UK.

The actual return on plan assets for the year ended 31 December 2009 was positive €98 million (2008: negative €181 million).

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

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

24. Employee benefits (continued)

December 2008

	Europe €m	USA €m	Latin America €m	Total €m
Assets				
Equities	365	10	11	386
Bonds	505	8	8	521
Property	76	-	-	76
Other	96	-	1	97
Fair value of plan assets	1,042	18	20	1,080
Present value of scheme liabilities	(1,513)	(40)	(44)	(1,597)
Defined benefit liability	(471)	(22)	(24)	(517)

Analysis of the amount charged in the Group Income Statement

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

	2009 €m	2008 €m
Current service cost	**40**[(1)]	43
Past service cost	**6**	3
(Gain) on settlements	**-**	(1)
(Gain) on curtailments	**(4)**[(2)]	-
Actuarial (gains) arising on long-term employee benefits other than defined benefit schemes	**(1)**	(2)
Charged to operating profit	**41**	43
Expected return on plan assets	**(68)**	(88)
Interest cost on plan liabilities	**96**	102
	69	57

(1) The current service cost figure includes a hyperinflationary adjustment of €1 million. The corresponding entry is booked in finance costs in the Group Income Statement. There is no effect on the closing pension liability in the Group Balance Sheet.

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

The defined benefit cost for 2009 includes €9 million (2008: €6 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

	2009 €m	2008 €m
Cost of sales	**24**	23
Distribution costs and administrative expenses	**19**	20
Other operating expenses	**(2)**	-
Finance costs	**96**	102
Finance income	**(68)**	(88)
	69	57

The past service cost recognised in the year ended 31 December 2009 was mainly due to early retirement plans in Germany (ATZ plans). The potential liabilities of a new ATZ contract for the next 5 years had to be immediately recognised fully as a past service cost in 2009. In 2009, the most significant curtailment gain was in Ireland where redundancies and restructuring took place.

In 2008 the past service cost recognised was mainly due to early retirement plans in Germany and Belgium.

Movement in present value of defined benefit obligation

	2009 €m	2008 €m
Present value of liability for defined benefit obligations as at 1 January	**(1,597)**	(1,893)
Current service cost	**(39)**[(1)]	(43)
Past service cost	**(6)**	(3)
Contributions by plan participants	**(7)**	(6)
Benefits paid by plans	**108**	100
(Increase)/decrease arising on settlements	**(3)**	11
Reduction arising on curtailments	**4**	-
Interest cost	**(96)**	(102)
Actuarial gains and losses	**(188)**	191
Transfers	**-**	(2)
Foreign currency translation adjustments	**(37)**	150
Present value of liability for defined benefit obligations as at 31 December	**(1,861)**	(1,597)

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

24. Employee benefits (continued)

Movement in fair value of plan assets

	2009 €m	2008 €m
Fair value of plan assets as at 1 January	**1,083**	1,413
Contributions by employer	**94**	93
Contributions by plan participants	**7**	6
Expected return on plan assets	**68**	88
Benefits paid by plans	**(108)**	(100)
Transfers	**1**	-
Increase/(decrease) arising on settlements	**3**	(10)
Actual return less expected return on pension scheme assets	**29**	(269)
Foreign currency translation adjustments	**32**	(138)
Value of plan assets as at 31 December before IFRIC14 adjustment	**1,209**	1,083
IFRIC14 adjustment for unrecoverable surplus	**(1)**	(3)
Fair value of plan assets as at 31 December	**1,208**	1,080

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

	2009 €m	2008 €m
Actuarial gain/(loss) arising on plan assets	**29**	(269)
Actuarial gain arising on experience of plan liabilities	**14**	19
(Loss)/gain arising from changes in assumptions	**(204)**	169
IFRIC14 adjustment including currency adjustment	**2**	(1)
Total (loss) recognised in the statement of comprehensive income during the year	**(159)**	(82)

	2009 €m	2008 €m
Cumulative statement of comprehensive income amount at 1 January	**26**	119
Recognised during the year	**(159)**	(82)
Foreign currency translation adjustments	**3**	(11)
Cumulative statement of comprehensive income amount at 31 December	**(130)**	26

24. Employee benefits (continued)

History of experience gains and losses

	2009 €m	2008 €m	2007 €m	2006 €m	2005 €m
Actuarial gain/(loss) on plan assets:					
Amount	**29**	(269)	(70)	24	78
Percentage of plan assets	**2.4%**	24.9%	4.9%	1.7%	5.9%
Experience gain/(loss) on plan liabilities:					
Amount	**14**	19	(1)	(7)	5
Percentage of plan liabilities	**0.8%**	1.2%	0.1%	0.4%	0.2%
Total actuarial (loss)/gain recognised in the statement of comprehensive income:					
Amount	**(159)**	(82)	49	87	(13)
Percentage of plan liabilities	**8.5%**	5.2%	2.6%	4.4%	0.6%

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 2010 for the funded schemes are €7 million and €48 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2010 are €41 million. The defined contribution pension scheme expense for the year ended 31 December 2009 was €37 million (2008: €37 million).

25. Share-based payment

Share-based payment expense recognised in the Group Income Statement	2009 €m	2008 €m
Charge arising from fair value calculated at grant date	**3**	6
Reversal of B and C shares total expense	**-**	(2)
	3	4

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

25. Share-based payment (continued)

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

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

Modification in 2007

In February 2007, the awards were exchanged for an identical number of shares in SKG plc, the new holding company of the Group. In March 2007, prior to the IPO of SKG plc, the 2005 Plan was amended (the '2007 Plan'), whereby, upon the IPO taking effect, all of the B, C, F, G and H convertible shares that were not converted to D or I convertible shares would be re-designated as A1, A2 and A3 convertible shares (as to one-third of each aggregate holding in respect of each class). The A1 and A2 convertible shares vested on the first and second anniversaries of the IPO. The A3 convertible shares will automatically convert on a one-to-one basis into D convertible shares on the third anniversary 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.

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.

25. Share-based payment (continued)

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

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

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

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

All 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.

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

25. Share-based payment (continued)

A summary of the activity under the 2002 Plan, as amended, and the 2007 SIP, as amended, for the period from 1 January 2008 to 31 December 2009 is presented below.

	Weighted average exercise price per share € per share	Number of convertible shares
At 1 January 2008	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
Forfeited in the year	13.42	(407,415)
Granted in the year	4.36	2,579,240
Exercised in the year	4.28	(9,209)
At 31 December 2009	**7.07**	**16,953,628**

The weighted average market price on the date the convertible shares were exercised in the year to 31 December 2009 was €6.50 (2008: €7.82).

At 31 December 2009, 9,223,187 (2008: 8,743,155) shares had vested and were convertible to ordinary shares. The weighted average exercise price for all shares vested at 31 December 2009 was €4.58 (2008: €4.60). The weighted average exercise price for all convertible D and A3 shares at 31 December 2009 was €4.56. The weighted average remaining contractual life of all the awards issued under the 2002 Plan, as amended, at 31 December 2009 was 2.97 years.

The weighted average exercise price for all new B and new C convertible shares upon vesting at 31 December 2009 was €10.43. The weighted average remaining contractual life of all the awards issued under the 2007 SIP, as amended, at 31 December 2009 was 8.46 years.

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

25. Share-based payment (continued)

The following is a summary of the key assumptions used in calculating the fair value of awards under the 2002 plan, as amended:

	Expected volatility	Vesting periods (months)	Risk-free rate	Fair value
Granted 15 November 2002				
A convertible	24.58%	38 to 62	4.46%	€4.17
B convertible	24.58%	38 to 62	4.46%	€3.27
C convertible	24.58%	38 to 62	4.46%	€2.29
Granted 1 December 2005				
H convertible	14.46%	37	2.99%	€1.20
Granted 21 December 2006				
E convertible	16.07%	6	3.67%	€4.95
F convertible	16.07%	6	3.67%	€0.06
G convertible	16.07%	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	Remaining vesting periods (months)	Risk-free rate	Incremental fair value
Modification at 19 January 2006				
A convertible converted to E convertible	16.12%	36	3.06%	€3.31
B convertible converted to F convertible	16.12%	36	3.06%	€0.91
C convertible converted to G convertible	16.12%	36	3.06%	€0.23

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

	Expected volatility	Remaining vesting periods (months)	Risk-free rate	Dividend yield	Incremental fair value
Modifications at 20 March 2007					
B, C and G convertibles converted to A1 convertible	19.28%	12	4.00%	1.75%	€14.15
B, C and G convertibles converted to A2 convertible	17.27%	24	3.93%	1.75%	€13.74
B, C and G convertibles converted to A3 convertible	16.45%	36	3.91%	1.75%	€13.36

25. Share-based payment (continued)

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

	Expected volatility	Vesting periods (months)	Risk-free rate	Dividend yield	Fair value
Granted 13 April 2007					
New B convertible	26.32% - 22.42%	36	4.158%- 4.154%	1.75%	€3.59 - €4.79
New C convertible	26.32% - 22.42%	36	4.158%- 4.154%	1.75%	€3.06 - €3.86
Granted 1 May 2007					
New B convertible	25.93% - 22.58%	36	4.143% - 4.120%	1.75%	€4.41 - €5.57
New C convertible	25.93% - 22.58%	36	4.143% - 4.120%	1.75%	€4.17 - €4.70
Granted 26 March 2008					
New B convertible	32.70% - 25.08%	36	3.924% - 3.460%	4.39%	€0.81 - €1.50
New C convertible	32.70% - 25.08%	36	3.924% - 3.460%	4.39%	€0.62 - €0.71
Granted 30 September 2009					
New B convertible	68.62% - 52.18%	36	3.363% - 0.719%	2.97%	€2.59 - €2.76
New C convertible	68.62% - 52.18%	36	3.363% - 0.719%	2.97%	€2.59 - €2.76

26. Provisions for liabilities and charges

	2009 €m	2008 €m
Current	**45**	46
Non-current	**44**	48
	89	94

26. Provisions for liabilities and charges (continued)

	Deferred consideration €m	Restructuring €m	Environmental €m	Legal €m	Other €m	Total €m
At 1 January 2008	12	38	8	13	62	133
Provisions made during the year	-	18	3	-	13	34
Provisions released during the year	-	(3)	(1)	(1)	(5)	(10)
Provisions utilised during the year	(4)	(28)	(1)	(5)	(22)	(60)
Reclassifications	1	-	-	-	(1)	-
Unwinding of discount	-	-	-	-	1	1
Foreign currency translation adjustment	-	(1)	-	-	(3)	(4)
At 31 December 2008	9	24	9	7	45	94
Provisions made during the year	-	35	-	3	12	**50**
Provisions released during the year	-	(1)	(1)	(1)	(3)	**(6)**
Provisions utilised during the year	(9)	(23)	(1)	(3)	(16)	**(52)**
Reclassifications	-	-	-	-	2	**2**
Foreign currency translation adjustment	-	-	-	-	1	**1**
At 31 December 2009	**-**	**35**	**7**	**6**	**41**	**89**

Deferred consideration

Deferred consideration represents the deferred element of acquisition consideration payable. The balance at 31 December 2008 related to the acquisition of the Plasticos bag-in-box operation in Spain. This balance was paid in 2009.

Restructuring

These provisions relate to irrevocable commitments relating to restructuring programmes throughout the Group. The provisions made in 2009 relate to the closure of the Sturovo Mill in Slovakia and the restructuring of Rol Pin in France and the Cork plant in Ireland. The provisions made in 2008 relate to the closure of Valladolid containerboard mill and the Iurreta sack plant, both in Spain. The Group expects that the majority of the provision balance remaining at 31 December 2009 will be utilised during 2010.

Environmental

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

Legal

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

26. Provisions for liabilities and charges (continued)

The most significant provision in 2008 amounted to €2 million 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 €6 million; deferred employee profit sharing provisions in certain of the countries in which we operate amounting to €8 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 2009 €m	Group 2008 €m	Company 2009 €m	Company 2008 €m
Amounts falling due within one year:				
Trade payables	**685**	805	**-**	-
Amounts owed to associates – trading balances	**4**	4	**-**	-
Payroll taxes	**28**	27	**-**	-
Value added tax	**30**	12	**-**	-
Social welfare	**48**	46	**-**	-
Accruals and deferred income	**338**	318	**-**	-
Capital payables	**56**	80	**-**	-
Other payables	**22**	19	**-**	-
Amounts due to Group companies	**-**	-	**18**	17
Classified as current	**1,211**	1,311	**18**	17
Amounts falling due after more than one year:				
Other payables	**3**	3	**-**	-
	1,214	1,314	**18**	17

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

28. Financial instruments

Financial instruments by category

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

At 31 December 2009

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

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

At 31 December 2009

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

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

28. Financial instruments (continued)

At 31 December 2008

	Loans and receivables €m	Assets at fair value through Group Income Statement €m	Derivatives used for hedging €m	Available-for-sale €m	Total €m
Assets as per Group Balance Sheet:					
Available-for-sale financial assets	-	-	-	31	31
Derivative financial instruments	-	14	1	-	15
Trade and other receivables	1,187	-	-	-	1,187
Cash and cash equivalents	700	-	-	-	700
Restricted cash	19	-	-	-	19
	1,906	14	1	31	1,952

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

At 31 December 2008

	Liabilities at fair value through Group Income Statement €m	Derivatives used for hedging €m	Other financial liabilities €m	Total €m
Liabilities as per Group Balance Sheet:				
Borrowings	-	-	3,904	3,904
Derivative financial instruments	100	28	-	128
Trade and other payables	-	-	908	908
	100	28	4,812	4,940

The financial liabilities of the Company of €17 million consist of other financial liabilities.

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

28. Financial instruments (continued)

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

Financial & 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 2009, the Group had fixed an average of 83% (2008: 55%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2009 a one percentage point increase in variable interest rates would have had an estimated impact on pre-tax interest expense of approximately €2 million (including the effect of interest rate swaps) over the following 12 months.

28. Financial instruments (continued)

The Group has entered into one or more interest rate protection agreements (principally interest rate swaps and cross currency interest rate swaps), which establish a fixed interest rate with respect to certain of its borrowings. A table setting out the fixed and variable rate debt together with the impact of the related interest and cross currency swaps has been set out below.

Currency sensitivity

The consolidated Group operates in the following principal currency areas (other than euro): Swedish Krona, Sterling, Latin America (comprising mainly Mexican Peso, Colombian Peso and Venezuelan Bolivar Fuerte) and Eastern Europe (comprising mainly the Polish Zloty and the Czech Koruna). At the end of 2009 approximately 93% (2008: 93%) of our non euro denominated net assets consisted of the Swedish Krona (23%) (2008: 29%), Sterling (7%) (2008: 10%), Latin American currencies (52%) (2008: 39%) and Eastern European currencies (11%) (2008: 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 2009 rate would reduce shareholders' equity by approximately €23 million (2008: €24 million).

Commodity price risk

Containerboard

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

Just over 1.05 metric 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 2009 and 2008 there were no derivatives held to mitigate such risks.

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

Energy

The cost of producing our products is also sensitive to the price of energy. The Group's main energy exposure is to the cost of gas and electricity. These energy costs have experienced significant price volatility in recent years, with a corresponding effect on Group production costs. Oil prices started the year at $43 per barrel and increased to a high of $79 during the year. The Group has benefited from lower energy prices compared to 2008.

28. Financial instruments (continued)

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.

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:

	2009 €m	2008 €m
Cash and cash equivalents	**601**	700
Committed undrawn facilities	**512**	586
Liquidity reserve	**1,113**	1,286
Current liabilities – borrowings due within one year	**(353)**	(387)
Net position	**760**	899

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 €512 million at 31 December 2009; and the Group has cash and cash equivalents of €601 million at 31 December 2009. 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.

28. Financial instruments (continued)

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 2009 the EBITDA ratio of the Group was 4.1 times net debt of €3,052 million which compares to 3.4 times net debt of €3,185 million at the end of 2008, which gives the Group continuing headroom compared to the actual covenant level at 31 December 2009 of 5.4 times.

On the basis of pre-exceptional earnings, the Group's return on capital employed was 6.6% compared to 10.3% in 2008. Our return on capital employed in 2009 was adversely affected by the entries recorded in respect of hyperinflationary accounting for Venezuela, which reduced our operating earnings by €26 million and increased our capital employed at December 2009 by €225 million. Excluding these entries, our return on capital employed in 2009 would increase to 7.2%, which is more comparable to 2008's 10.3%. The return on capital employed comprises the pre-exceptional operating profit plus share of associates' profit as a percentage of average capital employed (where capital employed is the sum of total equity and net borrowing at year end; 2009: €4,907 million, (2008: €4,980 million)). The post-exceptional return on capital employed was 5.4% in both 2009 and 2008.

The capital employed of the Company at 31 December 2009 was €1,964 million (2008: €1,961 million).

Credit risk

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

Trade debtors arise from a wide and varied customer base spread throughout the Group's operations and as such there is no significant concentration of credit risk. Credit evaluations are performed on all customers over certain thresholds and all customers are subject to continued monitoring at operating company level.

Risk of counterparty default arising on cash and cash equivalents and derivative financial instruments is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. Of our total cash and cash equivalents (including restricted cash) at 31 December 2009 of €644 million, 45% was with financial institutions in the A rating category of Standard and Poor's or Moody's and 44% was with financial institutions in the AA/Aa rating category. The remaining 11% was represented mainly by cash held with banks in Latin America which fell outside the A and AA/Aa ratings categories. At 31 December 2009 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.

28. Financial instruments (continued)

Market risk – available-for-sale securities

The Group's available-for-sale securities principally comprise an investment in an unlisted entity which operates in a similar paper processing market to the Group in Europe and which has a similar underlying risk profile to the general operational risks encountered by the Group in this market. This investment has been written down to its estimated fair value and the Group's maximum exposure to risk associated with this investment is represented by its carrying amount.

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

Derivative positions

Derivative financial instruments recognised as assets and liabilities in the 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:

	2009 €m	Restated 2008 €m	Restated 2007 €m
Non-current derivative assets			
Cash flow hedges			
Interest rate swaps	**-**	-	4
Total non-current cash flow hedges	**-**	-	4
Current derivative assets			
Cash flow hedges			
Interest rate swaps	**-**	1	15
Not designated as hedges			
Interest rate swaps	**-**	-	8
Cross currency swaps	**-**	11	2
Foreign currency forwards	**2**	3	2
Energy and pulp hedging contracts	**1**	-	1
Total current derivative assets	**3**	15	28
Total derivative assets	**3**	15	32
Non-current derivative liabilities			
Cash flow hedges			
Interest rate swaps	**(31)**	(19)	-
Not designated as hedges			
Cross currency swaps	**(49)**	(88)	(115)
Total non-current derivative liabilities	**(80)**	(107)	(115)
Current derivative liabilities			
Cash flow hedges			
Interest rate swaps	**(19)**	(9)	-
Not designated as hedges			
Foreign currency forwards	**(1)**	(2)	(1)
Cross currency swaps	**(67)**	(3)	(5)
Interest rate swaps	**(2)**	(3)	-
Energy and pulp hedging contracts	**(1)**	(4)	-
Total current derivative liabilities	**(90)**	(21)	(6)
Total derivative liabilities	**(170)**	(128)	(121)
Net (liability) on derivative financial instruments	**(167)**	(113)	(89)

28. Financial instruments (continued)

Fair Value Hierarchy

Fair value measurement at 31 December 2009

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets (Note 14)				
Listed instruments	7	-	-	**7**
Unlisted investments	-	-	25	**25**
Derivative financial instruments				
Assets at fair value through Group Income Statement	-	3	-	**3**
Derivative financial instruments				
Liabilities at fair value through Group Income Statement	-	(120)	-	**(120)**
Derivatives used for hedging	-	(50)	-	**(50)**
Total	**7**	**(167)**	**25**	**(135)**

Fair value measurement at 31 December 2008

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets (Note 14)				
Listed instruments	6	-	-	6
Unlisted investments	-	-	25	25
Derivative financial instruments				
Assets at fair value through Group Income Statement	-	14	-	14
Derivatives used for hedging	-	1	-	1
Derivative financial instruments				
Liabilities at fair value through Group Income Statement	-	(100)	-	(100)
Derivatives used for hedging	-	(28)	-	(28)
Total	6	(113)	25	(82)

The fair value of the derivative financial instruments set out above has been measured in accordance with level 2 of the fair value hierarchy. All are plain derivative instruments, valued with reference to observable foreign exchange rates, interest rates or broker prices. There were no movements in level 3 during the year. In 2008, the Group booked an impairment charge of €12 million in respect of the level 3 investment. Further details of the available-for-sale financial assets are set out in Note 14.

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 2009 and 2008. Amounts accounted for in the cash flow hedging reserve in respect of these swaps during the current and preceding periods have been set out in the Group Statement of Comprehensive Income. These fair value gains and losses are expected to impact on profit and loss over the period from 2010 to 2014, in line with the underlying debt being hedged. In addition, certain subsidiaries use foreign currency forward contracts to hedge forecast foreign currency sales and purchases. Such forward contracts are designated as cash flow hedges, and are set so as to closely match the critical terms of the underlying cash flows and have been highly effective in achieving offsetting cashflows with no ineffectiveness recorded. These fair value gains and losses are expected to impact on profit and loss over the period from 2010 to 2014.

Derivatives not designated as hedges

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

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

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

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

28. Financial instruments (continued)

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

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

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

(2) European Interbank Offered Rate

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

Currency	Notional principal (millions)	Termination dates	% Fixed payable	% Variable receivable
EUR	590	2009	3.035-4.950	Euribor
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

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 2009 the Group had entered into €147 million (2008: €83 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2009 the Group had also entered into further short-term currency swaps of €234 million equivalent (2008: €323 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.

28. Financial instruments (continued)

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

Currency swapped (millions)	Currency received (millions)	Maturity date	Interest rate paid	Interest rate received
USD 176	EUR 168	2010	Euribor + 2.06	Libor(1) + 2.00
USD 32	EUR 23	2010	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 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 + 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

Energy risk management

The Group had the following energy hedging contracts outstanding at the end of 2009 and 2008. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

	2009		2008	
	Notional	Maturity	Notional	Maturity
Energy contracts	**€9m**	**Q1 2010 - Q4 2011**	€10m	Q1 2009 - Q4 2011

28. Financial instruments (continued)

Effective interest rates and repricing analysis

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

2009 Fixed rate instruments	Average effective interest rate	6 months or less €m	6-12 months €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities							
US Yankee bonds	7.60%	-	-	-	-	203	**203**
2015 cash pay notes	8.14%	-	-	-	-	358	**358**
2017 secured notes	8.03%	-	-	-	-	485	**485**
2019 secured notes	8.34%	-	-	-	-	489	**489**
Bank loans/overdrafts	2.13%	-	1	3	1	6	**11**
Effect of interest rate swaps	-	720	-	-	1,110	-	**1,830**
Total		720	1	3	1,111	1,541	**3,376**
Finance leases	7.76%	7	7	9	13	1	**37**
Total fixed rate liabilities		**727**	**8**	**12**	**1,124**	**1,542**	**3,413**

Floating rate instruments	Average effective interest rate	6 months or less €m	6-12 months €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Assets							
Cash and cash equivalents(1)	1.06%	601	-	-	-	-	**601**
Restricted cash	0.00%	43	-	-	-	-	**43**
Total floating rate assets		**644**	**-**	**-**	**-**	**-**	**644**
Liabilities							
Senior credit facility	5.00%	1,823	-	-	-	-	**1,823**
Receivables securitisation	1.82%	208	-	-	-	-	**208**
Bank loans/overdrafts	5.46%	65	-	-	-	-	**65**
Effect of interest rate swaps	2.77%	(1,830)	-	-	-	-	**(1,830)**
Total		266	-	-	-	-	**266**
Finance leases	2.00%	1	-	1	2	-	**4**
Total floating rate liabilities		**267**	**-**	**1**	**2**	**-**	**270**
Total net position		**(350)**	**(8)**	**(13)**	**(1,126)**	**(1,542)**	**(3,039)**

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

28. Financial instruments (continued)

2008 Fixed rate instruments	Average effective interest rate	6 months or less €m	6-12 months €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities							
US Yankee bonds	7.60%	-	-	-	-	210	210
2015 cash pay notes	8.16%	-	-	-	-	362	362
Bank loans/overdrafts	2.70%	1	1	3	3	4	12
Effect of interest rate swaps	-	490	100	600	500	60	1,750
Total		491	101	603	503	636	2,334
Finance leases	7.69%	6	6	15	20	1	48
Total fixed rate liabilities		497	107	618	523	637	2,382
Floating rate instruments							
Assets							
Cash and cash equivalents[1]	2.33%	700	-	-	-	-	700
Restricted cash	0.66%	19	-	-	-	-	19
Total floating rate assets		719	-	-	-	-	719
Liabilities							
Senior credit facility	6.11%	2,973	-	-	-	-	2,973
Receivables securitisation	4.18%	207	-	-	-	-	207
Bank loans/overdrafts	9.38%	77	-	-	-	-	77
Effect of interest rate swaps	(0.12%)	(1,750)	-	-	-	-	(1,750)
Total		1,507	-	-	-	-	1,507
Finance leases	5.54%	1	1	1	2	1	6
Total floating rate liabilities		1,508	1	1	2	1	1,513
Total net position		(1,286)	(108)	(619)	(525)	(638)	(3,176)

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

28. Financial instruments (continued)

Liquidity analysis

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

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

Liquidity table 2008	Weighted average period until maturity	No fixed term €m	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities							
Trade and other payables		-	908	-	-	-	908
Senior credit facility	5.0 yrs	-	237	249	2,016	1,385	3,887
Receivables securitisation	2.7 yrs	-	7	7	216	-	230
Bank loans and overdrafts	1.1 yrs	17	55	6	7	7	92
US Yankee bonds	16.8 yrs	-	16	16	47	397	476
2015 cash pay notes	6.1 yrs	-	28	28	84	396	536
		17	1,251	306	2,370	2,185	6,129
Finance leases	4.3 yrs	-	18	18	26	4	66
		17	1,269	324	2,396	2,189	6,195
Derivative liabilities		-	13	9	13	-	35
Total liabilities		17	1,282	333	2,409	2,189	6,230

The financial liabilities of the Company of €18 million (2008: €17 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 2009	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities					
Cross currency swaps	594	18	191	-	**803**
Foreign currency forwards	147	-	-	-	**147**
Total	741	18	191	-	**950**

Liquidity table 2008	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities					
Cross currency swaps	418	342	196	-	956
Foreign currency forwards	82	-	-	-	82
Total	500	342	196	-	1,038

Currency analysis

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

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

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

28. Financial instruments (continued)

Year ended 31 December 2008	Euro €m	Sterling €m	Latin America[1] €m	US Dollar €m	Other €m	Total €m
Trade and other receivables	874	60	141	9	103	1,187
Available-for-sale financial assets	31	-	-	-	-	31
Cash and cash equivalents	479	29	37	62	93	700
Restricted cash	14	4	1	-	-	19
Total assets	1,398	93	179	71	196	1,937
Trade and other payables	676	45	74	19	94	908
Senior credit facility	2,847	-	-	126	-	2,973
Receivables securitisation	207	-	-	-	-	207
Bank loans and overdrafts	50	-	29	8	2	89
US Yankee bonds	-	-	-	210	-	210
2015 cash pay notes	215	-	-	147	-	362
	3,995	45	103	510	96	4,749
Finance leases	40	12	-	-	2	54
Total liabilities	4,035	57	103	510	98	4,803
Impact of foreign exchange contracts	415	95	-	(479)	48	79
Total (liabilities)/assets	(3,052)	(59)	76	40	50	(2,945)

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

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

Currency risk related to financial assets and liabilities denominated in currencies other than the Group's functional currency (euro) represents both transactional and translation risk.

28. Financial instruments (continued)

Fair value

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

	2009		2008	
	Carrying value €m	Fair value €m	Carrying value €m	Fair value €m
Trade and other receivables	1,083	1,083	1,187	1,187
Available-for-sale financial assets	32	32	31	31
Cash and cash equivalents	601	601	700	700
Derivative assets	3	3	15	15
Restricted cash	43	43	19	19
	1,762	1,762	1,952	1,952
Trade and other payables	767	767	908	908
Senior credit facility(1)	1,823	1,799	2,973	1,837
Receivables securitisation	208	208	207	207
Bank overdrafts	76	76	89	89
US Yankee bonds(1)	203	177	210	124
2015 cash pay notes(1)	358	349	362	227
2017 secured notes(1)	485	488	-	-
2019 secured notes(1)	489	498	-	-
	4,409	4,362	4,749	3,392
Finance leases	41	40	54	57
	4,450	4,402	4,803	3,449
Derivative liabilities	170	170	128	128
	4,620	4,572	4,931	3,577
Total net position	**(2,858)**	**(2,810)**	(2,979)	(1,625)

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

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

29. Contingent liabilities

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

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:

	2009 €m	2008 €m
Within one year	**51**	43
Within two to five years	**91**	71
Over five years	**30**	29
	172	143

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.

30. Lease obligations (continued)

Finance leases

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

	2009		2008	
	Minimum payments €m	Present value of minimum payments €m	Minimum payments €m	Present value of minimum payments €m
Within one year	**19**	**16**	18	14
Within two to five years	**28**	**24**	44	37
Over five years	**1**	**1**	3	3
Total minimum lease payments	**48**	**41**	65	54
Less: amounts allocated to future finance costs	**(7)**	**-**	(11)	-
Present value of minimum lease payments	**41**	**41**	54	54

The Group has a number of arrangements in place in relation to cogeneration facilities that do not take the legal form of leases but convey the right to use the underlying assets in return for a series of payments. These arrangements have been assessed as having the substance of finance lease arrangements. See Note 12 for the capitalised values of these finance leases.

The cogeneration plants consist of gas turbines, steam turbines and boilers for the recuperation of exhaust fumes. In exchange for a third party vendor constructing such a plant on, or near, a Group paper mill, the Group generally commits to purchasing the recouped steam output and a minimum amount of electricity produced by the plant. Payment terms generally include both fixed elements and variable elements determined on output consumed by the Group and certain market indices. The terms of these arrangements cover minimum periods ranging from six to twenty 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 38 to 44.

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 62 to 63. A listing of the principal subsidiaries is provided on pages 152 to 153 of this document.

31. Related party transactions (continued)

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

	2009 €m	2008 €m
Sale of goods	**12**	23
Purchase of goods	**(12)**	(23)
Rendering of services	**-**	1
Receiving of services	**(4)**	(5)

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

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

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 2009 and 2008 relating to balances with related parties.

Transactions with other related parties

In 2009, the Group purchased, in the normal course of business, approximately 40,000 metric tonnes (2008: 52,000) of paper amounting to approximately €18 million (2008: €26 million) from Savon Sellu, a company controlled by Dermot Smurfit together within his brothers Dr. Michael Smurfit, former Chairman of the Group and Alan Smurfit. An amount of €4 million (2008: €6 million) was owed by the Group to Savon Sellu at 31 December 2009.

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)

	2009 €m	2008 €m
Short-term employee benefits	**6**	6
Post employment benefits	**1**	1
Share-based payment expense	**1**	1
Total	**8**	8

Parent Company

The Parent Company is an investment holding company and as a result, holds investments in the Group subsidiaries as financial assets. The Parent Company also has receivables and payables with its subsidiaries entered into in the normal course of business. These balances are repayable on demand. The notes to the Parent Company Balance Sheet disclose these various balances. The Parent Company loss for the year of €1 million (2008: profit of €71 million) arose from transactions with its subsidiaries.

32. Events after the balance sheet date

On 8 January 2010, the Venezuelan government announced the devaluation of its currency, the Bolivar Fuerte, and the establishment of a dual rate exchange system. For further details, please refer to Note 4. On 27 January 2010, the Group confirmed that negotiations are progressing concerning a transaction that would involve the Group acquiring Mondi Group's corrugated operations in the United Kingdom and Mondi Group acquiring the Group's European sack converting operations.

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. Losses of €1 million (2008: profits of €71 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 2009 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 2009 on 11 March 2010.

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
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 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 de Argentina, S.A. Paque Saenz Pena 308 – 8th Floor, Buenos Aires, Argentina	Manufacture and sale of paperboard and packaging products	**Argentina**	100
Smurfit Kappa Deutschland GmbH Tilsiter Strasse 144, 22047 Hamburg, Germany	Holding company for German operations which manufacture and sell paperboard and packaging products	**Germany**	100
Smurfit Kappa Holdings Italia, S.p.A. Strada Serravalle 30, 15067 Novi Ligure (AL), Italy	Manufacture and sale of paperboard and packaging products	**Italy**	100

37. Principal subsidiaries (continued)

Subsidiaries	Principal Activities	Country of Incorporation	Holding %
Smurfit Kappa Investments UK Limited 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 Kraftliner AB SE – 941 86, Pitea, Sweden	Manufacture and sale of containerboard and holding company for operations in Sweden and other countries which manufacture packaging products	**Sweden**	100
Smurfit Kappa Nederland B.V. Zwaanstraat 1, 5651 CA Eindhoven, The Netherlands	Holding company for Dutch operations which manufacture containerboard, solid board and packaging products	**The Netherlands**	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 Participations SAS 2 Rue Goethe, 75116 Paris, France	Holding company for French operations whose principal activities are the manufacture and sale of paperboard and packaging products	**France**	100
Smurfit Kappa Treasury Funding Limited Beech Hill, Clonskeagh, Dublin 4, Ireland	Finance company	**Ireland**	100

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

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

37. Principal subsidiaries (continued)

Section 17 Guarantees

Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, Smurfit Kappa Group plc has irrevocably guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the filing provisions of Section 7, Companies (Amendment) Act, 1986. Smurfit Kappa Group plc also has, in accordance with Article 403, Book 2 of the Dutch Civil Code, guaranteed the debts of its following Dutch subsidiaries – Smurfit International B.V., Smurfit Corrugated B.V., Smurfit Holdings B.V., Smurfit Investments B.V., Packaging Investments Netherlands B.V., Packaging Investments Holdings B.V., Packaging Investments International B.V., Smurfit Kappa B.V., Kappa Packaging International B.V., CE International B.V., Kappa Packaging Nederland Holding B.V., Smurfit Kappa Nederland B.V., Smurfit Kappa Solid Board B.V., Smurfit Kappa Shared Services B.V., Smurfit Kappa Sourcing Services B.V., Smurfit Kappa Mercurius B.V., Kappa Packaging Insurances B.V., Smurfit Kappa Corrugated Division B.V., Smurfit Kappa Corrugated Benelux B.V., Smurfit Kappa TwinCorr B.V., Smurfit Kappa De Zeeuw Golfkarton B.V., Smurfit Kappa Van Dam Golfkarton B.V., Smurfit Kappa Vandra B.V., Cobra Golfkarton B.V., Smurfit Kappa Orko-Pak B.V., Smurfit Kappa 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 2009, 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	602	36.9	338	0.1
1,001 - 5,000	618	37.9	1,584	0.5
5,001 - 10,000	128	7.8	979	0.4
10,001 - 50,000	137	8.4	3,193	1.9
50,001 - 100,000	38	2.3	2,672	1.2
100,001 - 500,000	66	4.0	15,692	6.0
over 500,000	44	2.7	193,576	89.9
Totals	1,633	100	218,034	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

Annual General Meeting	7 May 2010
Interim results announcement	11 August 2010

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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