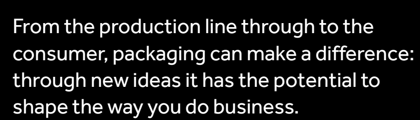
Annual Report **2014**

# OPEN **OPPORTUNITIES**

PAPER | PACKAGING | SOLUTIONS

Smurfit Kappa



From the production line through to the consumer, packaging can make a difference: through new ideas it has the potential to shape the way you do business.

The images in this report are from video case studies on our company microsite.

For more information visit

**openthefuture.info**

# OPEN **POTENTIAL**

The Smurfit Kappa Group strives to be a customer-orientated, 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.

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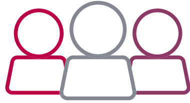
# Group Profile



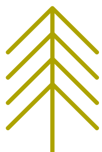
**42,000**
people employed worldwide

**We operate in**

| | |
|---|---|
| **21** | Countries in Europe |
| **11** | Countries in the Americas |

**We own**

| | |
|---|---|
| **34** | Mills (27 produce containerboard) |
| **50** | Recovered fibre facilities /wood procurement |
| **229** | Converting plants |
| **31** | Other production facilities |



**103,000**
Hectares of Latin American forest plantations

Smurfit Kappa Group plc ('SKG plc' or 'the Company') and its subsidiaries (together 'SKG' or 'the Group') is one of the world's largest integrated manufacturers of paper-based packaging products, with operations in Europe, Latin America, the United States and Canada. It manufactures, distributes and sells containerboard, corrugated containers and other paper-based packaging products such as solidboard, graphicboard and bag-in-box.

The Group has two reporting segments, Europe and the Americas. The Europe segment, which is highly integrated, includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. In addition to other types of paper, such as solidboard and sack kraft paper, and paper-based packaging, such as solidboard packaging and folding cartons, this segment includes the Group's bag-in-box operations. The Americas segment comprises all the Group's forestry, paper, corrugated, paper sack and folding carton activities in a number of Latin American countries and in the United States.

The Group operates in 21 countries in Europe and is the European leader in corrugated packaging, containerboard, solidboard and solidboard packaging with key positions in several other packaging and paper market segments. We also have two bag-in-box facilities, located in Canada and Argentina, which are managed as part of our European operations. The Group operates in 11 countries in the Americas and is the largest pan-regional producer of containerboard and corrugated containers in Latin America. In terms of world market positions, the Group is the second largest producer of corrugated packaging.

Given the high degree of integration between the mills and its conversion plants, particularly in terms of containerboard, the Group's end customers are primarily in the corrugated packaging market, which uses the packaging for product protection and product marketing and merchandising purposes. The Group's large manufacturing footprint provides it with a competitive advantage because the corrugated packaging market is a localised market and corrugated box plants need to be close to customers (generally 300 kilometres or less) due to the relatively high cost of transporting the product. Approximately 60% of the Group's corrugated customers are in the fast moving consumer goods ('FMCG') sector, comprising food, beverage, and household consumables, the remainder being split across a wide range of different industries.

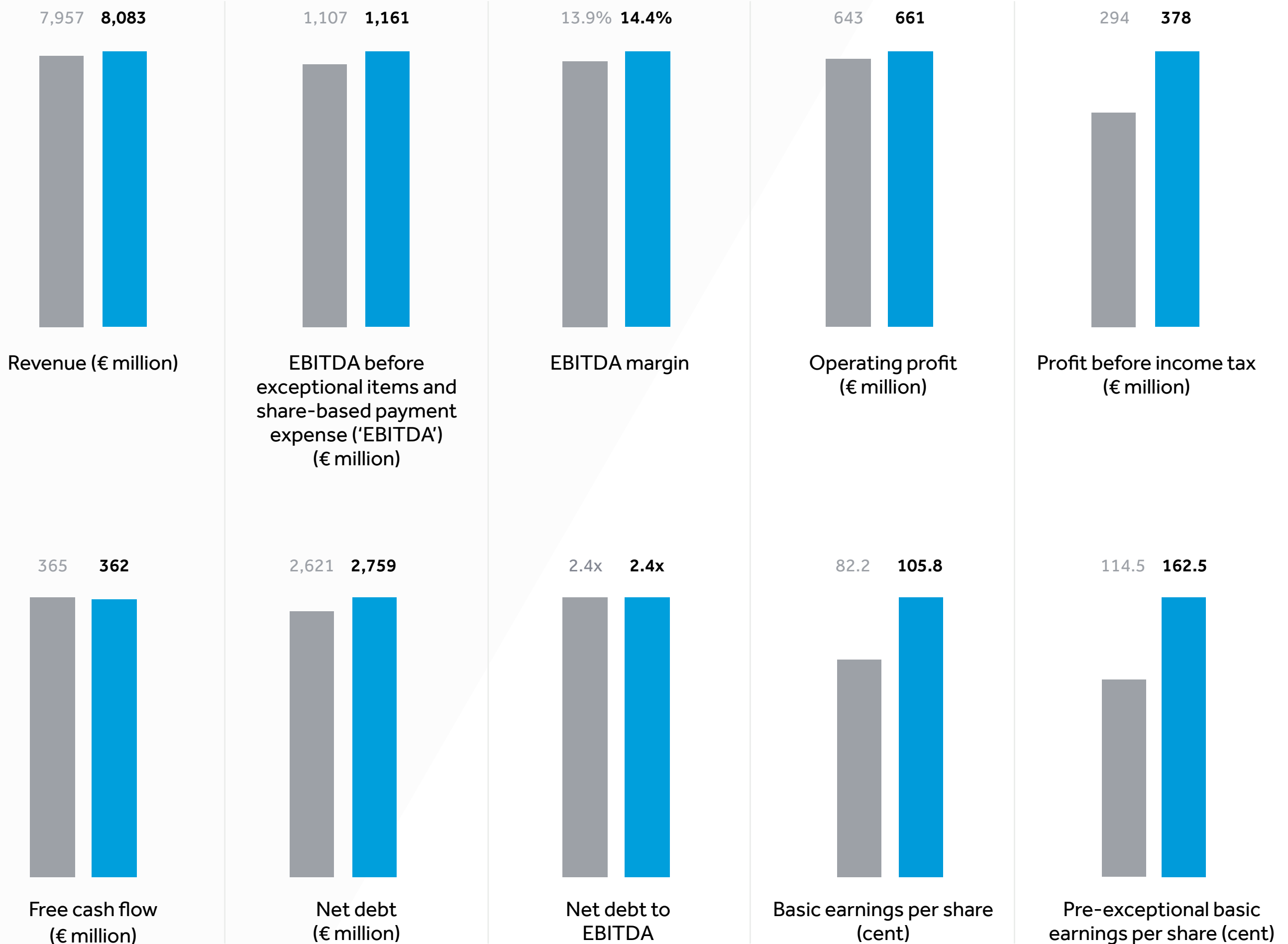
In 2014, the Group's Europe and Americas segments accounted for approximately 76% and 24% of revenue respectively.

Excluding the solidboard operations held for sale, at the date of this report, the Group owns 34 mills (27 of which produce containerboard), 229 converting plants (most of which convert containerboard into corrugated boxes), 48 recovered fibre facilities and two wood procurement operations (which together provide raw material for our mills) and 31 other production facilities carrying on other related activities. In addition, the Group owns approximately 103,000 hectares of forest plantations in Latin America.

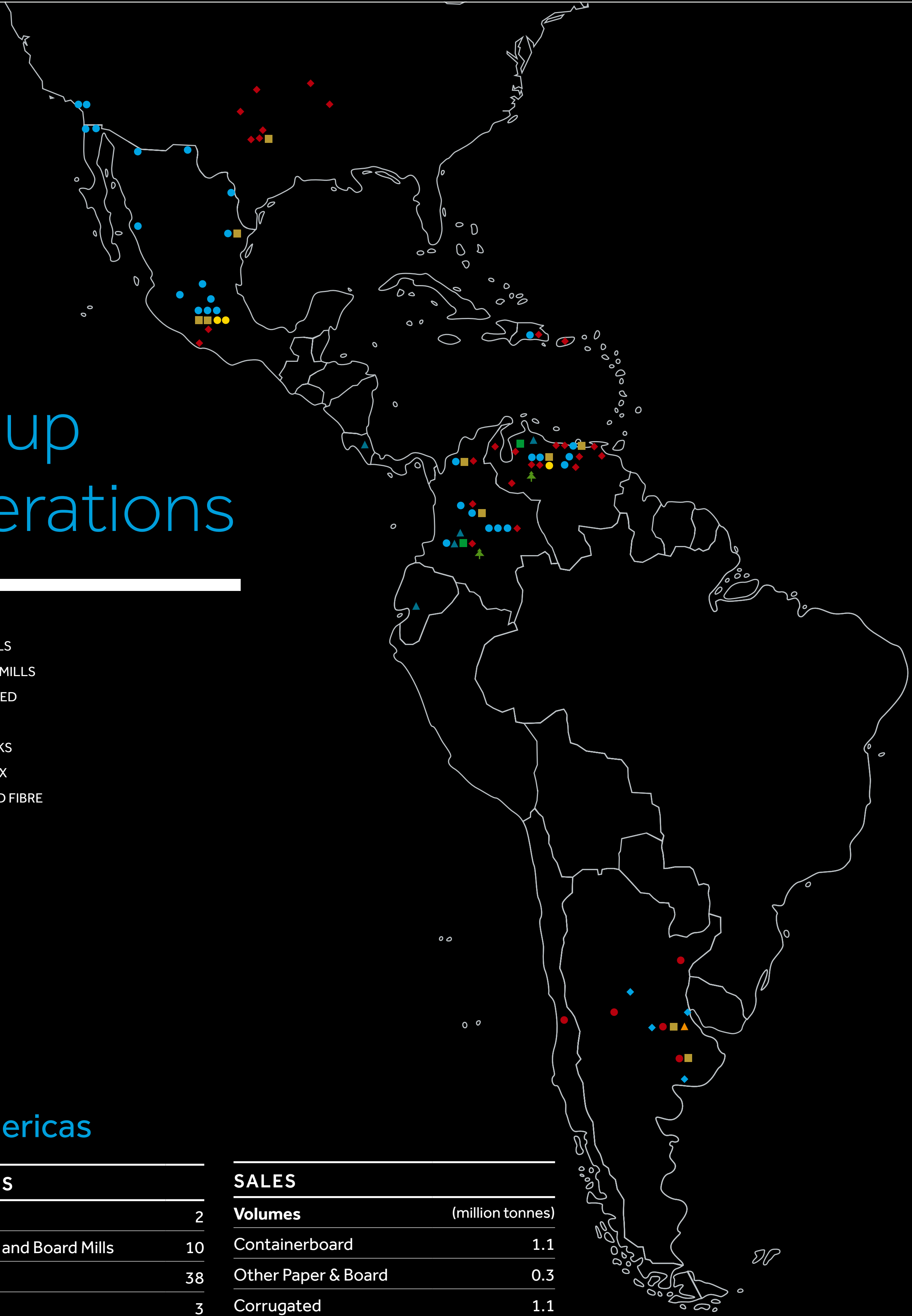
# 2014 Financial Performance Overview

**1** **European Market Position** in corrugated packaging and containerboard

**2** **World market position** for the production of corrugated packaging



# Group Operations



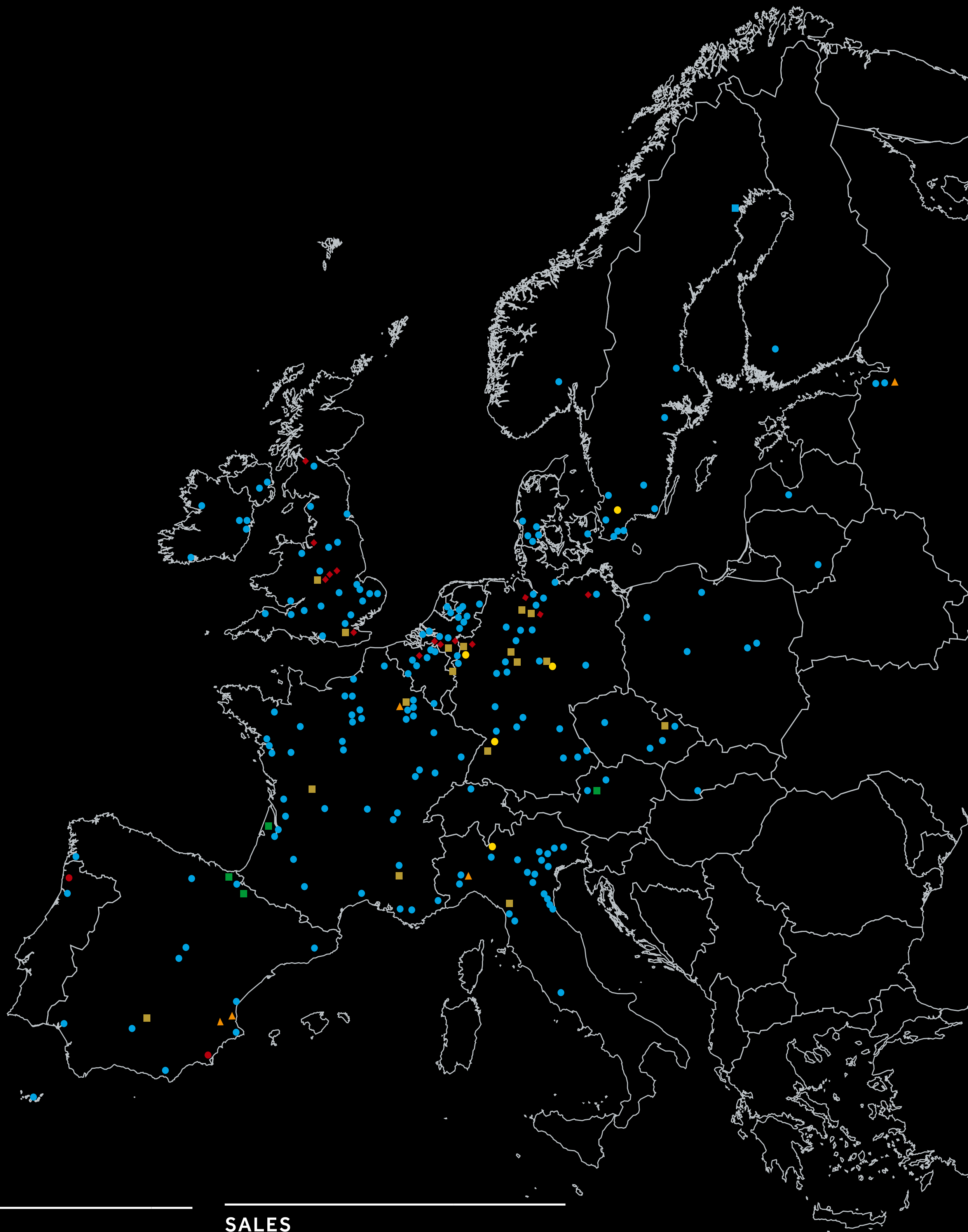
- VIRGIN MILLS
- RECYCLED MILLS
- CORRUGATED
- CARTONS
- PAPER SACKS
- BAG-IN-BOX
- RECOVERED FIBRE
- FORESTRY

## The Americas

| OPERATIONS | |
|---|---|
| Virgin Mills | 2 |
| Recycled Paper and Board Mills | 10 |
| Corrugated | 38 |
| Cartons | 3 |
| Paper Sacks | 5 |
| Recovered Fibre | 33 |
| Other | 5 |

| SALES | |
|---|---|
| **Volumes** | (million tonnes) |
| Containerboard | 1.1 |
| Other Paper & Board | 0.3 |
| Corrugated | 1.1 |

Including full year volumes for operations acquired in 2014.



# Europe

| OPERATIONS | |
|---|---|
| Virgin Mills | 5 |
| Recycled Containerboard Mills | 13 |
| Other Recycled Paper and Board Mills | 4 |
| Corrugated | 157 |
| Cartons and Solidboard Packaging | 5 |
| Recovered Fibre | 15 |
| Other | 49 |

Excluding solidboard operations held for sale

| SALES | |
|---|---|
| **Volumes** | (million tonnes) |
| Kraftliner | 1.6 |
| Recycled Containerboard | 2.8 |
| Other Paper & Board | 0.7 |
| Corrugated | 4.3 |
| Solidboard Packaging | 0.1 |

Excluding output of solidboard operations held for sale

# Chairman's Statement

## Year in Review

The Group's strong operating performance through 2014 is continuing evidence of the strategic depth and resilience of our integrated and geographically diverse business model. As a result we are pleased to report higher returns, good earnings growth and basic EPS of 105.8 cent, an increase of 29% on 2013. This was driven by new business wins, a continued focus on cost efficiencies, judicious capital investment and accretive acquisitions. Progress against these measures has increased our ROCE to 15% and supports the Group's revised ROCE target of an average of 15% through the cycle. On behalf of the Board, I would like to thank all of our employees for their contribution and commitment to the on-going success of the Group.

**LIAM O'MAHONY**
Chairman

## Governance and Board

The Board and Management of SKG support the highest standards of Corporate Governance and ethical business conduct. We believe that Corporate Governance is not just a matter for the Board but that a culture of high standards of governance must be promoted from the top and fostered throughout the whole organisation. We believe that governance is about ensuring that 1) we have the right strategy to deliver for our shareholders and other stakeholders, 2) the executive team is leading and managing effectively to reach our strategic goals and in doing so they are held accountable and at the same time are fairly remunerated and 3) the risks to the Group are managed and mitigated and appropriate controls are in place at all levels of the organisation. The key principles and practices designed to achieve these standards are set out in the Corporate Governance Statement. I would like to thank all of the Directors for their continued support and contribution to the development and effectiveness of the workings of the Board and its various Committees during the year.

## Directors

Mr Nicanor Restrepo will retire from the Board at the forthcoming AGM. Nicanor has been a Director since 2007 and Senior Independent Director since 2008 and has made a major contribution to the increasing success of SKG since it went public in 2007. The Board would like to sincerely thank Nicanor for his wise counsel and support for the Group during this period and to offer him our best wishes for the future.

## Operational Visits

In July, the Board travelled to Spain and visited our Nervion mill in Bilbao and our Alcala corrugated operations in Madrid. The Board was also pleased to meet and review strategy and performance with the senior paper and corrugated management teams for Spain. These visits are extremely valuable in giving the members of the Board a deeper first-hand understanding of the strength and extent of our local businesses, their strategic positioning, and the enterprise of our teams at all levels throughout the organisation. During 2014, I made additional visits to facilities in Austria, Belgium, France, Germany, Ireland, the Netherlands and the United Kingdom, covering mills, corrugated plants and other operations.

## Differentiation

Differentiation is key to Smurfit Kappa's success. It involves a mind-set that is totally market driven and focused on solving our customers' challenges through customer insights, product development, process improvement or optimising supply-chain efficiency and strategic selling. With 750 designers worldwide, a supporting network of laboratories and facilities, a library of over 6,000 unique designs, an array of design and logistical tools and an unparalleled breadth of experience we are uniquely equipped to make the difference for our customers by creating fit-for-purpose, cost-effective and sustainable packaging solutions. In that context I look forward to attending our Innovation and Sustainability awards in April this year in the Netherlands where we will showcase our best innovations in design and sustainability for 2014 to over 175 of our customers and many investors.

## Sustainability

Sustainability and social responsibility remain core values at Smurfit Kappa. They are at the heart of how we operate and interact with customers, suppliers, employees and the communities in which we are privileged to do business. We see sustainability as a key business driver providing challenges and business opportunities and is therefore one of our key platforms for differentiation in a competitive market. I am very pleased to acknowledge the third party recognition of our work in this area and especially the awards which we have received from key customers and industry groups. This is covered in greater detail in our seventh Sustainable Development Report which was produced in June 2014 and is available on our website: smurfitkappa.com. A summary of this report is contained on pages 32 and 33 of this Annual Report. A further such report will be issued in 2015.

## Capital Structure

Following a number of years of sustained deleveraging and refinancing activities the Group during 2014 achieved its stated credit rating target of Ba1/BB+/BB+ with the three major credit rating agencies. This corporate credit profile together with our long-term debt maturity profile and a focus on free cash flow generation allows us pursue our strategy of expanding through organic growth and accretive acquisitions.

## Acquisitions

The Group acquired Bates Container LLC ('Bates'), a corrugated manufacturer in Texas, together with three other smaller but regionally important acquisitions in Colombia, Dominican Republic and the United States totalling over €160 million in 2014. These acquisitions represent tangible evidence of SKG's commitment to not only grow organically but also to develop and strengthen our operating platform with further acquisitions.

## Dividends and Dividend Policy

The Group has displayed its commitment to dividend payments since their reinstatement in 2011 through consecutive significant increases in 2012 and 2013 of 37% and 50% respectively. Re-affirming this commitment, and in expectation of continued earnings growth and strong free cash flow generation in 2015, the Board is recommending a final dividend of 40 cent per share for 2014, a 30% increase on 2013.

The Directors' intention is that the final dividend for 2014 and the interim dividend for 2015 will be paid in May and October 2015 respectively in the approximate proportions of two thirds and one third.

## Outlook

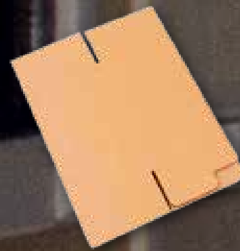
Looking to 2015, assuming no material dis-improvement in European economic conditions, we expect to develop the business through continued superior operating performance, high return internal investments and targeted acquisitions. The Group expects to deliver earnings growth, stronger free cash flows, and through the judicious use of capital to continue to improve returns for our shareholders.

**Liam O'Mahony**
Chairman

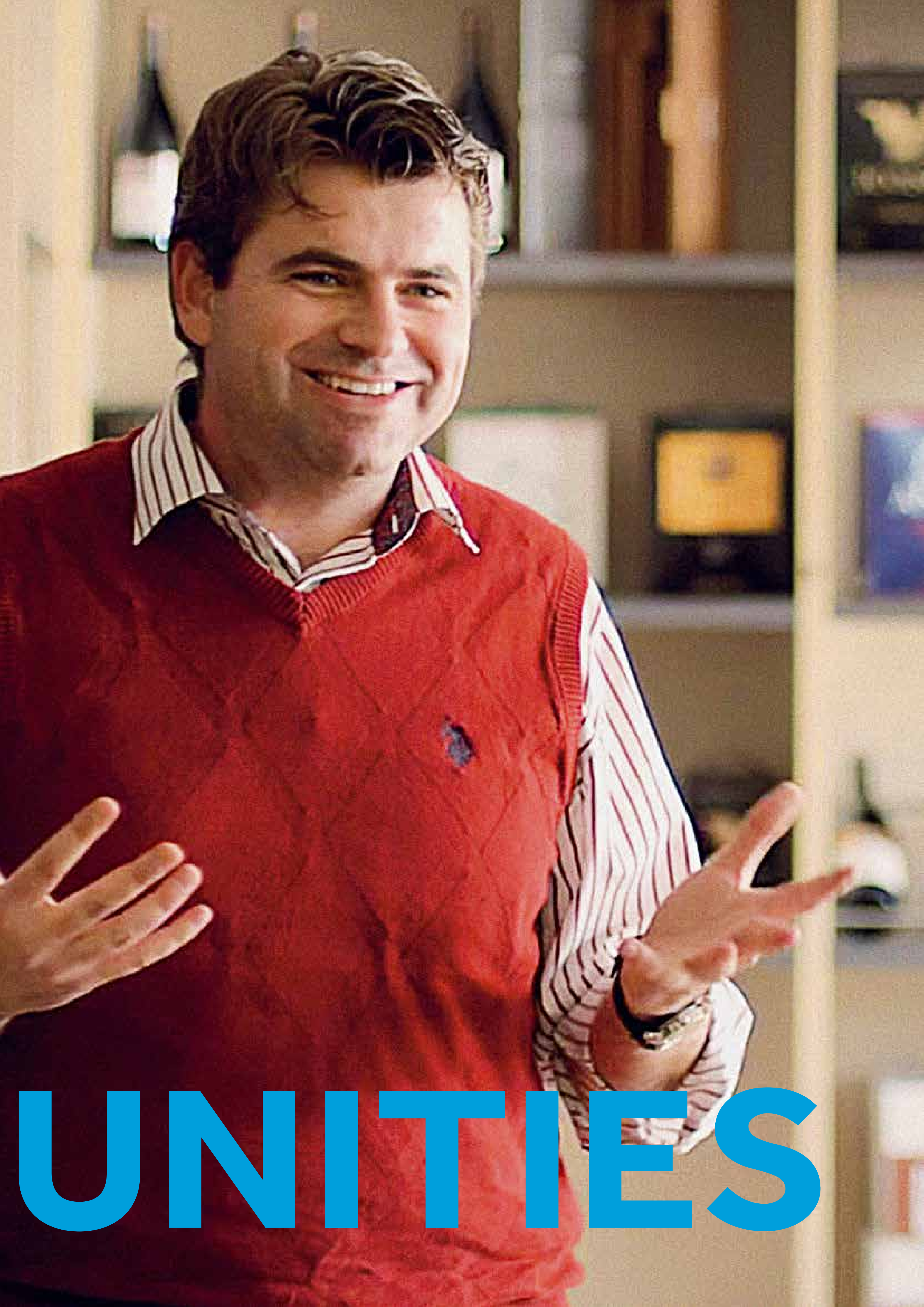
**ANECOOP BODEGAS | BAG-IN -BOX**

Anecoop Bodegas found a 'perfect solution' for their needs as a specialist, high quality producer of Spanish wines: a packaging system that is safer, faster and more efficient, providing their clients with a better service. This is reflected in both the company's growing global reach and the number of locals employed by the company.

**JOSE R. PASCUAL**
Export Manager, Anecoop Bodegas



# open OPPORT


UNITIES

# Chief Executive's Review

## 2014 Overview

The Group delivered a further year of strong EBITDA growth in 2014 with a 5% increase from €1,107 million in 2013 to €1,161 million in 2014, an improving year-on-year EBITDA margin of 14.4% together with strong free cash flows of €362 million. The result further underscores the robust nature of our integrated business model which supported consistent earnings and free cash flow delivery in spite of short-term containerboard price volatility in 2014 in Europe and currency headwinds in our Americas business.

**GARY McGANN**
Group Chief Executive Officer

In Europe, the Group has reported 2% corrugated volume growth year-on-year for the full year. Pricing in our end corrugated market improved by 1% year-on-year and was generally stable at this level throughout the year in spite of a more volatile pricing environment for recycled containerboard. The implementation of containerboard price increases in the third quarter, in particular, provided good support to corrugated prices at their current level.

SKG's businesses in the Americas performed well with good volume growth and margins in most countries. The Group's larger Latin American operations in Colombia and Mexico delivered strong earnings progression during the year and the growth of our US footprint has enhanced our exposure to the improving US market. In Venezuela, economic volatility continues to drive currency uncertainty which impacted our business in 2014. However, to put our operations there into context, our 2014 Venezuelan earnings amounted to approximately 7% of Group EBITDA. Consistent with previous periods the Group has updated its Principal Risks and Uncertainties disclosure in relation to Venezuela on page 43.

The Group outperformed its cost take-out target in 2014 delivering €117 million in cost reduction initiatives during the year. In 2015, the Group expects to continue to further reduce its cost base by €75 million.

In recent years, the Group has fundamentally repositioned itself. SKG is now regarded as a corporate credit in the debt markets following debt pay down of over €600 million and annual cash interest savings of €150 million since 2007. The Group will preserve its solid credit metrics through the cycle while continuing to enhance the cost, sustainability and structure of its capital base where appropriate.

As a consequence of this process of sustained deleveraging, in February 2014 the Group announced a strategy to deploy its capital towards growth opportunities through internal investment, an active M&A focus and increasing returns to shareholders. We have been steadily delivering against our objectives.

Firstly, our targeted programme of high return capital investments will support organic earnings growth into 2015. In this context, a number of our 'Quick Win' projects, approved in 2014, will begin to directly boost EBITDA by €18 million in 2015.

The Group's refurbished 250,000 tonne Townsend Hook recycled containerboard mill in Kent, United Kingdom, has commenced production in the first quarter of 2015 with an estimated 2015 volume of 150,000 tonnes entering the market commencing in the second quarter. SKG's 80,000 tonne testliner mill in Viersen, Germany ceased production in the first quarter as part of a previously announced rationalisation programme encompassing the mill and four converting plants across Europe and this programme will be substantially completed within the first nine months of 2015. In the fourth quarter, the Group began a process to potentially dispose of its solidboard operations in Belgium, the Netherlands and the United Kingdom and an exceptional impairment charge of

€46 million was recognised in the quarter.

Secondly, the Group has progressed its acquisition agenda in 2014, completing four accretive acquisitions in the higher growth Americas region totalling over €160 million. In each case the Group expects returns significantly above its cost of capital and this disciplined approach will continue to underpin our evaluation of opportunities in 2015.

Finally, the Group remains committed to driving returns for our shareholders, and to that end SKG is increasing its ordinary dividend by 30%. Furthermore, in the absence of accretive acquisitions the Group will evaluate alternative uses of capital, including returns of surplus capital to shareholders. However, our stated preference is to build durable, long-term value through the continued delivery of accretive acquisitions in our target markets. Capital allocation decisions will be taken in the context of staying within the target of our Ba1/ BB+ credit rating.

## Capital Structure

During 2014 the Group achieved its stated credit rating target of Ba1/BB+/ BB+ with the three major credit rating agencies.

On 3 July 2014, the Group completed the refinancing of its €500 million 7.75% senior notes due 2019 with a seven-year bond at a rate of 3.25%.

At 31 December 2014, the Group's average interest rate was 3.8%, with an expected cash interest cost in 2015 of €124 million. The average maturity profile of the Group's debt is 4.8 years, with approximately 90% maturing in 2018 and beyond. At the end of the year the Group held cash on its balance sheet of €399 million and had further undrawn credit facilities of approximately €502 million.

On 11 February 2015 SKG successfully completed the pricing of an offering of €250 million of ten-year euro denominated senior notes at a yield of 2.75% which is the lowest ever bond coupon achieved by SKG and which further increased the maturity profile of the Group's debt.

The Group's strong free cash flow of €362 million enabled it to maintain its net debt to EBITDA at 2.4 times at the end of 2014, in spite of €69 million in incremental capital expenditure year-on-year, over €160 million in acquisitions and a €36 million increase in dividends paid in the year. Looking forward, the Group's integrated operational model and disciplined focus on free cash flow will continue to support the business's enhanced credit profile while providing the financial flexibility to pursue growth opportunities as they arise.

## Customers

Following the launch of our 'Open the Future' differentiation initiative in June 2014, we are working with our customers on the re-evaluation of the impact of Smurfit Kappa's expertise on their business. To this end the Group released a white paper in November 2014 - 'Marketing on the shelf: exactly how in control are you?' - demonstrating the impact of packaging in the retail environment and the powerful marketing opportunities presented by SKG to brand owners in competing in their retail environments. As the next step in this process, we will formally launch our 'Point of Purchase' strategy at our Innovation and Capital Markets Day in April 2015, which will further enunciate the tangible impact of this process on the business and our customers.

SKG continues to be the best positioned supplier of differentiated paper-based packaging solutions in its chosen markets of Europe and the Americas. We provide customers with innovative, consumer focused, sustainable and cost efficient packaging and logistical solutions that help to drive the sale of our customers' products. The Group seeks to differentiate itself in the market through better insights, superior service, quality, delivery and customer relationships. SKG is clearly established as a committed partner to many of our key customers, working in their industries and in many cases within their operations to define and meet their increasingly complex packaging needs. This is evidenced by the sizeable market share that SKG has with the major international branded companies as well as local customers in the 32 countries in which we operate. Customer partnering is an area in which SKG is continuing to give significant focus and which will be the beneficiary of further developments over the next couple of years.

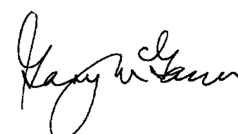
I would like to thank all our customers, both large and small on both continents for the continuing confidence and trust they place in us and we look forward to continuing to work with them to enhance their success in their marketplace.

## Our People

Our key competitive advantage and point of differentiation is our people both individually, but in particular working as cohesive teams. Our continued focus is on recruiting, developing, motivating and retaining skilled employees dedicated to working as a team to support and service our diverse customer base. I would like to acknowledge the effort and commitment of our approximately 42,000 employees in the 32 countries in which we operate for their significant contribution to the results achieved in 2014. We look forward to the challenges and opportunities of 2015 and to continuing our efforts to make SKG the safest and most customer focused company in which to work in our industry.

## Corporate Social Responsibility

In its seventh annual Sustainable Development Report, released in June 2014, SKG highlighted its continued progress and commitment to social and environmental best practices and cited tangible evidence of this by achieving two of our long-term commitments several years ahead of schedule and adding further measurable long-term commitments. This continues to be a high priority for the Group in fulfilling its obligation to its customers, its employees, the communities in which we are privileged to operate and the environment from which we draw our natural resources.

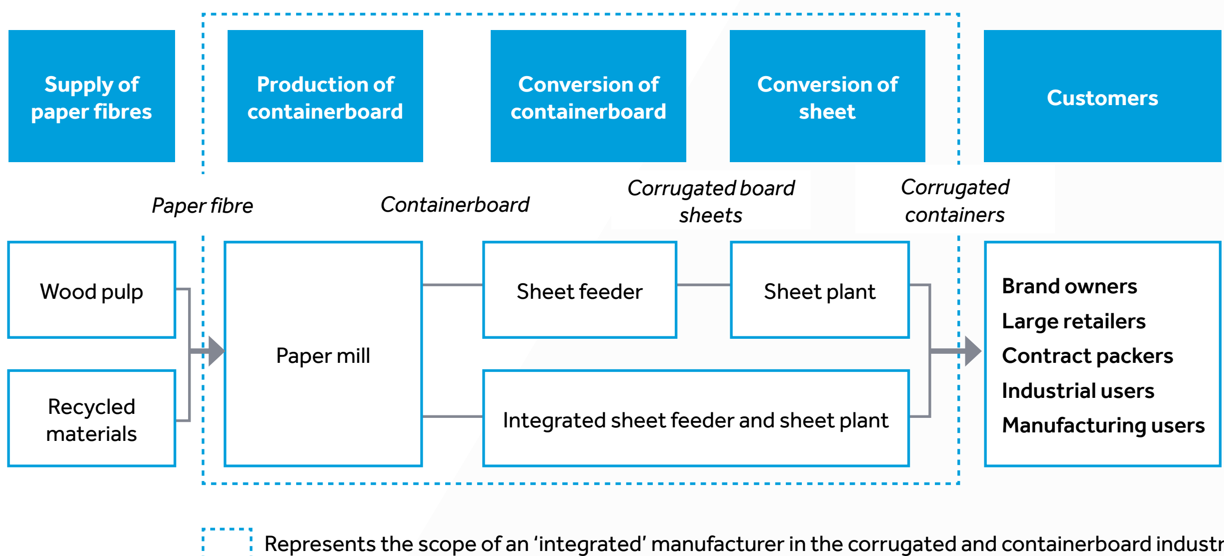


**Gary McGann**
Group Chief Executive Officer

# Business Model

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

## Production Process and Supply Chain for Corrugated Containers




Represents the scope of an 'integrated' manufacturer in the corrugated and containerboard industry

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

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

# Strategy

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

## The Group's objectives and strategies are:

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

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

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

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

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

## SAS KOFFIE | CLICK BOX

When SAS Koffie needed new coffee packaging for a client, what at first appeared as a problem resulted in a substantial opportunity, simply by looking beyond packaging and delving deeper into the coffee industry.

**DOMINIC SAS**
Director of Operations, SAS Koffie

open

# INNOVAT

ION

# Operations Review

With our pro-active team we relentlessly use our extensive experience and expertise, supported by our scale, to open up opportunities for our customers. We collaborate with forward thinking customers by sharing superior product knowledge, market understanding and insights in packaging trends to ensure business success in their markets. We have an unrivalled portfolio of paper-packaging solutions, which is constantly updated with our market-leading innovations. This is enhanced through the benefits of our integration, with optimal paper design, logistics, timeliness of service, and our packaging plants sourcing most of their raw materials from our own paper mills. Our products, which are 100% renewable and produced sustainably, improve the environmental footprint of our customers.

**TONY SMURFIT**
Group Chief Operations Officer

The Group has made good progress on its three-year programme of 'Quick Win' capital expenditure projects, with almost €75 million of expenditure approved at the end of 2014. The remainder will be approved over the course of 2015 and 2016 and the projects will begin to positively impact EBITDA in 2015 by approximately €18 million as they enter service. The projects are generally insensitive to volume variations and are subject to two key criteria, a) that their associated internal rates of return are in excess of 20% and b) that their payback periods are two years or less.

In addition to our capital expenditure programme, we spent €162 million (€11 million of which was deferred) on acquisitions in the Americas during 2014. In May and September respectively, we acquired Corrumed, a corrugated plant in Colombia, and Cartonera Rierba S.A. ('Rierba'), a corrugated business in the Dominican Republic, which we combined with our pre-existing plant. In October, we acquired Bates, a corrugated business based in Texas with three converting plants and a flexible packaging plant. We also acquired Brian Thomas, a sheet plant also located in Texas.

The acquisitions in the United States fit perfectly with the Group's integrated model, complementing in a significant way the successful integration of Smurfit Kappa Orange County ('SKOC'), which was acquired in November 2012, and providing the Group with substantial scope for further synergies. These synergies will be primarily delivered through additional integration of the containerboard needs of Bates into SKOC's 350,000 tonne recycled containerboard mill, with additional savings expected through a range of operational efficiency measures. Importantly, the Group's enlarged packaging footprint in the United States will further enhance its capacity to provide innovative, insight-led and value enhancing packaging solutions to both current and prospective customers.

## Europe

The Europe segment is the larger of the Group's two segments, accounting for 76% of its revenue and EBITDA in 2014. It comprises primarily our integrated containerboard mills and corrugated operations as well as the bag-in-box and solidboard businesses. Although the sale of the solidboard operations in the Netherlands, Belgium and the United Kingdom is expected to be completed in the first quarter, the Group will continue to produce solidboard and graphicboard at its four mills in Germany and solidboard packaging products at its plants in Germany and Sweden.

The Group has facilities in 21 countries, in both Western and Eastern Europe. Excluding the solidboard operations held for sale, the Group has 22 mills, 17 of which produce containerboard, 183 converting plants (the majority of which produce corrugated packaging products) and 26 other production facilities carrying on other related activities. The mills are supported by 15 recovered fibre collection facilities and two wood procurement operations.

The Group's European containerboard mill system consists of three kraftliner mills, in Sweden, France and Austria, which between them produced approximately 1.6 million tonnes of brown and white kraftliner in 2014, 13 recycled containerboard mills which produced approximately 2.8 million tonnes of paper and a mill in Spain which produces both virgin-based MG paper and recycled containerboard. We also have a sack kraft mill in Spain, which produced almost 150,000 tonnes of sack kraft paper.

Our four other recycled mills in Germany together produced over 450,000 tonnes of solidboard and boxboard and 100,000 tonnes of graphicboard in 2014.

On the conversion side, the operations comprise 107 corrugated plants, which produced approximately 4.3 million tonnes (7.9 billion square metres) in 2014 and 50 sheet plants. In addition, we have 26 plants which produce high-end packaging differentiation products such as litho-laminated corrugated products, display units and solidboard-based packaging – extending the range of packaging solutions within our portfolio. Our converting operations are supported by a number of other small plants producing pre-print packaging, fulfilment activities and other packaging related products.
Our European managed bag-in-box operations comprise seven plants located in Europe, Canada and Argentina.

Revenue for the Europe segment was €6.1 billion in 2014 compared to approximately €6.0 billion in 2013, with the underlying growth of €155 million driven by the corrugated operations, with average box prices 1% higher than in 2013 and shipments almost 2% higher. Segmental EBITDA increased by €110 million to €882 million while the EBITDA margin improved to 14.4% compared to 12.9% in 2013.

In volume terms, the Group's European packaging operations delivered a good performance over the course of the year with a 2% increase in corrugated shipments. Box shipments increased by over 1% and sheet volumes increased by 6% as the Group began to see an improvement in the profitability of this business. In Europe, box shipments accounted for 87% of corrugated volumes. The Group's pan-European business continues to perform strongly and is the current main beneficiary of the Group's differentiation efforts. Volumes increased by 3% year-on-year, a solid outperformance compared to our general volumes and compared to the market.

Average prices for corrugated packaging increased by 1% compared to 2013 primarily as a result of positive recycled containerboard momentum entering 2014 and the operation's capacity to maintain resilient price levels in spite of input price erosion. In the fourth quarter corrugated prices decreased slightly with some negative currency movements in Sweden and Russia. However, these are relatively small parts of the overall operations.

In kraftliner, the Group performed well in 2014 with good volume progression year-on-year and lower than expected wood costs. However, prices in the grade decreased by approximately 5% year-on-year following some weakness through the latter stages of 2013 and into early 2014, partly offset by a recovery of €30 per tonne in September 2014. Following two years of consecutive decreases in the levels of US imports to Europe in 2012 and 2013, the import levels increased by 7% year-on-year to November.

This trend appears to be weakening towards the end of the year as demand in the US domestic market recovered and the US dollar strengthened.

Due to the integrated nature of the Group's business, old corrugated cases ('OCC') remains its primary raw material and, more broadly, an important base driver of corrugated pricing in Europe. As a result, OCC pricing can be an important leading indicator for recycled containerboard and corrugated prices in periods of price instability. In 2014, European prices in the grade have remained within a tight range in spite of lower demand from Chinese players for the full year. This is indicative of good demand in Europe and the United States and an increasing focus on higher quality materials, which is expected to support higher OCC prices over the medium-term. SKG maintains contractual agreements for approximately 75% of its recovered fibre requirements each year and is at the forefront of the industry in the area of quality control of fibre receipts at its mills.

The European recycled containerboard market continues to display a positive medium-term supply/demand balance with good demand driven by improving corrugated consumption, and a substantially unchanged supply outlook to 2017. Assuming all announced containerboard capacity additions commence production as scheduled, the market is still expected to maintain operating rates above 90% which have historically supported a positive pricing environment. During 2014, higher than expected inventories led to some price instability in the first half. However, due to continuing strong fundamentals, price stability was restored and the market's near-term outlook remains stable.

During the year, the Group's global bag-in-box operations performed very well, with double digit growth year-on-year in both bags and taps. The improved performance was driven by a stronger market demand coupled with the Group's enhanced capacity following the commencement of production at our new €28 million facility in Ibi, Spain, in July which is already performing ahead of expectations.

## The Americas

The Group's operations in the Americas consist of 12 paper mills in five countries (Argentina, Colombia, Mexico, the United States and Venezuela) producing containerboard, boxboard, sack paper and printing and writing paper, with a combined production of 1.4 million tonnes in 2014. The mills are supported by 33 recovered fibre plants in seven countries and forestry operations in Colombia and Venezuela. We have 38 corrugated plants in seven countries with a 2014 production, including the recently acquired operations, primarily Bates, on a full year basis, of approximately 1.1 million tonnes (1.8 billion square metres). We also have eight other converting plants in five countries producing either paper sacks or folding cartons, a preprint facility and three foam packaging plants in Mexico and a flexible packaging plant in the United States. Bates produced approximately 0.1 million tonnes (0.2 billion square metres) of corrugated in 2014.

The Americas segment delivered a strong underlying performance with absolute corrugated volume growth of 7% in 2014 and 3% when adjusted for acquisitions. Revenue was €1.9 billion in 2014 compared to €2.0 billion in 2013. The year-on-year decrease arose largely as a result of significant negative currency movements, which more than offset an underlying increase of €199 million and the contribution from the acquisitions completed in 2014. Segmental EBITDA decreased year-on-year by 15% to €305 million, mainly as a result of currency headwinds. The majority of these negative currency movements were due to the Group's adoption of the Sicad I rate for the Venezuelan Bolivar ('VEF') in the first quarter and its subsequent weakening in the third quarter. The EBITDA margin fell to 15.7% compared to 18.0% in 2013 with a decrease in Venezuela more than offsetting an overall improvement elsewhere.

With a considerably better growth outlook than in developed markets, improving the Group's exposure to the region remains a key strategic objective for SKG, and good progress was made in 2014 with over €160 million of acquisitions in the region. In 2014, the Americas accounted for approximately 24% of the Group's revenue and 26% of the Group's EBITDA.

The Group's SKOC operations grew strongly in volume terms year-on-year with a second consecutive year of double digit growth in its corrugated plants on the US/Mexican border. SKG's Californian corrugated operations saw a negative volume impact in the year, mainly as a result of a persistent drought which particularly affected some key agricultural customers. The acquisition of Bates and Brian Thomas in the fourth quarter provided the Group with four additional converting facilities and more than doubled its exposure to the improving US corrugated packaging market and is expected to deliver good volume, margin progression and increased integration through 2015.

In Argentina, SKG's operations delivered good EBITDA and margin progression year-on-year in spite of a significant devaluation in the first quarter. This was achieved by extensive cost take-out through our supply chain in the country and strategic selling initiatives in our end packaging market. While the operating environment is expected to remain challenging into 2015, the Group expects further EBITDA progression supported by a continued emphasis on delivering cost efficiencies.

The Group's Colombian operations delivered a strong volume performance with an absolute increase of 18% year-on-year. This included almost 10% of underlying volume growth as a result of strong market growth and market share gains, with the remainder comprising the impact of the acquisition of Corrumed and an exceptional boost provided by election

activities in the country. The weakened currency in the second half, while slightly impacting profitability in the period, provides a competitive platform for economic growth in Colombia.

The central Mexican market has been slower to return to growth than expected, but the Group is well positioned to capitalise on a general improvement in the economy following targeted investments in its converting capacities in recent years. The previously announced re-build of the Group's testliner machine in Mexico City will deliver an incremental 100,000 tonnes per annum when complete.

In Venezuela the Group's operations continue to perform well with a resilient underlying performance in 2014. However, the country's weakening currency throughout the year has had a negative impact on profitability while the economic outlook remains difficult for 2015.

## Health and Safety

SKG has made the health and safety of its workforce an overriding consideration. It adopts a structured and systematic approach to the management of health and safety considerations in the workplace. All performance reviews at plant, country, division and regional level include a review of recent health and safety performance. On a quarterly basis the Board receive a progress report outlining key health and safety developments. SKG devotes considerable time and effort to the management of health and safety aspects so that employees and subcontracted workers are aware of and follow the appropriate protective procedures. While there were no fatalities affecting employees across the Group in 2014, regrettably, an employee of a subcontractor sustained fatal injuries arising from a fall from a loading platform while working on a capital improvement project at our Oude Pekela Board Mill in the Netherlands in October 2014. The prevention of every accident is and will remain a key priority for the Group.

## Commercial Offering and Innovation

In November 2014, Smurfit Kappa released its first ever white paper on the topic of Shopper Marketing. Entitled – 'Marketing on the shelf: exactly how in control are you?' – the report identified the significant marketing opportunities available to brand owners in utilising shelf ready and point of purchase marketing to directly influence shoppers in the retail environment. Up to 76% of purchasing decisions are made by shoppers at the point of purchase, and this report has ignited a dialogue with our customers as to how Smurfit Kappa can unlock value for them, supported by the Group's innovative technologies, such as ShelfViewer and 3D Store Visualiser, and our industry expertise.

Building on this white paper and the subsequent engagement with our customers, the Group will launch its 'Point of Purchase' strategy at its Innovation and Capital Markets Event in the Netherlands on 15 and 16 April. The event will also be used to showcase the Group's most innovative designs and technologies whilst underscoring the Group's sustainability credentials, an increasingly impactful competitive advantage with our customers.

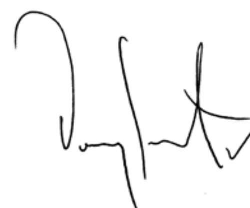
In the fourth quarter, the Group was successful in a number of international packaging awards notably the 2014 PPI awards in October and the UK Packaging Awards in December. At the PPI Awards the Group was recognised for its unique Catcher Board technology which prevents the migration of mineral hydrocarbons from packaging into food products. Also at the PPI awards, the Group was awarded first prize in 'Innovation in Luxury Packaging', for its bag-in-box design. At the UK Packaging Awards, the Group won two Gold awards for the 'Resource Efficient Pack of the Year' and 'Supply Chain Solution of the Year', reflecting our continued focus on sustainability and supply chain optimisation for our customers.

In December, Smurfit Kappa opened its latest UK Experience Centre, in Mold, North Wales. The Centre is equipped with state-of-the-art technologies and tools, such as a Virtual Store, Retail Insight Centres, a ShelfViewer and a full screen cinema room, and its opening brings to seven the number of such regional centres in operation across Europe, allowing the company to offer a localised service that supports businesses based around these regions. The Group's major customer hub (Global Experience Centre) located in Schipol Airport in the Netherlands, will be one of the largest packaging experience centres in the world and will open in early April with an innovation event for customers, shareholders and analysts.

## Cost Take-out Programme

The Group is pleased to report a continuing cost take-out performance in the fourth quarter resulting in the delivery of €117 million in incremental cost take-out in 2014, a 17% outperformance against its original €100 million target for the year. The Group has now achieved €714 million in cost savings since the programme's inception in 2008 and continues to view these projects as essential in negating inflationary pressures throughout the supply chain as well as improving its overall financial performance.

We are confident of our ability to achieve the 2015 target of €75 million which will maintain the integrity of our earnings and provide a continuing solid platform for absolute earnings growth.



**Tony Smurfit**
Group Chief Operations Officer

## ROBERTO'S MANGOS

For Roberto's Mangos, presentation at point of purchase is vital to remaining competitive in a global market. Packaging fresh produce requires high-speed packing using lightweight robust materials that can withstand stacking, high humidity and fast-changing temperatures.

**EDUARDO LACOUTURE**
General Manager, Smurfit Kappa Corrugated Plant, Culiacan, Mexico

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# Finance Review

In recent years, the Group has fundamentally repositioned itself. SKG is now regarded as a corporate credit in the debt markets following debt paydown of over €600 million and annual cash interest savings of €150 million since 2007. The Group will preserve its solid credit metrics through the cycle while continuing to enhance the cost, sustainability and structure of its capital base where appropriate, and allocating capital to optimise shareholder returns.

**IAN CURLEY**
Group Chief Financial Officer

## Results

Revenue increased by €126 million to approximately €8.1 billion in 2014 from €8.0 billion in 2013. The increase, which equated to 2%, was the combination of higher revenue in Europe partly offset by lower revenue in the Americas, as a result of significant negative currency movements. However, allowing for net negative currency movements, hyperinflation and the contribution from acquisitions, the underlying year-on-year move in revenue was an increase of over 4%, with higher underlying revenue in both Europe and the Americas.

European revenue rose by €169 million year-on-year, with underlying growth of €155 million and the full year contribution from net acquisitions, mainly CRP (a UK company specialising in litho-laminating and other specialised packaging), partly offset by negative currency movements. The increase in comparable revenue equated to 3% with higher revenue in both the mill and corrugated operations. The greater increase was on the corrugated side, with average box prices 1% higher than in 2013 and shipments almost 2% higher. On the mill side, while revenue in the containerboard mills was broadly unchanged, a modest overall increase reflected higher revenue in the solidboard mills and the reclamation operations. For the containerboard mills, although recycled containerboard prices were 1% higher than in 2013, kraftliner prices were 5% lower while overall containerboard volumes were marginally lower reflecting the absence of the output of Townsend Hook following the temporary closure of the machines in July 2013.

Although reported revenue in the Americas was €43 million lower than in 2013, the decrease arose largely as a result of significant negative currency movements, which more than offset the contribution from the acquisitions completed in 2014. Although the currencies in the region were generally weaker relative to the euro in 2014, the largest move was in respect of the Venezuelan Bolivar following our adoption of the Sicad I rate. Allowing for net negative currency movements, hyperinflation and acquisitions, the underlying year-on-year move in revenue was an increase of €199 million, driven by a strong local currency price increase in Venezuela and generally higher revenue across the region. While comparable corrugated volumes were approximately 3% higher overall than in 2013, market conditions varied with lower volumes in SKOC's US corrugated operations and in Argentina. Including the acquired operations, corrugated volumes in 2014 were almost 7% higher than in 2013.

The Group delivered a second year of strong EBITDA growth in 2014 with an increase of €54 million (equating to 5%) from €1,107 million in 2013 to €1,161 million in 2014, mainly as a result of strong underlying growth partly offset by negative currency movements. Allowing for net negative

currency movements, hyperinflation and the contribution from acquisitions, the underlying year-on-year move was an increase of almost 13%, with higher earnings in both Europe and the Americas partly offset by higher Group Centre costs.

At €882 million for the year, European EBITDA was €110 million higher than 2013's €772 million. With net negative currency movements partly offset by the contribution of acquisitions, primarily CRP, the underlying increase was €114 million (the equivalent of 15%), with higher earnings in both the mills and the corrugated operations. On the mill side, the increase arose primarily in the recycled containerboard mills with the combined benefit of volume growth, slightly higher average pricing and lower OCC costs. On the other hand, despite volume growth, EBITDA in the kraft mills was lower than in 2013 as a result of a year-on-year decline of 5% in average pricing. On the corrugated side, earnings were higher year-on-year largely as a result of slightly higher average selling prices and higher volumes, with shipments 2% higher than in 2013.

The Americas segment, which comprises our operations in Latin America and the United States, delivered a strong underlying performance with absolute corrugated volume growth of 7% in the full year 2014 and 3% when adjusted for acquisitions. EBITDA decreased year-on-year by €52 million, mainly as a result of negative currency movements, particularly in Venezuela as a result of the Group's adoption of the Sicad I rate in the first quarter and its subsequent weakening in the third quarter. Allowing for net negative currency movements, hyperinflation and acquisitions, the underlying year-on-year move in EBITDA was an increase of €31 million (the equivalent of 9%), with earnings growth generally across the region with the exception of Venezuela and SKOC.

The year-on-year increase of €54 million in EBITDA was enhanced by a lower overall charge for depreciation, depletion and amortisation, which was €38 million lower than in 2013. The largest decrease was in depletion of our biological assets, which comprise our forest plantations in Colombia and Venezuela. With an unchanged share-based payment expense, our pre-exceptional operating profit (EBITDA less depreciation, depletion and amortisation and the share-based payment expense) increased by €92 million to €771 million in 2014 compared to €679 million in 2013.

Our pre-exceptional net finance costs amounted to €248 million (costs of €284 million less income of €36 million) in 2014 compared to €308 million in 2013. The year-on-year decrease of €60 million resulted from cash interest savings with non-cash interest broadly unchanged. The significantly lower cash interest costs reflected our refinancing activities in recent years, with the replacement of higher cost debt at favourable rates, and the benefit of generally lower market rates.

Including the net profit of €2 million from our share of associates' earnings, the Group's pre-exceptional profit before income tax was €152 million higher year-on-year at €525 million in 2014 compared to €373 million in 2013.

## Exceptional Items

Exceptional items charged within operating profit in 2014 amounted to €110 million, comprising over €46 million in respect of the potential disposal of our solidboard operations in Belgium, the Netherlands and the United Kingdom, and €54 million in respect of the Group's previously announced rationalisation programme encompassing the closure of an 80,000 tonne recycled containerboard mill and four converting plants across Europe. The remainder related to a currency trading loss of €10 million due to the higher cost to the Venezuelan operations of discharging their non-Bolivar denominated payables following the adoption of the Sicad I rate.

The charge in respect of the solidboard operations comprised an impairment of plant and equipment of €27 million and an impairment of goodwill of €19 million, all of which was reported within cost of sales along with an impairment of property, plant and equipment of €12 million in respect of the planned plant closures. The reorganisation and restructuring costs of €42 million in respect of the plant closures together with the currency loss of €10 million were reported within other operating expenses.

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

Exceptional finance costs in 2014 of €48 million comprised €42 million relating to the repayment of the 2019 bonds in July and an impairment of €6 million in respect of one of the Group's unlisted investments. The total of €42 million comprised a redemption premium of €33 million and €7 million and €2 million respectively for the accelerated amortisation of the debt issue costs relating to the bonds and the accelerated unwinding of the original discount. Exceptional finance income amounted to €11 million and represented a gain in Venezuela on their US dollar denominated intra-group loans following the adoption of the Sicad I rate.

Exceptional finance costs in 2013 amounted to €51 million and resulted from the early repayment during the year of the senior credit facility and the €500 million 7.25% bonds due in 2017. Of the €51 million, €22 million was in respect of the accelerated amortisation of debt issue costs relating to the senior credit facility and €29 million in respect of the bonds, comprising a redemption premium of €19 million, the accelerated unwinding of the unamortised discount of €4 million, and €6 million in respect of the accelerated amortisation of debt issue costs. Exceptional finance income amounted to €8 million and related entirely to the increased value of US dollar denominated intra-Group loans receivable in Venezuela.

## Profit before Income Tax

After exceptional items, our total profit before income tax amounted to €378 million in 2014, comprising the pre-exceptional profit of €525 million and a net exceptional charge of €147 million. In 2013, the total profit before income tax was €294 million, comprising the pre-exceptional profit of €373 million and a net exceptional charge of €79 million. The year-on-year increase of €84 million reflected the increase of €152 million in our pre-exceptional profit and the offsetting increase of €68 million in the net charge for exceptional items.

## Income Tax Expense

The income tax expense in 2014 was €126 million (comprising a current tax charge of €125 million and a deferred tax charge of €1 million) compared to €98 million (comprising a current tax charge of €122 million net of a deferred tax credit of €24 million) in 2013.

The overall increase of €28 million comprises an increase of €32 million in Europe and an offsetting decrease of €4 million in the Americas and is primarily due to the benefit in 2013 of tax credits in respect of previously unrecognised losses and to increased profitability year-on-year and changes in the geographic mix of earnings.

The tax effect of exceptional items in 2014 was €18 million compared to €5 million in 2013. Adjusting for exceptional items, the Group's underlying tax rate in 2014 was approximately 27% compared to 28% in 2013.

## Earnings per Share

The basic earnings per share amounted to 105.8 cent in 2014 compared to 82.2 cent in 2013. On a diluted basis, our earnings per share in 2014 amounted to 102.6 cent compared to 80.8 cent in 2013.

The year-on-year increase in our basic earnings per share equated to 29% and was achieved as a result of the strong growth in pre-exceptional profit partly offset by a significantly higher net charge for exceptional items. On a pre-exceptional basis, our earnings per share in 2014 amounted to 162.5 cent compared to 114.5 cent in 2013 with the year-on-year increase equating to 42%.

The earnings per share figures are calculated on the basis of the weighted average number of shares in issue (less own or treasury shares) during the year, which was 227,777,000 in 2014 compared to 228,640,000 in 2013.

## Financial Performance Indicators

Certain financial measures set out below, including pre-exceptional EBITDA (as used below, 'EBITDA'), are not defined under International Financial Reporting Standards ('IFRS'). These measures are presented because we believe that they, and similar measures, are widely used in the paper and packaging manufacturing industry as a means of evaluating a company's operating performance and financing structure and, in the case of EBITDA, because we believe it presents a helpful comparison of the most appropriate measure of recurring financial performance between periods. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered as substitutes for the information contained in our Financial Statements. EBITDA and our other non-IFRS measures and ratios have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our operating income or cash flows as reported under IFRS.

We consider the following measures to be important indicators of the underlying performance of our operations:

| | 2014 | 2013 |
|---|---|---|
| EBITDA* (€ million) | **1,161** | 1,107 |
| EBITDA margin to revenue (%) | **14.4** | 13.9 |
| Net debt (€ million) | **2,759** | 2,621 |
| Net debt to EBITDA (times) | **2.4** | 2.4 |
| Free cash flow (€ million) | **362** | 365 |
| Return on capital employed** (%) | **15.0** | 13.1 |
| Basic earnings per share (cent) | **105.8** | 82.2 |
| Pre-exceptional basic earnings per share (cent) | **162.5** | 114.5 |

* *Earnings before exceptional items, share-based payment expense, net finance costs, income tax expense, depreciation and depletion (net) and intangible assets amortisation.*

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

## Reconciliation of Profit to EBITDA

| | 2014 €m | 2013 €m |
|---|---|---|
| Profit for the financial year | **252** | 196 |
| Income tax expense | **126** | 98 |
| Exceptional items charged in operating profit | **110** | 36 |
| Share of associates' profit (after tax) | **(2)** | (2) |
| Net finance costs (after exceptional items) | **285** | 351 |
| Depreciation, depletion (net) and amortisation | **364** | 402 |
| Share-based payment expense | **26** | 26 |
| EBITDA | **1,161** | 1,107 |

### EBITDA and EBITDA margin

EBITDA increased by €54 million to €1,161 million in 2014 from €1,107 million in 2013. Allowing for currency movements, hyperinflation accounting and the contribution from acquisitions, comparable EBITDA increased by €141 million, the equivalent of almost 13%. This increase reflected earnings growth in both Europe and the Americas. Corrugated shipments in Europe were 2% higher year-on-year while average prices were 1% higher. In the Americas, the strong underlying performance was driven by corrugated volume growth of 3%. Including the operations acquired in 2014, absolute corrugated volumes were 7% higher than in 2013.

With a stronger increase in EBITDA than in revenue, our EBITDA margin increased from 13.9% in 2013 to 14.4%. This result further underscores the relatively stable nature of our integrated and geographically diverse business model.

### Net Debt to EBITDA

We believe leverage (ratio of net debt to EBITDA) is an important measure of our overall financial position and one which we provide to investors as we believe they find it useful. Net debt comprises interest-bearing loans and borrowings net of cash and cash equivalents and we believe it enables investors to see the overall movement resulting from a company's operating and financial performance.

Net debt amounted to €2,759 million at December 2014 compared to €2,621 million at December 2013. The year-on-year increase of €138 million reflected expenditure of over €150 million on acquisitions, a higher dividend payment and significant net negative currency translation adjustments. With the negative impact of higher net debt offset by EBITDA growth, our leverage remained unchanged at 2.4 times.

### Free Cash Flow

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

Our free cash flow amounted to €362 million in 2014, broadly in line with the €365 million reported in 2013. The result reflects the benefits of materially higher EBITDA and lower cash interest costs year-on-year, offset by a working capital outflow, compared to an inflow in 2013, and a €69 million increase in capital expenditure. Although working capital was higher year-on-year, the year-end ratio to sales was a healthy 6.7%.

- **Return on Capital Employed ('ROCE')**
  With the benefit of a higher level of operating profit for the year and a slightly lower average capital, our ROCE in 2014 was 15.0% compared to 13.1% in 2013. Having improved over the course of 2013, our ROCE further improved in 2014, primarily as a result of improving operating profit. This in turn is driven by growth in our business base, a continued focus on cost efficiencies, judicious capital investment and accretive acquisitions.

  The progress achieved supports our revised ROCE target of an average of 15% though the cycle, reflecting our focus on maximising returns to shareholders.

- **Earnings per Share ('EPS')**
  EPS serves as an indicator of a company's profitability and, in conjunction with other metrics such as ROCE, of a company's financial strength. Given the reduction in our net debt level and, consequently, our leverage, EPS becomes an increasingly important measure for us. In order to more truly reflect our operational performance, EPS is also reported on a pre-exceptional basis.

  Our basic EPS in 2014 was 105.8 cent compared to 82.2 cent in 2013 with the year-on-year increase of 23.6 cent (equating to 29%) primarily driven by a higher pre-exceptional profit before tax, partly offset by a higher charge for exceptional items and a higher income tax expense.

  On a pre-exceptional basis, however, our EPS in 2014 was 162.5 cent compared to 114.5 cent in 2013 with a year-on-year increase of 48.0 cent (equating to 42%). This growth is driven primarily by an increase of €152 million in our pre-exceptional profit before tax, the benefit of which was partly offset by an increase of €41 million in our pre-exceptional income tax expense.

## Cash Generation

### Summary Cash Flow[1]

| | 2014 €m | 2013 €m |
|---|---|---|
| **EBITDA** | **1,161** | 1,107 |
| Exceptional items | **(12)** | (27) |
| Cash interest expense | **(137)** | (197) |
| Working capital change | **(40)** | 28 |
| Current provisions | **(2)** | (6) |
| Capital expenditure | **(438)** | (369) |
| Change in capital creditors | **(8)** | 10 |
| Tax paid | **(107)** | (112) |
| Sale of fixed assets | **5** | 3 |
| Other | **(60)** | (72) |
| **Free cash flow** | **362** | 365 |
| Share issues | **2** | 7 |
| Purchase of own shares | **(13)** | (15) |
| Sale of businesses and investments | **1** | - |
| Purchase of businesses and investments | **(151)** | (26) |
| Dividends | **(112)** | (76) |
| Derivative termination payments | **(13)** | (16) |
| Early repayment of bonds | **(35)** | (23) |
| **Net cash inflow** | **41** | 216 |
| Net debt acquired | **-** | (8) |
| Deferred debt issue costs amortised | **(16)** | (40) |
| Currency translation adjustments | **(163)** | 3 |
| **(Increase)/decrease in net debt** | **(138)** | 171 |

1 *The summary cash flow is prepared on a different basis to the Consolidated Statment of Cash Flows under IFRS ('IFRS cash flow') and is produced to further assist readers of the accounts.*
*The principal differences are as follows:*
a) *The summary cash flow details movements in net debt. The IFRS cash flow details movements in cash and cash equivalents.*
b) *Free cash flow reconciles to cash generated from operations in the IFRS cash flow as shown in the table below. The main adjustments are in respect of cash interest, capital expenditure, tax payments and the sale of fixed assets and businesses.*
c) *The IFRS cash flow has different sub-headings to those used in the summary cash flow.*

## Reconciliation of Free Cash Flow to Cash Generated from Operations

| | 2014 €m | 2013 €m |
|---|---|---|
| Free cash flow | **362** | 365 |
| Add back: | | |
| Cash interest | **137** | 197 |
| Capital expenditure (net of change in capital creditors) | **446** | 359 |
| Tax payments | **107** | 112 |
| Financing activities | **1** | 3 |
| Less: | | |
| Sale of fixed assets | **(5)** | (3) |
| Profit on sale of assets and businesses - non-exceptional | **(4)** | (5) |
| Receipt of capital grants (in 'Other' per summary cash flow) | **(3)** | (2) |
| Dividends received from associates (in 'Other' per summary cash flow) | **(1)** | (1) |
| Non-cash financing activities | **-** | (7) |
| **Cash generated from operations** | **1,040** | 1,018 |

At €362 million in 2014, our free cash flow was broadly in line with the €365 million reported in 2013. This reflects the benefits mainly of materially higher EBITDA and lower cash interest costs year-on-year, offset by a working capital outflow and higher capital outflows (capital expenditure together with the move in capital creditors) than in 2013.

The outflow of €12 million in 2014 in respect of exceptional items related mainly to the currency loss in Venezuela reflecting the higher cost of discharging their non-Bolivar denominated payables following the adoption of the Sicad I rate. The outflow of €27 million in 2013 comprised primarily the currency loss of €18 million on the translation of non-Bolivar denominated payables (as a result of the devaluation of the Bolivar) and the restructuring costs at Townsend Hook.

Cash interest at €137 million in 2014 was €60 million lower than in 2013, primarily reflecting the benefit of our refinancing activities in recent years, including the redemption of the 2019 bonds in July. As a result of these refinancing activities, we both reduced our gross debt and changed its composition, replacing higher cost debt with lower cost debt. Our cash balances have also fallen where the use of cash to repay debt and fund acquisitions was appropriate given the very low deposit rates available. We have also benefited from the lower margin being charged on the new senior credit facility, which was arranged in July 2013, and from a lower cost in respect of interest rate swaps where additional savings have come from the maturity of old swaps entered into at a time of higher rates.

The working capital move in 2014 was an outflow of €40 million compared to an inflow of €28 million in 2013 and resulted from an increase in debtors and, to a lesser extent, stocks partly offset by an increase in creditors. Working capital amounted to €562 million at December 2014, €26 million higher year-on-year. However, the proportional increase in revenue over the period resulted in a working capital to sales ratio of 6.7% at the year-end, broadly in line with 6.6% at December 2013. This consistent result reflects our commitment to maintaining strong financial disciplines as a means to deliver cash to support our evolving strategic goals.

At €438 million in 2014, capital expenditure (fixed asset additions) was €69 million higher than in 2013 and equated to 120% of depreciation, compared to 98% in 2013. The relative high level of expenditure in 2014 resulted from the phasing of certain projects and it is expected to return to the guided range of approximately €420 million per annum in 2015 and 2016. With an outflow in respect of capital creditors in 2014 compared to an inflow in 2013, our capital outflows at €446 million were €87 million higher year-on-year.

At €107 million in 2014, our tax payments were €5 million lower than in 2013, with reductions of approximately €2 million in both Europe and the Americas reflecting the benefit of tax refunds received during the year. The Group continues to benefit from the availability of tax losses in Europe to reduce its cash tax payments. Cash taxes as a percentage of EBITDA were approximately 9% for 2014 (2013: 10%).

Other net outflows, which related mainly to employee benefits, amounted to €60 million in 2014 compared to €72 million in 2013.

Investment and financing cash flows in 2014 amounted to a net outflow of €321 million compared to €149 million in 2013. The year-on-year increase of €172 million reflected a significantly higher dividend payment to our shareholders and the increased outflows in respect of acquisitions. At €107 million, the Group dividend payment in 2014 was €37 million higher than in 2013 while the dividends paid to non-controlling interests were broadly unchanged. Although the early redemption of the 2019 bonds resulted in an outflow of €35 million in 2014, there was an outflow of €23 million in 2013 in respect of redemption of the 2017 bonds. Otherwise, the remaining investment and financing cash flows were flat year-on-year in total with slightly lower outflows in respect of share purchases under the Deferred Annual Bonus Plan ('DABP') and derivative termination payments offset by a lower inflow from share issues.

The outflow of €151 million in respect of the purchase of businesses and investments related primarily to Bates in the United States, which we acquired in October. The consideration paid amounted to €123 million, €5 million of which was deferred. The remaining €33 million related mainly to Rierba in the Dominican Republic, Corrumed in Colombia and Brian Thomas, a US sheet plant.

In 2013, acquisition expenditure of €26 million related mainly to CRP, a UK company specialising in litho-laminating and other specialised packaging.

With our free cash flow of €362 million reduced by the net investment and financing outflows of €321 million, the net cash inflow for 2014 was €41 million. This compares to an inflow of €216 million in 2013, which comprised the free cash flow of €365 million and the net investment and financing outflows of €149 million.

The reconciliation of the net cash inflow to the increase in net debt includes certain non-cash items. For 2014, these amounted to a net negative €179 million and comprised €16 million in respect of the amortisation of deferred debt issue costs (€7 million of which was accelerated by the pay down of the relevant debt) and negative currency translation adjustments on net debt of €163 million. As a result, our net debt increased by €138 million from €2,621 million at December 2013 to €2,759 million at December 2014.

In 2013, with a modest positive currency movement of €3 million, our net debt decreased by €171 million with the net cash inflow of €216 million partly offset by €40 million in respect of the amortisation of deferred debt issue costs (€28 million of which was accelerated) and €8 million of net debt acquired.

The net negative currency translation adjustments of €163 million in 2014 related primarily to the Venezuelan Bolivar but also to the US dollar, Sterling and the Swedish krona. The adoption of the Sicad I rate in the first quarter and the subsequent further weakening of the Bolivar reduced our Bolivar denominated cash by €82 million. A strengthening of the US dollar, mainly in the second half of the year, increased the value of our US dollar denominated debt by €51 million. In addition, a relative strengthening of Sterling and a weakening of the Swedish krona increased the value of our Sterling denominated debt by €15 million and reduced the value of our krona denominated cash by €14 million. Other currency moves in 2014 were modest.

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

With net debt of €2,759 million, our leverage (net debt as a multiple of EBITDA) was 2.4 times at December 2014, unchanged from December 2013 as a result of increases in both EBITDA and net debt. The increase in net debt, however, partly reflects the high level of expenditure on acquisitions in 2014 through the inclusion of the full cost while having their contribution to EBITDA for only part of the year. On a pro-forma basis for the acquisitions completed during the year, our leverage would be 2.3 times.

## Venezuela

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

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the Consolidated Income Statement is impacted as follows: Revenue €88 million increase (2013: €81 million increase), EBITDA €1 million increase (2013: €19 million increase) and profit after taxation €117 million decrease (2013: €91 million decrease). In 2014, a net monetary loss of €78 million (2013: €67 million loss) was recorded in the Consolidated Income Statement. The impact on our net assets and our total equity is an increase of €106 million (2013: €104 million increase).

In 2014 Venezuela operated a number of alternative exchange mechanisms, the official CENCOEX rate (VEF 6.3 per US dollar) ('Official rate'), Sicad I and Sicad II. In January 2014 the Government announced that it would not be devaluing the Official rate but access to the Official rate would only be available to certain priority sectors. Those not in these priority sectors would access dollars through the Sistema Complementario de Administración de Divisas ('Sicad'). The Group is awaiting clarification on whether it will be part of the priority sector, the non-priority sector or both sectors. In March 2014 a new foreign exchange trading platform began operation (Sicad II) which permitted foreign exchange barter transactions in the private sector. Both Sicad I and Sicad II were floating rates. At 31 December 2014, Sicad I was VEF 12.0 per US dollar while Sicad II was VEF 50.0 per US dollar. In February 2015 the government made further announcements that they would be modifying the exchange mechanisms by unifying Sicad I and Sicad II into Sicad and bringing in a third rate to offset the parallel market rate (Sistema Marginal de Divisas - 'Simadi'). Both the new Sicad and Simadi rates are floating rates. The most recent Sicad rate is VEF 12.0 per US dollar and the most recent Simadi rate is VEF 178.0 per US dollar.

The Group changed the rate at which it consolidates its Venezuelan operations ('SKCV') from the Official rate to the Sicad I rate as at 31 March 2014 (VEF 10.7 per US dollar) reducing its cash by approximately €69 million and its net assets by €172 million at that time. The Group believes that Sicad I and now Sicad is the most appropriate rate for accounting and consolidation, as it believes that this is the rate at which the Group will extract economic benefit. On this basis, in accordance with IFRS, the financial statements of the Group's operations in Venezuela were translated at 31 December 2014 using the prevailing Sicad I rate of VEF 12.0 per US dollar and the closing euro/US dollar rate of 1 euro = US$ 1.21.

In this multiple foreign exchange rate system there is a risk that the Sicad rate will devalue further resulting in re measurement of the local currency denominated net monetary assets and the local earnings and increase the cost of importing goods required to run the business. In 2014, the Group's operations in Venezuela represented approximately 7% of the Group's EBITDA and the Group estimates that in 2015 assuming the Sicad rate remains at its current exchange rate of VEF 12.0 per US dollar it would be within a range of 5% to 7% of the Group's EBITDA. In addition, at 31 December 2014, the Group's net assets in Venezuela were €425 million and its cash balances were €84 million. Were the Sicad rate to deteriorate during 2015 this would have an adverse effect on the Group's results of operations and financial position. For example, had Sicad been VEF 52.1 per US dollar at 31 December 2014, the final Sicad II rate, this would have reduced the Group's operations in

Venezuela to approximately 2% of the Group's pre-exceptional EBITDA. In addition, the effect on the Group's balance sheet would have been to reduce its net assets by approximately €327 million and its cash balances by approximately €64 million.

The nationalisation of foreign owned companies or assets by the Venezuelan government remains a risk. Market value compensation would be either negotiated or arbitrated under applicable laws or treaties in these cases. However, the amount and timing of such compensation is necessarily uncertain. The Group continues to control operations in Venezuela and, as a result, continues to consolidate the results and net assets of these operations at the year-end in accordance with the requirement of IFRS 10, *Consolidated Financial Statements*.

In 2014, the Group's operations in Venezuela represented approximately 6% (2013: 7%) of its total assets and 18% (2013: 16%) of its net assets. Cumulative foreign translation losses arising on its net investment in these operations amounting to €535 million (2013: €353 million) are included in the foreign exchange translation reserve.

## Capital Resources and Liquidity

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €3,654 million (2013: €3,592 million) of which €3,140 million (2013: €3,068 million) was utilised at 31 December 2014. The weighted average period until maturity of undrawn committed facilities is 3.6 years (2013: 4.4 years).

Over the course of 2013 the Group continued its successful debt refinancing, thereby improving the maturity profile, diversifying the funding base and completing the transition of the Group from a leveraged to a corporate credit status. In 2014, further progress was made in the process of refinancing higher cost debt with the pricing on 28 May of €500 million seven-year euro denominated senior unsecured notes at a coupon of 3.25%. Following the issue of an early redemption notice, the net proceeds together with cash balances of €37.5 million were used to redeem the Group's higher cost 2019 7.75% €500 million bonds on 3 July 2014.

In addition, on 25 June 2014, the Group entered into a new five-year trade receivables securitisation programme of up to €240 million maturing in 2019 (which amended, restated and extended a €250 million facility maturing in 2015 which had a margin of 1.5%) utilising the Group's receivables in France, the United Kingdom and Germany. The new programme has a margin of 1.40%.

On 11 February 2015, the Group priced €250 million of ten-year euro denominated senior unsecured notes at a coupon of 2.75%. The proceeds of the offering will be used to reduce term loan borrowings under the Group's senior credit facility.

The continued success of our debt refinancing initiatives reflects the recognition in the credit market of our resilient credit metrics and solid operating performance. Following our annual review, Standard & Poor's upgraded our rating on 28 February 2014 from BB (outlook positive) to BB+ (outlook stable). On 28 November 2014, both Moody's and Fitch upgraded our ratings by one notch to Ba1 and BB+ respectively, with a stable outlook in each case. As a result, we have achieved our target rating of BB+ equivalent with all three agencies.

Our debt portfolio is well structured and has a relatively long-term maturity profile. At 31 December 2014, the average maturity profile of our debt was 4.8 years with approximately 90% maturing in 2018 and beyond (December 2013: 5.2 years).

The weighted average interest rate on debt at 31 December 2014 was 3.77% (December 2013: 5.06%). The year-on-year decrease in the average interest rate is due to a combination of the refinancing of our €500 million 7.75% bonds due 2019 with a mix of lower cost debt and cash in July 2014, the net reduction of €460 million of higher cost interest rate swaps and the lower margin being charged on the new senior credit facility. The significant reduction in interest rate swaps, which the Group has used to hedge floating rate debt, reflects the higher proportion of fixed debt as a result of our recent bond issues.

The Group's primary sources of liquidity are cash flow from operations and borrowings under the revolving credit facility. The Group's primary uses of cash are for funding day to day operations, capital expenditure, debt service, dividends and other investment activity including acquisitions.

## Market Risk and Risk Management Policies

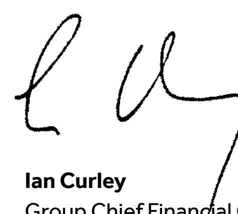
The Board of Directors sets the Group's treasury policies and objectives, which include controls over the procedures used to manage financial market risks. These are set out in detail in Note 29 to the Consolidated Financial Statements.

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. As at 31 December 2014, the Group had fixed an average of 63% of its interest cost on borrowings over the following twelve months.

At 31 December 2014, the Group's fixed rate debt comprised mainly €200 million 5.125% senior notes due 2018, US$300 million 4.875% senior notes due 2018 (US$50 million swapped to floating), €400 million 4.125% senior notes due 2020, €500 million 3.25% senior notes due 2021 and US$292.3 million 7.50% senior debentures due 2025. In addition, the Group had €349 million in interest rate swaps with maturity dates ranging from October 2018 to January 2021.

The Group's earnings are affected by changes in short-term interest rates as a result of its floating rate borrowings. If LIBOR/EURIBOR interest rates for these borrowings increase by one percent, the Group's interest expense would increase, and income before taxes would decrease, by approximately €13 million over the following twelve months. Interest income on the Group's cash balances would increase by approximately €4 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.



**Ian Curley**
Group Chief Financial Officer

## ATTRACTING THE BEST MINDS | STORE VISUALISER

Engaging both aeronautical engineers and video gamers has helped continually drive innovation. Clients can now visualise and experiment with their products in a virtual retail environment prior to production, saving both time and money.

**ARNOUD DEKKER**
Expertise Manager

**BERT DOL**
3D Modeller

open

# MINDS

# Sustainability

## Sustainable Development Report

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

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

SKG published its seventh annual Sustainable Development Report in June 2014 and it is available on the Group's website: smurfitkappa.com. It includes details of the principles by which the Group abides in its interaction with key areas of the environment, social development (including health and safety) and business development. An overview of the Group's performance in 2013 was included in the report. Also, an overview of SKG's long-term sustainability commitments were included outlining the Group's commitment to continued progress and performance improvement in the areas which we have identified as specifically underpinning the concept of sustainability. Using the guidelines issued by the Global Reporting Initiative ('GRI') we maintained the transparency of the Group's reporting with the application level of its reporting set to GRI A+. We also engaged KPMG for the fifth consecutive year to undertake an external overview and to provide limited assurance on the data and text of the report. SKG will continue to drive the sustainability agenda and its objective is to improve its performance every year. A further Sustainable Development Report will be issued in June 2015, which will advance SKG's commitments in this area.

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

A report on Corporate Governance is detailed on pages 38 to 42 of this Annual Report and a short overview on SKG's performance in the other key areas now follows.

## Social Citizenship

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

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

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

Implementing SKG's Social Citizenship Policy is the responsibility of line management who are supported by the Human Resource Managers at country, segment and Group level.

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

Community participation is encouraged by SKG and this very important element of social citizenship is practised at local plant level where managers are best positioned to positively contribute and support worthy local causes.

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

## Health and Safety

SKG has made the health and safety of its workforce an overriding consideration. It adopts a structured and systematic approach to the management of health and safety considerations in the workplace.

The SKG Health and Safety Policy statement states that:

"At Smurfit Kappa, we promote a health and safety culture founded on understanding, responsibility and accountability. We aim to continually improve our performance by adopting a structured systematic approach to the management of health and safety aspects supported by continual improvement of our systems.

"It is Smurfit Kappa policy to implement good health and safety practice by adopting proven industry practice across the organisation" and "foster a work environment where every member of the workforce has an individual responsibility to execute their tasks in a safe, diligent and professional manner."

The commitments within the revised Group health and safety policies are consistent with those of the internationally recognised OHSAS18001 occupational health and safety system specification.

Every facility within SKG adopts a suite of good health and safety management systems designed to protect employees, visitors to its sites, contractors and the public at large from injury and ill-health.

All performance reviews at plant, country, division and regional level include a review of recent health and safety performance. On a quarterly basis the Board receive a progress report outlining key health and safety developments.

SKG promotes the development and implementation of technical and engineering improvements through continual internal benchmarking of health and safety performance and promotes the introduction of innovation solutions through its annual health and safety awards programme.

SKG recognises the importance of strong leadership, continual employee involvement, and representation in the development and maintenance of a positive safety culture. To that extent, it maintains an interconnected and collaborative health and safety "expert community" that supports the operations management teams as they take steps, both locally and regionally, to address common and unique challenges. This expert network leverages the rich knowledge of employees in areas such as human resources, production, industrial design, and process control. This network positions SKG to deliver innovative solutions based on proven principles.

The safety of every member of the workforce is a key consideration for the Group. SKG devotes considerable time and effort to the management of health and safety aspects so that employees and subcontracted workers are aware of and follow the appropriate protective procedures. While there were no fatalities affecting employees across the Group in 2014, regrettably, the employee of a subcontractor sustained fatal injuries arising from a fall from a loading platform while working on a capital improvement project at the Oude Pekela Board Mill in Netherlands in October 2014. The prevention of every accident is and will remain a key priority for the Group.

SKG is committed to making continual advances in its health and safety management processes. It has recently established a comprehensive health and safety verification and audit process tailored specifically to its global operations. Based on its internal health and safety operating standards, this audit process verifies the presence of the appropriate protective measures.

## 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 stakeholders' reasonable expectations on environmental performance in forestry, product manufacture, distribution and end use.

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

# Board of Directors

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### Liam O'Mahony
CHAIRMAN

Liam O'Mahony joined the Board upon the Company being admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. He was appointed Chairman in December 2008. He is a Director of Project Management Limited and was previously Chairman of IDA Ireland. He was the Chief Executive Officer of CRH plc from January 2000 until his retirement in December 2008, prior to which in a 37 year executive career within the CRH Group he held a number of senior management positions including Chief Executive of its US operations and Managing Director, Republic of Ireland and UK companies. He retired from the Board of CRH plc in 2011. (Age 68, Irish)

### Gary McGann
GROUP CHIEF EXECUTIVE OFFICER

Gary McGann has served as a Director since 2000 and was appointed Group Chief Executive Officer in November 2002. He was previously President and Chief Operations Officer of the Smurfit Group since January 2000. He joined the Smurfit Group in 1998 as Chief Financial Officer. He had held a number of senior positions in both the private and public sectors over the previous 20 years, including Chief Executive of Gilbeys of Ireland and Aer Lingus Group. He is Chairman of Aon Ireland, a non-executive Director of Paddy Power plc and Green REIT plc and the Irish Business and Employers' Confederation, a member of the European Round Table of Industrialists and Chairman of the Confederation of European Paper Industries. (Age 64, Irish)

### Anthony Smurfit
GROUP CHIEF OPERATIONS OFFICER

Anthony Smurfit has served as a Director since 1989 and was appointed Group Chief Operations Officer in November 2002. He has worked in various parts of the Smurfit Group both in Europe and the United States since he joined the Group. He was Chief Executive of Smurfit Europe from October 1999 to 2002 prior to which he was Deputy Chief Executive of Smurfit Europe and previously Chief Executive Officer of Smurfit France. He is a non-executive Director of C&C Group plc. (Age 51, Irish)

### Ian Curley
GROUP CHIEF FINANCIAL OFFICER

Ian Curley has served as a Director since 2002. He was appointed Group Chief Financial Officer in January 2000. He joined the Group in 1989 having previously worked for a number of multinationals in Ireland. He was appointed Chief Financial Officer of Smurfit Europe in 1997, prior to which he served as Financial Controller of Smurfit Continental Europe for a number of years based in the UK and France. Mr Curley is a Fellow of the Institute of Chartered Management Accountants. (Age 52, Irish)

### Frits Beurskens

Frits Beurskens has served as a Director of the Group since December 2005. He joined the Kappa Group in 1990 and held various Managing Director positions until his appointment as its President in 1996 which he held until the merger with Smurfit. He is a member of the Board of Sappi Limited. He is a former Chairman of both the Confederation of European Paper Industries and the International Corrugated Cases Association. In December 2007 he was appointed by the Dutch Queen as Officer in the Order of Oranje Nassau. (Age 67, Dutch)

### Christel Bories

Christel Bories joined the Board in November 2012. Ms Bories was appointed Deputy Chief Executive Officer of Ipsen SA in March 2013. She was President and Chief Executive Officer of Constellium (formerly Engineered products, Rio Tinto) from 2007 to the end of 2011 prior to which she was a senior executive in both Pechiney Packaging and Alcan for fourteen years of which eight years was as the General Manager of the Packaging business. Ms Bories spent seven years in strategic consulting prior to her industrial experience. She is a non–executive Director of Legrand SA. (Age 50, French)

### Thomas Brodin

Thomas Brodin joined the Group in April 2008. He is a partner at Swedish investment management firm Cliens Kapitalförvaltning since November 2013. He was Head of Equities and Head of Equity Research and a member of the executive management team at Erik Penser Bankaktiebolag, a privately owned Swedish bank from 2007 to 2011. He was previously a European paper and packaging research analyst and Managing Director at Citigroup between 1995 and 2007. Prior to that, he was a paper and packaging research analyst at Credit Suisse First Boston from 1992 to 1995 and at Svenska Handelsbanken from 1990 to 1992. Between 1998 and 2007 Mr Brodin was ranked as the leading European analyst covering the paper and packaging sector by Extel and Institutional Investor Surveys. (Age 50, Swedish)

### Irial Finan

Irial Finan joined the Board in February 2012. He is currently Executive Vice President of The Coca-Cola Company and President of the Bottling Investments Group. He is also responsible for the stewardship of The Coca-Cola Company's Equity Investments and leads the Commercial Product Supply organisation. He joined the Coca-Cola System in 1981. Prior to his appointment to his current role in 2004, Mr Finan served as Chief Executive Officer of Coca-Cola Hellenic Bottling Company SA. Mr Finan is a Fellow of the Institute of Chartered Management Accountants. (Age 57, Irish)

### 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 Packaging Corporation of America, the Art Institute of Chicago, North Shore University Health System and World Business Chicago, and a member of the Board of Fellows of Brown University. (Age 58, American)

**John Moloney**
John Moloney joined the Board in December 2013. He is the former Group Managing Director of Glanbia plc, a global performance nutrition and ingredients company. He served as Group Managing Director of Glanbia plc from 2001 until he retired from this position in November 2013. He joined Glanbia plc in 1987 and held a number of senior management positions before he was appointed Deputy Group Managing Director in 2000. He is Chairman of Coillte and Chairman of DCC plc and a non-executive Director of Greencore Group plc. (Age 60, Irish)

**Roberto Newell**
Roberto Newell joined the Board in June 2010. He is Vice Chairman of the Board of the Instituto Mexicano para la Competitividad, A.C. ('IMCO'), an independent think-tank in Mexico, established to develop policies to enhance Mexico's competitiveness. Prior to joining IMCO, Mr Newell served Mexico's Federal Government, most recently as Deputy Secretary for Agriculture. Between 1984 and 2001, Mr Newell worked for McKinsey & Co., where he served clients in North America and Latin America. At McKinsey, Mr Newell advised large corporations and national governments with a focus on the financial and telecommunications sectors. Mr Newell serves on the Board of a number of institutions in Mexico. (Age 67, Mexican)

**Nicanor Restrepo**
Nicanor Restrepo joined the Board upon the Company being admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. He was previously the President and Chief Executive Officer of Suramericana de Inversiones S.A. He is a Director of Sofasa (Renault), Exito S.A. (Groupe Casino), Conconcreto S.A. and Carvajal Internacional S.A. He has extensive business experience having occupied several positions in the private sector and has received many awards both in Colombia and internationally. (Age 73, Colombian)

**Paul Stecko**
Paul Stecko joined the Board in February 2008. He is Chairman of Packaging Corporation of America ('PCA') since December 2013. He was executive Chairman of PCA from July 2010, prior to which he had served as Chairman and Chief Executive Officer of PCA since 1999. Prior to 1999 he served as President and Chief Operating Officer of Tenneco Inc. and other senior positions within Tenneco including President and Chief Executive Officer of Tenneco Packaging Inc. which was the business that included PCA and was subsequently sold by Tenneco in 1999. Mr Stecko spent 16 years with International Paper Company. He is a member of the Board of Directors of Tenneco Inc. and State Farm Mutual Insurance Company. (Age 70, American)

**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 and Solvay S.A. Ms Thorne is a Fellow of the Institute of Chartered Management Accountants and a Fellow of the Association of Corporate Treasurers. (Age 63, British)

## Board Committees

**AUDIT**
R. Thorne, Chairman [1]
C. Bories [1]
T. Brodin [1]
I. Finan [1]
R. Newell [1]
J. Moloney [4]
P. Stecko [1]

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

**NOMINATION**
N. Restrepo, Chairman [3]
F. Beurskens [2]
T. Brodin [1]
L. O'Mahony [1]
S. Mencoff [2]
R. Thorne [1]

**SENIOR INDEPENDENT DIRECTOR**
N. Restrepo

(1) *Joined the Committee on IPO in 2007 or appointment date if later (See page 39)*

(2) *Joined the Nomination Committee in 2013*

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

(4) *Joined the Audit Committee in 2014*

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

## ROERMOND PAPER MILL |

Smurfit Kappa's Roermond paper mill is a real pioneer within the industry. A mill that sees opportunities to utilise waste, where others just see landfill. It has used sustainability as a key driver for innovation, setting global standards within the paper industry and beyond.

JO COX
Managing Director, Smurfit Kappa Roermond Papier

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# Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance. This Corporate Governance Statement describes how throughout the financial year ended 31 December 2014 Smurfit Kappa Group plc applied the principles of the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in September 2012 ('the Code') as adopted by the Irish Stock Exchange ('ISE') and London Stock Exchange ('LSE') and the Irish Corporate Governance Annex ('the Annex') which supplements the Code with additional corporate governance provisions. The Directors believe that the Group has complied with the provisions of the Code and the Annex throughout the year under review.

A copy of the Code can be obtained from the FRC's website: www.frc.org.uk. A copy of the Annex can be obtained from the ISE's website: www.ise.ie.

## Board of Directors

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

- Approval of the Group's strategy which is set out on page 13
- Board appointments including those of the Chairman and Group Chief Executive
- Agreement of terms of appointment of the Chairman, Group Chief Executive and other executive Directors
- Agreement of any fundamental changes to the Group management and control structure
- Approval of the annual financial budgets
- Approval of capital expenditure above fixed limits
- Approval of material acquisitions and disposals of businesses
- Approval of the Interim Management Statements, the Interim Report, the Preliminary Results Release and the Annual Report
- Establishment and review of corporate governance policy and practice
- Monitoring of the Group's risk management and internal control systems
- Confirming that the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the performance of the Group, its business model and strategy.

As recommended by the Code, the roles of Chairman and Group Chief Executive Officer are held by separate individuals and the division of responsibilities between them is clearly established and has been set out in writing and approved by the Board. The Board has delegated responsibility for the day-to-day management of the Group, through the Group Chief Executive Officer, to executive management. The Group Chief Executive Officer is responsible for implementing strategy and policy as approved by the Board. As discussed below, the Board has also delegated some of its responsibilities to Committees of the Board. The powers of Directors are determined by Irish legislation and the Articles of Association of the Company. The Directors have access to independent professional advice at the Group's expense, if and when required. No such advice was sought by any Director during the year. The Board Committees are provided with sufficient resources to undertake their duties.

## Membership, Board Size and Independence

At present there are fourteen Directors on the Board, comprising: a non-executive Chairman, three executive Directors and ten non-executive Directors. A list of Directors is set out on page 39 and biographical details are set out on pages 34 and 35. The Board considers that the Board comprising fourteen Directors is not so large as to be unwieldy and that the Directors with a broad spread of nationalities, backgrounds and expertise bring the breadth and depth of skills, knowledge and experience that are required to effectively lead the Group.

The Code recommends that, apart from the Chairman, at least half of the Board of Directors of a listed company should comprise non-executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Director's judgement. During the year under review the Company complied with the Code recommendation on Board independence. The Chairman was independent on appointment.

The Group has an effective Board to provide good governance for an internationally diverse business whose interests span two continents and 32 individual countries. Each of the Group's non-executive Directors has broad-based international business expertise and many have gained significant and relevant industry specific expertise over a number of years. The composition of the Board reflects the need, as outlined by the Code, for an effective Board to maintain a balance of "skills, knowledge and experience". The experience of each Director is set out in their biographies which are detailed on pages 34 and 35.

The Board through the Nomination Committee reviews the composition of the Board on an annual basis. This includes a review of refreshment and renewal policies, Board diversity, including gender diversity and the skills, knowledge and experience of the Directors.

The Board reviewed the composition of the Board and determined that Ms Bories, Mr Brodin, Mr Finan, Mr Moloney, Mr Newell, Mr Restrepo, Mr Stecko and Ms Thorne are independent. In reaching that conclusion the Board took into account the principles relating to independence contained in the Code and specifically whether any non-executive Director:

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

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

While Mr Beurskens was an employee of the Group and Mr Mencoff was previously a shareholder nominated Director under an entitlement in the Articles of Association of the Company which lapsed when the relevant shareholder disposed of shares during 2012, the Board does not believe these facts compromise either their independence of judgement, their contribution to the Board or the quality of their oversight.

| Director | Role | Independent | Appointment Date * |
|---|---|---|---|
| Liam O'Mahony | Non-executive Chairman | ** | 2007 |
| Gary McGann | Group Chief Executive Officer | No | 2000 |
| Anthony Smurfit | Group Chief Operating Officer | No | 1989 |
| Ian Curley | Group Chief Financial Officer | No | 2002 |
| Frits Beurskens | Non-executive Director – former Executive | No | 2005 |
| Christel Bories | Non-executive Director | Yes | 2012 |
| Thomas Brodin | Non-executive Director | Yes | 2008 |
| Irial Finan | Non-executive Director | Yes | 2012 |
| Samuel Mencoff | Non-executive Director | No | 2002 |
| John Moloney | Non-executive Director | Yes | 2013 |
| Roberto Newell | Non-executive Director | Yes | 2010 |
| Nicanor Restrepo | Non-executive Director | Yes | 2007 |
| Paul Stecko | Non-executive Director | Yes | 2008 |
| Rosemary Thorne | Non-executive Director | Yes | 2008 |

* *For Smurfit Kappa Group plc and predecessor companies. SKG returned to the ISE and LSE in March 2007*

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

## Executive and Non-executive Directors - Experience and Skills

Each of the executive Directors has extensive experience of the paper-based packaging industry. Their knowledge is backed up by the general business skills of the individuals involved and previous relevant experience. The non-executive Directors use their broad based skills, their diverse range of business and financial experiences and their international backgrounds in reviewing and assessing any opportunities or challenges facing the Group and play an important role in developing the Group's strategy and scrutinising the performance of management in meeting the Group's goals and objectives. Six of the non-executive Directors have the additional benefit of many years exposure to paper-based packaging companies either as employees, directors or stakeholders which complements the experiences of the executive Directors.

## Appointments, Retirement and Re-election to the Board

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first AGM after their appointment and, pursuant to the Articles of Association of the Company, all Directors are subject to re-election at intervals of no more than three years. However, in compliance with the Code, all Directors are required to retire at each AGM and offer themselves for re-election.

The procedures governing the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force from time to time.

The standard letter of appointment of non-executive Directors will be available for inspection at the AGM and is available on request, from the Company Secretary.

Each of the Directors, other than Mr Nicanor Restrepo are offering themselves for re-election at the 2015 AGM and details are set out on page 43.

## External Directorships

The Board believes that there is benefit for the Group if executive Directors hold non-executive directorships with other companies as it enhances their overall business experience. Consequently, the executive Directors are encouraged to accept a small number of external appointments as non-executive Directors or on industry associations. Directors are permitted to retain any payments received in respect of such appointments.

## Remuneration

Details of remuneration paid to Directors (executive and non-executive) are set out in the Remuneration Report on pages 48 to 60. Non-executive Directors are paid fees for their services. None of the non-executive Directors' remuneration is performance related and they are not eligible to participate in the Group's annual bonus scheme or long-term incentive plans ('LTIP'). Non-executive Directors' fees are not pensionable. The Remuneration Report will be presented to shareholders for the purposes of a non-binding advisory vote at the AGM on 1 May 2015.

## Chairman

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

# Corporate Governance Statement (continued)

## Senior Independent Director

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

## Group Secretary

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

## Meetings

The Board meets at least five times each year with additional meetings as required. The Board met five times in 2014. Details of the meetings held during the period are contained in the schedule on page 42, which also includes information on individual attendance. The Board holds at least one of its meetings each year at a Group operation to give the Directors an opportunity to meet with a wider range of management and to see and remain familiar with the Group's operating activities. In 2014 the July Board meeting was held in Alcala, Spain. The Board is supplied on a timely basis in advance of Board meetings with a Board Report comprising strategic updates, operational, financial and investor relations information together with Board papers on key issues in a form and of a quality to enable it to discharge its duties effectively. The Board papers also include the minutes of all Board Committee meetings and at each Board meeting the Chairman of each Committee gives a report on major agenda items discussed at Committee meetings held since the last Board meeting.

When Directors are unable to attend a meeting having been advised in the Board papers circulated prior to the meeting of the matters to be discussed they are given an opportunity to make their views known to the Chairman or the Group Chief Executive Officer prior to the meeting.

## Induction and Development

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

## Succession Planning and Diversity

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

## External Board Evaluation

An external Board evaluation was carried out in 2013 by an independent third party, ICSA Board Evaluation ('ICSA'). The overall outcome was very positive and indicated the Board was operating effectively and cohesively with the performance being rated in the upper quartile of a seven point scale. The next external evaluation will be conducted in 2016. ICSA is part of an organisation that supplies some IT services to the Group; however, the annual value of the contract is not material to either party.

## Internal Board Evaluation

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

## Share Ownership and Dealing

Details of Directors' shareholdings are set out on page 55. The Group has a policy on dealing in shares that applies to all Directors and senior management. This policy adopts the terms of the Model Code as set out in the Listing Rules published by the UK Listing Authority and the ISE. Under this policy, Directors and senior management are required to obtain clearance from prescribed persons before dealing. Directors and senior management are prohibited from dealing in SKG plc shares during designated close periods and at any other time when the individual is in possession of Inside Information (as defined by the Market Abuse (Directive 2003/6/EC) Regulations 2005).

## Board Committees

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

The current membership of each Committee, details of attendance and each member's tenure are set out in the individual Committee reports.

## 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 and presentations at the time of the release of the annual and quarterly results. Investors and analysts also attend the Group's Innovation and Sustainability Awards exhibition which is held every 18 months. The Chairman, Group Chief Executive Officer, Chief Operations Officer and Chief Financial Officer also participate in these events.

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

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

The Group's AGM affords each shareholder the opportunity to question the Chairman of the Board, the Chairmen of all Committees and all other Board members. The Notice of the Annual General Meeting and related papers together with the Annual Report are sent to shareholders at least 20 working days before the meeting. In addition, the Group responds throughout the year to numerous queries from shareholders on a broad range of issues.

The Group launched an Investor Relations web app during the year which makes it easier for investors to learn about the Group and keep in touch with relevant corporate activity.

## Shareholder Meetings and Shareholder Rights

Shareholders' meetings are governed by the Articles of Association of the Company and the Companies Acts 1963-2013 (the 'Companies Acts').

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

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

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

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

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

## Code of Business Conduct

The Smurfit Kappa Code of Business Conduct was revised during 2012 to ensure it continued to comply with best practice in this area. The Code applies to the Group's Board of Directors, officers and employees worldwide. We also require individuals, entities, agents or anyone acting on the Group's behalf to comply with its Code. The revised Code is available on the Group's website: smurfitkappa.com and is translated into 16 languages.

## Sustainability

Sustainability is concerned with ensuring that the human and natural environment remains intact both today and into the future as we continue to use natural resources. SKG manages its business in a way which recognises its key responsibilities in all aspects of its corporate social responsibility especially in the areas of Environment, Sustainable Forestry, Social Citizenship and Health and Safety. The Group's principles are summarised on pages 32 and 33 and are described in detail in the Sustainable Development Report for 2013 which is available on the Group's website. The Sustainable Development Report for 2014 will be published in June 2015.

## Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness, in order to safeguard shareholders' investments and the Group's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Directors confirm there is an on-going process for identifying, evaluating and managing the significant risks faced by the Group which is in accordance with the Turnbull Guidance (Internal Control: Revised Guidance for Directors on the Combined Code) on internal control. This process has been in place throughout the accounting period and up to the date of approval of the Annual Report and Consolidated Financial Statements and is subject to regular review by the Board.

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

# Corporate Governance Statement (continued)

have been delegated to them. As such, the system of internal control throughout the Group's operations ensures that the organisation is capable of responding quickly to evolving operational and business risks and that significant internal control issues should they arise are reported promptly to appropriate levels of management.

The Board is responsible for determining the nature and extent of the significant risks it is willing to take to achieve its strategic objectives. Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified and evaluated, and appropriate risk management strategies are implemented at each level. The key business risks are identified by the senior management team. The Audit Committee and Board in conjunction with senior management review the major business risks faced by the Group and determine the appropriate course of action to manage these risks. The Internal Audit function monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee meets with the Group Compliance Manager and the Group Internal Auditor at least quarterly in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant issues considered by the Committee.

The Directors confirm that they have conducted an annual review of the effectiveness of the Group's risk management and system of internal control up to and including the date of approval of the Annual Report and Consolidated Financial Statements. This had regard to the material risks that could affect the Group's business (as outlined in the Directors' Report on pages 43 and 44), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

## Financial Reporting

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

## Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement, the Chief Executive's Review and the Operations Review on pages 6 to 19. The financial position of the Group, its cash generation, capital resources and liquidity and its market risk and risk management policies are described in the Finance Review on pages 22 to 29. In addition, Notes 22, 23, 24 and 29 to the Consolidated Financial Statements detail cash and cash equivalents, capital and reserves, borrowings and financial instruments. Note 29 to the Consolidated Financial Statements also highlights the Group's financial and credit risk management, hedging activities, liquidity risk and capital risk management.

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

## Directors' Report

The Change of Control, Capital Structure and Purchase of Own Shares information are set out on page 44 in the Directors' Report and form part of this Corporate Governance Statement.

## Attendance at Meetings during the Year to 31 December 2014

| | A* | B* |
|---|---|---|
| L. O'Mahony | 5 | 5 |
| F. Beurskens | 5 | 5 |
| C. Bories | 5 | 5 |
| T. Brodin | 5 | 5 |
| I. Finan | 5 | 5 |
| S. Mencoff | 5 | 5 |
| J. Moloney | 5 | 5 |
| R. Newell | 5 | 5 |
| N. Restrepo | 5 | 5 |
| P. Stecko | 5 | 5 |
| R. Thorne | 5 | 5 |
| G. McGann | 5 | 5 |
| A. Smurfit | 5 | 5 |
| I. Curley | 5 | 4 |

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

# Directors' Report

## Report of the Directors

The Directors submit their Report and Financial Statements for the year ended 31 December 2014.

## Principal Activity and Business Review

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

The Chairman's Statement, the Chief Executive Review, the Strategy Statement, the Operations Review, the Finance Review (including financial risk management policies) on pages 6 to 29 and Note 33 to the Consolidated Financial Statements on page 128 report on the performance of the Group during the year and on future developments.

## Results for the Year

The results for the year are set out in the Consolidated Income Statement on page 68. The profit attributable to the owners of the parent amounted to €241 million (2013: €188 million).

Key financial performance indicators are set out in the Finance Review on pages 24 to 26. The Consolidated Financial Statements for the year ended 31 December 2014 are set out in detail on pages 68 to 130.

## Dividends

The Board is recommending a final dividend of 40.00 cent per share for 2014. Subject to shareholders' approval at the AGM on 1 May 2015, it is proposed to pay a final dividend on 8 May 2015 to all ordinary shareholders on the share register at the close of business on 10 April 2015.

## Research and Development

The Company's subsidiaries are engaged in on-going research and development aimed at providing innovative paper-based packaging solutions and improving products and processes and expanding product ranges. Expenditure on research and development in the year amounted to €8 million.

## Books and Records

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

## Directors

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

Mr Nicanor Restrepo will retire from the Board at the AGM to be held on 1 May 2015.

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first AGM after their appointment and, pursuant to the Articles of Association of the Company, all Directors are subject to re-election at intervals of no more than three years. However, in compliance with the Code, all Directors will retire at the 2015 AGM and, excluding Mr Restrepo, will offer themselves for re-election.

To enable shareholders to make an informed decision, reference should be made to pages 34 and 35 which contains a biographical note on each Director offering themselves for re-election and to the Notice of the Annual General Meeting which explains why the Board believes the relevant Directors should be re-elected. The Directors intend to confirm at the AGM that the performance of each individual seeking re-election continues to be effective and demonstrates commitment to the role.

Shareholders are referred to the information contained in the Corporate Governance Statement on pages 38 to 42 concerning the operation of the Board and the composition and functions of the Committees of the Board.

## Directors' and Secretary's Interests

Details of the Directors' and Company Secretary's interests in the share capital are set out in the Remuneration Report on pages 55 to 57 and are incorporated into this Directors' Report.

## Principal Risks and Uncertainties

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

- If the current economic climate were to deteriorate and result in an increased economic slowdown which was sustained over any significant length of time, or the sovereign debt crisis (including its impact on the euro) were to intensify, it could adversely affect the Group's financial position and results of operations.
- The cyclical nature of the packaging industry could result in overcapacity and consequently threaten the Group's pricing structure.
- If operations at any of the Group's facilities (in particular its key mills) were interrupted for any significant length of time it could adversely affect the Group's financial position and results of operations.
- Price fluctuations in raw materials and energy costs could adversely affect the Group's manufacturing costs.
- The Group is exposed to currency exchange rate fluctuations and, in addition, currency exchange controls in Venezuela and Argentina.
- The Group may not be able to attract and retain suitably qualified employees as required for its business.
- The Group is subject to a growing number of environmental laws and regulations, and the cost of compliance or the failure to comply with current and future laws and regulations may negatively affect the Group's business.
- The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates.
- The Group is exposed to potential risks in relation to its Venezuelan operations which are set out below and in Note 3 to the Consolidated Financial Statements.

### Venezuela Risk

- The Group is exposed to currency exchange rate fluctuations and in addition, to exchange controls in Venezuela. In 2014 Venezuela operated a number of alternative exchange mechanisms, the official CENCOEX rate (VEF 6.3 per US dollar) ('Official rate'), Sicad I and Sicad II. In January 2014 the Government announced that it would not be devaluing the Official rate but access to the Official rate would only be available to certain priority sectors. Those not in these priority sectors would access dollars through the Sistema Complementario de Administración de Divisas ('Sicad'). The Group is awaiting clarification on whether it will be part of the priority sector, the non-priority sector or both sectors. In March 2014 a new foreign exchange trading platform began operation (Sicad II) which permitted foreign exchange barter transactions in the private sector. Both Sicad I and Sicad II were floating rates. At 31 December 2014, Sicad I was VEF 12.0 per US dollar while Sicad II was VEF 50.0 per US dollar.

# Directors' Report (continued)

In February 2015 the government made further announcements that they would be modifying the exchange mechanisms by unifying Sicad I and Sicad II into Sicad and bringing in a third rate to offset the parallel market rate (Sistema Marginal de Divisas -'Simadi'). Both the new Sicad and Simadi rates are floating rates. The most recent Sicad rate is VEF 12.0 per US dollar and the most recent Simadi rate is VEF 178.0 per US dollar.

The Group changed the rate at which it consolidates its Venezuelan operations ('SKCV') from the Official rate to the Sicad I rate as at 31 March 2014 (VEF 10.7 per US dollar) reducing its cash by approximately €69 million and its net assets by €172 million at that time. The Group believes that Sicad I and now Sicad is the most appropriate rate for accounting and consolidation, as it believes that this is the rate at which the Group will extract economic benefit. On this basis, in accordance with IFRS, the financial statements of the Group's operations in Venezuela were translated at 31 December 2014 using the prevailing Sicad I rate of VEF 12.0 per US dollar and the closing euro/US dollar rate of 1 euro = US$ 1.21.

- In this multiple foreign exchange rate system there is a risk that the Sicad rate will devalue further resulting in re-measurement of the local currency denominated net monetary assets and the local earnings and increase the cost of importing goods required to run the business. In 2014 the Group's operations in Venezuela represented approximately 7% of the Group's EBITDA and the Group estimates that in 2015 assuming the Sicad rate remains at its current exchange rate of VEF 12.0 per US dollar it would be within a range of 5% to 7% of the Group's EBITDA. In addition at 31 December 2014 the Group's net assets in Venezuela were €425 million and its cash balances were €84 million. Were the Sicad rate to deteriorate during 2015 this would have an adverse effect on the Group's results of operations and financial position. For example, had Sicad been VEF 52.1 per US dollar at 31 December 2014, the final Sicad II rate, this would have reduced the Groups operations in Venezuela to approximately 2% of the Group's EBITDA. In addition, the effect on the Group's balance sheet would have been to reduce its net assets by approximately €327 million and its cash balances by approximately €64 million.
- In 2013, the Venezuelan government announced that companies could only seek price increases if they had clearance that their margins were within certain guidelines. SKCV is operating within these guidelines. There is a risk that if SKCV cannot implement price increases in a timely manner to cover the cost of its increasing raw material and labour costs as a result of inflation and the devaluing currency it would have an adverse effect on its results of operations. In this volatile environment the Group continues to closely monitor developments, assess evolving business risks and actively manage its investments.

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

## Corporate Governance

Under Irish company law (European Communities (Directive 2006/46/EC) Regulations 2009), the Group is required to produce a Corporate Governance Statement. The Directors' Statement on Corporate Governance is set out on pages 38 to 42 and forms part of this report. The Audit Committee Report, the Remuneration Report and the Nomination Committee Report are set out on pages 45 to 61. A copy of the Code (September 2012) can be obtained from the FRC's website: www.frc.org.uk. A copy of the Annex can be obtained from the ISE's website: www.ise.ie.

## Purchase of Own Shares

Special resolutions will be proposed at the AGM to renew the authority of the Company, or any of its subsidiaries, to purchase up to 10% of the Company's ordinary shares in issue at the date of the AGM and in relation to the maximum and minimum prices at which treasury shares (effectively shares purchased by the Company and not cancelled) may be re-issued off-market by the Company. If granted, the authority will expire on the earlier of the date of the AGM in 2016 or 1 August 2016.

A similar authority was granted at the AGM in 2014, which is due to expire on the earlier of the date of the AGM in 2015 or 1 August 2015.

## Change of Control

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

## Subsidiary and Associated Undertakings

A list of principal subsidiaries and associates as at 31 December 2014 is set out in Note 35 to the Consolidated Financial Statements.

## Capital Structure

Details of the structure of the Company's capital are set out in Note 23 to the Consolidated Financial Statements and are deemed to form part of this Directors' Report. Details of the Group's long-term incentive plans are set out in the Remuneration Report and Note 26 to the Consolidated Financial Statements and are incorporated into this Directors' Report.

## Substantial Holdings

The table below shows all notified shareholdings in excess of 3% of the issued ordinary share capital of the Company as at 31 December 2014 and 6 March 2015.

| | 31 December 2014 | | 6 March 2015 | |
|---|---|---|---|---|
| | **Number of shares** | **% of issued ordinary share capital** | **Number of shares** | **% of issued ordinary share capital** |
| Norges Bank | 20,025,712 | 8.6% | 20,025,712 | 8.5% |
| GMT Capital Corp. | 15,916,535 | 6.9% | 15,916,535 | 6.8% |
| LSV Asset Management | 6,984,325 | 3.0% | * | * |
| Schroders plc | 6,975,724 | 3.0% | * | * |

** Shareholding was below 3% as at 6 March 2015.*

## Auditor

The Auditor, PricewaterhouseCoopers ('PwC'), is willing to continue in office and a resolution authorising the Directors to fix their remuneration will be submitted to the AGM.

**G. McGann**
**I. Curley**
Directors
6 March 2015

# Audit Committee Report

As Chairman of the Audit Committee it is my pleasure to report to you on our activities in relation to the year ended 31 December 2014.

## Role of the Audit Committee

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

The role and responsibilities of the Committee is set out in its Terms of Reference which is available on the Group's website: smurfitkappa.com. The Terms of Reference are reviewed each year by the Committee and were last updated in December 2014 to reflect current best practice.

## Membership of the Committee

The Board has reviewed the composition of the Committee during the year and is satisfied that the mix of business and financial experience enables the Committee to effectively fulfil its responsibilities. The Committee is currently comprised of seven independent non-executive Directors. Of these Mr Irial Finan and I, the Committee Chairman, have recent and relevant financial experience. The Committee met five times during the year under review. Details of the Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer, the Group Chief Financial Officer, the Group Internal Auditor, the Group Compliance Manager, and senior members of the Group finance team normally attend meetings of the Committee. The external auditor also attends all meetings and together with the Group Internal Auditor have direct access to the Committee Chairman at all times. In advance of every meeting the Committee Chairman meets individually with the Group finance team, the Group Compliance Manager, the Group Internal Auditor and the external auditor.

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

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

** *Mr Moloney joined the Committee in February 2014.*

## Financial Reporting and Significant Financial Issues

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

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

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

The significant accounting matters considered in the year are detailed below.

### 1. Goodwill Impairment Review

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

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

The Committee addressed these matters using reports received from management outlining the basis for assumptions used and by reviewing the independent expert's report. The Committee reviewed the methodology applied including ensuring the discount rate used was within an acceptable range and that the terminal value multiple used was appropriate. The Committee also considered a number of different scenarios to test the sensitivity of the model to changes in its key drivers and to understand the level of headroom available at a CGU level. The Committee noted that while headroom in the French CGU had increased on the prior year it remained on watch and will monitor developments in it throughout 2015. The Committee also noted that the headroom in the Venezuelan CGU decreased from the prior year and that they would monitor it in 2015 in light of the economic volatility that continues to exist there.

Following this process the Committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the Consolidated Financial Statements. The Committee concluded that the goodwill is not impaired and approved the disclosures in Note 14 to the Consolidated Financial Statements.

### 2. Venezuela

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

#### Exchange control

The Committee has reviewed accounting papers prepared by management which detail the exchange control developments during the year, including the establishment of the Sicad exchange mechanisms. The Committee has discussed these matters in detail throughout the year with management and our external auditor and considered the appropriate rate to consolidate the Venezuelan operations. Based on the facts and circumstances, the Committee considered that the Sicad I rate was the appropriate rate to consolidate the Venezuelan operations for the year ended 31 December 2014. The Committee also considered the impact of exchange control on the net assets of its operations and its cash

# Audit Committee Report (continued)

balances in Venezuela. The Committee consider the disclosures in Note 3 to the Consolidated Financial Statements to be appropriate. Further developments in the area of exchange control were announced in early 2015 and the Committee will continue to monitor this area closely.

#### Control

The Committee has considered and discussed with management as to whether the Group maintains control of its Venezuelan operations, particularly as the risk of nationalisation of foreign owned companies and assets by the Venezuelan government remains a risk. After due consideration and discussion with management, the Committee is satisfied that the Group continues to control its operations in Venezuela and, as a result, continues to consolidate the results and net assets of these operations at year-end in accordance with the requirements of IFRS 10, *Consolidated Financial Statements*.

#### Price control

The Committee has previously considered the announcements in 2013 by the Venezuelan government that companies in Venezuela can only seek price increases if they have clearance that their margins are within certain guidelines. The Committee has considered the risk that if its Venezuelan operations cannot implement price increases in a timely manner to cover the increasing costs of raw material and labour as a result of inflation, that this may have an adverse impact on the results of the operations. Based on discussions with management and our consideration of these matters, the Committee is satisfied that these developments do not have an impact on the Group's operations at 31 December 2014. The Committee will continue to monitor developments in this area with management.

### 3. Taxation – Valuation of Deferred Tax Assets

In conjunction with their goodwill impairment review the Committee also assessed the recoverability of deferred tax assets. The value of deferred tax assets at 31 December 2014 was €237 million. The Committee reviewed the estimates of future profitability which management provided and relied on the managements work with local tax specialists who considered any regulatory changes which would impact the recoverability of deferred tax assets.

The Committee concluded that the deferred tax asset recognised on the Group Consolidated Balance Sheet at 31 December 2014 was appropriate.

### 4. Employee Benefits

The Committee noted that the liability for post-retirement and other long-term employee benefits had increased significantly over 2013. The Group Compensation and Benefits Manager informed the Committee that the key driver was the fall in discount rates in the Eurozone which was mitigated partly by an outperformance in the investment markets (versus the expected performance).

The Committee concluded that the assumptions used to calculate the pension liabilities are appropriate and consistent with market practice at the balance sheet date.

### 5. Exceptional Items

The Committee noted that the Exceptional Items for the Group in 2014 were €147 million. Management presented the Committee with detailed assumptions and calculations in relation to the proposed exceptional items and discussed them in the context of the Group's accounting policy for such matters and prior years disclosure of similar items.

The Committee concluded that the size and nature of the items disclosed as exceptional items complied with the Group's accounting policy to be separately disclosed as exceptional items.

### 6. Treasury

During 2014 the Committee noted that the Group had issued new Senior Notes with a seven-year maturity at a coupon of 3.25%.

The Committee considered the disclosure around the early debt repayment costs, and related costs, as an exceptional item.

The Committee also discussed management's processes, procedures and controls in respect of the Group's Treasury function.

The Committee concluded that the disclosure of financial instruments and key financial risks was appropriate at 31 December 2014.

## Developments in IFRS

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

## Review of Annual Report

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

## Internal Controls and Risk Management

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

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

## Whistleblowing

In line with best practice, the Group has an independent and confidential whistleblowing procedure which allows all employees through anonymous submissions to raise concerns regarding accounting or auditing matters or questionable business practice. We ensure through the Group Compliance Manager that arrangements are in place for the proportionate, independent investigation and appropriate follow up of such matters. We receive reports from the Group Compliance Manager on the follow up to all Whistleblowing concerns received by the company.

## Internal Audit

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

## External Auditor

The Committee is responsible to the Board for recommendations on the appointment, re-appointment and removal of the external auditor. As part of this process the Committee assesses annually the independence and objectivity of the external auditor taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole, including the

provision of any non-audit services. The Committee monitors the auditors' performance, behaviour and effectiveness during the exercise of their duties, which informs the Committee's decision to recommend re-appointment on an annual basis.

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

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

## Audit Tendering

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

## External Auditor Non-audit Services

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

The Group has a policy governing the conduct of non-audit work by the external auditor. All contracts for non-audit services in excess of €50,000 must be notified to and approved by the Chairman of the Committee. The engagement of the external auditor to provide any non-audit services must be pre-approved by the Committee or entered into pursuant to pre-approval policies and procedures established by the Committee. The policy exists to ensure that the external auditor does not audit its own work, participate in activities that would normally be undertaken by management, have a mutuality of financial interest with the Group or act in an advocacy role for the Group. Details of the amounts paid to the external auditor during the year for audit and other services are set out in Note 5 on page 88. The value of non-audit services provided by PwC in 2014 amounted to €0.3 million (2013: €0.2 million). Non-audit services relates to the provision of tax compliance services. These services provided by the Group auditor are considered by the Committee to be necessary in the interests of the business and, by their nature, these services could not easily be provided by another professional auditing firm.

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

## How the Committee has Addressed its Responsibilities

In order to discharge the responsibilities set out in the Terms of Reference, the Committee in 2014:

- Reviewed with management the Group's 2013 preliminary results announcement, its 2013 Annual Report, the 2014 first and third quarter results, the 2014 interim report and management's annual going concern report
- Reviewed the external auditor's year-end audit report for December 2013, the limited procedures reports on the 2014 first and third quarter results and the limited procedures report on the 2014 interim report
- Reviewed the external auditor's report on its review of the first quarter 2014 results for inclusion in the Offering Memorandum for the senior note offering in June 2014
- Reviewed the Offering Memorandum for the senior note offering completed in June 2014
- Reviewed the external auditor's plan for the audit of the Group's 2014 Consolidated Financial Statements, which included consideration of the scope of the audit, key risks to the Consolidated Financial Statements, the proposed audit fee and approval of the terms of engagement for the audit
- Addressed the annual fraud enquiries carried out by the external auditor as part of its year-end audit
- Reviewed on a quarterly basis the external auditor services and fees
- Reviewed tax and accounting services and fees from firms other than the external auditor
- Reviewed the quarterly internal audit reports with the Group Internal Auditor and management and any consequent actions
- Approved the internal audit plan and the related resourcing of the function required to meet that plan
- Approved changes proposed to the Group Internal Audit Charter by the Group Internal Auditor and management
- Reviewed all reports submitted by the Group Compliance Manager which comprised an Internal Control Effectiveness Report, an Internal Control Questionnaire update for 2014, the Treasury Compliance Certifications, the Competition Law Policy Compliance Certification results and various Whistleblower and Code of Conduct updates
- Reviewed the control environment and ensured that the Code of Business Conduct, the Code of Ethics for Senior Financial Officers, the Good Faith Reporting Policy, the Group Financial Reporting Guide, the Group Treasury Policy, the Financial Monitoring Policy, the Treasury Compliance Programme and the Competition Compliance Programme are up to date and embedded in the Group's processes
- Had presentations from and discussions with the senior management of the Group Information Systems function and the Group finance function in relation to some of the Group's risks
- Had presentation from management on Cyber Security outlining the controls and procedures around the key risks
- Reviewed and approved the Group's risk assessment framework (see Internal Control and Risk Management - pages 41 and 42)
- Reviewed and approved each significant risk facing the Group together with the actions proposed by management to accept, avoid or mitigate risk
- Reviewed the Group's monitoring processes over internal control
- Reviewed the external auditor's report on the 2014 hard-close audit procedures and the 2014 year-end audit and also reviewed the confirmation of auditor independence
- Reviewed the Committee's performance and effectiveness and implemented some changes to its Terms of Reference.

**Rosemary Thorne**
Chairman of the Audit Committee

6 March 2015

# Remuneration Report

## Dear Shareholder

As Chairman of SKG's Compensation Committee, I am pleased to present our Remuneration Report for the year ended 31 December 2014.

In order to maintain the highest standards of good corporate governance practice, although not a legal requirement for SKG which is an Irish incorporated company, the Compensation Committee ('the Committee') has chosen to present this year's report in accordance with the main elements of the disclosure requirements relating to remuneration reports issued by the UK Department for Business, Innovation and Skills ('BIS') as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. In addition, the Remuneration Report will be subject to an advisory shareholder vote at the forthcoming AGM on 1 May 2015.

## Remuneration Policy and Strategy

The Compensation Committee has responsibility for setting the Group's overall remuneration policy and strategy, determining the level and structure of remuneration of all executive Directors and the Chairman and monitoring the level and structure of remuneration for senior management. The operation of each of the individual remuneration components is reviewed on an on-going basis to ensure they are aligned with the strategic direction of the business, that performance targets are appropriate and stretching and that they continue to attract, retain and motivate executives to deliver superior performance.

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

The Company is operating in line with the remuneration policy which is set out on pages 58 to 60 and which was approved at the AGM on 2 May 2014. The company will seek a further advisory vote on the policy in two years' time or earlier should there be a requirement to change the policy.

## Group Performance

The Group delivered the second sequential year of strong EBITDA growth in 2014 with a 5% increase from €1,107 million in 2013 to €1,161 million in 2014, strong free cash flows at €362 million and the completion of four accretive acquisitions totalling over €160 million in the higher growth Americas region. During the year, the Group also achieved its stated credit rating target of Ba1/BB+/BB+ with the three major credit rating agencies following a number of years of sustained deleveraging and refinancing activities.

## 2014 Review

As set out above 2014 was a strong year for the Group and the executive Directors and the broader SKG management team delivered against its key operating and financial metrics. In February 2015 the Committee reviewed the performance metrics against the performance targets under the annual bonus plan for 2014 as set out on page 49. Following this review the Committee approved the awards under the annual bonus plan for the executive Directors as set out on page 52.

The Deferred Annual Bonus Plan ('DABP') is a long-term incentive arrangement which is intended to align the interests of executive Directors and senior management with shareholders and focus the creation of value over a medium to long-term time horizon. Over the past three years, the management team has generated an EBITDA of over €1 billion each year, deleveraged the balance sheet and successfully repositioned the Group's capital structure. In the same period the share price has increased by over 300%. ROCE and Free Cash Flow ('FCF') for the three-year period to December 2014 amounted to 40.1% and €1 billion respectively and as a result the Matching Shares which were awarded in 2012 under the DABP would have resulted in a maximum 3 times match. However, the Committee were again of the view, as in 2014, that the Venezuelan devaluation and cash effect needed to be reflected in the result and reduced the maximum match to 2.25 times which was approved in February 2015.

Following the annual review of salaries in February 2015, the salaries paid to the Chief Operations Officer and the Chief Financial Officer were increased by 0.1% with effect from 1 January 2015.

The Committee reviewed and approved the Deferred and Matching share awards for the executive Directors and the management team for the performance period 2014-2016. The Committee having reviewed a report requested of Deloitte LLP on the DABP, in the context of current market practice, decided that the maximum multiple for the awards for the 2014-2016 performance period should reduce from a maximum 3 times to 2.25 times.

**Paul Stecko**
Chairman of the Compensation Committee

6 March 2015

## The Compensation Committee

The Compensation Committee chaired by Mr Paul Stecko currently comprises six non-executive Directors. The Directors' biographical details on pages 34 and 35 demonstrate that the members of the Committee bring to it a wide range of experience in the area of senior executive remuneration in comparable companies. The Committee receives advice from independent remuneration consultants, as appropriate, to supplement their own knowledge and to keep the Committee updated on current trends and practices. In 2014, the Committee received advice from its independent advisors, Deloitte LLP, who provided advice to the Committee and management on the DABP. The Committee considers that the advice provided by Deloitte LLP, is objective and independent.

The Committee met four times during the year. Details of Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer normally attends the meetings and the Group V.P. Human Resources attends when appropriate.

| Attendance record | A* | B* | Appointment date |
|---|---|---|---|
| P. Stecko (Chairman) | 4 | 4 | 2008 |
| C. Bories | 4 | 4 | 2012 |
| I. Finan | 4 | 4 | 2012 |
| L. O'Mahony | 4 | 4 | 2007 |
| R. Newell | 4 | 4 | 2010 |
| N. Restrepo | 4 | 4 | 2010 |

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

## Salary and Benefits

The base salaries for executive Directors are reviewed annually by the Compensation Committee taking into account the metrics set out in the remuneration policy on page 58. The remuneration of executive Directors and other senior executives is set after taking appropriate account of trends of other employees around the Group. At the first meeting each year the Committee receives a report from management on pay practices across the Group, including salary levels and trends, proposed bonus participation and payments and the proposal for general staff increases in all locations.

The outcome of the reviews in early 2015 and 2014 are set out below.

Outcome of annual review:

| | From 1 January 2015 | From 1 January 2014 |
|---|---|---|
| G. McGann | 0.0% | 0.0% |
| A. Smurfit | 0.1% | 0.2% |
| I. Curley | 0.1% | 0.2% |

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

## Annual Bonus

Executive Directors participate in an annual bonus scheme which is based on the achievement of clearly defined stretching annual financial targets for some of the Group's Key Financial Performance Indicators ('KPI'), together with targets for Health and Safety. A further consideration is the comparison of the Group's financial performance compared to that of its peer group.

The annual bonus calculated over the key target areas was as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Potential % | Outcome % | Potential % | Outcome % |
| EPS | 25.0 | 16.7 | n/a | n/a |
| EBITDA | n/a | n/a | 40.0 | 18.8 |
| FCF | 20.0 | 14.2 | 20.0 | 13.2 |
| ROCE | 25.0 | 11.3 | 10.0 | 4.4 |
| Peer Comparison | 20.0 | 13.3 | 20.0 | 13.3 |
| Health and Safety | 10.0 | - | 10.0 | 8.0 |
| | 100.0 | 55.5 | 100.0 | 57.7 |

Targets and the weighting of targets are reviewed each year by the Compensation Committee in the context of the prior year performance, the position in the cycle, the annual budget and the strategic goals of the Group. EPS, FCF and ROCE (see Finance Review pages 24 to 26) were the KPI's selected by the Committee for 2014. The Committee, recognising the Group's move from a leveraged group to one with a corporate credit profile, replaced EBITDA as a target for 2014 with an EPS target. The peer comparison ensures that results, especially in a cyclical industry, while market driven, are as a result of the on-going relative performance of the Group's operations and management teams rather than some windfall benefits. The peer group used for the annual bonus comprises the companies as set out on page 51. The Health and Safety targets ensure a continuing awareness that while driving the business, we continue to promote safe and healthy working conditions and conduct within the working environment throughout the organisation.

For members of the DABP (see below) the maximum bonus is 1.5 times the bonus percentages in the schedule above, with half of the bonus paid in cash and the balance deferred into Company shares which vest after three years subject to the continuity of employment of the executive or in certain circumstances based on normal good leaver provisions.

# Remuneration Report (continued)

## Long-term Incentive Plans

In May 2011, the SKG AGM approved the adoption of the 2011 DABP which replaced the 2007 Share Incentive Plan.

## Deferred Annual Bonus Plan

The size of award to each participant under the DABP is subject to the level of annual bonus outcome in any year. The maximum annual bonus potential for participants in the DABP is 150% of salary. The actual bonus in any financial year is based on the achievement of clearly defined stretching annual financial targets for some of the Group's KPI's as set out above. The structure of the plan is that 50% of any annual bonus earned for a financial year will be deferred into SKG plc shares ('Deferred Shares') to be granted in the form of a Deferred Share Award. The Deferred Shares will vest (i.e. become unconditional) after a three-year holding period based on continuity of employment or in certain circumstances based on normal good leaver provisions.

At the same time as the grant of a Deferred Share Award, a Matching Share Award can be granted up to the level of the Deferred Share Award. Following a three-year performance period, the Matching Shares may vest up to a maximum of 3 times the level of the Deferred Share Award. The maximum match was reduced to 2.25 times by the Committee in 2014 for the awards for the 2014-2016 performance period. Matching Share Awards will vest provided the Compensation Committee consider that the Group's ROCE and Total Shareholder Return ('TSR') are competitive against the constituents of a comparator group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Share Awards will be dependent on the achievement of the Group's cumulative FCF[1] and ROCE targets measured over the same three-year performance period on an inter-conditional basis and the multiplier will be calculated by interpolation.

The actual performance targets assigned to the Matching Awards are set by the Compensation Committee on the granting of awards at the start of each three-year cycle. The Group is required to lodge the actual targets with the Group's auditor prior to the grant of any awards under the DABP.

The Compensation Committee is entitled to claw back some or all of the shares which are the subject of a participant's Deferred Share Award or Matching Share Award at any time if, in the opinion of the Committee (acting fairly and reasonably) either the underlying performance of the Group or the occurrence of an event that causes or is likely to cause reputational damage to the Group, or serious misconduct by the participant warrants this.

In 2012, Matching Share Awards totalling 1,127,724 SKG shares were granted to eligible employees which gave a potential maximum of 3,383,172 SKG shares that could vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2014.

The targets for the three-year period ending on December 2014 which were set in 2012, were as follows;

## Targets and Match Matrix

| | | | Three-year performance period 2012 - 2014 | | | |
|---|---|---|---|---|---|---|
| | | | | | ROCE | |
| | | | | 24% | 29.5% | 35% |
| | | *Level of performance attained over three-year period* | **Below Threshold** | **Threshold** | **Target** | **Stretch** |
| | | **Below Threshold** | 0 | 0 | 0 | 0.5 |
| **FCF** | **€618*** | **Threshold** | 0 | 1 | 1.5 | 2 |
| | **€788*** | **Target** | 0 | 1.5 | 2.25 | 2.5 |
| | **€938*** | **Stretch** | 0.5 | 2 | 2.5 | 3 |

** Adjusted for SKOC acquisition.*

Over the past three years, the management team has generated an EBITDA of over €1 billion each year, deleveraged the balance sheet and successfully repositioned the Group's capital structure. In the same period the share price has increased by over 300%. ROCE and FCF for the three-year period to December 2014 amounted to 40.1% and €1 billion respectively and as a result the Matching Shares which were awarded in 2012 under the Deferred Annual Bonus Scheme would have resulted in a maximum 3 times match. However, the Committee were again of the view, as in 2014, that the Venezuelan devaluation and cash effect needed to be reflected in the result and reduced the match to 2.25 times which was approved in February 2015.

In May 2014, Deferred Share Awards totalling 638,861 SKG shares were granted to eligible employees in respect of the year ended 31 December 2013. Matching Share Awards totalling 403,645 SKG shares were also granted which give a potential maximum of 1,076,095 SKG shares that may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2016.

Deferred Share Awards and Matching Share Awards will be granted in 2015 to eligible employees in respect of the year ended 31 December 2014. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2017.

Details of the executive Directors' awards are set out on pages 56 and 57.

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

## 2007 Share Incentive Plan

This scheme expired for the purpose of issuing invitations to subscribe for convertible shares, however a number of earlier convertible shares remain extant.

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

The maximum aggregate market value of the new class B and new class C convertible shares that could be issued in any year to an executive under the plan was 150 per cent of basic salary divided equally into new class B and new class C convertible shares. On satisfaction of specified performance conditions, the new class B convertible shares and the new class C convertible shares automatically converted on a one-for-one basis into D convertible shares. The performance condition was based on the Group's total shareholder return over a three-year period relative to the total shareholder return of a peer group of companies ('TSR condition') with the Compensation Committee retaining an overriding discretion to disallow the vesting of the award in full or in part if, in its opinion the Group's underlying financial performance or total shareholder return (or both) has been unsatisfactory during the performance period. The peer group of companies are as set out below. The D convertible shares may be converted by the holder on a one-for-one basis into ordinary shares, upon payment of a conversion price. The conversion price for each D convertible share was the average of the market value of an ordinary share for the three consecutive dealing days immediately prior to the date the executive was invited to subscribe for the new class B or new class C convertible shares, less the nominal subscription price paid per share. The performance period for the new class B and new class C convertible shares was three financial years.

## Peer Group of Companies

| | **Company** | **Region** |
|---|---|---|
| 1 | Billerud | Europe |
| 2 | Mondi | Europe |
| 3 | M-real | Europe |
| 4 | Norske Skog | Europe |
| 5 | Stora Enso | Europe |
| 6 | UPM-Kymmene | Europe |
| 7 | DS Smith plc | Europe |
| 8 | Cascades/Norampac | North America |
| 9 | International Paper | North America |
| 10 | Packaging Corporation of America | North America |
| 11 | RockTenn | North America |
| 12 | Bio-PAPPEL | Latin America |
| 13 | Klabin | Latin America |

Details of restrictions on transfer of shares are set out in Note 23 on page 101. Details of the executive Directors' holdings of convertible shares are set out on page 56.

## 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.

Mr Smurfit (in 2014 and 2013) and Mr Curley (in 2013) chose an 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. Mr McGann also chose an alternative arrangement and is receiving his pension contribution as a supplementary taxable non-pensionable cash allowance.

# Remuneration Report (continued)

## Total Executive Directors' Remuneration in 2014

The following table shows a single total figure of remuneration for each executive Director for the year 2014 calculated under the BIS disclosure rules. The individual remuneration in the tables below is also set out on page 54 as required under the Irish Listing rules. The LTIP columns reflect LTIP awards received or receivable for periods of more than one financial year where the final vesting was determined as a result of performance measures that ended in 2014, the year being reported on, and are not subject to achievement of performance measures or targets in a future financial year.

| | | | | | | LTIP | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Basic salary €'000 | Annual cash bonus €'000 | Pension €'000 | Benefits €'000 | Individual remuneration 2014 €'000 | Deferred shares €'000 | Performance element[1] €'000 | Share price appreciation element[2] €'000 | Total €'000 |
| **Directors** | | | | | | | | | |
| G. McGann | 1,262 | 525 | 450 | 34 | **2,271** | 525 | 1,390 | 3,017 | **7,203** |
| A. Smurfit | 893 | 372 | 245 | 24 | **1,534** | 372 | 962 | 2,088 | **4,956** |
| I. Curley | 763 | 318 | 187 | 25 | **1,293** | 318 | 822 | 1,784 | **4,217** |

1 *Performance element - matching shares that vested in February 2015 at the grant price in 2012. They vested as a result of the achievement of the relevant performance targets for the three-year period ended 31 December 2014.*

2 *Share price appreciation element - the estimated additional value generated through share price growth over the grant price in 2012. The share price used is €23.75 compared to the grant price of €7.49 per share.*

## Total Executive Directors' Remuneration in 2013

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

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

## Percentage Change in Chief Executive Officer Remuneration

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

| | | Basic salary €'000 | Annual cash bonus €'000 | Benefits €'000 |
|---|---|---|---|---|
| Chief Executive Officer | 2014 | 1,262 | 525 | 34 |
| | 2013 | 1,262 | 508 | 34 |
| | % change | 0% | 3% | 0% |

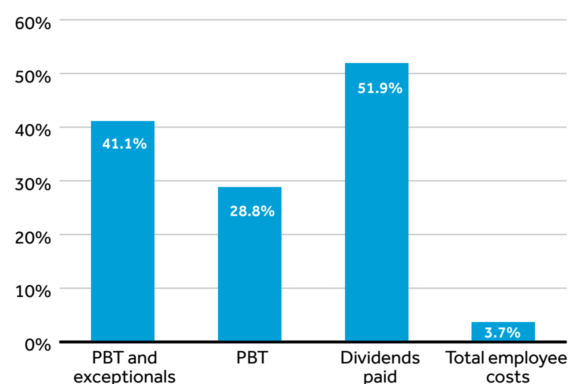
## Relative Importance of Spend on Pay

The following tables set out the amounts and percentage change in profit, dividends and total employee costs for the years ended 31 December 2014 against 2013.

| | 2014 €m | 2013 €m |
|---|---|---|
| Profit before income tax and exceptional items | **525** | 373 |
| Profit before income tax | **378** | 294 |
| Dividends paid to shareholders | **107** | 70 |
| Total employee costs[1] | **2,054** | 1,982 |

1 *Total employee costs for continuing operations, includes wages and salaries, social security costs, share-based payment expense, pension costs and redundancy costs for all employees, including Directors. The average full time equivalent number of employees, including Directors and part-time employees in continuing operations was 41,523 (2013: 40,830) with the increase being mainly due to the acquisitions made during the year.*

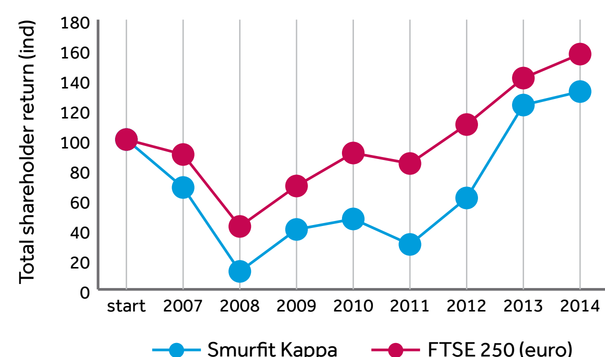
## Percentage Change of Spend on Pay 2014 vs 2013




## Total Shareholder Return Performance

The performance graph below shows the Group TSR performance since IPO in March 2007 to December 2014 against the performance of the FTSE 250 over the same period. The FTSE 250 has been chosen as it is a broad equity market index.

### Total Return Indices - Smurfit Kappa vs FTSE 250




## Chief Executive Officer Performance

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

| | | Single figure of total remuneration | Annual bonus award against maximum opportunity | LTIP award against maximum opportunity |
|---|---|---|---|---|
| | **Chief Executive Officer** | €'000 | | |
| 2014 | G. McGann | 7,203 | 55%* | 75% [1] |
| 2013 | G. McGann | 5,278 | 54%* | 93% [1] |
| 2012 | G. McGann | 3,169 | 60%* | 30% [2] |
| 2011 | G. McGann | 3,358 | 65%* | 100% [3] |
| 2010 | G. McGann | 2,641 | 55% | - [4] |
| 2009 | G. McGann | 2,231 | 23% | - [4] |

1 *The Matching and Conditional Matching Awards (see pages 56 and 57) granted in 2012 and 2011 vested in February 2015 and 2014 based on the achievement of the relevant performance targets for the three-year periods ending on 31 December 2014 and 2013.*

2 *The awards under the 2007 Share Incentive Plan ('SIP') vested 30% in February 2013 with the TSR condition being at the median.*

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

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

** The annual bonus award for 2014, 2013, 2012 and 2011 was paid 50% in cash and 50% in Deferred Share Awards.*

# Remuneration Report (continued)

*The information below forms an integral part of the audited Consolidated Financial Statements as described in the Basis of Preparation on page 76.*

## Directors' Remuneration

| | 2014 €'000 | 2013 €'000 |
|---|---|---|
| **Executive Directors** | | |
| Basic salary | **2,918** | 2,914 |
| Annual cash bonus | **1,215** | 1,196 |
| Pension | **882** | 1,060 |
| Benefits | **83** | 82 |
| Executive Directors' remuneration | **5,098** | 5,252 |
| Average number of executive Directors | **3** | 3 |
| **Non-executive Directors** | | |
| Fees | **1,285** | 1,231 |
| Non-executive Directors' remuneration | **1,285** | 1,231 |
| Average number of non-executive Directors | **11** | 11 |
| **Directors' remuneration** | **6,383** | 6,483 |

## Individual Remuneration for the Year Ended 31 December 2014

| | Basic salary and fees €'000 | Annual cash bonus €'000 | Pension[1] €'000 | Benefits €'000 | Total 2014 €'000 | Total 2013 €'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| G. McGann | 1,262 | 525 | 450 | 34 | **2,271** | 2,429 |
| A. Smurfit | 893 | 372 | 245 | 24 | **1,534** | 1,523 |
| I. Curley | 763 | 318 | 187 | 25 | **1,293** | 1,300 |
| | 2,918 | 1,215 | 882 | 83 | **5,098** | 5,252 |
| **Non-executive Directors** | | | | | | |
| L. O'Mahony | 300 | | | | **300** | 300 |
| F. Beurskens[2] | 130 | | | | **130** | 123 |
| C. Bories | 80 | | | | **80** | 80 |
| T. Brodin | 80 | | | | **80** | 80 |
| I. Finan | 80 | | | | **80** | 80 |
| J. Moloney[3] | 80 | | | | **80** | 5 |
| S. Mencoff | 80 | | | | **80** | 80 |
| C. McGowan[3] | - | | | | **-** | 28 |
| R. Newell | 80 | | | | **80** | 80 |
| N. Restrepo | 135 | | | | **135** | 135 |
| P. Stecko | 120 | | | | **120** | 120 |
| R. Thorne | 120 | | | | **120** | 120 |
| | 1,285 | | | | **1,285** | 1,231 |

During 2014 at various times, Mr McGann acted as a non-executive Director of United Drug plc, Green Reit plc, Paddy Power plc and Aon Ireland Limited and retained gross fees totalling €154,700 in respect of these appointments. Mr Smurfit acted as a non-executive Director of C&C Group plc and received €65,000 in respect of the appointment.

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

*Mr Smurfit (in 2014 and 2013) and Mr Curley (in 2013) 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 €200,500 (2013: €204,000) and €nil (2013: €149,000) respectively. Mr McGann also chose the alternative arrangement and is receiving €450,000 (2013: €625,000) as a supplementary taxable non-pensionable cash allowance.*

2 *Mr Beurskens received an additional fee of €50,000 (2013: €50,000) for services as a Director of a Group subsidiary.*

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

## Share-based Payment

In addition to the above the executive Directors receive Deferred Share Awards and Matching Share Awards details of which are outlined on pages 56 and 57 of this report. The share-based payment expense recognised in the Consolidated Income Statement for the executive Directors in the year totalled €1,852,000 (2013: €3,646,000).

## Pension Entitlements – Defined Benefit

| Executive Directors | Increase/(decrease) in accrued pension during year[1] €'000 | Transfer value of increase/(decrease) in accrued pension[2] €'000 | 2014 Total accrued pension[3] €'000 |
|---|---|---|---|
| A. Smurfit | (1) | 15 | 270 |
| I. Curley | 30 | 427 | 290 |

1 *Increases are after allowing for inflation over the year if applicable.*

2 *In the case of Mr Smurfit and Mr Curley retirement benefits payable on death in retirement continue to accrue in accordance with scheme rules so transfer values have been included and calculated on the basis of actuarial advice. These transfer values do not represent sums paid or due, but are the amounts that the pension scheme would transfer to another pension scheme in relation to the benefits accrued in 2014 in the event of the member leaving service.*

3 *Accrued pension benefit is that which would be paid annually on normal retirement date. The defined benefit accrued pension for Mr Smurfit has been set at his Personal Fund Threshold level.*

## Directors' Interests in Share Capital at 31 December 2014

The interests of the Directors and Secretary in the shares of the Company as at 31 December 2014 which are beneficial unless otherwise indicated are shown below. The Directors and Secretary have no beneficial interests in any of the Group's subsidiary or associated undertakings.

| | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **Ordinary Shares** | | |
| **Directors** | | |
| L. O'Mahony | **19,830** | 19,830 |
| F. Beurskens | **2,500** | 2,500 |
| T. Brodin | **30,000** | 30,000 |
| S. Mencoff | **272,871** | 272,871 |
| – Non-beneficial | **113,710** | 115,889 |
| J. Moloney | **3,000** | 3,000 |
| P. Stecko | **6,000** | 6,000 |
| R. Thorne | **10,000** | 10,000 |
| G. McGann | **431,810** | 375,792 |
| A. Smurfit | **1,070,568** | 1,030,568 |
| I. Curley | **214,267** | 204,267 |
| **Secretary** | | |
| M. O'Riordan | **85,018** | 72,152 |

There were no changes in the above Directors' and Secretary's interests between 31 December 2014 and 6 March 2015 other than the following: Mr McGann, Mr Smurfit, and Mr O'Riordan increased their holdings by 60,000, 30,000, and 10,000 shares respectively in February 2015, following the vesting of the Deferred and Matching Share Awards.

# Remuneration Report (continued)

## Convertible Shares

| | | Note | 31 December 2013 | Exercised | Lapsed | 31 December 2014 | Conversion price | Expiry date |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| G. McGann | D (converted from B) | I | 48,100 | | | 48,100 | 4.36 | Sep 2019 |
| | D (converted from C) | I | 48,100 | | | 48,100 | 4.36 | Sep 2019 |
| | D (converted from B) | I | 14,244 | | | 14,244 | 6.50 | Mar 2020 |
| | D (converted from C) | I | 14,244 | | | 14,244 | 6.50 | Mar 2020 |
| A. Smurfit | D (converted from B) | I | 33,280 | (33,280)* | | - | 4.36 | Sep 2019 |
| | D (converted from C) | I | 33,280 | (33,280)* | | - | 4.36 | Sep 2019 |
| | D ( converted from B) | I | 9,858 | (9,858)* | | - | 6.50 | Mar 2020 |
| | D ( converted from C) | I | 9,858 | (9,858)* | | - | 6.50 | Mar 2020 |
| I. Curley | D (converted from B) | I | 28,440 | | | 28,440** | 4.36 | Sep 2019 |
| | D (converted from C) | I | 28,440 | | | 28,440** | 4.36 | Sep 2019 |
| | D ( converted from B) | I | 8,424 | | | 8,424** | 6.50 | Mar 2020 |
| | D ( converted from C) | I | 8,424 | | | 8,424** | 6.50 | Mar 2020 |
| **Secretary** | | | | | | | | |
| M. O'Riordan | D (converted from B) | I | 11,050 | | | 11,050 | 4.36 | Sep 2019 |
| | D (converted from C) | I | 11,050 | | | 11,050 | 4.36 | Sep 2019 |
| | D ( converted from B) | I | 3,273 | | | 3,273 | 6.50 | Mar 2020 |
| | D ( converted from C) | I | 3,273 | | | 3,273 | 6.50 | Mar 2020 |

## Convertible Shares

I. *Issued under the 2007 Share Incentive Plan – see note on page 51. The shares automatically converted into D convertible shares to the extent that the performance conditions were achieved at the end of three years.*

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

** *These shares were exercised in February 2015 and the market price at the date of exercise was €23.75.*

## Deferred Annual Bonus Plan Awards

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

## Conditional Matching Share Awards

| | Conditional matching share award 31 December 2013 | Shares granted on vesting of award in 2014 | Exercised | 31 December 2014 | Market price on award date | Performance period |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| G. McGann | 41,855 | 117,194* | (117,194) | - | 8.27 | 01/01/2011- 31/12/2013 |
| A. Smurfit | 28,963 | 81,096* | (81,096) | - | 8.27 | 01/01/2011- 31/12/2013 |
| I. Curley | 24,749 | 69,297* | (69,297) | - | 8.27 | 01/01/2011- 31/12/2013 |
| **Secretary** | | | | | | |
| M. O'Riordan | 9,614 | 26,919* | (26,919) | - | 8.27 | 01/01/2011- 31/12/2013 |

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

## Deferred Share Awards and Matching Share Awards

Deferred Share Awards and Matching Share Awards were granted to eligible employees in 2014 in respect of the year ended 31 December 2013. The Matching Share Awards may vest up to a maximum of 2.25 times the Deferred Share Award, based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2016.

| | 31 December 2013 | | Granted in year | | 31 December 2014 | | Market price on award date | Performance period |
|---|---|---|---|---|---|---|---|---|
| | Deferred | Matching | Deferred | Matching | Deferred | Matching | | |
| **Directors** | | | | | | | | |
| G. McGann | 82,468 | 82,468 | | | 82,468* | 82,468** | 7.49 | 01/01/2012- 31/12/2014 |
| | 47,683 | 47,683 | | | 47,683 | 47,683 | 11.89 | 01/01/2013- 31/12/2015 |
| | | | 25,124 | 25,124 | 25,124 | 25,124 | 20.23 | 01/01/2014- 31/12/2016 |
| A. Smurfit | 57,068 | 57,068 | | | 57,068* | 57,068** | 7.49 | 01/01/2012- 31/12/2014 |
| | 32,997 | 32,997 | | | 32,997 | 32,997 | 11.89 | 01/01/2013- 31/12/2015 |
| | | | 17,733 | 17,733 | 17,733 | 17,733 | 20.23 | 01/01/2014- 31/12/2016 |
| I. Curley | 48,764 | 48,764 | | | 48,764* | 48,764** | 7.49 | 01/01/2012- 31/12/2014 |
| | 30,549 | 30,549 | | | 30,549 | 30,549 | 11.89 | 01/01/2013- 31/12/2015 |
| | | | 16,282 | 16,282 | 16,282 | 16,282 | 20.23 | 01/01/2014- 31/12/2016 |
| **Secretary** | | | | | | | | |
| M. O'Riordan | 18,944 | 18,944 | | | 18,944* | 18,944** | 7.49 | 01/01/2012- 31/12/2014 |
| | 12,159 | 12,159 | | | 12,159 | 12,159 | 11.89 | 01/01/2013- 31/12/2015 |
| | | | 7,239 | 7,239 | 7,239 | 7,239 | 20.23 | 01/01/2014- 31/12/2016 |

* *The deferred shares vested in February 2015 and were subsequently exercised. The market price at date of exercise was €23.75.*

** *Based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2014 the shares vested in February 2015 with a match of 2.25 times the level of the matching share award and were subsequently exercised. The market price at date of exercise was €23.75.*

The market price of the Company's shares at 31 December 2014 was €18.70 and the range during 2014 was €14.99 to €20.20.

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

## Statement on Shareholder Voting

The Company is committed to ongoing shareholder dialogue when formulating remuneration policy. If there are substantial numbers of votes against resolutions in relation to directors' remuneration the Company will seek to understand the reasons for any such vote and will provide details of any actions in response to such a vote.

The following tables show the voting outcome at the 2 May 2014 AGM for the 2013 Directors' Remuneration Report and the Remuneration Policy Report.

### Directors' Remuneration Report

| Votes for and discretionary | % votes cast | Votes against | % votes cast | Total votes cast | Vote withheld |
|---|---|---|---|---|---|
| 129,952,689 | 98.9% | 1,435,225 | 1.1% | 131,387,914 | 2,530,735 |

### Remuneration Policy

| Votes for and discretionary | % votes cast | Votes against | % votes cast | Total votes cast | Vote withheld |
|---|---|---|---|---|---|
| 128,512,285 | 96.9% | 4,092,695 | 3.1% | 132,604,980 | 1,313,669 |

## Remuneration Policy

The remuneration policy is designed to attract, retain and motivate Directors and senior management of the highest calibre who are expected to deliver superior performance and to provide strong leadership to the Group. In return the Group aims to provide an attractive compensation package which ensures that management are focused on those corporate metrics which support the Group's business strategy and which support the objective of developing superior sustainable returns and value at acceptable levels of risk but with a clear and intelligible link to performance and the financial prosperity of the Group and consequently its shareholders. The key elements of the package comprise salary and benefits, a performance related annual bonus, a long-term equity based incentive plan and provision of pension benefits. As set out below, the performance related annual bonus forms a key part of executive Director remuneration. As the Group is multinational, remuneration packages in each geographical location must be competitive for that location and at a most senior level, on an international basis.

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

| Component | Purpose and link to strategy | Operation | Metrics | Opportunity |
|---|---|---|---|---|
| **(i) Basic Salary** | Competitive salaries and benefits are set to attract, retain and motivate executives to deliver superior performance in line with the Group's business strategy. | Reviewed annually; changes are generally effective on 1 January.<br>Set by reference to competitive market practice and prevailing market conditions. | Consideration is given to:<br>i. scope of role and responsibility;<br>ii. personal performance;<br>iii. Group performance;<br>iv. step changes in responsibilities;<br>v. remuneration trends across the Group; and<br>vi. competitive market practice. | Set at a level which will be sufficient to attract, retain and motivate directors of the required quality and which the Committee considers appropriate taking into consideration both the individual's skills, experience, performance and the position against peers. |
| **(ii) Benefits** | Competitive benefits taking into account market value of role. | Benefits relate principally to the use of company cars. | Not applicable. | The level of benefit provision is fixed. |
| **(iii) Annual Bonus Plan** | To incentivise the executives to achieve clearly defined stretching annual targets which are aligned with the Group strategy.<br>A deferral element in shares provides a retention element and aligns executives with shareholder interests. | Targets and weighting of targets are reviewed each year by the Committee to ensure continued alignment with the Group strategy.<br>Payouts are determined by the Committee after the year-end based on performance against targets. | The key target metrics are EPS, FCF, ROCE, Peer Comparison and Health and Safety.<br>See table on page 49 for prior year weightings.<br>This plan covers the top 400 managers within the Group with the target metrics covering divisional and plant performance. | Maximum payout of 150% of basic salary, half of which is deferred (see below). |
| **(iv) DABP** | To incentivise executives to achieve certain targets over a three year time frame which are aligned with the Group Strategy, to help attract and retain key executives and to further align executives with shareholder interests. | Involves half of the annual bonus earned being deferred into SKG plc shares ('Deferred Share Award').<br>At the same time a Matching Share Award can be granted up to the level of the Deferred Share Award.<br>The vesting period for the DABP awards is three years.<br>Awards are made annually after the final results announcement.<br>Clawback provisions are in place.<br>The percentage of share capital which can be issued complies with institutional guidelines. | The Deferred Share Award is based on continuity of employment over three years.<br>The Matching Share Award vests based on achievement of cumulative targets for FCF and ROCE over the three-year period. In addition ROCE and TSR must be competitive against peers.<br>This plan covers approximately the top 200 managers within the Group. | The Matching Share Award may vest up to a maximum of 3 times the level of the Deferred Share Award. |
| **(v) Pension** | To provide a market competitive package to attract and retain executives. | Executive Directors participate in a defined benefit scheme or a defined contribution pension plan. | Not applicable. | Two thirds of pensionable salary at retirement for full service or cash in lieu of pension accrual calculated by actuaries or defined contribution amount. |

## Share Ownership Requirements

The Chief Executive Officer is required to build a shareholding equivalent to 150% of base salary, and other executive Directors a shareholding equivalent to at least 100% of base salary, over a period of not more than three years from the date of appointment. As at 31 December 2014, all executive Directors had more than the shareholding requirements.

## Current Shareholdings of the Executive Directors

| | **Times salary*** |
|---|---|
| G. McGann | 5.9 |
| A. Smurfit | 20.9 |
| I. Curley | 4.9 |

** The calculation above is based on an average share price for 2014 of €17.39 per share and shareholdings at 31 December 2014.*

## Executive Directors' Service Contracts

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

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

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

For any new executive director payment in lieu of notice would, consistent with best practice, include salary, pension and other benefits, but not annual bonus.

## Non–executive Directors and the Chairman

All non-executive Directors have letters of appointment for a period of three years which are renewable but generally for no more than three terms in aggregate, however, in compliance with the Code, all Directors will retire at the 2015 AGM and other than Nicantor Restrepo, offer themselves for re-election. A copy of the letter of appointment is available for inspection at the registered office and prior to and during the AGM. Non-executive Directors are not eligible to participate in the annual bonus plan or the long-term incentive plans and their service as a non-executive Director is not pensionable.

There were no changes in the non-executive Directors' fees in 2014. Following a comprehensive review concluded in 2013, the base fee for the non-executive Directors was increased by €10,000 with effect from 1 January 2013. This was the first increase since Director's fees were set at the IPO in 2007. There was no change in the Chairman's fee or to fees paid for Committee membership. The fee review benchmarked market practice in comparable companies.

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

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

Executive Directors do not receive any Directors fees.

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

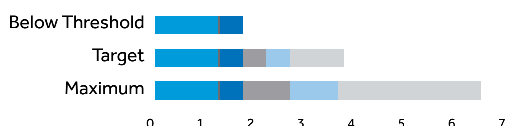
# Remuneration Report (continued)

## Value and Composition of Remuneration Packages

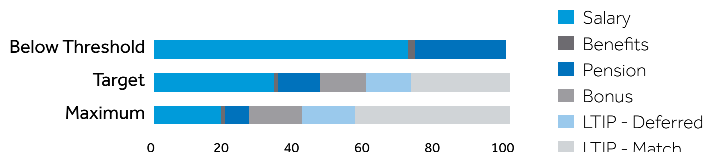
The Committee believes it is important for executive Directors and the senior management that a significant portion of the package is performance related and a significant portion is delivered in shares to align their interests with shareholders. The potential value and composition of the executive Directors'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

### G. McGann

VALUE OF PACKAGE (€m)

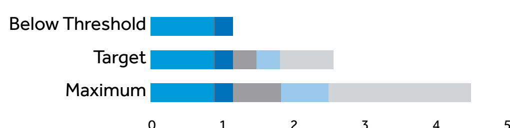



COMPOSITION OF OVERALL PACKAGE (%)

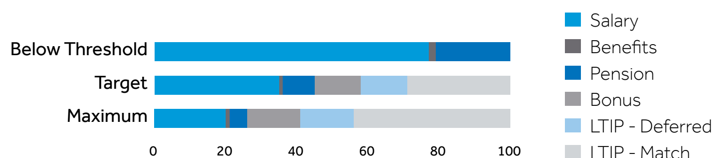



### A. Smurfit

VALUE OF PACKAGE (€m)

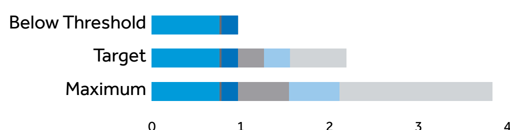



COMPOSITION OF OVERALL PACKAGE (%)

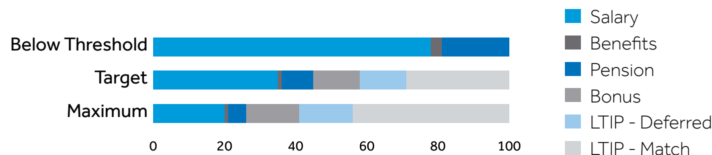



### I. Curley

VALUE OF PACKAGE (€m)




COMPOSITION OF OVERALL PACKAGE (%)




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

**Salary:** Salary at 31 December 2014.

**Benefits:** Estimate based on benefits received in 2014.

**Pension:** Cash in lieu rate applied to salary.

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

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

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

# Nomination Committee Report

As Chairman of the Nomination Committee I am pleased to present the report of the Committee in relation to the year ended 31 December 2014.

## Role of the Nomination Committee

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

- lead the process for appointments to the Board and making recommendations to the Board
- evaluate the balance of skills, knowledge, experience and diversity on the Board and preparing descriptions of the role and requirements for new appointees
- give full consideration to succession planning for Directors.

The Committee uses the services of external advisors where necessary in order to assist in the search for new appointments to the Board and they are provided with a brief which takes into consideration the skills, experience, diversity both gender and geographical required at the time to give balance to the Board. When a suitable candidate has been identified some Committee members will meet with them and if a candidate is agreed upon, the Committee will then recommend the candidate to the Board. All appointments to the Board are approved by the Board as a whole. Non-executive Directors are expected to serve two three-year terms although they may be invited to serve for a further period.

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

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

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

## Membership of the Committee

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

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

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

## Main Activities during the Year

During the year the Committee evaluated the composition of the Board with respect to the balance of skills, knowledge, experience and diversity, including geographical and gender diversity on the Board and prepared a policy document on Board succession which was approved by the Board.

The Committee instigated a search for a new non-executive Director as part of the on-going Board renewal process, using the services of an external advisor, KORN/FERRY Whitehead Mann, who do not have any other affiliation with the Group. The Committee is in dialogue with potential candidates for this position.

The Committee reviewed its Terms of Reference and updated them in December 2014 to reflect current best practice.

Finally having served eight years as a Board member, I will be stepping down at the AGM on 1 May 2015. I would like to thank my fellow Board members for their support over the years and I wish SKG every success in the future.

**Nicanor Restrepo**
Chairman of the Nomination Committee

6 March 2015

# Statement of Directors' Responsibilities

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

Irish company law requires the Directors to prepare an Annual Report including Financial Statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that financial year. The Directors have prepared the Group and the Company Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and as regards the Company's Financial Statements, in accordance with the provisions of the Companies Acts, 1963 to 2013.

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- comply with applicable International Financial Reporting Standards as adopted by the EU, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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

The Directors confirm that they have complied with the above requirements in preparing the 2014 Annual Report and Consolidated Financial Statements.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Financial Statements comply with the Companies Acts 1963 to 2013 and, as regards the Group Consolidated Financial Statements, Article 4 of the International Accounting Standards ('IAS') Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Directors' Statement Pursuant to the Transparency Regulations

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

As required by the Transparency Regulations:

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

As required by the UK Corporate Governance Code:

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

On behalf of the Board

**G. McGann**
Director and Group Chief Executive Officer

**I. Curley**
Director and Group Chief Financial Officer

6 March 2015

# Independent Auditors' Report

## to the members of Smurfit Kappa Group plc

## Report on the financial statements

### Our opinion

In our opinion:

- the Consolidated Financial Statements give a true and fair view, in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- the Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the Company's affairs as at 31 December 2014 and of its cash flows for the year then ended; and
- the Consolidated and Company Financial Statements have been prepared in accordance with the requirements of the Companies Acts 1963 to 2013 and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation.

### What we have audited

Smurfit Kappa Group plc's financial statements comprise:

- the Consolidated and Company Balance Sheets as at 31 December 2014;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statements of Cash Flows for the year then ended;
- the Consolidated and Company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

### Our audit approach

Overview

#### Materiality

- Overall Group materiality: €28 million (2013: €27 million) which represents circa 2.5% of pre-exceptional EBITDA (earnings before exceptional items, net finance costs, income tax expense, depreciation and intangible asset amortisation).

#### Audit scope

- The Group is structured along two operating segments being Europe and the Americas. The Consolidated Financial Statements are a consolidation of 352 operating plants and centralised functions spread across 32 countries. We conducted audit work in 22 countries.
- Taken together, the territories and functions where we performed our audit work accounted for 77% of Group revenues and 88% of the Group's pre-exceptional EBITDA and 88% of the Group's total assets.

#### Areas of focus

- Goodwill impairment assessment
- Venezuela – political and associated risks
- Taxation – valuation of deferred tax assets
- Employee benefits – valuation of retirement benefits liabilities
- Exceptional items – presentation and disclosure
- Treasury – presentation, valuation and disclosure.

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

# Independent Auditors' Report (continued)

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Goodwill impairment assessment** | |
| Goodwill arises from acquisitions and has an indefinite expected useful life. Goodwill is tested for impairment at least annually at the cash generating unit level ('CGU'). At 31 December 2014 goodwill amounted to €2,265 million. The goodwill is allocated to 15 CGUs and three units individually account for between 10% and 20% of the total carrying amount. The three units are Europe France, Europe Benelux and Europe Germany, Austria and Switzerland as set out in Note 14 where the Directors' annual impairment review is described in detail.<br><br>We focused on this area due to the size of the balance and because it involves complex and subjective judgements by the Directors about the future results of the business. | We evaluated the Directors' future cash flow forecasts, including comparing them to the latest Board approved budgets, and we compared actual historic results to budget as part of our consideration of the accuracy of the forecasting process. In performing our work we paid particular attention to the CGU's with limited headroom, including the Europe France CGU (see Note 14). In addition, in respect of Venezuela goodwill, we considered the potential impact of political and associated risks on the carrying value of the related goodwill.<br><br>For each of the 15 CGU's, we challenged the Directors' key trading assumptions which comprise volume, price and certain costs such as energy and recovered fibre. Where appropriate we compared the assumptions to external data such as RISI paper pricing forecasts, IMF economic growth indicators, IMF inflation forecasts and similar data.<br><br>We also considered the appropriateness of the discount rate used by the Group by assessing the assumptions used in the weighted average cost of capital calculation against external benchmarks where appropriate. We assessed the terminal value calculation by reference to comparable industry multiples.<br><br>We also performed sensitivity analysis by changing certain assumptions and considered the likelihood of such changes arising.<br><br>We considered the disclosures in the Annual Report in relation to these matters. The Directors have described their impairment review in detail in Note 14 including the impact on goodwill of changes to assumptions, in particular, the impact of relatively small changes in assumptions in respect of the Europe France CGU. |
| **Venezuela – political and associated risks** | |
| The Group is exposed to a number of risks in relation to its operations in Venezuela, where the political climate continues to be volatile and the operating environment is complex. The economy which is heavily dependent on oil revenues, is hyperinflationary and there are extensive exchange controls and multiple exchange rates. The choice of the appropriate rate to consolidate the results for Venezuela is a key judgement.<br><br>At 31 December 2014 the Group's net assets in Venezuela amounted to €425 million and cash balances amounted to €84 million. The principal risks and uncertainties with respect to Venezuela are outlined in the Directors' Report on pages 43 to 44 and the key judgements and estimates are set out in Note 3 to the financial statements.<br><br>We focused on this area due to the political and associated risks and the judgement made by the Directors in determining the appropriate exchange rate to use for consolidation of the Venezuelan operations. | We updated our understanding of the key developments during the current year and up to the date of the financial statements and considered the potential impact on the financial statements, including disclosures.<br><br>We read public pronouncements by the Venezuelan Government and authorities and other appropriate commentators and we discussed the operating environment in detail with our PwC Venezuelan audit team.<br><br>We considered the latest guidance issued by relevant accounting bodies in relation to hyperinflationary accounting and the appropriate accounting where there is a choice between multiple exchange rates. We assessed the Directors' choice of the SICAD 1 exchange rate for consolidation by reference to the Venezuelan authorities published regulations giving effect to the various rates together with actual experience in relation to availability of and rates for foreign currency transactions. We also considered the impact of exchange controls in relation to the cash balances within Venezuela.<br><br>We discussed these matters with group, divisional and local management, and the Audit Committee and we considered the Group's oversight framework and position in relation to these matters and, in particular, the Group's ability to continue to control the Venezuelan operations. We considered the disclosures in the Annual Report in relation to these matters, including in respect of developments since the year end. |

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Taxation – valuation of deferred tax assets** | |
| At 31 December 2014 the Group recognised deferred tax assets of €237 million. The recovery of the deferred tax assets is dependent on the availability of future taxable profits.<br><br>The Group operates in a number of tax jurisdictions which apply local and differing tax and regulatory rules including time period restrictions for utilisation of available losses.<br><br>We focused on deferred tax assets because of their size and because the assessment of recovery is based on complex and subjective judgements by the Directors about the future results of the business. | We evaluated the Directors' forecasts of future taxable profits, which are the same as those which we considered in connection with our work on the goodwill impairment assessment.<br><br>We engaged with our local entity tax specialists and considered whether there were any local tax or regulatory rules which would limit the utilisation of tax losses (such as time limits) to determine whether such limits were appropriately reflected in the assessment of recoverability. |
| **Employee benefits – valuation of retirement benefits liabilities** | |
| The Group operates a number of pension plans and at 31 December 2014 the net pension liability amounted to €893 million. These plans are valued on an actuarial basis and are subject to a number of actuarial assumptions.<br><br>We focused on this area due to the size of the balance and because there is inherent judgement in determining the actuarial assumptions. | We considered the Group pension arrangements and assessed the impact of any changes to the pension schemes.<br><br>We considered the actuarial valuations of pension liabilities including both the methodologies and assumptions to determine whether the key assumptions lay within an acceptable range.<br><br>We considered the disclosure in Note 25 including the sensitivity analysis in relation to changes in actuarial assumptions. |
| **Exceptional items – presentation and disclosure** | |
| The Directors adopt an income statement format which highlights significant items within the Group results for the year. Exceptional items for the year ended 31 December 2014 amounted to €147 million. The main elements of net charge comprise impairment charges related to assets held for sale €46 million, restructuring and closure costs €42 million and finance costs associated with early redemption of debt €42 million.<br><br>We focused on this area because EBITDA before exceptional items is a key metric when measuring performance of the Group and the Directors exercise judgement in assessing the classification of items as exceptional. | We considered the size and nature of the items disclosed as exceptional items and assessed whether the individual items complied with the Group's accounting policy to be separately disclosed as exceptional items. |
| **Treasury – presentation, valuation and disclosure** | |
| The Group manages its treasury function and engages in financial risk management using a variety of tools including derivative instruments to hedge exposure to interest rate, commodity and currency risks. In addition the Group actively manages corporate debt and during the year it issued and redeemed debt instruments.<br><br>At 31 December 2014, the balance sheet includes cash and money market deposits amounts to €399 million, borrowings €3,158 million, derivative financial assets €5 million and derivative financial liabilities €50 million.<br><br>We focused on these balances because of their materiality to the financial position of the Group. | We assessed the processes, procedures and controls in respect of the Group treasury management function. We tested the fair values ascribed to treasury instruments, including derivatives by reference to observable foreign exchange rates, interest rates or broker prices; as set out in Note 29 all derivatives are plain vanilla in nature and are valued in accordance with level 2 of the fair value hierarchy. We tested the year end reconciliation processes and we independently obtained third party confirmations of year end balances.<br><br>We assessed the Group's debt and bond agreements, in particular the refinancing of its €500 million 7.75% senior notes due 2019 with a seven year bond at a rate of 3.25%. We tested the early debt repayment cost and considered the disclosure of this and the related costs as an exceptional item in accordance with the Group's accounting policy.<br><br>We considered the disclosure of financial instruments and key financial risks. |

# Independent Auditors' Report (continued)

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along two operating segments, Europe and the Americas. The nature of the Group's activities is such that the corrugated plants are typically located close to their customer base and therefore the Group's operations are significantly disaggregated. The Consolidated Financial Statements are a consolidation of 352 operating plants and centralised functions spread across 32 countries. In determining our audit scope we first focus on individual reporting units. Reporting units are structured by individual plants, grouping of plants or on a country basis depending on their management team and structure.

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

Accordingly, we identified those reporting units which, in our view, required an audit of their complete financial information, due to their size and risk characteristics. These full scope reporting units amount to 77% of the Group's revenue, 88% of the Group's pre-exceptional EBITDA and 88% of the Group's total assets. In addition we identified certain other reporting units where specific audit procedures on certain balances were performed. This, together with additional procedures performed at Group level, gave us the evidence we needed for our opinion on the Consolidated Financial Statements as a whole.

### Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole to be €28 million (2013: €27 million). In arriving at this judgement we considered revenues, pre-exceptional EBITDA, profit before tax and total assets together with the primary metrics used by users of the financial statements and the industry as a whole and have determined that pre-exceptional EBITDA is the appropriate benchmark.

We have applied a rate of 2.5% to pre-exceptional EBITDA. We also considered materiality as determined by reference to other benchmarks such as turnover or pre-exceptional profit before tax and €28 million falls in the lower half of the range of the alternative commonly used benchmarks. In deciding that pre-exceptional EBITDA represented the appropriate benchmark we considered the strong weighting given to pre-exceptional EBITDA in assessing performance given both the specific circumstances of the Group and the industry norms and practice as indicated by brokerage reports, industry commentaries, communications with the investor community as well as internal management focus and reporting. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €1 million (2013: €1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules of the Irish Stock Exchange we are required to review the Directors' statement, set out on page 42, in relation to going concern. We have nothing to report having performed our review.

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

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

## Other required reporting

### Consistency of other information

#### Companies Acts 1963 to 2013 opinions

In our opinion:

- the information given in the Directors' Report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Consolidated Financial Statements is consistent with the Consolidated Financial Statements.

#### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

| | |
|---|---|
| ▶ information in the Annual Report is:<br>▷ materially inconsistent with the information in the audited financial statements; or<br>▷ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or<br>▷ is otherwise misleading. | We have no exceptions to report arising from this responsibility. |
| ▶ the statement given by the Directors on page 62, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit. | We have no exceptions to report arising from this responsibility. |
| ▶ the section of the Annual Report on page 47, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. | We have no exceptions to report arising from this responsibility. |

### Directors' remuneration

Under the Companies Acts 1963 to 2013 we are required to report to you if, in our opinion, the disclosure of Directors' remuneration and transactions specified by law have not been made, and under the Listing Rules of the Irish Stock Exchange we are required to review the six specified elements of disclosures in the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

### Corporate governance statement

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

### Other matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the company.
- The Company Balance Sheet is in agreement with the books of account.
- 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 2014 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.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

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

Our responsibility is to audit and express an opinion on the Consolidated and Company Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

6 March 2015

# Consolidated Income Statement

## For the Year Ended 31 December 2014

| | Note | 2014 Pre-exceptional €m | 2014 Exceptional €m | 2014 Total €m | 2013 Pre-exceptional €m | 2013 Exceptional €m | 2013 Total €m |
|---|---|---|---|---|---|---|---|
| Revenue | 4 | **8,083** | **-** | **8,083** | 7,957 | - | 7,957 |
| Cost of sales | | **(5,642)** | **(58)** | **(5,700)** | (5,649) | (9) | (5,658) |
| Gross profit | | **2,441** | **(58)** | **2,383** | 2,308 | (9) | 2,299 |
| Distribution costs | 5 | **(630)** | **-** | **(630)** | (619) | - | (619) |
| Administrative expenses | 5 | **(1,042)** | **-** | **(1,042)** | (1,012) | - | (1,012) |
| Other operating income | 5 | **2** | **-** | **2** | 2 | - | 2 |
| Other operating expenses | 5 | **-** | **(52)** | **(52)** | - | (27) | (27) |
| Operating profit | | **771** | **(110)** | **661** | 679 | (36) | 643 |
| Finance costs | 8 | **(284)** | **(48)** | **(332)** | (329) | (51) | (380) |
| Finance income | 8 | **36** | **11** | **47** | 21 | 8 | 29 |
| Share of associates' profit (after tax) | 6 | **2** | **-** | **2** | 2 | - | 2 |
| **Profit before income tax** | | **525** | **(147)** | **378** | 373 | (79) | 294 |
| Income tax expense | 9 | | | **(126)** | | | (98) |
| **Profit for the financial year** | | | | **252** | | | 196 |
| | | | | | | | |
| Attributable to: | | | | | | | |
| Owners of the parent | | | | **241** | | | 188 |
| Non-controlling interests | | | | **11** | | | 8 |
| **Profit for the financial year** | | | | **252** | | | 196 |
| | | | | | | | |
| **Earnings per share** | | | | | | | |
| Basic earnings per share - cent | 10 | | | **105.8** | | | 82.2 |
| Diluted earnings per share - cent | 10 | | | **102.6** | | | 80.8 |

**G. McGann**
Director

**I. Curley**
Director

# Consolidated Statement of Comprehensive Income

## For the Year Ended 31 December 2014

| | Note | 2014 €m | 2013 €m |
|---|---|---|---|
| **Profit for the financial year** | | **252** | 196 |
| **Other comprehensive income:** | | | |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Foreign currency translation adjustments: | | | |
| - Arising in the year | | **(265)** | (293) |
| Effective portion of changes in fair value of cash flow hedges: | | | |
| - Movement out of reserve | | **10** | 17 |
| - New fair value adjustments into reserve | | **(29)** | (4) |
| - Movement in deferred tax | 9 | **1** | (2) |
| | | **(283)** | (282) |
| **Items which will not be subsequently reclassified to profit or loss** | | | |
| Defined benefit pension plans: | | | |
| - Actuarial loss | | **(227)** | (4) |
| - Movement in deferred tax | 9 | **49** | 2 |
| | | **(178)** | (2) |
| **Total other comprehensive expense** | | **(461)** | (284) |
| **Total comprehensive expense for the financial year** | | **(209)** | (88) |
| Attributable to: | | | |
| Owners of the parent | | **(188)** | (61) |
| Non-controlling interests | | **(21)** | (27) |
| **Total comprehensive expense for the financial year** | | **(209)** | (88) |

**G. McGann**
Director

**I. Curley**
Director

# Consolidated Balance Sheet

## At 31 December 2014

| | Note | 2014 €m | 2013 €m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **3,033** | 3,022 |
| Goodwill and intangible assets | 14 | **2,407** | 2,326 |
| Available-for-sale financial assets | 15 | **21** | 27 |
| Investment in associates | 16 | **17** | 16 |
| Biological assets | 17 | **130** | 107 |
| Trade and other receivables | 20 | **12** | 5 |
| Derivative financial instruments | 29 | **2** | 1 |
| Deferred income tax assets | 18 | **237** | 203 |
| | | **5,859** | 5,707 |
| **Current assets** | | | |
| Inventories | 19 | **701** | 712 |
| Biological assets | 17 | **9** | 10 |
| Trade and other receivables | 20 | **1,422** | 1,344 |
| Derivative financial instruments | 29 | **3** | 4 |
| Restricted cash | 22 | **12** | 8 |
| Cash and cash equivalents | 22 | **387** | 447 |
| | | **2,534** | 2,525 |
| Assets classified as held for sale | 12 | **92** | - |
| | | **2,626** | 2,525 |
| **Total assets** | | **8,485** | 8,232 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the owners of the parent** | | | |
| Equity share capital | 23 | **-** | - |
| Share premium | 23 | **1,981** | 1,979 |
| Other reserves | 23 | **(30)** | 208 |
| Retained earnings | | **271** | 121 |
| **Total equity attributable to the owners of the parent** | | **2,222** | 2,308 |
| Non-controlling interests | | **197** | 199 |
| **Total equity** | | **2,419** | 2,507 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 24 | **3,093** | 3,009 |
| Employee benefits | 25 | **893** | 713 |
| Derivative financial instruments | 29 | **23** | 59 |
| Deferred income tax liabilities | 18 | **183** | 214 |
| Non-current income tax liabilities | | **28** | 17 |
| Provisions for liabilities and charges | 27 | **47** | 42 |
| Capital grants | | **12** | 12 |
| Other payables | 28 | **10** | 9 |
| | | **4,289** | 4,075 |
| **Current liabilities** | | | |
| Borrowings | 24 | **65** | 67 |
| Trade and other payables | 28 | **1,573** | 1,525 |
| Current income tax liabilities | | **12** | 11 |
| Derivative financial instruments | 29 | **27** | 33 |
| Provisions for liabilities and charges | 27 | **57** | 14 |
| | | **1,734** | 1,650 |
| Liabilities associated with assets classified as held for sale | 12 | **43** | - |
| | | **1,777** | 1,650 |
| **Total liabilities** | | **6,066** | 5,725 |
| **Total equity and liabilities** | | **8,485** | 8,232 |

**G. McGann**
Director

**I. Curley**
Director

# Company Balance Sheet

## At 31 December 2014

| | Note | 2014 €m | 2013 €m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Financial assets | 15 | **2,039** | 2,027 |
| | | **2,039** | 2,027 |
| **Current assets** | | | |
| Amounts receivable from Group companies | 20 | **56** | 36 |
| Cash and cash equivalents | 22 | **-** | 6 |
| | | **56** | 42 |
| **Total assets** | | **2,095** | 2,069 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the owners of the parent** | | | |
| Equity share capital | | **-** | - |
| Share premium | | **1,981** | 1,979 |
| Share-based payment reserve | | **93** | 81 |
| Retained earnings | | **17** | 6 |
| **Total equity** | | **2,091** | 2,066 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amounts payable to Group companies | 28 | **4** | 3 |
| **Total liabilities** | | **4** | 3 |
| **Total equity and liabilities** | | **2,095** | 2,069 |

**G. McGann**
Director

**I. Curley**
Director

# Consolidated Statement of Changes in Equity

## For the Year Ended 31 December 2014

| | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Equity share capital | Share premium | Other reserves[1] | Retained earnings | Total | Non-controlling interests | Total equity |
| | €m | €m | €m | €m | €m | €m | €m |
| At 1 January 2014 | **-** | **1,979** | **208** | **121** | **2,308** | **199** | **2,507** |
| Profit for the financial year | **-** | **-** | **-** | **241** | **241** | **11** | **252** |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation adjustments | **-** | **-** | **(233)** | **-** | **(233)** | **(32)** | **(265)** |
| Defined benefit pension plans | **-** | **-** | **-** | **(178)** | **(178)** | **-** | **(178)** |
| Effective portion of changes in fair value of cash flow hedges | **-** | **-** | **(18)** | **-** | **(18)** | **-** | **(18)** |
| **Total comprehensive (expense)/income for the financial year** | **-** | **-** | **(251)** | **63** | **(188)** | **(21)** | **(209)** |
| Shares issued | **-** | **2** | **-** | **-** | **2** | **-** | **2** |
| Hyperinflation adjustment | **-** | **-** | **-** | **194** | **194** | **22** | **216** |
| Dividends paid | **-** | **-** | **-** | **(107)** | **(107)** | **(5)** | **(112)** |
| Share-based payment | **-** | **-** | **26** | **-** | **26** | **-** | **26** |
| Shares acquired by SKG Employee Trust | **-** | **-** | **(13)** | **-** | **(13)** | **-** | **(13)** |
| Acquired non-controlling interest | **-** | **-** | **-** | **-** | **-** | **2** | **2** |
| **At 31 December 2014** | **-** | **1,981** | **(30)** | **271** | **2,222** | **197** | **2,419** |

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

[1] An analysis of Other reserves is provided in Note 23.

# Company Statement of Changes in Equity

## For the Year Ended 31 December 2014

| | Equity share capital | Share premium | Share-based payment reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| At 1 January 2014 | **-** | **1,979** | **81** | **6** | **2,066** |
| Profit for the financial year | **-** | **-** | **-** | **118** | **118** |
| Dividends paid to shareholders | **-** | **-** | **-** | **(107)** | **(107)** |
| Shares issued | **-** | **2** | **-** | **-** | **2** |
| Share-based payment | **-** | **-** | **12** | **-** | **12** |
| **At 31 December 2014** | **-** | **1,981** | **93** | **17** | **2,091** |
| At 1 January 2013 | - | 1,972 | 66 | 2 | 2,040 |
| Profit for the financial year | - | - | - | 74 | 74 |
| Dividends paid to shareholders | - | - | - | (70) | (70) |
| Shares issued | - | 7 | - | - | 7 |
| Share-based payment | - | - | 15 | - | 15 |
| **At 31 December 2013** | - | 1,979 | 81 | 6 | 2,066 |

# Consolidated Statement of Cash Flows

## For the Year Ended 31 December 2014

| | Note | 2014 €m | 2013 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **378** | 294 |
| Adjustment for: | | | |
| Net finance costs | 8 | **285** | 351 |
| Depreciation charge | 13 | **340** | 346 |
| Impairment of property, plant and equipment | 13 | **39** | 9 |
| Impairment of goodwill | 14 | **19** | - |
| Amortisation of intangible assets | 14 | **26** | 26 |
| Amortisation of capital grants | 5 | **(2)** | (2) |
| Share-based payment expense | 26 | **26** | 26 |
| Profit on purchase/sale of assets and businesses | | **(4)** | (6) |
| Share of associates' profit (after tax) | 6 | **(2)** | (2) |
| Net movement in working capital | 21 | **(37)** | 24 |
| Change in biological assets | | **(2)** | 30 |
| Change in employee benefits and other provisions | | **(30)** | (62) |
| Other | | **4** | (16) |
| **Cash generated from operations** | | **1,040** | 1,018 |
| Interest paid | | **(197)** | (267) |
| Income taxes paid: | | | |
| Irish corporation tax (net of tax refunds) paid | | **(1)** | (2) |
| Overseas corporation tax (net of tax refunds) paid | | **(106)** | (110) |
| **Net cash inflow from operating activities** | | **736** | 639 |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | **6** | 5 |
| Additions to property, plant and equipment and biological assets | | **(430)** | (349) |
| Additions to intangible assets | | **(16)** | (9) |
| Receipt of capital grants | | **3** | 2 |
| Disposal of financial assets | | **1** | - |
| (Increase)/decrease in restricted cash | | **(5)** | 6 |
| Disposal of property, plant and equipment | | **9** | 8 |
| Dividends received from associates | 16 | **1** | 1 |
| Purchase of subsidiaries and non-controlling interests | | **(149)** | (25) |
| Deferred consideration paid | | **(1)** | (5) |
| **Net cash outflow from investing activities** | | **(581)** | (366) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of new ordinary shares | | **2** | 7 |
| Proceeds from bond issue | | **500** | 400 |
| Proceeds from other debt issues | | **-** | 1,050 |
| Purchase of own shares | | **(13)** | (15) |
| Increase in other interest-bearing borrowings | | **27** | 16 |
| Payment of finance leases | | **(2)** | (6) |
| Repayment of borrowings | | **(507)** | (1,577) |
| Derivative termination payments | | **(13)** | (16) |
| Deferred debt issue costs paid | | **(10)** | (28) |
| Dividends paid to shareholders | | **(107)** | (70) |
| Dividends paid to non-controlling interests | | **(5)** | (6) |
| **Net cash outflow from financing activities** | | **(128)** | (245) |
| **Increase in cash and cash equivalents** | | **27** | 28 |
| | | | |
| **Reconciliation of opening to closing cash and cash equivalents** | | | |
| Cash and cash equivalents at 1 January | | **424** | 423 |
| Currency translation adjustment | | **(90)** | (27) |
| Increase in cash and cash equivalents | | **27** | 28 |
| **Cash and cash equivalents at 31 December** | 22 | **361** | 424 |

# Company Statement of Cash Flows

## For the Year Ended 31 December 2014

| | Note | 2014 €m | 2013 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **118** | 74 |
| Adjustment for: | | | |
| Dividends received | | **(119)** | (77) |
| **Cash used in operations** | | **(1)** | (3) |
| Dividends received | | **119** | 77 |
| **Net cash inflow from operating activities** | | **118** | 74 |
| | | | |
| **Cash flows from financing activities** | | | |
| Group loan movements | | **(19)** | (7) |
| Proceeds from issue of new ordinary shares | | **2** | 7 |
| Dividends paid to shareholders | | **(107)** | (70) |
| **Net cash outflow from financing activities** | | **(124)** | (70) |
| **(Decrease)/increase in cash and cash equivalents** | | **(6)** | 4 |
| | | | |
| **Reconciliation of opening to closing cash and cash equivalents** | | | |
| Cash and cash equivalents at 1 January | | **6** | 2 |
| (Decrease)/increase in cash and cash equivalents | | **(6)** | 4 |
| **Cash and cash equivalents at 31 December** | 22 | **-** | 6 |

# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2014

## 1. General information

Smurfit Kappa Group plc ('SKG plc' or 'the Company') and its subsidiaries (together 'SKG' or 'the Group') manufacture, distribute and sell containerboard, corrugated containers and other paper-based packaging products such as solidboard and graphicboard. The Company is a public limited company whose shares are publicly traded. It is incorporated and tax resident in Ireland. The address of its registered office is Beech Hill, Clonskeagh, Dublin 4, Ireland.

The Consolidated Financial Statements of the Group for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 6 March 2015.

## 2. Summary of significant accounting policies

### Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and adopted by the European Union ('EU'); and, in accordance with Irish law. IFRS adopted by the EU differ in certain respects from IFRS issued by the IASB. References to IFRS hereafter refer to IFRS adopted by the EU.

### Basis of preparation

The Consolidated Financial Statements are presented in euro rounded to the nearest million. They have been prepared under the historical cost convention except for the following which are recognised at fair value: derivative financial instruments; available-for-sale financial assets; biological assets; share-based payments and; pension plan assets. Pension obligations are measured at the present value of the future estimated cash flows of benefits earned. The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit currency at the end of the reporting period. This is the case for the Group's subsidiaries in Venezuela.

The preparation of financial statements in accordance with IFRS and Irish law requires the use of accounting judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgement and areas where assumptions and estimates are significant are discussed in the *'Significant accounting judgements, estimates and assumptions'* note.

The Consolidated Financial Statements include the information in the Remuneration Report that is described as being an integral part of the Consolidated Financial Statements.

### New and amended standards effective during 2014

The Group has adopted a number of new and revised accounting standards with effect from 1 January 2014.

#### Consolidation, joint arrangements, associates and related disclosures

IFRS 10, *Consolidated Financial Statements*, provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. It replaces IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 11, *Joint Arrangements*, establishes principles for financial reporting by the parties to a joint arrangement. It replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 12, *Disclosure of Interests in Other Entities*, combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. These standards did not have a material effect on the Group's reported financial position or performance. The Group has expanded certain disclosures in relation to its subsidiaries and material non-controlling interests as required.

IAS 27, *Separate Financial Statements* and IAS 28, *Investment in Associates and Joint Ventures* have been revised. IAS 27 as amended deals with the requirements for separate financial statements. Entities preparing separate financial statements are required to account for investments in subsidiaries, associates, and jointly controlled entities either at cost, or in accordance with IFRS 9, *Financial Instruments*. IAS 28 describes the application of the equity method to investments in joint ventures and associates. The revisions to these standards did not have a material effect on the Group's reported financial position or performance.

There are a number of other changes to IFRS which became effective in 2014, however, they either did not have an effect on the Consolidated Financial Statements or they are not currently relevant for the Group.

### Standards issued but not yet effective or early adopted

#### Financial Instruments

IFRS 9, *Financial Instruments*, is the standard which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. It has been completed in a number of phases with the final version issued by the IASB in July 2014. The Standard includes requirements for recognition, measurement, impairment and derecognition of financial instruments, and general hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with retrospective application required. Early application is permitted. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Group's financial assets, but is not expected to impact on the classification and measurement of the Group's financial liabilities. The Group has not yet completed quantifying the effect of adopting IFRS 9. Subject to EU endorsement, the Group will apply IFRS 9 from its effective date.

#### Revenue recognition

IFRS 15, *Revenue from Contracts with Customers*, establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It specifies how and when revenue should be recognised as well as requiring enhanced disclosures. Revenue is recognised when an identified performance obligation has been met and the customer can direct the use of and obtain substantially all the remaining benefits from a good or service as a result of obtaining control of that good or service. The standard replaces IAS 18, *Revenue* and IAS 11, *Construction contracts* and related interpretations. IFRS 15 was issued in May 2014 and, subject to EU endorsement, it applies to the Group for the 2017 financial year. The Group is assessing the impact of IFRS 15.

## 2. Summary of significant accounting policies (continued)

### Levies

IFRIC 21, *Levies*, sets out the accounting for an obligation to pay a government levy if that liability is within the scope of IAS 37, *Provisions*. The interpretation addresses what the obligating event is that gives rise to a liability for a levy and when it should be recognised. The interpretation is effective for the Group for the 2015 financial year and is not expected to have a material impact on the Consolidated Financial Statements.

Other changes to IFRS have been issued but are not yet effective for the Group. However, they are either not expected to have a material effect on the Consolidated Financial Statements or they are not currently relevant for the Group.

### Basis of consolidation

The Consolidated Financial Statements include the annual Financial Statements of the Company and all of its subsidiaries and associates, drawn up to 31 December.

### Business combinations

The Group uses the acquisition method in accounting for business combinations. Under the acquisition method, the assets and liabilities of an acquired business are initially recognised at their fair value at the date of acquisition. The cost of a business combination is measured as the aggregate of the fair values at the date of exchange of any assets transferred, liabilities incurred or assumed and equity instruments issued in exchange for control. When settlement of all or part of a business combination is deferred, the fair value of the deferred component is determined by discounting the amounts payable to their present value at the date of exchange. The discount component is unwound as an interest expense in the Consolidated Income Statement over the life of the obligation.

Where a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the contingent consideration is measured at fair value. Any subsequent re-measurement of the contingent amount is recognised in profit or loss. When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated to the identifiable assets and liabilities are made within twelve months of the acquisition date. Non-controlling interests are measured either, at their proportionate share of the acquiree's identifiable net assets or, at fair value as at the acquisition date, on a case by case basis. Acquisition related costs are expensed as incurred.

### Subsidiaries

Subsidiaries are entities controlled by the Group. They are consolidated from the date on which control is obtained by the Group; they cease to be consolidated from the date on which control is lost by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. All significant subsidiaries have coterminous financial year ends. Where necessary, the accounting policies of subsidiaries have been modified to ensure consistency with the policies adopted by the Group. Intragroup transactions, intragroup balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the Consolidated Financial Statements, except to the extent that such a loss provides evidence of impairment. The Company's investments in subsidiaries are carried at cost less impairment.

Non-controlling interests represent the portion of a subsidiary's equity which is not attributable to the Group. They are presented separately in the Consolidated Financial Statements. Changes in ownership of a subsidiary which do not result in a change of control are treated as equity transactions.

### Associates

Associates are entities in which the Group has significant influence arising from its power to participate in the financial and operating policy decisions of the investee. Associates are recognised using the equity method. Under the equity method investments in associates are recognised at cost and subsequently adjusted to reflect the post acquisition movements in the Group's share of the associates' net assets. The Group profit or loss includes its share of the associates profit or loss after tax and the Group other comprehensive income includes its share of the associates other comprehensive income. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. Associates are equity accounted from the date on which significant influence is obtained until the date on which such influence is lost. Losses in associates are not recognised once the Group's carrying value reaches zero, except to the extent that the Group has incurred further obligations in respect of the associate. 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. When appropriate, the financial statements of associates are modified to ensure consistency with Group accounting policies.

### Foreign currency

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

Transactions in foreign currencies are translated into the functional currency of the entity at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities carried at cost are not subsequently retranslated. Non-monetary assets carried at fair value are subsequently remeasured at the exchange rate at the date of valuation.

## 2. Summary of significant accounting policies (continued)

Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss with the exception of differences on foreign currency borrowings that qualify as a hedge of the Group's net investment in foreign operations. The portion of exchange gains or losses on foreign currency borrowing used to provide a hedge against a net investment in a foreign operation and that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss.

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

Foreign exchange differences arising on translation of net investments including those arising on long-term intragroup loans deemed to be quasi-equity in nature are recognised in other comprehensive income. When a quasi-equity loan ceases to be designated as part of the Group's net investment, accumulated currency differences are reclassified to profit or loss only when there is a change in the Group's proportional interest. On disposal or partial disposal of a foreign operation, accumulated currency translation differences are reclassified to profit or loss as part of the overall gain or loss on disposal.

### Reporting in hyperinflationary economies

When the economy of a country in which we operate is deemed hyperinflationary and the functional currency of a Group entity is the currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non-monetary items in the balance sheet, such as property, plant and equipment and inventories, to reflect current purchasing power as at the period end using a general price index from the date when they were first recognised. The gain or loss on the net monetary position for the year is included in finance costs or income. Comparative amounts are not restated. The restated income, expenses and balance sheets are translated to euro at the closing rate at the end of the reporting period. Differences arising on translation to euro are recognised in other comprehensive income.

### Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment charges. Cost includes expenditure that is directly attributable to the acquisition of the assets. Software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any retired component is derecognised. Other repair and maintenance expenditure that does not meet the asset recognition criteria is expensed to profit or loss as incurred. Assets are depreciated from the time they are brought into use, however land is not depreciated. Depreciation on other assets is calculated to write off the carrying amount of property, plant and equipment, other than freehold land, on a straight-line basis at the following annual rates:

| | |
|---|---|
| Freehold and long leasehold buildings: | 2 - 5% |
| Plant and equipment: | 3 - 33% |

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

### Goodwill and impairment

Goodwill is the excess of the cost of an acquisition over the Group share of the fair value of the identifiable assets and liabilities acquired. When the fair value of the identifiable assets and liabilities acquired exceeds the cost of a combination the values are reassessed and any remaining gain is recognised immediately in profit or loss. Goodwill is allocated to the groups of cash-generating units ('CGUs') that are expected to benefit from the synergies of the combination. This is the lowest level at which goodwill is monitored for internal management purposes. After initial recognition goodwill is measured at cost less any accumulated impairment losses.

Goodwill is subject to impairment testing on an annual basis at a consistent time each year and, at any time an impairment indicator is considered to exist. Impairment is determined by comparing the carrying amount to the recoverable amount of the groups of CGUs to which the goodwill relates. The recoverable amount is the greater of; fair value less costs to sell, and value-in-use. When the recoverable amount of the groups of CGUs is less than the carrying amount, an impairment loss is recognised.

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

In the year in which a business combination occurs, and the goodwill arising affects the goodwill allocation to CGUs, the groups of CGUs are tested for impairment prior to the end of that year. Impairment losses on goodwill are recognised in profit or loss and are not reversed following recognition.

## 2. Summary of significant accounting policies (continued)

### Intangible assets (other than goodwill)

These include software development costs as well as marketing and customer related intangible assets generally arising from business combinations. They are initially recognised at cost which, for those arising in a business combination, is their fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less any accumulated amortisation and impairment. Cost is amortised on a straight-line basis over their estimated useful lives which vary from two to ten years. Carrying values are reviewed for indicators of impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that the carrying values may not be recoverable. Further information is provided in the *Goodwill and intangible assets* note.

### Impairment of non-financial assets (other than goodwill)

Long-term tangible and intangible assets that are subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. When assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date.

### Research and development

Expenditure on research and development activities is generally recognised in profit or loss as an expense when incurred. Costs incurred on development projects are recognised as intangible assets only if the criteria for capitalisation of internally generated intangible assets in IAS 38, *Intangible Assets*, are met.

### Biological assets

The Group holds standing timber which is classified as a biological asset and is stated at fair value less estimated costs to sell. Changes in value are recognised in profit or loss. The fair value of standing timber is calculated using weighted average prices for similar transactions with third parties. At the time of harvest, wood is recognised at fair value less estimated costs to sell and transferred to inventory.

### Financial instruments

A financial instrument is recognised when the Group becomes a party to its contractual provisions. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire, are extinguished or transferred to a third party. Financial liabilities are derecognised when the Group's obligations specified in the contracts expire, are discharged or cancelled.

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

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

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

Equity and debt investments are classified as available-for-sale and are stated at fair value. Changes in fair value are recognised directly in other comprehensive income, however impairment losses are recognised in profit or loss. On disposal the cumulative gain or loss recognised in other comprehensive income is reclassified to profit or loss as part of the gain or loss arising. When applicable, interest is recognised in profit or loss using the effective interest method.

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

The Group has entered into a series of securitisation transactions involving certain of its trade receivables and the establishment of certain special purpose entities to effect these transactions. These special purpose entities are consolidated as they are considered to be controlled by the Group. The related securitised assets continue to be recognised on the Consolidated Balance Sheet.

Trade and other receivables are recognised initially at fair value and are thereafter measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of trade receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Impairments are recognised in profit or loss once identified.

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

## 2. Summary of significant accounting policies (continued)

### Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to manage certain foreign currency, interest rate and commodity price exposures. All derivatives are recognised at fair value. The treatment of changes in fair value depends on whether the derivative is designated as a hedging instrument, the nature of the item being hedged and the effectiveness of the hedge. The Group designates certain derivatives as either:

- hedges of a particular risk associated with a recognised floating rate asset or liability or a highly probable forecast transaction (cash flow hedges) or
- hedges of net investments in foreign operations (net investment hedges).

At inception the Group documents the relationship between the hedging instrument and hedged items, its risk management objectives and the strategy for undertaking the transaction. The Group also documents its assessment of whether the derivative is highly effective in offsetting changes in fair value or cash flows of hedged items, both at inception and in future periods.

The fair values of various derivative instruments used for hedging purposes are disclosed in the *Financial instruments* note. Movements on the cash flow hedging reserve in shareholders' equity are shown in the *Capital and reserves* note. The full fair value of a hedging derivative is classified as a non-current asset or liability when its remaining maturity is more than one year; it is classified as a current asset or liability when its remaining maturity is less than one year. Non-hedging derivative assets and liabilities are classified as current or non-current based on expected realisation or settlement dates.

#### Cash flow hedges

Changes in the fair value of derivative hedging instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. Amounts accumulated in other comprehensive income are reclassified to profit or loss in the same periods that the hedged items affect profit or loss. The reclassified gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance income or costs respectively. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within finance income or costs respectively. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs.

#### Net investment hedges

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

#### Derivatives not designated as hedges

Changes in the fair value of derivatives which are not designated for hedge accounting are recognised in profit or loss.

#### Embedded derivatives

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

### Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on its estimated future cash flows, or for equity securities, there is a significant or prolonged decline in value below its carrying amount. Impairment of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses are recognised in profit or loss including any cumulative loss in respect of an available-for-sale financial asset previously recognised in other comprehensive income. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For available-for-sale financial assets that are equity securities the reversal is recognised directly in other comprehensive income. For other financial assets the reversal is recognised in profit or loss.

### Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the first-in, first-out basis and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Raw materials are valued on the basis of purchase cost on a first-in, first-out basis. For finished goods and work-in-progress, cost includes direct materials, direct labour and attributable overheads based on normal operating capacity and excludes borrowing costs. The cost of wood is its fair value less estimated costs to sell at the date of harvest, determined in accordance with the policy for biological assets. Any change in value at the date of harvest is recognised in the Consolidated Income Statement. Net realisable value is the estimated proceeds of sale less costs to completion and any costs to be incurred in selling and distribution. Full provision is made for all damaged, deteriorated, obsolete and unusable materials.

## 2. Summary of significant accounting policies (continued)

### 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 within one year from the date of classification rather than continued use are classified as held for sale. Such assets are measured at the lower of their fair value less cost to sell and their carrying amount prior to being classified as held for sale.

### Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Own shares
Ordinary shares acquired by the Company or purchased on behalf of the Company are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's ordinary shares.

### Provisions
A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance expense.

### Income taxes
The income tax expense recognised in each financial year comprises current and deferred tax and is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is similarly recognised in other comprehensive income or in equity.

#### Current tax
Current tax consists mainly of the expected tax payable or recoverable on the taxable income for the year using the applicable tax rates during the year and any adjustment to tax payable in respect of previous years.

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

### Government grants
Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with any related conditions. Grants that compensate the Group for expenses are offset against the related expense in profit or loss in the same accounting periods. Grants related to the cost of an asset are recognised in profit or loss as other operating income over the useful life of the asset.

### Leases
Arrangements which transfer substantially all of the risks and rewards of ownership of an asset to the Group are classified as finance leases. They are capitalised at inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease obligations, net of finance costs, are included in borrowings. The interest element of lease payments is expensed in profit or loss over the lease period so as to produce a constant periodic rate of interest. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Arrangements in which substantially all of the risks and rewards of ownership of an asset are retained by the lessor are classified as operating leases. Operating lease rentals are expensed in profit or loss on a straight-line basis over the lease term.

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

### Retirement benefits
The Group operates both defined benefit and defined contribution pension plans throughout its operations in accordance with local conditions and practice. The main plans are of the defined benefit type and are funded by payments to separately administered funds. The majority of the defined benefit schemes are funded but in certain countries, in accordance with local practices, scheme liabilities are unfunded and recognised as liabilities in the Consolidated Balance Sheet.

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

## 2. Summary of significant accounting policies (continued)

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

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

### Share-based payments

The Group grants equity settled share-based payments to certain employees as part of their remuneration; there are no cash-settled share-based payments. The fair value of grants is determined at the date of grant and is expensed to profit or loss over the vesting period with a corresponding increase in equity. Fair value incorporates the effect of market-based conditions. Non-market-based vesting conditions are only taken into account when assessing the number of awards expected to vest such that the cumulative expense recognised equates to the number of grants that actually vest. The periodic expense recognised in profit or loss is calculated as the difference between the cumulative expense as estimated at the start and end of the period.

The cumulative expense is reversed when an employee in receipt of share options terminates service prior to completion of the vesting period or when a non-market based performance condition is not expected to be met. No reversal of the cumulative charge is made where awards do not vest due to a market-based vesting condition.

Where the Group receives a tax deduction for share-based payments, deferred tax is provided on the basis of the difference between the market price of the underlying equity at the date of the financial statements and the exercise price of the option. As a result, the deferred tax impact will not directly correlate with the expense reported.

Proceeds received from the exercise of options, net of any directly attributable transaction costs, are credited to the share capital and share premium accounts.

### Emissions rights and obligations

As a result of the European Union Emission Trading Scheme the Group receives free emission rights in certain countries. Rights are received annually and the Group is required to surrender rights equal to its actual emissions. A provision is only recognised when actual emissions exceed the emission rights granted. Any additional rights purchased are recognised at cost and they are not subsequently remeasured. Where excess certificates are sold to third parties the Group recognises the consideration receivable in profit or loss.

### Revenue

Revenue comprises the fair value of the consideration receivable for goods sold and services supplied to third party customers in the ordinary course of business. It excludes sales based taxes and is net of allowances for discounts and rebates. Revenue is recognised when delivery to the customer has taken place according to the terms of the sale, at which point the significant risks and rewards of ownership of the goods have passed to the customer. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group.

### Finance costs and income

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

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

### Earnings per share

Earnings per share represents the profit or loss in cent attributable to the owners of the parent. It is calculated by dividing the Group profit or loss attributable to the owners of the parent by the weighted average number of equity shares in issue during the year less own or Treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming 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 the Group results for the year. The Group believes this format is useful as it highlights one-off items, where significant, such as reorganisation and restructuring costs, profit or loss on disposal of operations, foreign exchange losses on currency devaluations, profit or loss on early extinguishment of debt, profit or loss on disposal of assets and impairment of assets. Judgement is used by the Group in assessing the particular items, which by virtue of their size and nature, are disclosed as exceptional items.

### Dividend distributions

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

## 3. Significant accounting judgements, estimates and assumptions

Preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. These judgements, estimates and assumptions are subject to continuing re-evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Actual outcomes may differ significantly from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are set out below.

### Consolidation of special purpose entities

The Group is a party to an arrangement involving securitisation of certain of its trade receivables. The arrangement required the establishment of certain special purpose entities ('SPEs') which are not owned by the Group. However, the SPEs are consolidated as management consider them to be controlled by the Group. The securitised receivables and the borrowings of the SPEs are recognised in the Consolidated Balance Sheet.

The Group has established a trust which facilitates the operation of the Deferred Annual Bonus Plan. While the Group does not hold any of the equity of the trust, the Directors believe that the Group controls its activities and therefore the financial statements of the trust are included in the Consolidated Financial Statements.

### Estimated impairment of goodwill and other non-current assets

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of groups of CGUs have been determined based on value-in-use calculations. The principal assumptions used to determine value-in-use relate to future cash flows and the time value of money. Further information is detailed in the *Goodwill and intangible assets* note. Impairment tests in respect of property, plant and equipment are also performed on a CGU basis. Further information is contained in the *Property, plant and equipment* note.

### Income taxes

Provisions for taxes require judgement and estimation in interpreting tax legislation, current case law and the uncertain outcomes of tax audits and appeals. Where the final outcome of these matters differs from the amounts recognised, differences will impact the tax provisions once the outcome is known. In addition, the Group recognises deferred tax assets, mainly relating to unused tax losses, when it is probable that the assets will be recovered through future profitability and tax planning. The assessment of recoverability involves judgement.

### Measurement of defined benefit obligations

The cost of defined benefit pension plans and the present value of pension obligations are determined using actuarial valuations. These valuations involve making various assumptions that may differ significantly from actual developments in the future. The assumptions include determination of appropriate discount rates, future salary increases, inflation, mortality rates and future pension increases. Due to the complex nature of the valuations the Group employs an international network of professional actuaries to perform these valuations. The critical assumptions and estimates applied along with a sensitivity analysis are provided in the *Employee benefits* note.

### Provisions

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

### Establishing lives for depreciation of property, plant and equipment

The annual depreciation charge depends primarily on the estimated lives of each type of asset. Asset lives are reviewed annually and adjusted if necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets. Changes in asset lives could have a significant impact on depreciation charges.

### Establishing lives for amortisation of intangible assets

The amortisation charge is dependent on the estimated lives of each intangible asset. These lives are regularly reviewed and changed if necessary to reflect the expected period of consumption of future economic benefits. Changes in asset lives could have a significant impact on amortisation charges. Further details are included in the *Goodwill and intangible assets* note.

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

### Fair value of derivatives and other financial instruments

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

### Measurement of share-based payment expense

The Group operates certain share-based incentive plans which, subject to the occurrence of stated future events, grant the right to qualifying employees to acquire shares in the Company. Estimating the number and value of these grants, and the periods over which it will be recognised in the Consolidated Income Statement, requires various management estimates and assumptions. Further details are provided in the *Share-based payment* note.

### Venezuela

#### Exchange control and devaluation

In 2014 Venezuela operated a number of alternative exchange mechanisms, the official CENCOEX rate (VEF 6.3 per US dollar) ('Official rate'), Sicad I and Sicad II. In January 2014 the Government announced that it would not be devaluing the Official rate but access to the Official rate would only be available to certain priority sectors. Those not in these priority sectors would access dollars through the Sistema Complementario de Administración de Divisas ('Sicad'). The Group is awaiting clarification on whether it will be part of the priority sector, the non-priority sector or both sectors. In March 2014 a new foreign exchange trading platform began operation (Sicad II) which permitted foreign exchange barter transactions in the private sector. Both Sicad I and Sicad II were floating rates. At 31 December 2014, Sicad I was VEF 12.0 per US dollar while Sicad II was VEF 50.0 per US dollar. In February 2015 the government made further announcements that they would be modifying the exchange mechanisms by unifying Sicad I and Sicad II into Sicad and bringing in a third rate to offset the parallel market rate (Sistema Marginal de Divisas - 'Simadi'). Both the new Sicad and Simadi rates are floating rates. The most recent Sicad rate is VEF 12.0 per US dollar and the most recent Simadi rate is VEF 178.0 per US dollar.

The Group changed the rate at which it consolidates its Venezuelan operations ('SKCV') from the Official rate to the Sicad I rate as at 31 March 2014 (VEF 10.7 per US dollar) reducing its cash by approximately €69 million and its net assets by €172 million at that time. The Group believes that Sicad I and now Sicad is the most appropriate rate for accounting and consolidation, as it believes that this is the rate at which the Group will extract economic benefit. On this basis, in accordance with IFRS, the financial statements of the Group's operations in Venezuela were translated at 31 December 2014 using the prevailing Sicad I rate of VEF 12.0 per US dollar and the closing euro/US dollar rate of 1 euro = US$ 1.21.

In this multiple foreign exchange rate system there is a risk that the Sicad rate will devalue further resulting in re-measurement of the local currency denominated net monetary assets and the local earnings and increase the cost of importing goods required to run the business. In 2014, the Group's operations in Venezuela represented approximately 7% of the Group's EBITDA[(1)] and the Group estimates that in 2015 assuming the Sicad rate remains at its current exchange rate of VEF 12.0 per US dollar it would be within a range of 5% to 7% of the Group's EBITDA. In addition, at 31 December 2014, the Group's net assets in Venezuela were €425 million and its cash balances were €84 million. Were the Sicad rate to deteriorate during 2015 this would have an adverse effect on the Group's results of operations and financial position. For example, had Sicad been VEF 52.1 per US dollar at 31 December 2014, the final Sicad II rate, this would have reduced the Group's operations in Venezuela to approximately 2% of the Group's EBITDA. In addition, the effect on the Group's balance sheet would have been to reduce its net assets by approximately €327 million and its cash balances by approximately €64 million.

#### Price control

In 2013, the Venezuelan government announced that companies could only seek price increases if they had clearance that their margins were within certain guidelines. SKCV is operating within these guidelines. There is a risk that if the Group's Venezuelan operations cannot implement price increases in a timely manner to cover its increasing raw material and labour costs as a result of inflation and the devaluing currency, it would have an adverse effect on its results of operations. In this volatile environment the Group continues to closely monitor developments, assess evolving business risks and actively manage its investments.

#### Control

The nationalisation of foreign owned companies or assets by the Venezuelan government remains a risk. Market value compensation would be either negotiated or arbitrated under applicable laws or treaties in these cases. However, the amount and timing of such compensation would be necessarily uncertain.

The Group continues to control its operations in Venezuela and, as a result, continues to consolidate the results and net assets of these operations at year-end in accordance with the requirement of IFRS 10.

In 2014, the Group's operations in Venezuela represented approximately 6% (2013: 7%) of its total assets and 18% (2013: 16%) of its net assets. In addition, cumulative foreign translation losses arising on its net investment in these operations amounting to €535 million (2013: €353 million) are included in the foreign exchange translation reserve.

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[(1)] *For ease of reference, EBITDA before exceptional items and share-based payment expense is denoted as EBITDA throughout this Annual Report. A reconciliation of EBITDA, as defined, to profit for the financial year is set out in Note 4.*

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

### Hyperinflation

Venezuela was deemed hyperinflationary under IFRS in 2009. As a result, the Group has applied the hyperinflationary accounting requirements of IAS 29 to its Venezuelan operations with effect from 1 January 2009. To adjust income and expenses for the effects of hyperinflation, IAS 29 requires restatement (indexation) of income and expenses from the start of the reporting period. It also requires restatement of non-monetary assets, such as property, plant and equipment and inventories, from the date they were first recognised. The gain or loss on the net monetary position is included in finance costs or income. Comparative amounts are not restated. The restated financial statements are translated to euro at the closing rate, average rates are not used. Differences arising on translation to euro are recognised in other comprehensive income.

The index used to reflect current values is an estimate derived from the most recent published Banco Central de Venezuela's National Consumer Price Index. The level of and movement in the price index at December 2014, 2013 and 2012 are as follows:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Index at the year-end | **839.5** | 498.1 | 318.9 |
| Movement in the year | **68.5%** | 56.2% | 20.1% |

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the Consolidated Income Statement is impacted as follows: Revenue €88 million increase (2013: €81 million increase), EBITDA €1 million increase (2013: €19 million increase) and profit after taxation €117 million decrease (2013: €91 million decrease). In 2014, a net monetary loss of €78 million (2013: €67 million loss) was recorded in the Consolidated Income Statement. The impact on the Group's net assets and its total equity is an increase of €106 million (2013: €104 million increase).

## 4. Segmental reporting

The Group has determined reportable operating segments based on the manner in which reports are reviewed by the chief operating decision maker ('CODM'). The CODM is determined to be the executive management team responsible for assessing performance, allocating resources and making strategic decisions. The Group has identified two reportable operating segments: 1) Europe and 2) The Americas.

The Europe segment is highly integrated. It includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. The Americas segment comprises all forestry, paper, corrugated and folding carton activities in a number of Latin American countries and the operations of Smurfit Kappa Orange County ('SKOC') which includes the Bates Container LLC ('Bates') operations acquired during 2014. Inter-segment revenue is not material. No operating segments have been aggregated for disclosure purposes.

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

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

Capital expenditure comprises additions to property, plant and equipment (Note 13), goodwill and intangible assets (Note 14) and biological assets (Note 17), including additions resulting from acquisitions through business combinations.

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

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 4. Segmental reporting (continued)

| | Europe 2014 €m | The Americas 2014 €m | Total 2014 €m | Europe 2013 €m | The Americas 2013 €m | Total 2013 €m |
|---|---|---|---|---|---|---|
| **Revenue and results** | | | | | | |
| Revenue | **6,136** | **1,947** | **8,083** | 5,967 | 1,990 | 7,957 |
| EBITDA before exceptional items | **882** | **305** | **1,187** | 772 | 357 | 1,129 |
| Segment exceptional items | **(42)** | **(10)** | **(52)** | (6) | (21) | (27) |
| EBITDA after exceptional items | **840** | **295** | **1,135** | 766 | 336 | 1,102 |
| Unallocated centre costs | | | **(26)** | | | (22) |
| Share-based payment expense | | | **(26)** | | | (26) |
| Depreciation and depletion (net) | | | **(338)** | | | (376) |
| Amortisation | | | **(26)** | | | (26) |
| Impairment of assets | | | **(58)** | | | (9) |
| Finance costs | | | **(332)** | | | (380) |
| Finance income | | | **47** | | | 29 |
| Share of associates' profit (after tax) | | | **2** | | | 2 |
| **Profit before income tax** | | | **378** | | | 294 |
| Income tax expense | | | **(126)** | | | (98) |
| **Profit for the financial year** | | | **252** | | | 196 |
| **Assets** | | | | | | |
| Segment assets | **6,025** | **2,019** | **8,044** | 6,089 | 1,856 | 7,945 |
| Investment in associates | **2** | **15** | **17** | 2 | 14 | 16 |
| Assets classified as held for sale | **92** | **-** | **92** | - | - | - |
| Group centre assets | | | **332** | | | 271 |
| **Total assets** | | | **8,485** | | | 8,232 |
| **Liabilities** | | | | | | |
| Segment liabilities | **2,222** | **430** | **2,652** | 2,065 | 393 | 2,458 |
| Liabilities associated with assets classified as held for sale | **43** | **-** | **43** | - | - | - |
| Group centre liabilities | | | **3,371** | | | 3,267 |
| **Total liabilities** | | | **6,066** | | | 5,725 |
| **Other segmental disclosures** | | | | | | |
| Capital expenditure, including additions to goodwill, intangible assets and biological assets: | | | | | | |
| Segment expenditure | **341** | **246** | **587** | 315 | 76 | 391 |
| Group centre expenditure | | | **3** | | | 8 |
| Total expenditure | | | **590** | | | 399 |
| Depreciation: | | | | | | |
| Segment depreciation | **267** | **72** | **339** | 274 | 72 | 346 |
| Group centre depreciation | | | **1** | | | - |
| Total depreciation | | | **340** | | | 346 |
| Amortisation: | | | | | | |
| Segment amortisation | **13** | **9** | **22** | 16 | 6 | 22 |
| Group centre amortisation | | | **4** | | | 4 |
| Total amortisation | | | **26** | | | 26 |
| Other significant non-cash charges: | | | | | | |
| Impairment of property, plant and equipment included in cost of sales | **39** | **-** | **39** | 9 | - | 9 |
| Impairment of goodwill included in cost of sales | **19** | **-** | **19** | - | - | - |
| Total other significant non-cash charges | | | **58** | | | 9 |

## 4. Segmental reporting (continued)

### 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 2014 €m** | Revenue 2013 €m | **Non-current assets 2014 €m** | Non-current assets 2013 €m |
|---|---|---|---|---|
| Ireland | **107** | 106 | **68** | 71 |
| France | **998** | 973 | **363** | 357 |
| Germany | **1,240** | 1,209 | **433** | 453 |
| Other | **5,738** | 5,669 | **2,458** | 2,350 |
| | **8,083** | 7,957 | **3,322** | 3,231 |

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

While the Group does not allocate goodwill by geographic area, if it were to ascribe goodwill to Ireland we estimate the amount would be less than 2% of the total goodwill of the Group of €2,265 million.

## 5. Operating costs and income

| | **2014 €m** | 2013 €m |
|---|---|---|
| **Other operating costs:** | | |
| Distribution costs | **630** | 619 |
| Administrative expenses | **1,042** | 1,012 |
| Other operating expenses | **52** | 27 |
| | **1,724** | 1,658 |
| **Other operating income:** | | |
| Capital grants amortisation | **2** | 2 |
| | **2** | 2 |
| **Exceptional items included in operating profit:** | | |
| Impairment of goodwill | **19** | - |
| Impairment of property, plant and equipment | **39** | 9 |
| Currency trading loss on change in Venezuelan translation rate | **10** | 18 |
| Reorganisation and restructuring costs | **42** | 9 |
| | **110** | 36 |

Exceptional items charged within operating profit in 2014 amounted to €110 million, of which €46 million related to our solidboard operations in Belgium, the Netherlands and the United Kingdom. The charge of €46 million comprised an impairment of plant and equipment of €27 million and an impairment of goodwill of €19 million. The remaining impairment charge of €12 million relates to one mill and four corrugated plants in Europe which the Group plans to close during the course of 2015. The reorganisation and restructuring costs were mainly in respect of the planned plant closures. The currency trading loss of €10 million related to losses on the translation of non-Bolivar denominated payables following the Group's decision to translate its Venezuelan operations at the Sicad I rate. The translation loss reflected the higher cost to its Venezuelan operations of discharging these payables.

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

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 5. Operating costs and income (continued)

| | 2014 €m | 2013 €m |
|---|---|---|
| **Expenses by nature:** | | |
| Raw materials and consumables | **2,781** | 2,718 |
| Employee benefit expense excluding redundancy | **1,978** | 1,940 |
| Energy | **471** | 515 |
| Maintenance and repairs | **467** | 448 |
| Transportation and storage costs | **628** | 619 |
| Depreciation, amortisation and depletion | **364** | 402 |
| Impairment of property, plant and equipment | **39** | 9 |
| Impairment of goodwill | **19** | - |
| Reorganisation and restructuring costs | **59** | 17 |
| Operating lease rentals | **91** | 89 |
| Foreign exchange gains and losses | **1** | 9 |
| Research and development costs | **8** | 8 |
| Other expenses | **518** | 542 |
| | **7,424** | 7,316 |
| **Directors' statutory disclosures:** | | |
| Directors' remuneration – other services | **5** | 5 |
| Directors' remuneration – services as a Director | **1** | 1 |

### Auditors' remuneration

Auditors' remuneration for the year, payable to PwC Ireland and other network firms, was €9 million (2013: €8 million).

Fees for other audit related, non-audit related services and tax advisory services provided by the auditors in the year amounted to €600,000, €47,000 and €287,000 respectively (2013: €679,000, €25,000 and €152,000 respectively). The audit fee for the parent Company was €50,000 (2013: €50,000) which is payable to PwC, the statutory auditor.

## 6. Share of associates' profit after tax

| | 2014 €m | 2013 €m |
|---|---|---|
| Profit before tax | **3** | 3 |
| Income tax expense | **(1)** | (1) |
| **Profit after tax** | **2** | 2 |

## 7. Employee benefit expense

| | 2014 Number | 2013 Number |
|---|---|---|
| **Average number of persons employed by the Group by geographical area (full time equivalents):** | | |
| Europe | **27,540** | 27,289 |
| The Americas | **13,983** | 13,541 |
| | **41,523** | 40,830 |

| | Note | 2014 €m | 2013 €m |
|---|---|---|---|
| **The employee benefit expense comprises:** | | | |
| Wages and salaries | | **1,517** | 1,463 |
| Social welfare | | **349** | 351 |
| Share-based payment expense | 26 | **26** | 26 |
| Expenses related to defined benefit plans and long-term employee benefits | | **43** | 59 |
| Defined contribution plan expense | | **43** | 41 |
| Reorganisation and restructuring costs – redundancy | | **17** | 10 |
| Charged to operating profit – pre-exceptional | | **1,995** | 1,950 |
| Charged to operating profit – exceptional – redundancy | | **32** | 5 |
| Charged to finance costs | 25 | **27** | 27 |
| Actuarial loss on pension schemes recognised in other comprehensive income | 25 | **227** | 4 |
| **Total employee benefit cost** | | **2,281** | 1,986 |

## 8. Finance costs and income

| | Note | 2014 €m | 2013 €m |
|---|---|---|---|
| **Finance costs:** | | | |
| Interest payable on bank loans and overdrafts | | **45** | 67 |
| Interest payable on finance leases and hire purchase contracts | | **-** | 1 |
| Interest payable on other borrowings | | **107** | 147 |
| Exceptional finance costs associated with debt restructuring | | **42** | 51 |
| Unwinding discount element of provisions | 27 | **1** | 1 |
| Impairment of financial investments | | **-** | 5 |
| Exceptional finance costs associated with impairment of financial investments | | **6** | - |
| Foreign currency translation loss on debt | | **23** | 6 |
| Fair value loss on derivatives not designated as hedges | | **3** | 8 |
| Net interest cost on net pension liability | 25 | **27** | 27 |
| Net monetary loss – hyperinflation | | **78** | 67 |
| **Total finance costs** | | **332** | 380 |
| | | | |
| **Finance income:** | | | |
| Other interest receivable | | **(6)** | (5) |
| Gain on financial asset | | **(1)** | - |
| Foreign currency translation gain on debt | | **(11)** | (14) |
| Exceptional foreign currency translation gain | | **(11)** | (8) |
| Fair value gain on derivatives not designated as hedges | | **(18)** | (2) |
| **Total finance income** | | **(47)** | (29) |
| **Net finance costs** | | **285** | 351 |

Exceptional finance costs in 2014 of €48 million comprised €42 million relating to the repayment of the 2019 bonds in July and an impairment of €6 million in respect of one of the Group's unlisted investments. The total of €42 million comprised a redemption premium of €33 million and €7 million and €2 million respectively for the accelerated amortisation of the debt issue costs relating to the bonds and the accelerated unwinding of the original discount.

Exceptional finance income in 2014 amounted to €11 million and represented a gain of €7 million in Venezuela on its US dollar denominated intra-group loans following the Group's adoption in the first quarter of the Sicad I rate and €4 million for an adjustment of the original charge for hyperinflation and re-translation at the year-end exchange rate.

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

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

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 9. Income tax expense

### Income tax expense recognised in the Consolidated Income Statement

| | 2014 €m | 2013 €m |
|---|---|---|
| Current tax: | | |
| Europe | **67** | 50 |
| The Americas | **58** | 72 |
| | **125** | 122 |
| Deferred tax | **1** | (24) |
| **Income tax expense** | **126** | 98 |
| **Current tax is analysed as follows:** | | |
| Ireland | **3** | 6 |
| Foreign | **122** | 116 |
| | **125** | 122 |

The income tax expense in 2014 is €28 million higher than in the comparable period. This is largely explained by higher earnings and the geographical mix of those earnings. The income tax expense in Europe is higher by €32 million which is offset by a €4 million reduction in the Americas.

The movement in the deferred tax expense includes the impact of benefits from previously unrecognised losses in 2013 which did not reoccur to the same extent in 2014.

The tax benefit on exceptional items in 2014 was €18 million compared to €5 million in 2013.

### 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:

| | 2014 €m | 2013 €m |
|---|---|---|
| Profit before income tax | **378** | 294 |
| Profit before income tax multiplied by the standard rate of tax of 12.5% (2013: 12.5%) | **47** | 37 |
| Effects of: | | |
| Income subject to different rates of tax | **68** | 75 |
| Other items (including non-deductible expenditure) | **17** | 36 |
| Adjustment to prior period tax | **(2)** | (3) |
| Effect of previously unrecognised losses | **(4)** | (47) |
| | **126** | 98 |

### Income tax recognised within equity

| | 2014 €m | 2013 €m |
|---|---|---|
| Recognised in the Consolidated Statement of Comprehensive Income: | | |
| Arising on actuarial loss on defined benefit plans | **(49)** | (2) |
| Arising on qualifying derivative cash flow hedges | **(1)** | 2 |
| Total recognised in the Consolidated Statement of Comprehensive Income | **(50)** | - |
| Arising on hyperinflation | **15** | 15 |
| **Total recognised within equity** | **(35)** | 15 |

### Factors that may affect the future tax expense and other disclosure requirements

#### Unremitted earnings in subsidiaries and associates

The Group has not made a provision for deferred tax in relation to temporary differences applicable to investments in subsidiaries on the basis that the Group can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The aggregate amount of this temporary timing difference is approximately €472 million (2013: €569 million). The Group is not committed to remit earnings from its subsidiaries but due to the absence of control in the context of associates (significant influence by definition) deferred tax liabilities are recognised where necessary in respect of the Group's investment in these entities.

The total tax expense in future periods will be affected by changes to the corporation tax rates in force and legislative changes that broaden the tax base or introduce other minimum taxes in the countries in which the Group operates. The tax expense may also be impacted by changes in the geographical mix of earnings.

## 9. Income tax expense (continued)

The current tax expense may also be impacted, inter alia, by changes in the excess of tax depreciation (capital allowances) over accounting depreciation, the use of tax credits and the crystallisation of unrecognised deferred tax assets.

There are no income tax consequences for the Company in respect of dividends which were proposed prior to the issuance of the Consolidated Financial Statements for which a liability has not been recognised.

## 10. Earnings per share

### Basic

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

| | 2014 | 2013 |
|---|---|---|
| Profit attributable to owners of the parent (€ million) | **241** | 188 |
| Weighted average number of ordinary shares in issue (million) | **228** | 229 |
| Basic earnings per share (cent) | **105.8** | 82.2 |

### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares which comprise convertible shares issued under the management equity plans and both deferred shares held in trust and matching shares issued under the Deferred Annual Bonus Plan.

| | 2014 | 2013 |
|---|---|---|
| Profit attributable to owners of the parent (€ million) | **241** | 188 |
| Weighted average number of ordinary shares in issue (million) | **228** | 229 |
| Potential dilutive ordinary shares assumed (million) | **7** | 4 |
| Diluted weighted average ordinary shares (million) | **235** | 233 |
| Diluted earnings per share (cent) | **102.6** | 80.8 |

### Pre-exceptional

| | 2014 | 2013 |
|---|---|---|
| Profit attributable to owners of the parent (€ million) | **241** | 188 |
| Exceptional items included in profit before income tax (€ million) | **147** | 79 |
| Income tax on exceptional items (€ million) | **(18)** | (5) |
| Pre-exceptional profit attributable to owners of the parent (€ million) | **370** | 262 |
| Weighted average number of ordinary shares in issue (million) | **228** | 229 |
| Pre-exceptional basic earnings per share (cent) | **162.5** | 114.5 |
| Diluted weighted average ordinary shares (million) | **235** | 233 |
| Pre-exceptional diluted earnings per share (cent) | **157.6** | 112.7 |

## 11. Dividends

During the year, the final dividend for 2013 of 30.75 cent per share was paid to the holders of ordinary shares. In October, an interim dividend for 2014 of 15.375 cent per share was paid to the holders of ordinary shares.

The Board is recommending a final dividend of 40.00 cent per share (approximately €94 million) for 2014 subject to the approval of the shareholders at the AGM. It is proposed to pay the final dividend on 8 May 2015 to all ordinary shareholders on the share register at the close of business on 10 April 2015. It is the Directors' intention that this final dividend for 2014 and the interim dividend for 2015 (expected to be paid in October 2015) will be in the approximate proportions of two thirds to one third respectively.

## 12. Assets classified as held for sale

The Group is at an advanced stage of negotiations to potentially dispose of its solidboard operations in Belgium, the Netherlands and the United Kingdom. As a result of the Group's decision to dispose of these solidboard operations, their assets and associated liabilities have been presented as held for sale in the Consolidated Balance Sheet at 31 December 2014.

The Group has recorded a non-cash exceptional charge of €46 million in 2014 due to the impairment of property, plant and equipment and goodwill associated with the disposal of the Group's solidboard operations (Note 5).

Management estimates have been used to determine fair value less costs to sell. These assets have been determined as level 3 on the fair value hierarchy. The fair value of the disposal group is based on expected cash flows arising on the sale.

The major classes of assets and liabilities reclassified as held for sale at 31 December 2014 (2013: nil) are as follows:

| | 2014 €m |
|---|---|
| **Assets** | |
| Property, plant and equipment | **39** |
| Deferred income tax assets | **2** |
| Inventories | **26** |
| Trade and other receivables | **25** |
| **Assets classified as held for sale** | **92** |
| **Liabilities** | |
| Employee benefits | **6** |
| Deferred income tax liabilities | **5** |
| Trade and other payables | **31** |
| Provision for liabilities and charges | **1** |
| **Liabilities associated with assets classified as held for sale** | **43** |

## 13. Property, plant and equipment

| | Land and buildings €m | Plant and equipment €m | Total €m |
|---|---|---|---|
| **At 31 December 2012** | | | |
| Cost or deemed cost | 1,632 | 4,778 | 6,410 |
| Accumulated depreciation and impairment losses | (507) | (2,799) | (3,306) |
| **Net book amount** | 1,125 | 1,979 | 3,104 |
| **Year ended 31 December 2013** | | | |
| Opening net book amount | 1,125 | 1,979 | 3,104 |
| Reclassifications | 48 | (55) | (7) |
| Additions | 8 | 330 | 338 |
| Acquisitions | - | 7 | 7 |
| Depreciation charge | (51) | (295) | (346) |
| Impairments | (2) | (7) | (9) |
| Retirements and disposals | (1) | (2) | (3) |
| Hyperinflation adjustment | 41 | 43 | 84 |
| Foreign currency translation adjustment | (61) | (85) | (146) |
| **At 31 December 2013** | 1,107 | 1,915 | 3,022 |
| **At 31 December 2013** | | | |
| Cost or deemed cost | 1,651 | 4,774 | 6,425 |
| Accumulated depreciation and impairment losses | (544) | (2,859) | (3,403) |
| **Net book amount** | 1,107 | 1,915 | 3,022 |
| **Year ended 31 December 2014** | | | |
| Opening net book amount | **1,107** | **1,915** | **3,022** |
| Reclassifications | **44** | **(49)** | **(5)** |
| Assets classified as held for sale | **(20)** | **(19)** | **(39)** |
| Additions | **9** | **391** | **400** |
| Acquisitions | **1** | **49** | **50** |
| Depreciation charge | **(48)** | **(292)** | **(340)** |
| Impairments | **(5)** | **(34)** | **(39)** |
| Retirements and disposals | **(3)** | **(1)** | **(4)** |
| Hyperinflation adjustment | **45** | **39** | **84** |
| Foreign currency translation adjustment | **(51)** | **(45)** | **(96)** |
| **At 31 December 2014** | **1,079** | **1,954** | **3,033** |
| **At 31 December 2014** | | | |
| Cost or deemed cost | **1,623** | **4,916** | **6,539** |
| Accumulated depreciation and impairment losses | **(544)** | **(2,962)** | **(3,506)** |
| **Net book amount** | **1,079** | **1,954** | **3,033** |

## 13. Property, plant and equipment (continued)

### Land and buildings

Included in land and buildings is an amount for land of €404 million (2013: €418 million).

### Plant and equipment

Included in plant and equipment is an amount for construction in progress of €265 million (2013: €198 million).

### Capitalised leased assets

Included in the net book amount of property, plant and equipment is an amount for capitalised leased assets of €12 million (2013: €11 million). The depreciation charge for capitalised leased assets was €2 million (2013: €9 million) and the related finance charges amounted to nil (2013: nil). The net carrying amount by class of assets at each balance sheet date is as follows:

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| Plant and equipment | **4** | 3 |
| Buildings | **8** | 8 |
| | **12** | 11 |

### 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 statements:

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| Contracted for | **174** | 129 |
| Not contracted for | **223** | 194 |
| | **397** | 323 |

### Impairments

Impairment tests for items of property, plant and equipment are performed on a cash-generating unit basis when impairment triggers arise. In 2014, the Group recorded an impairment charge of €39 million, of which €27 million relates to the potential disposal of its solidboard operations in Belgium, the Netherlands and the United Kingdom. The remaining €12 million impairment charge relates to one mill and four corrugated plants in Europe which the Group plans to close during the course of 2015. The recoverable amounts of property, plant and equipment are based on the higher of fair value less costs to sell and value-in-use. Value-in-use calculations are based on cash flow projections and discount rates for items of property, plant and equipment. Impairment charges are recognised within cost of sales in the Consolidated Income Statement.

In 2013, there was an impairment charge of €9 million relating to the temporary closure of the Townsend Hook mill in the United Kingdom.

### Capitalised borrowing costs

In 2014, the Group capitalised borrowing costs of €4.3 million (2013: €3.3 million) on qualifying assets. Borrowing costs were capitalised at an average rate of 5.0% (2013: 5.6%).

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 14. Goodwill and intangible assets

| | Goodwill | Intangible assets | | | Total |
|---|---|---|---|---|---|
| | | Marketing related | Customer related | Software assets | |
| | €m | €m | €m | €m | €m |
| **At 31 December 2012** | | | | | |
| Cost or deemed cost | 2,421 | 35 | 230 | 146 | 2,832 |
| Accumulated amortisation and impairment losses | (171) | (26) | (174) | (115) | (486) |
| **Net book amount** | 2,250 | 9 | 56 | 31 | 2,346 |
| **Year ended 31 December 2013** | | | | | |
| Opening net book amount | 2,250 | 9 | 56 | 31 | 2,346 |
| Additions | - | 2 | - | 7 | 9 |
| Acquisitions | 23 | - | - | - | 23 |
| Amortisation charge | - | (3) | (11) | (12) | (26) |
| Reclassifications | - | - | 3 | 7 | 10 |
| Hyperinflation adjustment | 43 | - | - | 1 | 44 |
| Foreign currency translation adjustment | (76) | - | (3) | (1) | (80) |
| **At 31 December 2013** | 2,240 | 8 | 45 | 33 | 2,326 |
| **At 31 December 2013** | | | | | |
| Cost or deemed cost | 2,411 | 37 | 231 | 156 | 2,835 |
| Accumulated amortisation and impairment losses | (171) | (29) | (186) | (123) | (509) |
| **Net book amount** | 2,240 | 8 | 45 | 33 | 2,326 |
| **Year ended 31 December 2014** | | | | | |
| Opening net book amount | **2,240** | **8** | **45** | **33** | **2,326** |
| Additions | **-** | **-** | **2** | **14** | **16** |
| Acquisitions | **47** | **9** | **46** | **-** | **102** |
| Amortisation charge | **-** | **(4)** | **(9)** | **(13)** | **(26)** |
| Impairments | **(19)** | **-** | **-** | **-** | **(19)** |
| Reclassifications | **-** | **-** | **-** | **5** | **5** |
| Hyperinflation adjustment | **46** | **-** | **-** | **-** | **46** |
| Foreign currency translation adjustment | **(49)** | **-** | **6** | **-** | **(43)** |
| **At 31 December 2014** | **2,265** | **13** | **90** | **39** | **2,407** |
| **At 31 December 2014** | | | | | |
| Cost or deemed cost | **2,455** | **45** | **286** | **167** | **2,953** |
| Accumulated amortisation and impairment losses | **(190)** | **(32)** | **(196)** | **(128)** | **(546)** |
| **Net book amount** | **2,265** | **13** | **90** | **39** | **2,407** |

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

Marketing related intangible assets relate mainly to trade names which arise from business combinations and are amortised over their estimated useful lives of seven to ten years. Customer related intangible assets relate to customer relationships which arise from business combinations or as a result of servicing new business. They are amortised over their estimated useful lives of two to ten years. Software assets relate to computer software, other than software for items of machinery that cannot operate without it; such software is regarded as an integral part of the related hardware and is classified as property, plant and equipment. Computer software assets have estimated useful lives of three to five years for amortisation purposes.

In 2014, goodwill of €47 million arose mainly on the acquisition of Bates in the United States, a non-integrated corrugated packaging manufacturer (Note 32). In 2013, goodwill of €23 million arose mainly on the acquisition of CRP Print and Packaging Holdings Limited ('CRP'), a company in the United Kingdom specialising in litho-laminating and other specialised packaging.

## 14. Goodwill and intangible assets (continued)

### Impairment testing of goodwill

Goodwill arising as part of a business combination is allocated to groups of cash-generating units ('CGUs') for the purpose of impairment testing based on the Group's existing business segments or, where appropriate, recognition of a new CGU. The CGU groups represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, *Operating Segments*. A total of 15 groups (2013: 15) of CGUs have been identified and these are analysed between the two operating segments as follows:

| | 2014 Number | 2013 Number |
|---|---|---|
| Eurozone | **7** | 7 |
| Eastern Europe | **1** | 1 |
| Scandinavia | **1** | 1 |
| United Kingdom | **1** | 1 |
| Europe | **10** | 10 |
| The Americas | **5** | 5 |
| | **15** | 15 |

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

| | 2014 €m | 2013 €m |
|---|---|---|
| Europe | **1,871** | 1,898 |
| The Americas | **394** | 342 |
| | **2,265** | 2,240 |

The Group is at an advanced stage of negotiations to potentially dispose of its solidboard operations in Belgium, the Netherlands and the United Kingdom and has provided for a goodwill impairment charge of €19 million in 2014 in relation to this.

No additional impairment arose in 2014 as the recoverable amount of the groups of CGUs, based on value-in-use and estimated using the methodology outlined below, exceeded the carrying amount.

### Impairment testing methodology and results

The recoverable amount of each CGU is based on a value-in-use calculation. The cash flow forecasts for the purposes of these calculations are based on a nine year plan approved by senior management. Cash flow forecasts use growth factors consistent with historical growth rates as adjusted for the cyclical nature of the business and are validated by reference to external data. The terminal value is estimated based on using an appropriate earnings multiple on the average of cash flows for years one to nine. The Group believes a nine year forecast is more appropriate to use for the impairment test, due to the cyclical nature of the business in which the Group operates and the long-term lives of its assets.

Forecasts are generally derived from a combination of internal and external factors based on historical experience and take into account the cyclicality of cash flows typically associated with these groups of CGUs. The cash flows, including terminal value estimations, are discounted using appropriate pre-tax discount rates consistent with the Group's estimated weighted average cost of capital.

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

Of the goodwill allocated to each of the 15 groups of CGUs, three units individually account for between 10% and 20% of the total carrying amount of €2,265 million and are summarised in the table below. All other units account individually for less than 10% of the total carrying amount and are not regarded as individually significant. The additional disclosures required under IAS 36, *Impairment of Assets* in relation to significant goodwill amounts arising in each of the three groups of CGUs are as follows:

| | Europe France | | Europe Benelux | | Europe Germany, Austria and Switzerland | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Carrying amount of goodwill (€ million) | **276** | 276 | **362** | 378 | **395** | 395 |
| Basis of recoverable amount | **Value-in-use** | Value-in-use | **Value-in-use** | Value-in-use | **Value-in-use** | Value-in-use |
| Discount rate applied (pre-tax) | **10.2%** | 10.2% | **10.2%** | 10.2% | **10.2%** | 10.2% |
| Earnings multiple used for terminal value | **7.1** | 7.1 | **7.1** | 7.1 | **7.1** | 7.1 |
| Excess of value-in-use (€ million) | **43** | 26 | **132** | 143 | **230** | 163 |

The key assumptions used for these three CGUs are consistent with those addressed above. The values applied to each of the key assumptions are derived from a combination of internal and external factors based on historical experience and take into account the cyclicality of cash flows typically associated with these groups of CGUs.

# Notes to the Consolidated Financial Statements (continued)

## For the Year Ended 31 December 2014

### 14. 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.

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

| | Europe France | Europe Benelux | Europe Germany, Austria and Switzerland |
|---|---|---|---|
| Increase in pre-tax discount rate | **1.2 percentage points** | **3.7 percentage points** | **4.4 percentage points** |
| Reduction in terminal value multiple | **0.8** | **2.3** | **2.6** |
| Reduction in EBITDA | **5%** | **14%** | **16%** |

For the other CGUs any reasonable movement in the assumptions used in the impairment test would not result in an impairment.

The Group recognises that it is exposed to greater business risks in Venezuela than in some other countries. The goodwill relating to our operations in Venezuela represents approximately 5% of the Group's total goodwill. The Group takes account of country risks in its impairment calculation.

### 15. Financial assets

#### Available-for-sale financial assets – Group

| | Listed[1] €m | Unlisted €m | Total €m |
|---|---|---|---|
| At 1 January 2013 | 1 | 32 | 33 |
| Impairments | - | (6) | (6) |
| **At 31 December 2013** | **1** | **26** | **27** |
| Impairments | **-** | **(6)** | **(6)** |
| **At 31 December 2014** | **1** | **20** | **21** |

[1] *Listed on a recognised stock exchange*

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

In 2014 the financial position of one of the Group's unlisted investments deteriorated arising from a continued and accelerated decline in the operating performance of the investee during the year. The fair value calculated by reference to discounted cash flows based on all financial information available to the Group at 31 December 2014 has been calculated by management and resulted in an impairment of €6 million (2013: €6 million) recorded in the Consolidated Income Statement within financial costs.

At 31 December 2014 available-for-sale assets for which an impairment provision has been recorded amounted to €10 million.

#### Investment in subsidiaries – Company

| | 2014 €m | 2013 €m |
|---|---|---|
| At 1 January | **2,027** | 2,012 |
| Capital contribution | **12** | 15 |
| **At 31 December** | **2,039** | 2,027 |

### 16. Investment in associates

| | 2014 €m | 2013 €m |
|---|---|---|
| At 1 January | **16** | 16 |
| Share of profit for the year | **2** | 2 |
| Dividends received from associates | **(1)** | (1) |
| Foreign currency translation adjustment | **-** | (1) |
| **At 31 December** | **17** | 16 |

## 17. Biological assets

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| At 1 January | **117** | 133 |
| Increases due to new plantations | **22** | 22 |
| Harvested timber transferred to inventories | **(12)** | (12) |
| Change in fair value less estimated costs to sell | **33** | (2) |
| Foreign currency translation adjustment | **(21)** | (24) |
| **At 31 December** | **139** | 117 |
| | | |
| Current | **9** | 10 |
| Non-current | **130** | 107 |
| **At 31 December** | **139** | 117 |
| | | |
| **Approximate harvest by volume (tonnes '000)** | **975** | 916 |

The Group's biological assets consist of 103,000 hectares of forest plantations in Colombia and Venezuela which are held for the production of paper and packaging products or resale to third parties. These plantations provide the Group's mills in that region with a significant proportion of their total wood fibre needs.

The Group's biological assets at 31 December 2014 are measured at fair value and have been categorised within level 2 of the fair value hierarchy. There were no transfers between any levels during the year. Level 2 fair values of forest plantations have been derived using the valuation techniques outlined in the accounting policy note for biological assets.

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

### Political risks in Venezuela
The risk of nationalisation of foreign owned companies and assets by the Venezuelan government is disclosed in Note 3.

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

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

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

## 18. Deferred tax assets and liabilities

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

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| Deferred tax assets | **493** | 445 |
| Deferred tax assets/liabilities available for offset | **(256)** | (242) |
| | **237** | 203 |
| | | |
| Deferred tax liabilities | **439** | 456 |
| Deferred tax assets/liabilities available for offset | **(256)** | (242) |
| | **183** | 214 |

Deferred tax assets have been recognised in respect of deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax assets have been recognised in respect of tax losses available for carry forward when the Group considers it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Where the Group considers that the recovery of such losses is not probable no asset is recognised.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 18. Deferred tax assets and liabilities (continued)

The movement in deferred tax during the year was as follows:

| | Note | 2014 €m | 2013 €m |
|---|---|---|---|
| At 1 January – net (liability) | | **(11)** | (42) |
| Movement recognised in the Consolidated Income Statement | 9 | **(1)** | 24 |
| Movement recognised in the Consolidated Statement of Comprehensive Income | 9 | **50** | - |
| Acquisitions and disposals | | **1** | - |
| Transfer between current and deferred tax | | **2** | 1 |
| Deferred tax attributable to assets classified as held for sale | 12 | **3** | - |
| Hyperinflation adjustment | 9 | **(15)** | (15) |
| Foreign currency translation adjustment | | **25** | 21 |
| **At 31 December – net asset/(liability)** | | **54** | (11) |

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

| | Retirement benefit obligations €m | Tax losses €m | Derivative fair values €m | Other €m | Total €m |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| At 1 January 2013 | 90 | 232 | 3 | 96 | 421 |
| Reclassifications | - | 1 | - | - | 1 |
| Recognised in the Consolidated Income Statement | (3) | 6 | - | 29 | 32 |
| Recognised in the Consolidated Statement of Comprehensive Income | 2 | - | (2) | - | - |
| Other movements | (1) | (2) | (1) | (5) | (9) |
| **At 31 December 2013** | **88** | **237** | **-** | **120** | **445** |
| Reclassifications | **1** | **-** | **-** | **-** | **1** |
| Recognised in the Consolidated Income Statement | **(11)** | **(19)** | **-** | **25** | **(5)** |
| Recognised in the Consolidated Statement of Comprehensive Income | **49** | **-** | **1** | **-** | **50** |
| Acquisitions and disposals | **-** | **-** | **-** | **1** | **1** |
| Assets classified as held for sale | **(2)** | **-** | **-** | **-** | **(2)** |
| Other movements | **2** | **1** | **1** | **(1)** | **3** |
| **At 31 December 2014** | **127** | **219** | **2** | **145** | **493** |

| | Accelerated tax depreciation €m | Intangible assets fair values €m | Biological assets fair values €m | Debt costs €m | Other €m | Total €m |
|---|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | | |
| At 1 January 2013 | 342 | 20 | 3 | 1 | 97 | 463 |
| Recognised in the Consolidated Income Statement | (5) | (11) | - | - | 24 | 8 |
| Recognised in equity | - | - | - | - | 15 | 15 |
| Other movements | (1) | - | (1) | - | (28) | (30) |
| **At 31 December 2013** | **336** | **9** | **2** | **1** | **108** | **456** |
| Reclassifications | **-** | **-** | **-** | **-** | **(1)** | **(1)** |
| Recognised in the Consolidated Income Statement | **(20)** | **6** | **4** | **-** | **6** | **(4)** |
| Recognised in equity | **-** | **-** | **-** | **-** | **15** | **15** |
| Liabilities associated with assets classified as held for sale | **(3)** | **-** | **-** | **-** | **(2)** | **(5)** |
| Other movements | **-** | **-** | **-** | **-** | **(22)** | **(22)** |
| **At 31 December 2014** | **313** | **15** | **6** | **1** | **104** | **439** |

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

| | 2014 €m | 2013 €m |
|---|---|---|
| Tax losses | **24** | 31 |
| Deferred interest | **43** | 44 |
| | **67** | 75 |
| Derivative financial instruments | **4** | 2 |
| | **71** | 77 |

## 18. Deferred tax assets and liabilities (continued)

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 €85 million (2013: €106 million) that can be carried forward against future taxable income. The expiry dates in respect of these losses are as follows:

| **Expiry dates** | **Tax losses 2014 €m** |
|---|---|
| 1 January 2015 to 31 December 2015 | **-** |
| 1 January 2016 to 31 December 2016 | **1** |
| 1 January 2017 to 31 December 2017 | **2** |
| Other expiry | **11** |
| Indefinite | **71** |
| | **85** |

## 19. Inventories

| | **2014 €m** | **2013 €m** |
|---|---|---|
| Raw materials | **174** | 163 |
| Work in progress | **45** | 46 |
| Finished goods | **317** | 343 |
| Consumables and spare parts | **165** | 160 |
| | **701** | 712 |

## 20. Trade and other receivables

| | **Group 2014 €m** | **Group 2013 €m** | **Company 2014 €m** | **Company 2013 €m** |
|---|---|---|---|---|
| **Amounts falling due within one year:** | | | | |
| Trade receivables | **1,248** | 1,219 | **-** | - |
| Less: provision for impairment of receivables | **(31)** | (34) | **-** | - |
| Trade receivables – net | **1,217** | 1,185 | **-** | - |
| Amounts receivable from associates | **3** | 4 | **-** | - |
| Other receivables | **162** | 116 | **-** | - |
| Prepayments and accrued income | **40** | 39 | **-** | - |
| Amounts due from Group companies | **-** | - | **56** | 36 |
| | **1,422** | 1,344 | **56** | 36 |
| **Amounts falling due after more than one year:** | | | | |
| Other receivables | **12** | 5 | **-** | - |
| | **1,434** | 1,349 | **56** | 36 |

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

The Group has securitised €574 million (2013: €540 million) of its trade receivables. The securitised receivables have not been derecognised as the Group remains exposed to certain related credit risk. As a result, both the underlying trade receivables and the associated borrowing are shown in the Consolidated Balance Sheet.

### Impairment losses

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

| | **2014 €m** | **2013 €m** |
|---|---|---|
| At 1 January | **34** | 43 |
| Provision for impaired receivables during the year | **5** | 4 |
| Receivables written off as uncollectable during the year | **(8)** | (12) |
| Foreign currency translation adjustment | **-** | (1) |
| **At 31 December** | **31** | 34 |

The provision for impaired receivables is included in administrative expenses in the Consolidated Income Statement. Receivables written off as uncollectable are generally eliminated from receivables and the provision for impairment of receivables when there is no expectation of recovering additional cash.

# Notes to the Consolidated Financial Statements (continued)

## For the Year Ended 31 December 2014

### 20. Trade and other receivables (continued)

Receivable balances are continuously monitored and reviewed for indicators of impairment at each reporting date. Examples of the factors considered include evidence of financial difficulty of the customer, payment default, major concessions being sought by the customer or breach of contract. Significant balances are reviewed individually while smaller balances are grouped and assessed collectively. The concentration of risk associated with any one customer is low and historically, instances of material single customer related bad debts are rare.

Trade receivables that are less than three months past due are generally not considered impaired unless specific evidence of impairment is identified. At 31 December 2014 trade receivables of €169 million (2013: €210 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:

| | 2014 €m | 2013 €m |
|---|---|---|
| Past due 0 – 30 days | **130** | 146 |
| Past due 30 – 60 days | **27** | 46 |
| Past due 60 – 90 days | **6** | 9 |
| Past due 90+ days | **6** | 9 |
| | **169** | 210 |

At 31 December 2014 specifically identified trade receivable balances of €27 million (2013: €29 million) were considered impaired and provided for. The ageing of this provision was as follows:

| | 2014 €m | 2013 €m |
|---|---|---|
| Not past due | **1** | 1 |
| Past due 0 – 30 days | **-** | - |
| Past due 30 – 60 days | **-** | - |
| Past due 60 – 90 days | **1** | 1 |
| Past due 90+ days | **25** | 27 |
| | **27** | 29 |

In addition to the specific provision above, a portfolio provision of €4 million is held in the current year which is calculated based on historical data (2013: €5 million).

### 21. Net movement in working capital

| | 2014 €m | 2013 €m |
|---|---|---|
| Change in inventories | **(32)** | (23) |
| Change in trade and other receivables | **(113)** | 5 |
| Change in trade and other payables | **108** | 42 |
| **Net movement in working capital** | **(37)** | 24 |

### 22. Cash and cash equivalents and restricted cash

#### Cash and cash equivalents

| | Group 2014 €m | Group 2013 €m | Company 2014 €m | Company 2013 €m |
|---|---|---|---|---|
| Cash and current accounts | **106** | 209 | **-** | - |
| Short-term deposits | **281** | 238 | **-** | 6 |
| **Cash and cash equivalents** | **387** | 447 | **-** | 6 |
| **Cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows** | | | | |
| Cash and cash equivalents | **387** | 447 | **-** | 6 |
| Bank overdrafts and demand loans used for cash management purposes | **(26)** | (23) | **-** | - |
| **Cash and cash equivalents in the Consolidated Statement of Cash Flows** | **361** | 424 | **-** | 6 |
| **Restricted cash** | **12** | 8 | **-** | - |

At 31 December 2014, cash of €3 million (2013: €2 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 €9 million (2013: €6 million) of restricted cash was held in other Group subsidiaries.

## 23. Capital and reserves

### Share capital

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

### Restriction on transfer of shares

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

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

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

### Ordinary shares

Subject to the Articles of Association of SKG plc, the holders of ordinary shares are entitled to share in any dividends in proportion to the number of shares held by them and are entitled to one vote for every share held by them at a general meeting. On a return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall firstly be distributed amongst the holders of ordinary shares, in proportion to the number of ordinary shares held by them, of the nominal value of their ordinary shares, secondly (to the extent available) distributed amongst the holders of convertible shares, in proportion to the number of convertible shares held by them, of the nominal value of their convertible shares and the balance (if any) shall be distributed amongst the holders of ordinary shares in proportion to the number of ordinary shares held by them.

### Convertible shares

The holders of convertible shares have no right to participate in the profits of SKG plc and are not entitled to receive notice of, attend or vote at general meetings or to vote on any members' resolution (save for any resolution with regard to the rights of convertible shares). On return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall, subject first to the rights of the holders of ordinary shares be distributed amongst the holders of convertible shares, in proportion to the number of convertible shares held by them, of the nominal value of their convertible shares.

### Restriction of rights

If the Directors determine that a Specified Event as defined in the Articles of Association of SKG plc has occurred in relation to any share or shares, the Directors may serve a notice to such effect on the holder or holders thereof. Upon the expiry of fourteen days from the service of any such notice, for so long as such notice shall remain in force no holder or holders of the share or shares specified in such notice shall, in relation to such specified shares, be entitled to attend, speak or vote either personally, by representative or by proxy at any general meeting of the Company or at any separate general meeting of the class of shares concerned or to exercise any other right conferred by membership in relation to any such meeting.

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

| | **2014<br>€m** | **2013<br>€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 |

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 23. Capital and reserves (continued)

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

| | Numbers of shares of €0.001 each | | | | | | €m |
|---|---|---|---|---|---|---|---|
| | Convertible shares | | | | Ordinary | Total | |
| | Class B | Class C | Class D | Total | shares | shares | |
| At 1 January 2013 | 2,480,090 | 2,480,090 | 2,989,045 | 7,949,225 | 227,745,919 | 235,695,144 | - |
| Conversion of Class B and Class C convertible shares | (390,576) | (390,576) | 781,152 | - | - | - | - |
| Class D shares converted to ordinary shares | - | - | (1,394,657) | (1,394,657) | 1,394,657 | - | - |
| Issued on exercise of warrants | - | - | - | - | 261,951 | 261,951 | - |
| **At 31 December 2013** | 2,089,514 | 2,089,514 | 2,375,540 | 6,554,568 | 229,402,527 | 235,957,095 | - |
| At 1 January 2014 | **2,089,514** | **2,089,514** | **2,375,540** | **6,554,568** | **229,402,527** | **235,957,095** | **-** |
| Class D shares converted to ordinary shares | **-** | **-** | **(480,631)** | **(480,631)** | **480,631** | **-** | **-** |
| Issue of Deferred Annual Bonus Plan Matching Shares | **-** | **-** | **-** | **-** | **1,713,354** | **1,713,354** | **-** |
| **At 31 December 2014** | **2,089,514** | **2,089,514** | **1,894,909** | **6,073,937** | **231,596,512** | **237,670,449** | **-** |

At 31 December 2014 ordinary shares represented 97.4% and convertible shares represented 2.6% of issued share capital (2013: 97.2% and 2.8% respectively). The called up, issued and fully paid share capital of the Company at 31 December 2014 was €237,000 (2013: €236,000).

### Share premium

Share premium of €1,981 million (2013: €1,979 million) relates to the share premium arising on share issues.

### Other reserves

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

| | Reverse acquisition reserve | Cash flow hedging reserve | Foreign currency translation reserve | Share-based payment reserve | Own shares | Available -for-sale reserve | Total |
|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m |
| At 1 January 2014 | **575** | **(15)** | **(456)** | **131** | **(28)** | **1** | **208** |
| **Other comprehensive income** | | | | | | | |
| Foreign currency translation adjustments | **-** | **-** | **(233)** | **-** | **-** | **-** | **(233)** |
| Effective portion of changes in fair value of cash flow hedges | **-** | **(18)** | **-** | **-** | **-** | **-** | **(18)** |
| **Total other comprehensive expense** | **-** | **(18)** | **(233)** | **-** | **-** | **-** | **(251)** |
| Share-based payment | **-** | **-** | **-** | **26** | **-** | **-** | **26** |
| Shares acquired by SKG Employee Trust | **-** | **-** | **-** | **-** | **(13)** | **-** | **(13)** |
| Shares distributed by the SKG Employee Trust | **-** | **-** | **-** | **(1)** | **1** | **-** | **-** |
| **At 31 December 2014** | **575** | **(33)** | **(689)** | **156** | **(40)** | **1** | **(30)** |

## 23. Capital and reserves (continued)

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

### Reverse acquisition reserve
This reserve arose on the creation of a new parent of the Group prior to listing which was accounted for as a reverse acquisition.

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

### Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign currency translation adjustments arising from the translation of the Group's net investment in foreign operations as well as from the translation of liabilities that hedge those net assets.

### Share-based payment reserve
This reserve represents the amounts credited to equity in relation to the share-based payment expense recognised in the Consolidated Income Statement, net of deferred shares distributed by the SKG Employee Trust to participants of the Deferred Annual Bonus Plan.

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

| | 2014 | 2013 |
|---|---|---|
| | €m | €m |
| At 1 January | **28** | 13 |
| Shares acquired by SKG Employee Trust | **13** | 15 |
| Shares distributed by the SKG Employee Trust | **(1)** | - |
| **At 31 December** | **40** | 28 |

As at 31 December 2014 the number of own shares held was 3,555,110 (2013: 2,979,526); their nominal value was €3,555 (2013: €2,980). In 2014, own shares were purchased at an average price of €20.23 (2013: €11.89) per share. The number of own shares held represents 1.5% (2013: 1.3%) of the total called up share capital of the Company.

### Available-for-sale reserve
This reserve includes the cumulative gains and losses arising on changes in the fair value of available-for-sale financial assets recognised in other comprehensive income. Net gains or losses are reclassified to the Consolidated Income Statement when the related assets are derecognised.

# Notes to the Consolidated Financial Statements (continued)

## For the Year Ended 31 December 2014

### 24. Borrowings

#### Analysis of total borrowings

| | 2014 €m | 2013 €m |
|---|---|---|
| Unsecured senior credit facility | | |
| - Revolving credit facility[1] – interest at relevant interbank rate +1.75%[7][9] | **100** | 119 |
| - Facility A term loan[2] – interest at relevant interbank rate +2.00%[7][9] | **745** | 740 |
| US$292.3 million 7.50% senior debentures due 2025 (including accrued interest)[9] | **242** | 213 |
| Bank loans and overdrafts | **65** | 67 |
| 2018 receivables securitisation variable funding notes[8] | **173** | 173 |
| 2019 receivables securitisation variable funding notes[3][8] | **236** | 203 |
| 2018 senior notes (including accrued interest)[4][9] | **446** | 414 |
| €500 million 7.75% senior notes due 2019 (including accrued interest)[5][9] | **-** | 495 |
| €400 million 4.125% senior notes due 2020 (including accrued interest)[9] | **402** | 401 |
| €250 million senior floating rate notes due 2020 (including accrued interest)[6][9] | **248** | 247 |
| €500 million 3.25% senior notes due 2021 (including accrued interest)[5][9] | **494** | - |
| Finance leases | **7** | 4 |
| **Total borrowings** | **3,158** | 3,076 |
| | | |
| **Analysed as follows:** | | |
| Current | **65** | 67 |
| Non-current | **3,093** | 3,009 |
| | **3,158** | 3,076 |

*(1) Revolving credit facility ('RCF') of €625 million (available under the unsecured senior credit facility) due to be repaid in 2018: (a) Revolver loans - €105 million (b) drawn under ancillary facilities and facilities supported by letters of credit - €nil and (c) other operational facilities including letters of credit €18 million.*

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

*(3) In June 2014, the 2015 securitisation programme was refinanced with a securitisation programme maturing in 2019.*

*(4) €200 million 5.125% senior notes due 2018 and US$300 million 4.875% senior notes due 2018.*

*(5) On 28 May 2014 the Group priced €500 million of seven-year euro denominated senior unsecured notes at a coupon of 3.25%. Following the issue of an early redemption notice, the net proceeds, together with cash balances of €37.5 million, were used to redeem the Group's 2019 7.75% €500 million bonds on 3 July 2014.*

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

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

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

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

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

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

Included within the carrying value of borrowings are deferred debt issue costs of €39 million (2013: €45 million), all of which will be recognised in finance costs in the Consolidated Income Statement using the effective interest rate method over the remaining life of the borrowings.

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €3,644 million (2013: €3,592 million) of which €3,140 million (2013: €3,068 million) was utilised at 31 December 2014. The weighted average period until maturity of undrawn committed facilities is 3.6 years (2013: 4.4 years).

## 24. Borrowings (continued)

### Maturity of undrawn committed facilities

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| Within 1 year | **-** | - |
| Between 1 and 2 years | **-** | 45 |
| More than 2 years | **504** | 479 |
| | **504** | 524 |

The Group's primary sources of liquidity are cash flows from operations and borrowings under the RCF. The Group's primary uses of cash are for funding day-to-day operations, capital expenditure, debt service, dividends and other investment activity including acquisitions.

Certain subsidiaries are party to a senior credit facility, the details of which are set out in this note.

The following table sets out the average interest rates at 31 December 2014 and 2013 for each of the drawings under the senior credit facility.

| | Currency | 2014<br>Interest rate | 2013<br>Interest rate |
|---|---|---|---|
| Facility A | EUR | **2.05%** | 2.47% |
| Facility A | US$ | **2.16%** | 2.42% |
| RCF | EUR | **1.77%** | 2.23% |

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

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

On 3 July 2013, the Group put in place a new five-year trade receivables securitisation programme of up to €175 million of funding. The programme was arranged by Rabobank and carries a margin of 1.70%. Receivables generated by certain of its operating companies in Austria, Belgium, Italy and the Netherlands are sold to a special purpose Group subsidiary to support the funding. A conduit of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (trading as Rabobank) provides €150 million of the funding and a conduit of Landesbank Hessen-Thüringen Girozentrale (trading as Helaba Bank) provides €25 million of the funding.

On 25 June 2014, the Group completed a €240 million five-year trade receivables securitisation programme. The new programme, which has a margin of 1.4%, amended, restated and extended the €250 million securitisation programme which had a November 2015 maturity and a margin of 1.5%. Receivables generated by certain of its operating companies in the United Kingdom, Germany and France are sold to special purpose subsidiaries and entities to support the funding provided by Lloyds Banking Group. The sale of the securitised receivables is not intended to, and does not, meet the requirements for derecognition under IAS 39, with the result that the sold receivables continue to be shown on the face of the Consolidated Balance Sheet and the notes issued which fund the purchase of these receivables continue to be shown as liabilities.

The gross amount of receivables collateralising the 2018 receivables securitisation at 31 December 2014 was €248 million (2013: €250 million). The gross amount of receivables collateralising the 2019 receivables securitisation at 31 December 2014 was €326 million (2013: €290 million). As the Group retains a subordinated interest in the securitised receivables, the Group remains exposed to the credit risk of the underlying securitised receivables. Further details are set out in Note 29. In accordance with the contractual terms, the counterparty only has recourse to the securitised debtors. Given the short-term nature of the securitised debtors and the variable floating notes, the carrying amount of the securitised debtors and the associated liabilities reported on the Consolidated Balance Sheet is estimated to approximate to fair value. At 31 December 2014, cash of €3 million (2013: €2 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

On 24 July 2013, the Group successfully completed a new five-year unsecured €1,375 million refinancing of its senior credit facility comprising a €750 million term loan with a current margin of 2.00% (2013: 2.25%) and a €625 million revolving credit facility with a current margin of 1.75% (2013: 2.00%). As the Net debt/EBITDA ratio was below 2.5: 1 but more than 2.0: 1 at 31 December 2013, the margins on the senior credit facility reduced from 2.25% to 2.00% for the term loan and from 2.00% to 1.75% for the revolving credit facility effective 19 February 2014. The term loan is repayable €125 million on 24 July 2016, €125 million on 24 July 2017, with the balance of €500 million repayable on the maturity date. In connection with the refinancing, the collateral securing the obligations under the Group's various outstanding senior notes and debentures was also released and the senior notes and debentures are therefore now unsecured. The new unsecured senior credit facility is supported by substantially the same guarantee arrangements as the old senior credit facility. The existing senior notes and debentures likewise continue to have substantially similar guarantee arrangements as supported those instruments prior to the refinancing.

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

On 28 May 2014 the Group priced €500 million of seven-year euro denominated senior unsecured notes at a coupon of 3.25%. Following the issue of an early redemption notice the net proceeds together with cash balances of €37.5 million were used to redeem the Group's higher cost 2019 7.75% €500 million bonds on 3 July 2014.

On 11 February 2015, the Group priced €250 million of ten-year euro denominated senior unsecured notes at a coupon of 2.75%. The proceeds of the offering will be used to reduce term loan borrowings under the Group's senior credit facility. Further details have been set out in Note 33.

Certain other maturity, interest rate repricing and key terms relating to the Group's borrowings have been set out in Note 29.

## 25. Employee benefits

The Group operates both defined benefit and defined contribution pension plans throughout its operations in accordance with local requirements and practice. These plans have broadly similar regulatory frameworks. The major plans are of the defined benefit type and are funded by payments to separately administered funds. In these defined benefit plans, the level of benefits available to members depends on length of service and their average salary over their period of employment, or their salary in the final years leading up to retirement or leaving. While the majority of the defined benefit plans are funded, in certain countries, such as Germany, Austria and France, plan liabilities are unfunded and recognised as liabilities in the Consolidated Balance Sheet. In these countries, a full actuarial valuation of the unfunded liabilities is undertaken by independent actuaries on an annual basis. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies with the Group companies and the boards of trustees.

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

| | |
|---|---|
| Ireland | 1 January 2013 |
| Netherlands | 31 December 2013 |
| United Kingdom | 31 March 2014 (Ongoing) |

The expense for defined contribution pension plans for the year ended 31 December 2014 was €43 million (2013: €41 million).

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

| | 2014 €m | 2013 €m |
|---|---|---|
| Present value of funded or partially funded obligations | **(2,226)** | (1,851) |
| Fair value of plan assets | **1,889** | 1,625 |
| Deficit in funded or partially funded plans | **(337)** | (226) |
| Present value of wholly unfunded obligations | **(556)** | (487) |
| **Net pension liability** | **(893)** | (713) |

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

### Financial assumptions

The main actuarial assumptions used to calculate liabilities under IAS19 at 31 December 2014 and 31 December 2013 are as follows:

| | Eurozone | | Rest of Europe | | The Americas | |
|---|---|---|---|---|---|---|
| | 2014 % | 2013 % | 2014 % | 2013 % | 2014 % | 2013 % |
| Rate of increase in salaries | **1.62 – 2.50** | 2.00 – 5.00 | **2.50 – 3.60** | 1.20 – 3.90 | **2.41 – 16.75** | 2.99 – 15.75 |
| Rate of increase to pensions in payment | **Nil – 1.70** | Nil – 2.00 | **Nil – 3.00** | Nil – 3.50 | **Nil – 2.50** | Nil – 2.99 |
| Discount rate for plan liabilities | **1.95** | 3.70 | **2.20 – 3.60** | 2.00 – 4.60 | **4.00 – 16.75** | 4.90 – 15.75 |
| Inflation | **1.50** | 1.75 – 2.00 | **1.50 – 2.60** | 1.00 – 2.70 | **2.00 – 29.00** | 2.00 – 15.75 |

### 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 experience, large pension scheme mortality experience and the plan's own mortality experience. In 2014, the mortality assumptions have been reviewed in the United Kingdom, resulting in a slightly lower life expectancy. In the Netherlands, the assumptions were significantly updated in 2012 to take account of the latest national longevity statistics. In 2014, the life expectancies have been slightly adjusted. In Ireland, the assumptions used were adapted versions of the tables used for the 2013 actuarial valuation. In Germany, the mortality table used is that laid down by statutory authorities. Note that in all cases, the mortality tables used allow for future improvements in life expectancy.

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

| | Ireland | | United Kingdom | | Netherlands | | Germany | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| **Longevity at age 65 for current pensioners (years)** | | | | | | | | |
| Males | **20.9** | 21.0 | **20.6** | 20.6 | **19.9** | 20.6 | **19.4** | 19.0 |
| Females | **23.5** | 23.3 | **22.7** | 22.9 | **23.0** | 23.1 | **23.4** | 23.0 |
| **Longevity at age 65 for current member aged 45 (years)** | | | | | | | | |
| Males | **23.5** | 23.0 | **21.8** | 22.0 | **22.5** | 22.6 | **22.0** | 22.0 |
| Females | **25.6** | 25.3 | **24.1** | 24.5 | **25.2** | 24.2 | **26.0** | 26.0 |

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

## 25. Employee benefits (continued)

### Sensitivity analysis

The following table illustrates the key sensitivities to the amounts included in the Consolidated Financial Statements which would arise from adjusting certain key actuarial assumptions. In each case all of the other assumptions remain unchanged:

| | Increase/(decrease) in pension liabilities | |
|---|---|---|
| | **2014** | **2013** |
| **Change in assumption** | **€m** | **€m** |
| Increase discount rate by 0.25% | **(109)** | (84) |
| Decrease discount rate by 0.25% | **118** | 90 |
| Increase inflation rate by 0.25% | **45** | 40 |
| Decrease inflation rate by 0.25% | **(44)** | (40) |
| Increase in life expectancy by one year | **89** | 72 |

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

### Analysis of plan assets and liabilities

Plan assets are comprised as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Quoted** | **Unquoted** | **Total** | **Quoted** | **Unquoted** | **Total** |
| | **€m** | **€m** | **€m** | **€m** | **€m** | **€m** |
| Equities | **667** | **1** | **668** | 514 | 7 | 521 |
| Corporate bonds | **222** | **-** | **222** | 238 | 17 | 255 |
| Government bonds | **239** | **1** | **240** | 152 | 1 | 153 |
| Property | **27** | **1** | **28** | 29 | - | 29 |
| Cash | **49** | **-** | **49** | 69 | - | 69 |
| Insurance contracts | **-** | **60** | **60** | - | 45 | 45 |
| Liability driven investment | **415** | **-** | **415** | 319 | 16 | 335 |
| Other | **207** | **-** | **207** | 215 | 3 | 218 |
| | **1,826** | **63** | **1,889** | 1,536 | 89 | 1,625 |

Included in plan assets at 31 December 2014 under Property is an amount of €1.4 million (2013: €1.3 million) relating to the Gosport plant in the United Kingdom. This is the only self-investment in the Group by the defined benefit plans.

The actual return on plan assets for the year ended 31 December 2014 was a gain of €254 million (2013: a gain of €55 million).

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

| | **Eurozone** | **Rest of Europe** | **The Americas** | **Total** |
|---|---|---|---|---|
| **31 December 2014** | **€m** | **€m** | **€m** | **€m** |
| Equities | **361** | **279** | **28** | **668** |
| Corporate bonds | **98** | **90** | **34** | **222** |
| Government bonds | **215** | **18** | **7** | **240** |
| Property | **8** | **19** | **1** | **28** |
| Cash | **24** | **20** | **5** | **49** |
| Insurance contracts | **46** | **14** | **-** | **60** |
| Liability driven investment | **165** | **250** | **-** | **415** |
| Other | **58** | **149** | **-** | **207** |
| Fair value of plan assets | **975** | **839** | **75** | **1,889** |
| Present value of plan liabilities | **(1,599)** | **(1,052)** | **(131)** | **(2,782)** |
| **Net pension liability** | **(624)** | **(213)** | **(56)** | **(893)** |

## 25. Employee benefits (continued)

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

### Analysis of the amount charged in the Consolidated Income Statement

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

| | 2014 €m | 2013 €m |
|---|---|---|
| Current service cost | **47** | 49 |
| Administrative expenses | **4** | 4 |
| Past service cost | **(5)** | 3 |
| Gain on curtailment | **(3)** | - |
| Gain on settlement | **(8)**[1] | (2) |
| Actuarial loss arising on other long-term employee benefits | **4** | 1 |
| Charged to operating profit | **39**[2] | 55[2] |
| Net interest cost on net pension liability | **27** | 27 |
| | **66** | 82 |

[1] The gain on settlement in 2014 of €8 million was mainly due to a release of reserves in the Irish defined benefit plan as a result of an enhanced transfer value exercise for deferred pensioners.

[2] The amount charged to operating profit for current service cost shown in the table above excludes the hyperinflation adjustment of €4 million (2013: €4 million).

The defined benefit cost for 2014 included in the table above includes €9 million (2013: €6 million) which relates to other long-term employee benefits.

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

| | 2014 €m | 2013 €m |
|---|---|---|
| Cost of sales | **23** | 33 |
| Distribution costs and administrative expenses | **16** | 22 |
| Finance cost | **27** | 27 |
| | **66** | 82 |

| **Analysis of actuarial gains/(losses) recognised in the Consolidated Statement of Comprehensive Income** | 2014 €m | 2013 €m |
|---|---|---|
| Return on plan assets | **186** | (7) |
| Actuarial gain due to experience adjustments | **10** | 2 |
| Actuarial (loss)/gain due to changes in financial assumptions | **(432)** | 11 |
| Actuarial gain/(loss) due to changes in demographic assumptions | **9** | (10) |
| **Total loss recognised in the Consolidated Statement of Comprehensive Income** | **(227)** | (4) |

## 25. Employee benefits (continued)

| Movement in present value of defined benefit obligation | 2014 €m | 2013 €m |
|---|---|---|
| At 1 January | **(2,338)** | (2,336) |
| Current service cost | **(47)** | (49) |
| Contributions by plan participants | **(7)** | (7) |
| Interest cost | **(95)** | (89) |
| Actuarial gains and losses | **(417)** | 2 |
| Benefits paid by plans | **116** | 114 |
| Past service cost | **5** | (3) |
| Reduction arising on curtailments | **3** | - |
| Acquisitions | **-** | (6) |
| Liabilities associated with assets classified as held for sale | **7** | - |
| Decrease arising on settlement | **47** | 2 |
| Foreign currency translation adjustments | **(56)** | 34 |
| **At 31 December** | **(2,782)** | (2,338) |

| Movement in fair value of plan assets | 2014 €m | 2013 €m |
|---|---|---|
| At 1 January | **1,625** | 1,598 |
| Interest income on plan assets | **68** | 62 |
| Return on plan assets | **186** | (7) |
| Administrative expenses | **(4)** | (4) |
| Contributions by employer | **106** | 97 |
| Contributions by plan participants | **7** | 7 |
| Benefits paid by plans | **(116)** | (114) |
| Acquisitions | **-** | 4 |
| Assets classified as held for sale | **(1)** | - |
| Decrease arising on settlements | **(39)** | - |
| Foreign currency translation adjustments | **57** | (18) |
| **At 31 December** | **1,889** | 1,625 |

### Employee benefit plan risks

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

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

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

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

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

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

### Maturity analysis

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

| Expected benefit payments: | Projected amounts €m |
|---|---|
| Financial year 2015 | **126** |
| Financial year 2016 | **123** |
| Financial year 2017 - 2019 | **406** |
| Financial year 2020 - 2024 | **839** |

Most of the plans are closed to new entrants and therefore, under the projected unit credit method the current service cost is expected to increase (all other elements remaining equal) as the members approach retirement and to decrease as members retire or leave service. The expected employee and employer contributions for the year ending 31 December 2015 for the funded schemes are €7 million and €49 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2015 are €48 million.

# Notes to the Consolidated Financial Statements (continued)

## For the Year Ended 31 December 2014

### 26. Share-based payment

#### Share-based payment expense recognised in the Consolidated Income Statement

| | 2014 | 2013 |
|---|---|---|
| | €m | €m |
| Charge arising from the Deferred Annual Bonus Plan | 26 | 26 |

The Group grants equity settled share-based payments to employees as part of their remuneration; there are no cash-settled share-based payments.

#### Deferred Annual Bonus Plan

In May 2011, the SKG plc Annual General Meeting approved the adoption of the 2011 Deferred Annual Bonus Plan ('DABP') which replaced the existing long-term incentive plan, the 2007 Share Incentive Plan.

The size of the awards to each eligible employee under the DABP is subject to the level of annual bonus earned by the employee in any year. The maximum annual potential bonus for eligible employees in the DABP is 150% of salary. The actual bonus earned in any financial year is based on the achievement of clearly defined annual financial targets for some of the Group's Key Performance Indicators ('KPI') being Earnings per Share ('EPS'), Return on Capital Employed ('ROCE') and Free Cash Flow ('FCF'), together with targets for health and safety and a comparison of the Group's financial performance to that of a peer group.

The structure of the plan is that 50% of any annual bonus earned for a financial year will be deferred into SKG plc shares ('Deferred Shares') to be granted in the form of a Deferred Share Award. The Deferred Shares will vest (i.e. become unconditional) after a three-year holding period based on continuity of employment or in certain circumstances, based on normal good leaver provisions.

At the same time as the grant of a Deferred Share Award, a Matching Share Award can be granted up to the level of the Deferred Share Award. Following a three-year performance period, the Matching Shares may vest up to a maximum of three times the level of the Matching Share Award. Matching Share Awards will vest provided that the Compensation Committee considers the Group's ROCE and Total Shareholder Return ('TSR') to be competitive when compared to the constituents of a peer group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Share Awards is dependent on the achievement of the Group's FCF[1] and ROCE targets measured over the same three-year performance period on an interconditional basis and the multiples will be calculated by interpolation.

The accounting for a deferred bonus payable in shares falls under IFRS 2, *Share-based Payment*. Under IFRS 2 when share awards are subject to vesting conditions the related expense is recognised in profit or loss over the vesting period.

Under the DABP each eligible employee is granted a variable number of awards that has two elements; a) an amount that becomes known and fixed after one year but does not vest for another three years due to a service condition (Deferred Share Award) and b) a variable number of equity instruments that vest in four years subject to a performance condition (Matching Share Award).

The total DABP charge for the year comprises two elements; a) a charge in respect of the Deferred Share Awards granted in respect of 2011, 2012, 2013 and to be granted in respect of 2014 and b) a charge in respect of the Matching Share Awards granted in respect of 2011, 2012, 2013 and to be granted in respect of 2014.

The actual performance targets assigned to the Matching Share Awards are set by the Compensation Committee on the granting of awards at the start of each three-year cycle. The Group is required to lodge the actual targets with the Group's auditors prior to the grant of any awards under the DABP.

A summary of the activity under the DABP, for the period from 1 January 2013 to 31 December 2014 is presented below.

| | Number outstanding | |
|---|---|---|
| | Deferred Share Award | Matching Share Award |
| At 1 January 2013 | 1,790,450 | 1,756,881 |
| Granted in the year | 1,264,626 | 790,543 |
| Forfeited in the year | (15,265) | (90,970) |
| Distributed in the year | (75,550) | - |
| **At 31 December 2013** | **2,964,261** | **2,456,454** |
| Granted in the year | **638,861** | **403,645** |
| Forfeited in the year | **(50,108)** | **(37,132)** |
| Additional match on vesting | **-** | **1,101,441** |
| Distributed in the year | **(63,277)** | **(1,713,354)** |
| **At 31 December 2014** | **3,489,737** | **2,211,054** |

The fair value of the awards granted in 2014 was €20.23 (2013: €11.89) which was the market value on the date of the grant.

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

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

## 26. Share-based payment (continued)

Deferred Share Awards and Matching Share Awards will be granted in 2015 to eligible employees in respect of the year ended 31 December 2014. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2017.

The Conditional Matching Share Awards which were granted in 2011 vested in February 2014 resulting in a 2.8 times match of Conditional Matching Share Awards. The market price at the date of exercise was €19.98.

The Deferred Share Awards and Matching Share Awards which were granted in 2012 in respect of the year ended 31 December 2011 vested in February 2015 and were subsequently exercised. The market price at the date of exercise was €23.75. Details of the performance targets and results for the three-year period to 31 December 2014 are set out in the Remuneration Report.

### 2007 Share Incentive Plan

This scheme has expired for the purpose of issuing invitations to subscribe for convertible shares. However a number of convertible shares issued under this plan have not yet been converted to ordinary shares. Further details are provided below.

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

The performance conditions for the new class B and new class C convertible shares awarded under the 2007 SIP during and from 2009 were subject to a performance condition based on the Group's total shareholder return over the three year period relative to the total shareholder return of a peer group of companies ('TSR condition'). Under that condition, 30% of the new class C convertible shares would convert into D convertible shares if the Group's total shareholder return was at the median performance level and 100% convert if the Group's total shareholder return was at or greater than the upper quartile of the peer group. A sliding scale applied for performance between the median and upper quartiles.

However, notwithstanding that the TSR condition applicable to any such award may have been satisfied, the Compensation Committee retained an overriding discretion to disallow the vesting of the award, in full or in part, if, in its opinion the Group's underlying financial performance or total shareholder return (or both) had been unsatisfactory during the performance period.

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

The Monte Carlo simulation approach was used to calculate the value of new class B convertible shares awarded from 2009 and all new class C convertible shares at grant date. The expected volatility rates applied were based upon the weighted average historical volatility of the Group's business sector for a period equivalent to the expected life of the grants. The risk-free interest rates used were based upon euro-denominated government bonds with similar lives. The fair value of the convertible shares at the valuation dates was determined based upon the market price at that date.

The awards made in 2009 vested 100% in February 2012 with the TSR condition being in the upper quartile of the peer group. The awards made in 2010 vested 30% in February 2013 with the TSR condition being at the median. The Compensation Committee were of the opinion that the Group's underlying financial performance and total shareholder return had been satisfactory during the performance period and therefore confirmed the vesting.

## 26. Share-based payment (continued)

### 2002 Management Equity Plan

This scheme expired in 2007 for the purpose of issuing invitations to subscribe for convertible shares. The right to convert these shares expired on 20 March 2014.

A summary of the activity under the 2007 SIP, as amended, and the 2002 Plan, as amended, for the period from 1 January 2013 to 31 December 2014 is presented below.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Number of convertible shares | Weighted average exercise price (€ per share) | Number of convertible shares | Weighted average exercise price (€ per share) |
| Outstanding at the beginning of the year | **1,641,740** | **4.90** | 4,620,321 | 5.40 |
| Forfeited in the year | **-** | **-** | (6,780) | 6.50 |
| Expired in the year | **-** | **-** | (1,577,144) | 6.50 |
| Exercised in the year | **(480,631)** | **4.78** | (1,394,657) | 4.74 |
| **Outstanding at the end of the year** | **1,161,109** | **4.94** | 1,641,740 | 4.90 |
| **Exercisable at the end of the year** | **1,161,109** | **4.94** | 1,641,740 | 4.90 |

The weighted average market price on the dates the convertible shares were exercised in the year ended 31 December 2014 was €19.27 (2013: €13.73).

| | 2014 | 2013 |
|---|---|---|
| 2007 SIP, as amended, convertible shares outstanding at the end of the year (number) | **1,161,109** | 1,468,432 |
| Weighted average exercise price (€ per share) | **4.94** | 4.97 |
| Weighted average remaining contractual life (years) | **4.9** | 5.9 |
| 2002 Plan, as amended, convertible shares outstanding at the end of the year (number) | **-** | 173,308 |
| Weighted average exercise price (€ per share) | **-** | 4.28 |
| Weighted average remaining contractual life (years) | **-** | 0.2 |

## 27. Provisions for liabilities and charges

| | 2014 €m | 2013 €m |
|---|---|---|
| Current | **57** | 14 |
| Non-current | **47** | 42 |
| | **104** | 56 |

| | Deferred and contingent consideration €m | Restructuring €m | Environmental €m | Legal €m | Other €m | Total €m |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 8 | 12 | 6 | 4 | 46 | 76 |
| Made during the year | - | 9 | - | 1 | 14 | 24 |
| Released during the year | - | - | - | (1) | (1) | (2) |
| Utilised during the year | (5) | (12) | - | (1) | (28) | (46) |
| Acquisitions | - | - | - | 1 | - | 1 |
| Reclassifications | - | - | - | 1 | 1 | 2 |
| Unwinding of discount | 1 | - | - | - | - | 1 |
| **At 31 December 2013** | **4** | **9** | **6** | **5** | **32** | **56** |
| Made during the year | **11** | **40** | **-** | **4** | **13** | **68** |
| Released during the year | **-** | **(1)** | **-** | **(2)** | **-** | **(3)** |
| Utilised during the year | **-** | **(5)** | **-** | **(2)** | **(12)** | **(19)** |
| Acquisitions | **-** | **-** | **-** | **-** | **1** | **1** |
| Reclassifications | **1** | **-** | **-** | **-** | **(2)** | **(1)** |
| Unwinding of discount | **1** | **-** | **-** | **-** | **-** | **1** |
| Liabilities associated with assets classified as held for sale | **-** | **-** | **(1)** | **-** | **-** | **(1)** |
| Foreign currency translation adjustment | **1** | **-** | **-** | **-** | **1** | **2** |
| **At 31 December 2014** | **18** | **43** | **5** | **5** | **33** | **104** |

## 27. Provisions for liabilities and charges (continued)

### Deferred and contingent consideration

Deferred and contingent consideration represents the deferred element of acquisition consideration payable. The balance at 31 December 2014 relates to the acquisition of Bates during the year (€5 million contingent consideration (Note 32)), a non-integrated corrugated packaging manufacturer in the South West of the United States, the acquisition of Cartonera Rierba S.A. during the year, a packaging business in the Dominican Republic, the 2012 acquisition of Baguin, a bag-in-box packaging solutions company in Argentina and the 2011 acquisition of Oakland Packaging, a solidboard merchant in the United Kingdom. The balance at 31 December 2014 will be utilised over a period of five years. The balance at 31 December 2013 related to the acquisition of Baguin and Oakland Packaging.

### Restructuring

These provisions relate to irrevocable commitments in respect of restructuring programmes throughout the Group. The provisions made in 2014 largely relate to the closure of the Hamburg, Osnabrück and Viersen plants in Germany, the closure of the Ponts and Marais plant in France and the closure of the Nybro plant in Sweden. The provisions made in 2013 largely relate to the restructuring of the Townsend Hook mill in the United Kingdom. The Group expects that the majority of the provision balance remaining at 31 December 2014 will be utilised during 2015.

### Environmental

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

### Legal

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

### Other

Other comprises a number of provisions including: liabilities arising from onerous contracts, mainly relating to property leases amounting to €11 million; employee compensation in certain countries in which we operate amounting to €7 million; and numerous other items which are not individually material and are not readily grouped together. The property leases generally have lives ranging from five to ten years.

## 28. Trade and other payables

| | Group 2014 €m | Group 2013 €m | Company 2014 €m | Company 2013 €m |
|---|---|---|---|---|
| **Amounts falling due within one year:** | | | | |
| Trade payables | **932** | 899 | **-** | - |
| Amounts owed to associates - trading balances | **1** | 1 | **-** | - |
| Payroll taxes | **33** | 33 | **-** | - |
| Value added tax | **54** | 50 | **-** | - |
| Social welfare | **52** | 55 | **-** | - |
| Accruals and deferred income | **421** | 425 | **-** | - |
| Capital payables | **60** | 44 | **-** | - |
| Other payables | **20** | 18 | **-** | - |
| Amounts payable to Group companies | **-** | - | **4** | 3 |
| | **1,573** | 1,525 | **4** | 3 |
| **Amounts falling due after more than one year:** | | | | |
| Other payables | **10** | 9 | **-** | - |
| | **1,583** | 1,534 | **4** | 3 |

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

# Notes to the Consolidated Financial Statements (continued)

## For the Year Ended 31 December 2014

### 29. Financial instruments

#### Financial instruments by category

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

| At 31 December 2014 | Loans and receivables €m | Assets at fair value through Consolidated Income Statement €m | Derivatives used for hedging €m | Available-for-sale €m | Total €m |
|---|---|---|---|---|---|
| Assets per Consolidated Balance Sheet: | | | | | |
| Available-for-sale financial assets | - | - | - | 21 | 21 |
| Derivative financial instruments | - | 3 | 2 | - | 5 |
| Trade and other receivables | 1,341 | - | - | - | 1,341 |
| Cash and cash equivalents | 387 | - | - | - | 387 |
| Restricted cash | 12 | - | - | - | 12 |
| | 1,740 | 3 | 2 | 21 | 1,766 |

The financial assets of the Company of €56 million consist of loans and receivables.

| At 31 December 2014 | Liabilities at fair value through Consolidated Income Statement €m | Derivatives used for hedging €m | Other financial liabilities €m | Total €m |
|---|---|---|---|---|
| Liabilities per Consolidated Balance Sheet: | | | | |
| Borrowings | - | - | 3,158 | 3,158 |
| Derivative financial instruments | 21 | 29 | - | 50 |
| Trade and other payables | - | - | 1,268 | 1,268 |
| | 21 | 29 | 4,426 | 4,476 |

The financial liabilities of the Company of €4 million consist of other financial liabilities.

| At 31 December 2013 | Loans and receivables €m | Assets at fair value through Consolidated Income Statement €m | Derivatives used for hedging €m | Available-for-sale €m | Total €m |
|---|---|---|---|---|---|
| Assets per Consolidated Balance Sheet: | | | | | |
| Available-for-sale financial assets | - | - | - | 27 | 27 |
| Derivative financial instruments | - | 4 | 1 | - | 5 |
| Trade and other receivables | 1,263 | - | - | - | 1,263 |
| Cash and cash equivalents | 447 | - | - | - | 447 |
| Restricted cash | 8 | - | - | - | 8 |
| | 1,718 | 4 | 1 | 27 | 1,750 |

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

| At 31 December 2013 | Liabilities at fair value through Consolidated Income Statement €m | Derivatives used for hedging €m | Other financial liabilities €m | Total €m |
|---|---|---|---|---|
| Liabilities per Consolidated Balance Sheet: | | | | |
| Borrowings | - | - | 3,076 | 3,076 |
| Derivative financial instruments | 46 | 46 | - | 92 |
| Trade and other payables | - | - | 1,231 | 1,231 |
| | 46 | 46 | 4,307 | 4,399 |

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

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.

## 29. Financial instruments (continued)

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

#### Financial and credit risk management

The operating parameters and policies of the Group's treasury management function are established under formal Board authority. The Treasury Policy covers the areas of funding, counterparty risk, foreign exchange, controls and derivatives. Risk arising on counterparty default is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. The Group uses financial instruments, including fixed and variable rate debt to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including derivative instruments are used to hedge exposure to interest rate, commodity and foreign currency risks. The Group does not use financial instruments for trading purposes. The Group mitigates the risk that counterparties to derivatives will fail to perform by contracting with major financial institutions having high credit ratings and considers the likelihood of counterparty failure to be low. Trade debtors arise from a wide and varied customer base. There is no significant concentration of credit risk amongst any of the Group's most significant financial assets. The Group also holds no collateral in respect of its principal credit exposures.

The successful management of the Group's currency and interest rate exposure depends on a variety of factors, some of which are outside its control. The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in foreign currencies. The Group manages interest rate exposure to achieve what management consider to be an appropriate balance of fixed and variable rate funding. To achieve this objective the Group enters into interest rate swaps, options and forward rate agreements. Interest rate swap agreements are primarily used to change the interest payable on its underlying borrowings from variable to fixed rate. The impact of any such swaps on the Group's financial instruments has been set out in the tables below.

The Group manages its Balance Sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges currency exposure through the use of currency swaps, options and forward contracts. The impact of these derivatives on the currency profile of the Group's financial instruments has been set out in the tables below.

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

#### Interest rate risk

The Group is exposed to changes in interest rates, primarily changes in Euribor. The senior credit facility is variable rate debt, as are the Group's securitisation facilities and the €250 million senior floating rate notes due 2020. Interest rate changes therefore generally do not affect the market value of such debt but do impact the amount of the Group's interest payments and, therefore, its future earnings and cash flows, assuming other factors are held constant. At 31 December 2014, the Group had fixed an average of 63% (2013: 69%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2014, a one percentage point increase in variable interest rates would have an estimated impact on pre-tax interest expense of approximately €13 million (including the effect of interest rate swaps) over the following 12 months. Interest income on our cash balances would increase by approximately €4 million, assuming a one percent increase in interest rates earned on such balances over the following twelve months.

The Group has entered into one or more interest rate protection agreements (principally interest rate swaps and cross currency interest rate swaps), which establish a fixed interest rate with respect to certain of its borrowings. In 2012 the Group entered into a cross currency interest rate swap to swap fixed rate debt into variable rate debt. A table setting out the fixed and variable rate debt together with the impact of the related interest and cross currency swaps has been set out below.

#### Currency sensitivity

The Group operates in the following principal currency areas (other than euro): Swedish Krona, Sterling, Latin America (comprising mainly Mexican Peso, Colombian Peso and Venezuelan Bolivar Fuerte), US dollar and Eastern Europe (comprising mainly the Polish Zloty, the Czech Koruna and the Russian Rouble). At the end of 2014 approximately 99% (2013: 99%) of its non euro denominated net assets consisted of the Swedish Krona 27% (2013: 24%), Sterling 4% (2013: 7%), Latin American currencies 56% (2013: 50%), US dollar 4% (2013: 10%) and Eastern European currencies 8% (2013: 8%). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2014 rate would reduce shareholders' equity by approximately €19 million (2013: €27 million).

#### Commodity price risk

*Containerboard*

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

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

## 29. Financial instruments (continued)

The price of recovered paper can fluctuate significantly within a given year, affecting the operating results of the Group's paper processing facilities. The Group seeks to manage this risk operationally rather than by entering into financial risk management derivatives. Accordingly, at each of 31 December 2014 and 2013 there were no derivatives held to mitigate such risks.

In addition, developing policy changes in the EU with regard to renewable energy sources have created an additional demand for wood, the principal raw material used in the manufacture of kraftliner. This has the effect of potentially increasing the price of wood and consequently the cost of the Group's raw materials. The Group has entered into a limited level of wood pulp swap contracts to hedge a portion of its wood pulp cost in France and Germany.

*Energy*

The cost of producing the Group's products is also sensitive to the price of energy. The Group's main energy exposure is to the cost of gas and electricity. These energy costs have experienced significant price volatility in recent years, with a corresponding effect on Group production costs. Natural gas prices, relevant to the Group, started the year at €27.69 per megawatt-hour which was also the peak price, decreased to €15.37 per megawatt-hour during the month of July and ended the year at €24.20 per megawatt-hour. The Group has entered into a limited level of energy derivative contracts to economically hedge a portion of its energy costs in Sweden. The Group has also fixed a certain level of its energy costs through contractual arrangements directly with its energy suppliers. Green energy levies in certain countries increased compared to the prior year, increasing energy costs. However, lower gas prices more than compensated for this and the Group's overall energy costs decreased compared to 2013.

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

### Liquidity risk

The Group is exposed to liquidity risk which arises primarily from the maturing of short-term and long-term debt obligations and derivative transactions. The Group's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facilities, to ensure all obligations can be met as they fall due. To achieve this objective, the Group:

- maintains cash balances and liquid investments with highly rated counterparties
- limits the maturity of cash balances
- borrows the bulk of its debt needs under committed bank lines or other term financing and by policy maintains a minimum level of undrawn committed facilities.

The Group has entered into a series of borrowing arrangements in order to facilitate its liquidity needs in this regard and the key terms of those arrangements are described within Note 24 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:

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| Cash and cash equivalents | **387** | 447 |
| Committed undrawn facilities | **504** | 524 |
| Liquidity reserve | **891** | 971 |
| Current liabilities – borrowings due within one year | **(169)** | (196) |
| **Net position** | **722** | 775 |

Management monitors rolling cash flow forecasts on an ongoing basis to determine the adequacy of the liquidity position of the Group. This process also incorporates a longer term liquidity review to ensure refinancing risks are adequately catered for as part of the Group's strategic planning. The Group has considered the impact of the current sovereign debt crisis (including its impact on the euro). The Group continues to benefit from its existing financing package and debt profile. In addition, the Group's operating activities are cash generative and expect to be so over the foreseeable future; the Group has committed undrawn facilities of €504 million at 31 December 2014; and the Group has cash and cash equivalents of €387 million at 31 December 2014. The maturity dates of the Group's main borrowing facilities as set out in Note 24, together with the liquidity analysis as set out in this note, more fully describes the Group's longer term financing risks.

## 29. Financial instruments (continued)

### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

In managing its capital structure, the primary focus of the Group is the ratio of net debt to EBITDA (earnings before exceptional items, share-based payment expense, net finance costs, income tax expense, depreciation and intangible asset amortisation). Maximum levels for this ratio are set under Board approved policy. At 31 December 2014 the net debt to EBITDA ratio of the Group was 2.4 times (net debt of €2,759 million) which compares to 2.4 times (net debt of €2,621 million) at the end of 2013. This gives the Group continuing headroom compared to the actual covenant level under the senior credit facility at 31 December 2014 of 3.75 times.

On the basis of pre-exceptional operating profit, the Group's return on capital employed was 15.0% compared to 13.1% in 2013, reflecting an increase of 14% in its pre-exceptional operating profit. The return on capital employed comprises pre-exceptional operating profit plus share of associates' profit as a percentage of average capital employed (where capital employed is the sum of total equity and net debt at year-end; 2014: €5,178 million, (2013: €5,128 million)). The post-exceptional return on capital employed was 12.9% in 2014 (2013: 12.4%).

The capital employed of the Company at 31 December 2014 was €2,039 million (2013: €2,027 million).

### Credit risk

Credit risk arises from credit exposure to trade debtors, cash and cash equivalents including deposits with banks and financial institutions, derivative financial instruments and investments. The Group has no sovereign exposures and no material debtors with Government agencies. The maximum exposure to credit risk is represented by the carrying amount of each asset.

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

Risk of counterparty default arising on cash and cash equivalents and derivative financial instruments is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. Of the Group's total cash and cash equivalents (including restricted cash) at 31 December 2014 of €399 million, 47% was with financial institutions in the A rating category of Standard & Poor's or Moody's and 14% was with financial institutions in the AA/Aa rating category. The remaining 39% was represented mainly by cash held with banks in Latin America which fell outside the A and AA/Aa ratings categories. At 31 December 2014 derivative transactions were with counterparties with ratings ranging from BB+ to A+ with Standard & Poor's or Baa3 to Aa2 with Moody's.

At each reporting date, there were no significant concentrations of credit risk which individually represented more than 10% of the Group's financial assets. A geographical analysis of the Group's segment assets has been provided in Note 4.

### Market risk – available-for-sale securities

The Group's available-for-sale securities principally comprise an investment in an unlisted entity which operates in a similar paper processing market to the Group in Europe and which has a similar underlying risk profile to the general operational risks encountered by the Group in this market, and investments held relating to unfunded pension liabilities. These investments are being carried at their estimated fair value and the Group's maximum exposure to risks associated with these investments is represented by their carrying amounts.

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 15.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 29. Financial instruments (continued)

### Derivative positions

Derivative financial instruments recognised as assets and liabilities in the Consolidated Balance Sheet both as part of cash flow hedges and other economic hedges which do not meet the criteria for hedge accounting under IAS 39, have been set out below:

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| **Non-current derivative assets** | | |
| Cash flow hedges : | | |
| Foreign currency forwards | - | 1 |
| Cross currency swaps | 1 | - |
| Fair value hedges: | | |
| Cross currency swaps | 1 | - |
| **Total non-current derivative assets** | 2 | 1 |
| **Current derivative assets** | | |
| Not designated as hedges: | | |
| Foreign currency forwards | 1 | 1 |
| Cross currency swaps | 2 | 3 |
| **Total current derivative assets** | 3 | 4 |
| **Total derivative assets** | 5 | 5 |
| | | |
| **Non-current derivative liabilities** | | |
| Cash flow hedges: | | |
| Interest rate swaps | (14) | - |
| Foreign currency forwards | (3) | - |
| Cross currency swaps | - | (30) |
| Pulp hedging contract | - | (1) |
| Fair value hedges: | | |
| Cross currency swaps | - | (5) |
| Not designated as hedges: | | |
| Cross currency swaps | (6) | (23) |
| **Total non-current derivative liabilities** | (23) | (59) |
| **Current derivative liabilities** | | |
| Cash flow hedges: | | |
| Interest rate swaps | (4) | (7) |
| Foreign currency forwards | (5) | - |
| Cross currency swaps | (3) | (2) |
| Pulp hedging contract | - | (1) |
| Not designated as hedges: | | |
| Foreign currency forwards | (3) | (1) |
| Cross currency swaps | (12) | (22) |
| **Total current derivative liabilities** | (27) | (33) |
| **Total derivative liabilities** | (50) | (92) |
| **Net liability on derivative financial instruments** | (45) | (87) |

### Fair value hierarchy

| **Fair value measurement at 31 December 2014** | Level 1<br>€m | Level 2<br>€m | Level 3<br>€m | Total<br>€m |
|---|---|---|---|---|
| Available-for-sale financial assets (Note 15): | | | | |
| Listed | 1 | - | - | 1 |
| Unlisted | - | 7 | 13 | 20 |
| Derivative financial instruments: | | | | |
| Assets at fair value through Consolidated Income Statement | - | 3 | - | 3 |
| Derivatives used for hedging | - | 2 | - | 2 |
| Derivative financial instruments: | | | | |
| Liabilities at fair value through Consolidated Income Statement | - | (21) | - | (21) |
| Derivatives used for hedging | - | (29) | - | (29) |
| | 1 | (38) | 13 | (24) |

## 29. Financial instruments (continued)

| **Fair value measurement at 31 December 2013** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **€m** | **€m** | **€m** | **€m** |
| Available-for-sale financial assets (Note 15): | | | | |
| Listed | 1 | - | - | 1 |
| Unlisted | - | 7 | 19 | 26 |
| Derivative financial instruments: | | | | |
| Assets at fair value through Consolidated Income Statement | - | 4 | - | 4 |
| Derivatives used for hedging | - | 1 | - | 1 |
| Derivative financial instruments: | | | | |
| Liabilities at fair value through Consolidated Income Statement | - | (46) | - | (46) |
| Derivatives used for hedging | - | (46) | - | (46) |
| | 1 | (80) | 19 | (60) |

The fair value of the derivative financial instruments set out above has been measured in accordance with level 2 of the fair value hierarchy. All are plain derivative instruments, valued with reference to observable foreign exchange rates, interest rates or broker prices. Further details of the available-for-sale financial assets are set out in Note 15.

### Financial instruments in level 3

The following table presents the changes in level 3 instruments for the years ended 31 December 2014 and 31 December 2013:

| | **2014** | **2013** |
|---|---|---|
| | **€m** | **€m** |
| At 1 January | **19** | 25 |
| Impairment loss recognised in the Consolidated Income Statement | **(6)** | (6) |
| **At 31 December** | **13** | 19 |
| **Total loss for the year included in the Consolidated Income Statement for assets held at the end of the reporting period, under 'Finance costs'** | **(6)** | (6) |
| **Change in unrealised losses for the year included in the Consolidated Income Statement for assets held at the end of the reporting period** | **(6)** | (6) |

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

### Cash flow hedging

As more fully set out in this note, the Group principally utilises interest rate swaps to swap its variable rate debt into fixed rates. The Group has also designated a number of cross currency swaps which swap fixed US dollar debt into fixed euro debt as cash flow hedges where permitted. 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 in hedged risk has been recorded in the Consolidated Income Statement in relation to these hedges in 2014 and 2013. Amounts accounted for in the cash flow hedging reserve in respect of these swaps during the current and preceding periods have been set out in the Consolidated Statement of Comprehensive Income. These fair value gains and losses are expected to impact on profit and loss over the period from 2015 to 2021, in line with the underlying debt being hedged. In addition, certain subsidiaries use foreign currency forward contracts to hedge forecast foreign currency sales and purchases. Such forward contracts are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying cash flows and have been highly effective in achieving offsetting cashflows with no ineffectiveness recorded. These fair value gains and losses are expected to impact on profit and loss over the period from 2015 to 2018. During 2012, the Group entered into a limited level of wood pulp swap contracts (1,500 tonnes per month for three years) to hedge a portion of its wood pulp cost in France and Germany, which are designated as cash flow hedges.

### Fair value hedging

In 2012 the Group entered into a cross currency interest rate swap to swap fixed rate debt into variable rate debt. This swap is designated as a fair value hedge and is set so as to closely match the critical terms of the underlying debt being hedged. It has accordingly been determined by the Group to be highly effective in offsetting the fair value of the fixed rate debt and no material level of ineffectiveness has been recorded in the Consolidated Income Statement in relation to this hedge in 2014 and 2013. The fair value gains and losses are expected to impact on profit and loss over the period from 2015 to 2018, in line with the underlying debt being hedged.

### Derivatives not designated as hedges

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

## 29. Financial instruments (continued)

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

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

Outstanding interest rate swap agreements at 31 December 2014 are summarised as follows:

| Currency | Notional principal (million) | Termination dates | % Fixed payable | % Variable receivable |
|---|---|---|---|---|
| **EUR** | **125** | **2018** | **1.051-1.080** | **Euribor[1]** |
| **EUR** | **50** | **2019** | **0.844-0.909** | **Euribor** |
| **EUR** | **74** | **2020** | **1.460-1.488** | **Euribor** |
| **EUR** | **100** | **2021** | **1.314-1.508** | **Euribor** |

[1] *European Interbank Offered Rate.*

Outstanding interest rate swap agreements at 31 December 2013 are summarised as follows:

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

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

### 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 2014 the Group had entered into €376 million (2013: €336 million) currency equivalent of forward contracts and there were no option contracts outstanding. At 31 December 2014 the Group had also entered into further short-term currency swaps of €472 million equivalent (2013: €438 million) as part of its short-term liquidity management.

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

Outstanding currency swap agreements at 31 December 2014 are summarised as follows:

| Currency swapped (million) | Currency received (million) | Maturity date | Interest rate paid | Interest rate received |
|---|---|---|---|---|
| **US$ 50** | **EUR 47** | **2015** | **7.300** | **7.500** |
| **US$ 154** | **EUR 131** | **2016** | **7.109** | **7.500** |
| **US$ 50** | **EUR 40** | **2018** | **Euribor +3.480** | **4.875** |
| **US$ 250** | **EUR 198** | **2018** | **4.805** | **4.875** |

Outstanding currency swap agreements at 31 December 2013 are summarised as follows:

| Currency swapped (million) | Currency received (million) | Maturity date | Interest rate paid | Interest rate received |
|---|---|---|---|---|
| US$ 88 | EUR 83 | 2014 | 6.563 | 7.500 |
| US$ 50 | EUR 47 | 2015 | 7.300 | 7.500 |
| US$ 154 | EUR 131 | 2016 | 7.109 | 7.500 |
| US$ 50 | EUR 40 | 2018 | Euribor +3.480 | 4.875 |
| US$ 250 | EUR 198 | 2018 | 4.805 | 4.875 |

## 29. Financial instruments (continued)

### Energy risk management

The Group had the following energy hedging contracts outstanding at the end of 31 December 2014 and 2013. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Notional | Maturity | Notional | Maturity |
| Energy contracts | €4 million | Q1 2015 - Q4 2016 | €6 million | Q1 2014 - Q4 2015 |

### 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:

| At 31 December 2014 | 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 |
|---|---|---|---|---|---|---|---|
| **Fixed rate instruments** | | | | | | | |
| Liabilities: | | | | | | | |
| 2025 debentures | 7.58% | - | - | - | - | 242 | 242 |
| 2018 notes | 5.47% | - | - | - | 446 | - | 446 |
| 2020 fixed rate notes | 4.44% | - | - | - | - | 402 | 402 |
| 2021 notes | 3.53% | - | - | - | - | 494 | 494 |
| Bank loans/overdrafts | 4.25% | 2 | 1 | - | 6 | 4 | 13 |
| Effect of interest rate swaps | | - | - | - | 175 | 174 | 349 |
| Effect of fair value cross currency swap | | - | - | - | (41) | - | (41) |
| Total | | 2 | 1 | - | 586 | 1,316 | 1,905 |
| Finance leases | 5.16% | - | - | 1 | 2 | 3 | 6 |
| **Total fixed rate liabilities** | | 2 | 1 | 1 | 588 | 1,319 | 1,911 |
| | | | | | | | |
| **Floating rate instruments** | | | | | | | |
| Assets: | | | | | | | |
| Cash and cash equivalents | 1.35% | 387 | - | - | - | - | 387 |
| Restricted cash | 0.04% | 12 | - | - | - | - | 12 |
| **Total floating rate assets** | | 399 | - | - | - | - | 399 |
| Liabilities: | | | | | | | |
| Senior credit facility | 2.48% | 845 | - | - | - | - | 845 |
| 2018 receivables securitisation | 2.07% | 173 | - | - | - | - | 173 |
| 2019 receivables securitisation | 1.82% | 236 | - | - | - | - | 236 |
| 2020 floating rate notes | 3.90% | 248 | - | - | - | - | 248 |
| Bank loans/overdrafts | 13.11% | 52 | - | - | - | - | 52 |
| Effect of interest rate swaps | 1.14% | (349) | - | - | - | - | (349) |
| Effect of fair value cross currency swap | (1.37%) | 40 | - | - | - | - | 40 |
| Total | - | 1,245 | - | - | - | - | 1,245 |
| Finance leases | 1.81% | 1 | - | - | - | - | 1 |
| **Total floating rate liabilities** | | 1,246 | - | - | - | - | 1,246 |
| **Total net position** | | (849) | (1) | (1) | (588) | (1,319) | (2,758) |

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 29. Financial instruments (continued)

| At 31 December 2013<br>Fixed rate instruments | Average effective interest rate | 6 months or less €m | 6-12 months €m | 1-2 years €m | 2-5 years €m | More than 5 years €m | Total €m |
|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | |
| 2025 debentures | 7.58% | - | - | - | - | 213 | 213 |
| 2018 notes | 5.54% | - | - | - | 414 | - | 414 |
| 2019 notes | 8.25% | - | - | - | - | 495 | 495 |
| 2020 fixed rate notes | 4.45% | - | - | - | - | 401 | 401 |
| Bank loans/overdrafts | 2.73% | 2 | 2 | 3 | 1 | 6 | 14 |
| Effect of interest rate swaps | | 210 | 400 | - | 125 | 74 | 809 |
| Effect of fair value cross currency swap | | - | - | - | (36) | - | (36) |
| Total | | 212 | 402 | 3 | 504 | 1,189 | 2,310 |
| Finance leases | 3.28% | - | - | - | 2 | 1 | 3 |
| **Total fixed rate liabilities** | | 212 | 402 | 3 | 506 | 1,190 | 2,313 |
| | | | | | | | |
| **Floating rate instruments** | | | | | | | |
| Assets: | | | | | | | |
| Cash and cash equivalents | 0.51% | 447 | - | - | - | - | 447 |
| Restricted cash | 0.27% | 8 | - | - | - | - | 8 |
| **Total floating rate assets** | | 455 | - | - | - | - | 455 |
| Liabilities: | | | | | | | |
| Senior credit facility | 2.89% | 859 | - | - | - | - | 859 |
| 2015 receivables securitisation | 2.31% | 203 | - | - | - | - | 203 |
| 2018 receivables securitisation | 2.22% | 173 | - | - | - | - | 173 |
| 2020 floating rate notes | 4.06% | 247 | - | - | - | - | 247 |
| Bank loans/overdrafts | 9.59% | 53 | - | - | - | - | 53 |
| Effect of interest rate swaps | 2.29% | (809) | - | - | - | - | (809) |
| Effect of fair value cross currency swap | (0.66%) | 40 | - | - | - | - | 40 |
| Total | | 766 | - | - | - | - | 766 |
| Finance leases | 1.16% | 1 | - | - | - | - | 1 |
| **Total floating rate liabilities** | | 767 | - | - | - | - | 767 |
| **Total net position** | | (524) | (402) | (3) | (506) | (1,190) | (2,625) |

### 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:

| At 31 December 2014 | Weighted average period until maturity (years) | No fixed term €m | Less than 1 year €m | 1-2 years €m | 2-5 years €m | More than 5 years €m | Total €m |
|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | |
| Trade and other payables | | - | 1,268 | - | - | - | 1,268 |
| Senior credit facility | 3.1 | - | 18 | 141 | 752 | - | 911 |
| 2018 receivables securitisation | 3.3 | - | 3 | 3 | 179 | - | 185 |
| 2019 receivables securitisation | 4.5 | - | 4 | 4 | 247 | - | 255 |
| Bank loans/overdrafts | 1.0 | 26 | 30 | 3 | 10 | 1 | 70 |
| 2025 debentures | 10.8 | - | 18 | 18 | 54 | 349 | 439 |
| 2018 notes | 3.7 | - | 22 | 22 | 492 | - | 536 |
| 2020 fixed rate notes | 5.0 | - | 17 | 17 | 50 | 408 | 492 |
| 2020 floating rate notes | 5.8 | - | 9 | 9 | 27 | 259 | 304 |
| 2021 notes | 6.4 | - | 16 | 16 | 49 | 524 | 605 |
| | | 26 | 1,405 | 233 | 1,860 | 1,541 | 5,065 |
| Finance leases | 3.0 | - | 2 | 2 | 2 | 1 | 7 |
| | | 26 | 1,407 | 235 | 1,862 | 1,542 | 5,072 |
| Derivative liabilities | | - | 4 | 4 | 9 | 1 | 18 |
| **Total liabilities** | | 26 | 1,411 | 239 | 1,871 | 1,543 | 5,090 |

## 29. Financial instruments (continued)

| At 31 December 2013 | Weighted average period until maturity (years) | No fixed term €m | Less than 1 year €m | 1-2 years €m | 2-5 years €m | More than 5 years €m | Total €m |
|---|---|---|---|---|---|---|---|
| Liabilities: | | | | | | | |
| Trade and other payables | | - | 1,231 | - | - | - | 1,231 |
| Senior credit facility | 4.1 | - | 21 | 21 | 919 | - | 961 |
| 2015 receivables securitisation | 1.9 | - | 4 | 208 | - | - | 212 |
| 2018 receivables securitisation | 4.3 | - | 3 | 3 | 182 | - | 188 |
| Bank loans/overdrafts | 1.0 | 22 | 32 | 4 | 10 | 2 | 70 |
| 2025 debentures | 11.8 | - | 16 | 16 | 48 | 323 | 403 |
| 2018 notes | 4.6 | - | 21 | 21 | 480 | - | 522 |
| 2019 notes | 5.8 | - | 39 | 39 | 116 | 539 | 733 |
| 2020 fixed rate notes | 6.0 | - | 17 | 17 | 50 | 425 | 509 |
| 2020 floating rate notes | 6.7 | - | 9 | 9 | 28 | 269 | 315 |
| | | 22 | 1,393 | 338 | 1,833 | 1,558 | 5,144 |
| Finance leases | 3.7 | - | 2 | 1 | 1 | 1 | 5 |
| | | 22 | 1,395 | 339 | 1,834 | 1,559 | 5,149 |
| Derivative liabilities | | - | 10 | 1 | - | - | 11 |
| **Total liabilities** | | 22 | 1,405 | 340 | 1,834 | 1,559 | 5,160 |

The financial liabilities of the Company of €4 million (2013: €3 million) are repayable on demand.

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

| At 31 December 2014 | Less than 1 year €m | 1-2 years €m | 2-5 years €m | More than 5 years €m | Total €m |
|---|---|---|---|---|---|
| Liabilities: | | | | | |
| Cross currency swaps | **543** | **152** | **260** | **-** | **955** |
| Foreign currency forwards | **264** | **79** | **33** | **-** | **376** |
| Total | **807** | **231** | **293** | **-** | **1,331** |

| At 31 December 2013 | Less than 1 year €m | 1-2 years €m | 2-5 years €m | More than 5 years €m | Total €m |
|---|---|---|---|---|---|
| Liabilities: | | | | | |
| Cross currency swaps | 549 | 70 | 414 | - | 1,033 |
| Foreign currency forwards | 230 | 64 | 39 | - | 333 |
| Total | 779 | 134 | 453 | - | 1,366 |

## 29. Financial instruments (continued)

### Currency analysis

The table below sets out the Group's financial assets and liabilities according to their principal currencies. Currency risk related to financial assets and liabilities denominated in currencies other than the Group's presentation currency (euro) represents both transactional and translation risk. As at 31 December 2014 and 2013 the Company had no financial assets or liabilities denominated in foreign currencies.

| At 31 December 2014 | Euro | Sterling | Latin America[1] | US dollar | Other | Total |
|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m |
| Trade and other receivables | 784 | 133 | 188 | 132 | 104 | 1,341 |
| Available-for-sale financial assets | 21 | - | - | - | - | 21 |
| Cash and cash equivalents | 185 | 36 | 88 | 35 | 43 | 387 |
| Restricted cash | 3 | - | 5 | 3 | 1 | 12 |
| **Total assets** | **993** | **169** | **281** | **170** | **148** | **1,761** |
| | | | | | | |
| Trade and other payables | 844 | 96 | 129 | 97 | 102 | 1,268 |
| Senior credit facility | 795 | - | - | 50 | - | 845 |
| 2018 receivables securitisation | 173 | - | - | - | - | 173 |
| 2019 receivables securitisation | 148 | 88 | - | - | - | 236 |
| Bank loans/overdrafts | 23 | - | 33 | 9 | - | 65 |
| 2025 debentures | - | - | - | 242 | - | 242 |
| 2018 notes | 196 | - | - | 250 | - | 446 |
| 2020 fixed rate notes | 402 | - | - | - | - | 402 |
| 2020 floating rate notes | 248 | - | - | - | - | 248 |
| 2021 notes | 494 | - | - | - | - | 494 |
| | 3,323 | 184 | 162 | 648 | 102 | 4,419 |
| Finance leases | 2 | 2 | - | 3 | - | 7 |
| **Total liabilities** | **3,325** | **186** | **162** | **651** | **102** | **4,426** |
| | | | | | | |
| Impact of foreign exchange contracts | 356 | 290 | (1) | (357) | (272) | 16 |
| **Total (liabilities)/assets** | **(2,688)** | **(307)** | **120** | **(124)** | **318** | **(2,681)** |

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

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

## 29. 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.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Carrying value €m | Fair value €m | Carrying value €m | Fair value €m |
| Trade and other receivables [1] | **1,341** | **1,341** | 1,263 | 1,263 |
| Available-for-sale financial assets [2] | **21** | **21** | 27 | 27 |
| Cash and cash equivalents [3] | **387** | **387** | 447 | 447 |
| Derivative assets [4] | **5** | **5** | 5 | 5 |
| Restricted cash | **12** | **12** | 8 | 8 |
| | **1,766** | **1,766** | 1,750 | 1,750 |
| Trade and other payables [1] | **1,268** | **1,268** | 1,231 | 1,231 |
| Senior credit facility [5] | **845** | **862** | 859 | 859 |
| 2018 receivables securitisation [3] | **173** | **173** | 173 | 173 |
| 2019 receivables securitisation [3][6] | **236** | **236** | 203 | 203 |
| Bank overdrafts [3] | **65** | **65** | 67 | 67 |
| 2025 debentures [7] | **242** | **286** | 213 | 235 |
| 2018 notes [7] | **446** | **478** | 414 | 442 |
| 2019 notes [7] | **-** | **-** | 495 | 543 |
| 2020 fixed rate notes [7] | **402** | **437** | 401 | 418 |
| 2020 floating rate notes [7] | **248** | **265** | 247 | 263 |
| 2021 notes [7] | **494** | **520** | - | - |
| | **4,419** | **4,590** | 4,303 | 4,434 |
| Finance leases | **7** | **7** | 4 | 4 |
| | **4,426** | **4,597** | 4,307 | 4,438 |
| Derivative liabilities [4] | **50** | **50** | 92 | 92 |
| | **4,476** | **4,647** | 4,399 | 4,530 |
| **Total net position** | **(2,710)** | **(2,881)** | (2,649) | (2,780) |

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

*(2) The fair value of listed available-for-sale financial assets is determined by reference to their bid price at the reporting date. Unlisted available-for-sale financial assets are valued using recognised valuation techniques for the underlying security including discounted cash flows and similar unlisted equity valuation models.*

*(3) The carrying amount reported in the Consolidated Balance Sheet is estimated to approximate to fair value because of the short-term maturity of these instruments and, in the case of the receivables securitisation, the variable nature of the facility and repricing dates.*

*(4) The fair value of forward foreign currency and energy contracts is based on their listed market price if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.*

*(5) The fair value of the senior credit facility is based on the present value of its estimated future cash flows discounted at an appropriate market discount rate at the balance sheet date.*

*(6) On the 25 June 2014, the Group completed a €240 million five-year trade receivables securitisation programme. The new programme amended, restated and extended the €250 million securitisation programme which had a November 2015 maturity.*

*(7) 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.

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 30. Lease obligations

### Operating leases

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

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| Within one year | **77** | 72 |
| Within two to five years | **164** | 165 |
| Over five years | **61** | 46 |
| | **302** | 283 |

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

### Finance leases

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

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Minimum payments<br>€m | Present value of minimum payments<br>€m | Minimum payments<br>€m | Present value of minimum payments<br>€m |
| Within one year | **2** | **2** | 1 | 1 |
| Within two to five years | **4** | **4** | 2 | 2 |
| Over five years | **1** | **1** | 1 | 1 |
| Total minimum lease payments | **7** | **7** | 4 | 4 |
| Less: amounts allocated to future finance costs | **-** | | - | |
| **Present value of minimum lease payments** | **7** | | 4 | |

## 31. Related party transactions

The principal related party relationships requiring disclosure under IAS 24, *Related Party Disclosures* pertain to the existence of subsidiaries and associates and transactions with these entities entered into by the Group and the identification and compensation of key management personnel as addressed in greater detail below.

### Transactions with subsidiaries

The Consolidated Financial Statements include the Financial Statements of the Company and its subsidiaries and associates as documented in the accounting policies on page 77. A listing of the principal subsidiaries is provided on pages 128 to 129 of this document.

Sales to and purchases from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IFRS 10, *Consolidated 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**

| | 2014<br>€m | 2013<br>€m |
|---|---|---|
| Sale of goods | **12** | 12 |
| Purchase of goods | **(4)** | (5) |
| Rendering of services | **1** | 2 |
| Receiving of services | **(1)** | (2) |
| Purchase of assets | **-** | (1) |

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

The receivables from related parties arise mainly from sale transactions and are due two months after the date of sale. The receivables are unsecured in nature and do not bear interest.

The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables do not bear interest.

No provision has been made in 2014 or 2013 relating to balances with related parties.

## 31. Related party transactions (continued)

### Transactions with other related parties

In 2014, the Group purchased, in the normal course of business, approximately 29,000 metric tonnes (2013: 31,000 metric tonnes) of paper amounting to approximately €15 million (2013: €17 million) from Savon Sellu, a company controlled by Dermot Smurfit together with his brothers Dr. Michael Smurfit, former Chairman of the Group, and Alan Smurfit. An amount of €4 million (2013: €5 million) was owed by the Group to Savon Sellu at 31 December 2014.

### 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.

| | 2014 | 2013 |
|---|---|---|
| | €m | €m |
| Short-term employee benefits | **6** | 6 |
| Post-employment benefits | **1** | 1 |
| Share-based payment expense | **2** | 4 |
| | **9** | 11 |

### Information on the parent Company

The parent Company is an investment holding company and as a result, holds investments in the Group subsidiaries as financial assets. The parent Company also has receivables and payables with its subsidiaries entered into in the normal course of business. These balances are repayable on demand. The notes to the Company Balance Sheet disclose these various balances.

## 32. Business combinations

The four acquisitions completed by the Group during the year, together with percentages acquired and completion dates were as follows:

- Colombia, (66%, 1 May 2014), certain assets and business of Corrumed S.A.;
- Dominican Republic, (100%, 4 September 2014), certain assets and business of Cartonera Rierba S.A.;
- Bates Container LLC ('Bates'), (100%, 24 October 2014), four packaging plants located in Texas, in the United States; and
- Brian Thomas, (100%, 24 October 2014), a sheet plant located in Texas, in the United States.

The initial assignment of fair values to identifiable net assets acquired has been performed on a provisional basis in respect of these acquisitions and any amendments to these fair values will be made within the allowed measurement period permitted by IFRS 3 (Revised), *Business Combinations*.

The Bates acquisition will fundamentally strengthen the business, completing the integration of the 350,000 tonne recycled containerboard mill in Dallas and improving the Group's operational footprint in the region.

The carrying amounts of the Bates assets and liabilities acquired determined in accordance with IFRS, together with the adjustments made to those carrying values to arrive at their fair values, were as follows:

| **Bates Container LLC** | **Book value** | **Fair value adjustments** | **Fair value** |
|---|---|---|---|
| | **€m** | **€m** | **€m** |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 13 | 26 |
| Intangible assets | - | 43 | 43 |
| Trade and other receivables | 1 | - | 1 |
| Current assets | | | |
| Inventories | 6 | 1 | 7 |
| Trade and other receivables | 12 | - | 12 |
| Cash and cash equivalents | 2 | - | 2 |
| Non-current liabilities | | | |
| Other payables | - | (2) | (2) |
| Current liabilities | | | |
| Trade and other payables | (11) | - | (11) |
| Net assets acquired | 23 | 55 | 78 |
| Goodwill | | | 45 |
| **Consideration** | | | 123 |
| | | | |
| *Settled by:* | | | |
| Cash | | | 118 |
| Contingent consideration | | | 5 |
| | | | 123 |

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 32. Business combinations (continued)

The principal factors contributing to the recognition of goodwill are the realisation of cost savings and other synergies with existing entities in the Group which do not qualify for separate recognition as intangible assets. The goodwill recognised in respect of the Bates acquisition is expected to be deductible for tax purposes.

The gross contractual value of trade and other receivables as at the date of acquisition of Bates amounted to €13 million. The fair value of these receivables is also estimated at €13 million (all of which is expected to be recoverable).

As part of the acquisition of Bates, acquisition-related costs of €1 million were incurred and are included within administrative expenses in the Consolidated Income Statement.

Bates has contributed €24 million to revenue and €1 million to profit for the financial year. The proforma revenue and profit of the Group for the year ended 31 December 2014 would have been €8,144 million and €257 million respectively had the acquisition taken place at the start of the current reporting period.

Under the terms of the purchase agreement, the previous owners of Bates are entitled to additional consideration based on certain performance targets. On an undiscounted basis, the value of this contingent consideration may range from nil to a maximum of €12 million. The fair value of this contingent consideration is recognised at €5 million.

The acquisitions of Corrumed S.A., Cartonera Rierba S.A. and Brian Thomas are considered to be immaterial to the Group.

No contingent liabilities were recognised on the acquisitions completed during the year.

## 33. Events after the balance sheet date

On 11 February 2015, the Group successfully completed the pricing of an offering of €250 million of euro denominated senior notes due 2025 issued by its wholly-owned subsidiary, Smurfit Kappa Acquisitions. The proceeds of the offering will be used to reduce term loan borrowings under the senior facilities agreement of Smurfit Kappa Acquisitions.

In 2015 the Venezuelan government made an announcement that they would be modifying their exchange mechanisms. See Note 3 on page 84 for further details.

## 34. Profit dealt with in the parent Company

In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986, the Company is availing of the exemption from presenting its individual Income Statement to the Annual General Meeting and from filing it with the Registrar of Companies. A profit of €118 million (2013: a profit of €74 million) has been dealt with in the Income Statement of the Company.

## 35. Principal subsidiaries

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

| Subsidiaries[1] | Principal activities | Country of incorporation[2] | Holding % |
|---|---|---|---|
| **Cartón de Colombia, S.A.**<br>Apartado Aereo 219,<br>Cali, Colombia | Manufacture and sale of paperboard and packaging products | **Colombia** | 70 |
| **Cartón de Venezuela, S.A.**<br>Apartado Aereo 609,<br>Caracas, Venezuela | Manufacture and sale of paperboard and packaging products | **Venezuela** | 88 |
| **Grupo Smurfit México, S.A. de C.V.**<br>World Plaza, Av. Santa Fe 481, Piso 15,<br>Col. Cruz Manca, México, D.F. 05349 | Manufacture and sale of paperboard and packaging products | **Mexico** | 100 |
| **Nettingsdorfer Papierfabrik AG & Co KG**<br>Nettingsdorfer Straße 40,<br>4053 Haid bei Ansfelden, Austria | Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board | **Austria** | 100 |
| **Smurfit International B.V.**<br>Warandelaan 2, 4904 PC Oosterhout,<br>The Netherlands | Principal international holding company | **Netherlands** | 100 |
| **Smurfit Kappa B.V.**<br>Warandelaan 2, 4904 PC Oosterhout,<br>The Netherlands | International holding company | **Netherlands** | 100 |
| **Smurfit Kappa de Argentina, S.A.**<br>Paque Saenz Pena 308 – 8th Floor,<br>Buenos Aires, Argentina | Manufacture and sale of paperboard and packaging products | **Argentina** | 100 |
| **Smurfit Kappa Deutschland GmbH**<br>Tilsiter Straße 144,<br>22047 Hamburg, Germany | Holding company for German operations which manufacture and sell paperboard and packaging products | **Germany** | 100 |

[1] *A full list of subsidiaries and associates will be annexed to the Annual Return of the Company to be filed with the Irish Registrar of Companies.*

[2] *The companies operate principally in their countries of incorporation.*

## 35. Principal subsidiaries (continued)

| Subsidiaries | Principal activities | Country of incorporation | Holding % |
|---|---|---|---|
| **Smurfit Kappa Holdings Italia, S.p.A.** Strada Serravalle 30, 15067 Novi Ligure (AL), Italy | Holding company for Italian operations whose principal activities are the manufacture and sale of paperboard and packaging products | **Italy** | 100 |
| **Smurfit Kappa Holdings US, Inc.** 1301 International Parkway, Suite 550, Sunrise, Florida 33323, USA | Holding company for US and certain Mexican operations whose principal activities are the manufacture and sale of paperboard and packaging products | **USA** | 100 |
| **Smurfit Kappa Ireland Limited** Beech Hill, Clonskeagh, Dublin 4, Ireland | Manufacture and sale of paperboard and packaging products | **Ireland** | 100 |
| **Smurfit Kappa Kraftliner Piteå AB** SE – 941 86, Piteå, Sweden | Manufacture and sale of containerboard and holding company for operations in Sweden and other countries which manufacture packaging products | **Sweden** | 100 |
| **Smurfit Kappa Nederland B.V.** Warandelaan 2, 4904 PC Oosterhout, The Netherlands | Holding company for Dutch operations which manufacture containerboard, solidboard and packaging products | **Netherlands** | 100 |
| **Smurfit Kappa Nervión, S.A.** B Arriandi s/n, 48215 Iurreta, Vizcaya, Spain | Manufacture and sale of sack paper and holding company for Spanish and Portuguese operations whose principal activities are the manufacture and sale of paperboard and packaging | **Spain** | 100 |
| **Smurfit Kappa Packaging UK Limited** Cunard Building, Pier Head, Liverpool, LS3 1SF, United Kingdom | Holding company for operations in the United Kingdom whose principal activities are the manufacture and sale of paperboard and packaging products | **England** | 100 |
| **Smurfit Kappa Participations SAS** 5 Avenue du Général de Gaulle, 94160 Saint Mandé, France | Holding company for French operations whose activities are the manufacture and sale of paperboard and packaging products | **France** | 100 |
| **Smurfit Kappa Treasury** Beech Hill, Clonskeagh, Dublin 4, Ireland | Finance company | **Ireland** | 100 |

### Section 17 Guarantees

Pursuant to the provisions of Section 17, Companies (Amendment) Act, 1986, Smurfit Kappa Group plc has irrevocably guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the filing provisions of Section 7, Companies (Amendment) Act, 1986. These Irish subsidiaries are as follows - Alvecrow Limited, Badcall Limited, Belgray Holdings, Bishopbriggs Limited, Brenchley Limited, Central Waste Paper Company Limited, Chacala Limited, Chambers Edwards Limited, Claystoke Limited, Crayside Limited, Damous Limited, Daoura Limited, DLRS (Holdings) Limited, DLRS Limited, Doovane Limited, G H Sales Limited, Gorda Limited, Gourdas Limited, Gweebara Limited, Headley Holdings, Iona Print Limited, Irish Carton Printers Limited, Irish Nursery and Landscape Company Limited, Irish Paper Products Limited, iVenus Limited, J.S. Publications Limited, Jefferson Smurfit & Sons Limited, Killeen Corrugated Products Limited, King Robert Limited, Margrave Investments Limited, New Educational Technologies Limited, Queen Mathilda Limited, Smurfit Corporate Services Limited, Smurfit Corrugated Cases (Cork) Limited, Smurfit Corrugated Ireland, Smurfit Corrugated Research Limited, Smurfit Holdings Limited, Smurfit International Limited, Smurfit Investments (Ireland) Limited, Smurfit Kappa Corporation Limited, Smurfit Kappa Funding Limited, Smurfit Kappa Holdings Limited, Smurfit Kappa Investments Limited, Smurfit Kappa Ireland Limited, Smurfit Kappa Irish Paper Sacks Limited, Smurfit Kappa Leasing, Smurfit Kappa News Press Limited, Smurfit Kappa Packaging Limited, Smurfit Kappa Recycling Ireland Limited, Smurfit Kappa Services Limited, Smurfit Kappa Treasury, Smurfit Kappa Treasury Funding Limited, Smurfit Kappa Treasury Receivables Limited, Smurfit Natural Resources Limited, Smurfit Publications Limited, Smurfit Securities Limited, Smurfit Web Research Limited, T.P. Properties Limited, TMG Limited, Trans-Pack Cases Limited, Waterford Castle Golf & Country Club Limited, Woodfab Cork Limited, Woodfab Limited, Woodfab Packaging Limited.

### Article 403 Guarantees

Smurfit Kappa Group plc has, in accordance with Article 403, Book 2 of the Dutch Civil Code, guaranteed the debts of its following Dutch subsidiaries - Adavale (Netherlands) B.V., Smurfit International B.V., Smurfit Corrugated B.V., Smurfit Holdings B.V., Smurfit Investments B.V., Packaging Investments Netherlands (PIN) B.V., Packaging Investments Holdings (PIH) B.V., Packaging Investments International (PII) B.V., Smurfit Kappa B.V., Kappa Packaging International B.V., CE International B.V., Kappa Packaging Nederland Holding B.V., Smurfit Kappa Nederland B.V., Smurfit Kappa Solid Board B.V., Smurfit Kappa Sourcing Services B.V., Kappa Packaging Insurances B.V., Smurfit Kappa Corrugated Division B.V., Smurfit Kappa Corrugated Benelux B.V., Smurfit Kappa TWINCORR B.V., Smurfit Kappa MNL Golfkarton B.V., Smurfit Kappa Van Dam Golfkarton B.V., Smurfit Kappa Vandra B.V., Cobra Golfkarton B.V., Smurfit Kappa Orko-Pak B.V., Smurfit Kappa ELCORR B.V., Smurfit Kappa Trobox Kartonnages B.V., Smurfit Kappa Zedek B.V., Smurfit Kappa European Paper Sourcing B.V., Smurfit Kappa North East Europe Head Office B.V., Smurfit Kappa Specialties Division B.V., Smurfit Kappa Attica B.V., Smurfit Kappa Triton B.V., Kartonfabriek Brittania B.V., Smurfit Kappa GSF B.V., Smurfit Kappa Recycling B.V., Kappa Graphic Board USA B.V., Smurfit Kappa Development Centre B.V., Smurfit Kappa Trimbach B.V., Smurfit Kappa Paper Services B.V., Smurfit Kappa Roermond Papier B.V., Kappa Holding (Nederland) B.V., Smurfit Kappa RapidCorr Eindhoven B.V., Smurfit Kappa Paper Sales Benelux B.V., Smurfit Kappa Group IS Nederland B.V., Smurfit Kappa Finance B.V..

# Notes to the Consolidated Financial Statements (continued)

For the Year Ended 31 December 2014

## 35. Principal subsidiaries (continued)

### Non-controlling interests

The total non-controlling interest at 31 December 2014 is €197 million (2013: €199 million), of which €126 million (2013: €124 million) is for Cartón de Colombia S.A. The non-controlling interests in respect of the Group's other subsidiaries are not considered to be material.

| Name | Principal activities | Country of incorporation | Ownership interest held by non-controlling interests % | |
|---|---|---|---|---|
| | | | **2014** | **2013** |
| Cartón de Colombia S.A. | Manufacture and sale of paperboard and packaging products | Colombia | **30** | 30 |

The profit allocated to the non-controlling interest of this subsidiary in the Group's financial statements is €16 million (2013: €8 million).

### Summarised financial information

The following is summarised financial information for Cartón de Colombia S.A., prepared in accordance with IFRS 12, *Disclosure of Interests in Other Entities*. The information is before intragroup eliminations with other Group companies.

### Summarised income statement

| | **2014 €m** | **2013 €m** |
|---|---|---|
| Revenue | **381** | 371 |
| Profit before income tax | **73** | 42 |
| Income tax expense | **(19)** | (11) |
| Profit for the financial year | **54** | 31 |
| Other comprehensive expense | **(36)** | (52) |
| **Total comprehensive income/(expense) for the financial year** | **18** | (21) |

### Summarised balance sheet

| | **2014 €m** | **2013 €m** |
|---|---|---|
| Current assets | **147** | 135 |
| Non-current assets | **377** | 368 |
| Current liabilities | **80** | 74 |
| Non-current liabilities | **56** | 47 |
| **Net assets** | **388** | 382 |

### Summarised cash flow

| | **2014 €m** | **2013 €m** |
|---|---|---|
| Cash flows from operating activities | **56** | 47 |
| Cash flows from investing activities | **(33)** | (30) |
| Cash flows from financing activities | **(21)** | (16) |
| **Net increase in cash and cash equivalents** | **2** | 1 |
| | | |
| **Dividends paid to non-controlling interests during the year**[1] | **4** | 5 |

[1] *Included in cash flows from financing activities*

# 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 2014, 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 | 670 | 41.2 | 284 | 0.1 |
| 1,001 - 5,000 | 395 | 24.3 | 964 | 0.4 |
| 5,001 - 10,000 | 113 | 7.0 | 827 | 0.4 |
| 10,001 - 50,000 | 192 | 11.8 | 4,456 | 1.9 |
| 50,001 - 100,000 | 65 | 4.0 | 4,665 | 2.0 |
| 100,001 - 500,000 | 109 | 6.7 | 24,431 | 10.6 |
| Over 500,000 | 81 | 5.0 | 195,970 | 84.6 |
| Totals | 1,625 | 100.0 | 231,597 | 100.0 |

## Stock exchange listings

The Company's shares are listed on the following exchanges:

| Exchange | City | Symbol |
|---|---|---|
| **ISE** | **Dublin** | **SK3** |
| **LSE** | **London** | **SKG** |

## Financial calendar

| | |
|---|---|
| AGM | 1 May 2015 |
| Interim results announcement | 29 July 2015 |

## Website

The Investors section on the Group's website, 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 should be directed to the Company's Registrars:

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

## 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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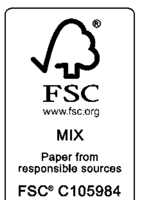


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