Smurfit Kappa

Leading Innovating Delivering

for a Sustainable Future

Annual Report 2019

Directors' Report

Report of the Directors
The Directors submit their Report and Audited Financial Statements for the financial year ended 31 December 2019.

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 the Eurozone, Sweden and the United Kingdom) and the Americas (principally Argentina, Brazil, Colombia, Mexico and the United States).

The Chair's Statement, Group Chief Executive Officer's Statement, Strategy Statement, Finance Review (including financial risk management policies), Stakeholder Engagement, Sustainability report and People report on pages 16 to 25 and 34 to 53 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 89.

Financial key performance indicators are set out on pages 26 to 28. The Consolidated Financial Statements for the financial year ended 31 December 2019 are set out in detail on pages 89 to 161.

Dividends
In October 2019, an interim dividend of 27.9 cent per share was paid to holders of ordinary shares. The Board is recommending a final dividend of 80.9 cent per share for 2019. Subject to shareholders' approval at the AGM on 30 April 2020, it is proposed to pay the final dividend on 15 May 2020 to all holders of ordinary shares on the share register at the close of business on 17 April 2020.

Research and Development
The Company's subsidiaries are engaged in ongoing 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.

Accounting Records
The Directors are responsible for ensuring that adequate accounting records, as outlined in Section 281-286 of the Companies Act, 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 accounting records of the Company are maintained at the Group's principal executive offices, located at Beech Hill, Clonskeagh, Dublin 4, D04 N2R2.

Directors
The members of the current Board of Directors are named on pages 54 to 56 together with a short biographical note on each Director. Dr. Lourdes Melgar was appointed to the Board as a non-executive Director on 1 January 2020. Ms. Christel Bories and Mr. Roberto Newell acted as non-executive Directors of the Company until their retirement from the Board, effective 5 December 2019.

On 3 May 2019 Mr. Irial Finan was appointed Chair succeeding Mr. Liam O'Mahony who retired as a non-executive Director and Chair on the same date.

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 2020 AGM.

To enable shareholders to make an informed decision, reference should be made to pages 54 to 56 which contains a biographical note on each Director offering themselves for re-election and to the Notice of the AGM 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 57 to 61 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 73, 74 and 76 and are incorporated into this Directors' Report.

Principal Risks and Uncertainties
Under Irish company law (Section 327 of the Companies Act), the Directors are required to give a description of the principal risks and uncertainties which the Group faces. These principal risks and uncertainties are set out on pages 32 and 33, and form part of this report as required by Section 327 of the Companies Act.

Corporate Governance
Under Section 1373 of the Companies Act, the Directors' Report is required to include a Corporate Governance Statement. The Directors' Corporate Governance Statement is set out on pages 57 to 61 and forms part of this report. The Audit Committee Report, the Remuneration Report, the Nomination Report and the Sustainability Committee Report are set out on pages 62 to 80.

Subsidiary and Associated Undertakings
A list of the Group's principal subsidiaries and associates as at 31 December 2019 is set out in Note 34 to the Consolidated Financial Statements.

Substantial Holdings

	31 December 2019		**6 March 2020**	
	Number of Shares	% of Issued Ordinary Share Capital	**Number of Shares**	**% of Issued Ordinary Share Capital**
Norges Bank	16,460,550	6.92%	**16,702,373**	**7.00%**
BlackRock, Inc	14,312,556	6.02%	**14,683,024**	**6.16%**
Lansdowne Partners	7,151,285	3.01%	**9,583,272**	**4.02%**

The table above shows all notified shareholdings in excess of 3% of the issued ordinary share capital of the Company as at 31 December 2019 and 6 March 2020.

Directors' Report continued

Audit Committee

The Group has established an Audit Committee. The responsibilities of the Audit Committee are outlined on page 62.

Non-Financial Information

Pursuant to the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 (the 'Non-Financial Regulations'), the Group is required to report certain non-financial information to provide an understanding of its development, performance, position and the impact of its activities. We have set out the location below of the information required by the Non-Financial Regulations in this Annual Report. Each referenced section of the Annual Report is deemed to form part of this Directors' Report:

Requirement	Relevant Policies	Section(s) in Annual Report	Pages
Environmental Matters	Environmental Policy, Sustainable Sourcing Policy, Sustainable Forestry and Fibre Sourcing Policy	Sustainability	40 to 45
Social Matters	Social Citizenship Policy	Sustainability, People	40 to 45
Employee Matters	Code of Conduct, Health and Safety Policy, Social Citizenship Policy	Sustainability, People	40 to 53
Human Rights	Code of Conduct, Social Citizenship Policy	Sustainability	40 to 45
Anti-Corruption and Bribery	Code of Conduct	Sustainability	40 to 45
Business Model		Our Business Model	6 to 7
Principal Risks		Risk Report	30 to 33
Non-Financial KPIs		Key Performance Indicators	28 to 29

In addition to the information required by the Non-Financial Regulations, the Group publishes a comprehensive, assured Sustainable Development Report which details our sustainability strategy, corporate social responsibilities and commitments to social matters. The 2019 Sustainable Development Report will be published on our website in April 2020.

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 2021 or 29 July 2021.

A similar authority was granted at the AGM in 2019, which is due to expire on the earlier of the date of the AGM in 2020 or 2 August 2020. Information on the acquisition and disposal of own shares is set out in Note 23 to the Consolidated Financial Statements.

Change of Control

On a change of control following a bid, the Lenders under the new RCF 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.

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.

Directors' Compliance Statement

The Directors acknowledge that they are responsible for securing compliance by the Company of its relevant obligations as set out in the Companies Act (the 'Relevant Obligations').

The Directors further confirm that there is a Compliance Policy Statement in place setting out the Company's policies which, in the Directors' opinion, are appropriate to ensure compliance with the Company's Relevant Obligations.

The Directors also confirm that appropriate arrangements and structures are in place which, in the Directors' opinion, are designed to secure material compliance with the Company's Relevant Obligations. For the financial year ended 31 December 2019, the Directors, with the assistance of the Audit Committee, have conducted a review of the arrangements and structures in place. In discharging their responsibilities under Section 225 of the Companies Act, the Directors relied on the advice of persons who the Directors believe have the requisite knowledge and experience to advise the Company on compliance with its Relevant Obligations.

Financial Instruments

In the normal course of business, the Group has exposure to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk and credit risk. The Group and Company financial risk objectives and policies are set out in Note 29 to the Consolidated Financial Statements.

Disclosure of Information to the External Auditor

Each of the Directors individually confirm that:

- in so far as they are aware, there is no relevant audit information of which the Company's External Auditor is unaware; and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's External Auditor is aware of such information.

External Auditor

KPMG, Chartered Accountants, were first appointed statutory auditors on 4 May 2018 and have been reappointed annually since that date and persuant to section 383(2) will continue in office.

A. Smurfit
Director

K. Bowles
Director

6 March 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company Financial Statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company Financial Statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and applicable law including Article 4 of the IAS Regulation. The Directors have elected to prepare the Company Financial Statements in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of Companies Act 2014.

Under company law the Directors must not approve the Group and Company Financial Statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Company and of the Group's profit or loss for that year. In preparing each of the Group and Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, 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 and the Parent Company will continue in business.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and which enable them to ensure that the Financial Statements of the Company comply with the provisions of the Companies Act 2014. The Directors are also responsible for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the Financial Statements of the Group comply with the provisions of the Companies Act 2014 including Article 4 of the IAS Regulation. They are responsible for such internal controls as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibilities 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 also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

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

Responsibility Statement as Required by the Transparency Directive and UK Corporate Governance Code

Each of the Directors, whose names and functions are listed on pages 54 to 56 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- The Group Financial Statements, prepared in accordance with IFRS as adopted by the European Union and the Company Financial Statements prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of Companies Act 2014, give a true and fair view of the assets, liabilities, and financial position of the Group and Company at 31 December 2019 and of the profit or loss of the Group for the year then ended;
- 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 Group and Company, together with a description of the principal risk and uncertainties that they face; and
- 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 and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

A. Smurfit
Director

K. Bowles
Director

6 March 2020

Independent Auditor's Report to the Members of Smurfit Kappa Group plc

Opinion

We have audited the Financial Statements of Smurfit Kappa Group plc ('the Company') and its subsidiaries (together 'the 'Group') for the year ended 31 December 2019, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cash Flows, and the related notes, including the *Summary of Significant Accounting Policies* set out in Note 2. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards ('IFRS') as adopted by the European Union and, as regards the Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the Financial Statements give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014; and
- the Group and Company Financial Statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ('ISAs (Ireland)') and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the shareholders on 4 May 2018. The period of total uninterrupted engagement is the two years, ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remained independent of the Group in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority ('IAASA') as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Key Audit Matters: Our Assessment of Risks of Material Misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Goodwill Impairment Assessment €2,383 Million (2018 – €2,361 Million)

Refer to Note 2 (accounting policy) and Note 13 (financial disclosures)

The Key Audit Matter	How the Matter was Addressed in our Audit
The Group has significant goodwill arising from acquisitions amounting to €2,383 million at 31 December 2019. Goodwill is required to be tested at least annually for impairment irrespective of whether there are indicators of impairment. The Group has performed an impairment assessment as of 31 December 2019. The goodwill is allocated to 15 groups of cash-generating units ('CGUs') – three of which individually account for between 10% and 20% of the total carrying amount. The recoverable amount of goodwill is arrived at by forecasting and discounting future cash flows to determine value-in-use for each CGU. We focus on this area due to the significance of the balance compared to total assets of the Group and the inherent judgement and assumptions involved in forecasting future cash flows.	We obtained and documented our understanding of the process followed by management in calculating the recoverable amount of each CGU and tested the design and implementation of the relevant controls therein. We paid particular attention to the Brazilian CGU due to the CGU having limited headroom in the past. As reported in Note 13, an impairment was recorded, as approved by the Board, and we specifically addressed the appropriateness of the impairment as part of our audit procedures. We assessed the Group's valuation models and calculations by: • checking the mathematical accuracy of the model; • assessing and challenging the appropriateness of the discount rates applied and the future operating cash flow assumptions in determining the value-in-use of each CGU using our valuation specialist and by comparing the assumptions, where possible, to externally derived data as well as our own assumptions; • assessing and challenging the reasonableness of the long-term economic growth rate applied for each CGU by comparing the Group's assumptions, where possible, to externally derived data as well as our own assumptions; • performing sensitivity analysis on the impact of changes in the assumptions; and • comparing the Group's market capitalisation to the carrying value of the Group's net assets. We assessed the disclosures in the Financial Statements relating to the impairment testing methodology, sensitivity analysis and other matters. We found that management's judgements were appropriate and supported by reasonable assumptions. We found the disclosures to be adequate.

Key Audit Matters: Our Assessment of Risks of Material Misstatement continued

Defined Benefit Pension Liability – Valuation of €899 Million (2018 – €804 Million)

Refer to Note 2 (accounting policy) and Note 25 (financial disclosures).

The Key Audit Matter	How the Matter was Addressed in our Audit
The Group operates a number of defined benefit pension schemes. Accounting for such schemes gives rise to an element of judgement and volatility arising from movements in actuarial assumptions and the selection of same. We focus on this area due to the level of estimation uncertainty involved and the sensitivity of the pension liabilities to changes in assumptions applied.	We obtained and documented our understanding of the process for the accounting for defined benefit pension schemes and tested the design and implementation of the relevant controls. We inquired as to any changes or proposed changes to pension arrangements to assess any impact on the accounting treatment applied. We inspected Board minutes to identify any items arising that may impact on the pension arrangements in place. We performed substantive testing on the key data underlying the actuarial assessment and the maintenance of each scheme's membership data. We challenged, with the support of our actuarial specialist, the key assumptions applied to this data to determine the Group's gross obligation, being the discount rates, inflation rate and mortality/life expectancies. This included a comparison of these key assumptions against externally derived data. We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the net deficit to these assumptions. We evaluated the work completed by external experts used by management. We found the key assumptions used in, and the resulting estimate of, the valuation of the retirement benefit obligations within the Group to be reasonable and the related disclosures to be appropriate.

We updated our risk assessment during 2019, which resulted in a number of key audit matters that were reported in 2018 being removed as key audit matters in 2019. The risks and the factors leading to a reduced risk in 2019 are as follows:

- Venezuela – deconsolidation: this was a specific event in 2018 that was not repeated in 2019;
- Taxation – valuation of deferred tax assets and provision for uncertain tax positions: the performance of the French Component improved in 2019 which resulted in reduced complexity and subjectivity in the valuation of the deferred tax asset. In addition, a number of uncertain tax positions were successfully resolved in 2019; and
- Acquisition accounting: current year acquisitions were not deemed significant after considering the transaction value compared to the market capitalisation of the Group and the impact on the Balance Sheet of the Group.

We continue to perform audit procedures over each of these areas, however as noted, we have not assessed these as the most significant risks in the current year audit and, therefore, they are not separately identified in our report this year.

Independent Auditor's Report to the Members of Smurfit Kappa Group plc continued

Company Key Audit Matter
Investment in Subsidiaries – Carrying Value €2,100 Million (2018 – €2,078 Million)
Refer to Note 2 (accounting policy) and Note 14 (financial disclosures)

The Key Audit Matter	How the Matter was Addressed in our Audit
The investment in subsidiary undertakings is carried in the Balance Sheet of the Company at cost less impairment. There is a risk in respect of the carrying value of these investments if future cash flows and performance of these subsidiaries is not sufficient to support the Company's investments. We focus on this area due to the significance of the balance to the Company Balance Sheet and the inherent uncertainty involved in forecasting and discounting future cash flows.	We obtained and documented our understanding of the process surrounding impairment considerations and tested the design and implementation of the relevant controls therein. Our audit procedures in this area included: • consideration of management's assessment of impairment indicators; • comparing the carrying value of investments in the Company's Balance Sheet to the net assets of the subsidiary Financial Statements; and • considering the audit work performed in respect of current year results of subsidiaries and the valuation of goodwill and intangible assets. We found management's assessment of the carrying value of the investment in subsidiary undertakings to be appropriate.

Our Application of Materiality and an Overview of the Scope of our Audit

The materiality for the Group Financial Statements as a whole was set at €36 million (2018: €35 million). This has been calculated based on the Group EBITDA of €1,650 million (2018: €1,545 million) of which it represents approximately 2.2% (2018: 2.2%). In determining that EBITDA was the most appropriate benchmark, we considered the prevalence of EBITDA as a measure of performance for the Group and the wider industry within analyst reports, industry commentaries and investor communications. We considered the determined materiality in the context of other commonly used benchmarks including pre-exceptional profit before tax, revenue and net assets and determined materiality of €36 million to be reasonable.

We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit in excess of €1 million (2018: €1 million), in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Materiality for the Company Financial Statements as a whole was set at €21 million (2018: €21 million) determined with reference to a benchmark of the Company's total assets of which it represents 1% (2018: 1%).

The scope of our audit was tailored to reflect the Group's structure, activities and financially significant operations. The Group is structured across two operating segments, Europe and the Americas. The operations of the Group are significantly disaggregated, split across a large number of operating plants in 35 countries. Reporting components are considered by individual operating plants, a combination of plants or on a geographical basis.

Through our scoping procedures we identified those reporting units for which we deemed that a complete financial audit was required, due to size, potential risks identified and to ensure appropriate coverage. We also subjected certain reporting units to specified risk-focused audit procedures. Such reporting units were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed. The reporting units identified amounted to 85% (2018: 92%) of the Group's EBITDA, 79% (2018: 80%) of the Group's revenue, and 85% (2018: 87%) of the Group's total assets.

The Group audit team instructed component auditors as to the significant areas to be addressed, including the relevant risks detailed above, and the information to be reported to the Group audit team.

The Group audit team approved the materiality for components, which ranged from €1.8 million to €10 million (2018: €1.4 million to €10 million), having regard to the mix of size and risk profile of the components across the Group. The work on all components was performed by component auditors and the audit of the Company was performed by the Group team. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these components.

The Group audit team visited or held video and telephone conference meetings with all significant components in order to assess the audit risk and strategy and audit work undertaken. At these visits and meetings, a review of workpapers was undertaken by the Group audit team and the findings reported to the Group audit team by the component auditor were discussed in detail.

We Have Nothing to Report on Going Concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement within the Risk Report on page 31 on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the Financial Statements; or
- the related statement under the Listing Rules of Euronext Dublin and the UK Listing Authority set out on page 31 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

Other Information
The Directors are responsible for the preparation of the other information presented in the Annual Report together with the Financial Statements. The other information comprises the information included in the Directors' Report and the Overview, Strategic Report and Governance sections of the Annual Report.

The Financial Statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information we report that, in those parts of the Directors' report specified for our consideration:
- we have not identified material misstatements in the Directors' Report;
- in our opinion, the information given in the Directors' Report is consistent with the Financial Statements; and
- in our opinion, the Directors' Report has been prepared in accordance with the Companies Act 2014.

Disclosures of Principal Risks and Longer-term Viability
Based on the knowledge we acquired during our Financial Statements audit, we have nothing material to add or draw attention to in relation to:
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated;
- the Directors' confirmation within the Risk Report on page 31 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity; and
- the Directors' explanation in the Risk Report of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other Corporate Governance Disclosures
We are required to address the following items and report to you in the following circumstances:
- Fair, balanced and understandable: if we have identified material inconsistencies between the knowledge we acquired during our Financial Statements audit and the Directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- Report of the Audit Committee: if the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; and
- Statement of compliance with UK Corporate Governance Code: if the Directors' statement does not properly disclose a departure from provisions of the UK Corporate Governance Code specified by the Listing Rules of Euronext Dublin and the UK Listing Authority for our review.

We have nothing to report in these respects.

In addition as required by the Companies Act 2014, we report, in relation to information given in the Corporate Governance Statement on pages 57 to 61, that:
- based on the work undertaken for our audit, in our opinion, the description of the main features of internal control and risk management systems in relation to the financial reporting process, and information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/EC) Regulations 2006 and specified for our consideration, is consistent with the Financial Statements and has been prepared in accordance with the Act;
- based on our knowledge and understanding of the Company and its environment obtained in the course of our audit, we have not identified any material misstatements in that information; and
- the Corporate Governance Statement contains the information required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017.

We also report that, based on work undertaken for our audit, the information required by the Act is contained in the Corporate Governance Statement.

Remuneration Report
In addition to our audit of the Financial Statements, the Directors have engaged us to audit the information in the Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the part of the Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the UK Companies Act 2006, as if those requirements were to apply to the Company.

Our Opinions on Other Matters Prescribed by the Companies Act 2014 are Unmodified
We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Company were sufficient to permit the Financial Statements to be readily and properly audited and the Financial Statements are in agreement with the accounting records.

We Have Nothing to Report on Other Matters on Which we are Required to Report by Exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

The Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by section 5(2) to (7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 for the year ended 31 December 2019 as required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) (amendment) Regulations 2018.

The Listing Rules of Euronext Dublin and the UK Listing Authority require us to review:
- the Directors' statement, set out on pages 30 and 31, in relation to going concern and longer-term viability;
- the part of the Corporate Governance Statement on pages 57 to 61 relating to the Company's compliance with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures in the report to shareholders by the Remuneration Committee.

Respective Responsibilities and Restrictions on use

Directors' Responsibilities

As explained more fully in their statement set out on page 83, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation and not just those directly affecting the Financial Statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf

The Purpose of our Audit Work and to Whom we Owe our Responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for our report, or for the opinions we have formed.

Roger Gillespie
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Stokes Place
St. Stephen's Green
Dublin 2
Ireland

6 March 2020

Consolidated Income Statement

For the Financial Year Ended 31 December 2019

	Note	2019 Pre-exceptional €m	2019 Exceptional €m	2019 Total €m	2018 Pre-exceptional €m	2018 Exceptional €m	2018 Total €m
Revenue	5	**9,048**	**–**	**9,048**	8,946	–	8,946
Cost of sales	6	**(6,043)**	**(8)**	**(6,051)**	(5,989)	–	(5,989)
Gross profit		**3,005**	**(8)**	**2,997**	2,957	–	2,957
Distribution costs	6	**(730)**	**–**	**(730)**	(705)	–	(705)
Administrative expenses	6	**(1,213)**	**–**	**(1,213)**	(1,147)	–	(1,147)
Other operating expenses	6	**–**	**(170)**	**(170)**	–	(66)	(66)
Operating profit		**1,062**	**(178)**	**884**	1,105	(66)	1,039
Finance costs	8	**(210)**	**(37)**	**(247)**	(214)	(6)	(220)
Finance income	8	**18**	**20**	**38**	47	–	47
Share of associates' profit (after tax)		**2**	**–**	**2**	–	–	–
Deconsolidation of Venezuela	6	**–**	**–**	**–**	–	(1,270)	(1,270)
Profit/(loss) before income tax		**872**	**(195)**	**677**	938	(1,342)	(404)
Income tax expense	9			**(193)**			(235)
Profit/(loss) for the financial year				**484**			(639)
Attributable to:							
Owners of the parent				**476**			(646)
Non-controlling interests				**8**			7
Profit/(loss) for the financial year				**484**			(639)
Earnings per share							
Basic earnings per share – cent	10			**201.6**			(273.7)
Diluted earnings per share – cent	10			**200.0**			(273.7)

Consolidated Statement of Comprehensive Income

For the Financial Year Ended 31 December 2019

	Note	2019 €m	2018 €m
Profit/(loss) for the financial year		**484**	(639)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Foreign currency translation adjustments:			
– Arising in the financial year		**12**	(201)
– Recycled to Consolidated Income Statement on deconsolidation of Venezuela		**–**	1,196
Effective portion of changes in fair value of cash flow hedges:			
– Movement out of reserve		**8**	11
– Fair value gain/(loss) on cash flow hedges		**5**	(6)
– Movement in deferred tax	9	**(1)**	–
Changes in fair value of cost of hedging:			
– Movement out of reserve		**(1)**	(1)
– New fair value adjustments into reserve		**–**	2
		23	1,001
Items which will not be subsequently reclassified to profit or loss			
Defined benefit pension plans:			
– Actuarial loss	25	**(117)**	(6)
– Movement in deferred tax	9	**26**	–
Net change in fair value of investment in equity instruments		**(11)**	–
		(102)	(6)
Total other comprehensive (expense)/income		**(79)**	995
Total comprehensive income for the financial year		**405**	356
Attributable to:			
Owners of the parent		**394**	370
Non-controlling interests		**11**	(14)
Total comprehensive income for the financial year		**405**	356

Consolidated Balance Sheet
At 31 December 2019

	Note	2019 €m	2018 €m
ASSETS			
Non-current assets			
Property, plant and equipment	12	**3,920**	3,613
Right-of-use assets	30	**346**	–
Goodwill and intangible assets	13	**2,616**	2,590
Other investments	14	**10**	20
Investment in associates	15	**16**	14
Biological assets	16	**106**	100
Other receivables	19	**40**	40
Derivative financial instruments	29	**6**	8
Deferred income tax assets	17	**185**	153
		7,245	6,538
Current assets			
Inventories	18	**819**	847
Biological assets	16	**11**	11
Trade and other receivables	19	**1,634**	1,667
Derivative financial instruments	29	**13**	13
Restricted cash	22	**14**	10
Cash and cash equivalents	22	**189**	407
		2,680	2,955
Total assets		**9,925**	9,493
EQUITY			
Capital and reserves attributable to owners of the parent			
Equity share capital	23	**–**	–
Share premium	23	**1,986**	1,984
Other reserves	23	**351**	355
Retained earnings		**615**	420
Total equity attributable to owners of the parent		**2,952**	2,759
Non-controlling interests	34	**41**	131
Total equity		**2,993**	2,890
LIABILITIES			
Non-current liabilities			
Borrowings	24	**3,501**	3,372
Employee benefits	25	**899**	804
Derivative financial instruments	29	**9**	17
Deferred income tax liabilities	17	**175**	173
Non-current income tax liabilities		**27**	36
Provisions for liabilities	27	**78**	47
Capital grants		**18**	18
Other payables	28	**10**	14
		4,717	4,481
Current liabilities			
Borrowings	24	**185**	167
Trade and other payables	28	**1,863**	1,871
Current income tax liabilities		**13**	24
Derivative financial instruments	29	**7**	10
Provisions for liabilities	27	**147**	50
		2,215	2,122
Total liabilities		**6,932**	6,603
Total equity and liabilities		**9,925**	9,493

A. Smurfit
Director

K. Bowles
Director

Company Balance Sheet
At 31 December 2019

	Note	2019 €m	2018 €m
ASSETS			
Non-current assets			
Financial assets	14	**2,100**	2,078
		2,100	2,078
Current assets			
Amounts receivable from Group companies	19	**252**	220
		252	220
Total assets		**2,352**	2,298
EQUITY			
Capital and reserves attributable to owners of the parent			
Equity share capital	23	**–**	–
Share premium	23	**1,986**	1,984
Share-based payment reserve		**154**	132
Retained earnings		**202**	177
Total equity		**2,342**	2,293
LIABILITIES			
Current liabilities			
Amounts payable to Group companies	28	**10**	5
Total liabilities		**10**	5
Total equity and liabilities		**2,352**	2,298

A. Smurfit
Director

K. Bowles
Director

Consolidated Statement of Changes in Equity
For the Financial Year Ended 31 December 2019

	Attributable to Owners of the Parent						
	Equity Share Capital €m	Share Premium €m	Other Reserves[1] €m	Retained Earnings €m	Total €m	Non-controlling Interests €m	Total Equity €m
At 31 December 2018	**–**	**1,984**	**355**	**420**	**2,759**	**131**	**2,890**
Adjustment on initial application of IFRS 16 (net of tax) (Note 4)	**–**	**–**	**–**	**(21)**	**(21)**	**–**	**(21)**
At 1 January 2019	**–**	**1,984**	**355**	**399**	**2,738**	**131**	**2,869**
Profit for the financial year	**–**	**–**	**–**	**476**	**476**	**8**	**484**
Other comprehensive income							
Foreign currency translation adjustments	**–**	**–**	**9**	**–**	**9**	**3**	**12**
Defined benefit pension plans	**–**	**–**	**–**	**(91)**	**(91)**	**–**	**(91)**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**12**	**–**	**12**	**–**	**12**
Changes in fair value of cost of hedging	**–**	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
Net change in fair value of investment in equity instruments	**–**	**–**	**(11)**	**–**	**(11)**	**–**	**(11)**
Total comprehensive income for the financial year	**–**	**–**	**9**	**385**	**394**	**11**	**405**
Shares issued	**–**	**2**	**–**	**–**	**2**	**–**	**2**
Purchase of non-controlling interests	**–**	**–**	**(29)**	**45**	**16**	**(97)**	**(81)**
Hyperinflation adjustment	**–**	**–**	**–**	**24**	**24**	**–**	**24**
Dividends paid	**–**	**–**	**–**	**(238)**	**(238)**	**(4)**	**(242)**
Share-based payment	**–**	**–**	**39**	**–**	**39**	**–**	**39**
Net shares acquired by SKG Employee Trust	**–**	**–**	**(23)**	**–**	**(23)**	**–**	**(23)**
At 31 December 2019	**–**	**1,986**	**351**	**615**	**2,952**	**41**	**2,993**
At 1 January 2018	–	1,984	(678)	1,202	2,508	151	2,659
(Loss)/profit for the financial year	–	–	–	(646)	(646)	7	(639)
Other comprehensive income							
Foreign currency translation adjustments	–	–	1,015	–	1,015	(20)	995
Defined benefit pension plans	–	–	–	(5)	(5)	(1)	(6)
Effective portion of changes in fair value of cash flow hedges	–	–	5	–	5	–	5
Changes in fair value of cost of hedging	–	–	1	–	1	–	1
Total comprehensive income/(expense) for the financial year	–	–	1,021	(651)	370	(14)	356
Purchase of non-controlling interests	–	–	–	(5)	(5)	(3)	(8)
Hyperinflation adjustment	–	–	–	87	87	10	97
Dividends paid	–	–	–	(213)	(213)	(6)	(219)
Share-based payment	–	–	22	–	22	–	22
Net shares acquired by SKG Employee Trust	–	–	(10)	–	(10)	–	(10)
Deconsolidation of Venezuela	–	–	–	–	–	(7)	(7)
At 31 December 2018	–	1,984	355	420	2,759	131	2,890

1 An analysis of Other Reserves is provided in Note 23.

Company Statement of Changes in Equity
For the Financial Year Ended 31 December 2019

	Equity Share Capital €m	Share Premium €m	Share-based Payment Reserve €m	Retained Earnings €m	Total Equity €m
At 1 January 2019	**–**	**1,984**	**132**	**177**	**2,293**
Profit for the financial year	**–**	**–**	**–**	**263**	**263**
Dividends paid	**–**	**–**	**–**	**(238)**	**(238)**
Shares issued	**–**	**2**	**–**	**–**	**2**
Share-based payment	**–**	**–**	**22**	**–**	**22**
At 31 December 2019	**–**	**1,986**	**154**	**202**	**2,342**
At 1 January 2018	–	1,984	121	155	2,260
Profit for the financial year	–	–	–	235	235
Dividends paid	–	–	–	(213)	(213)
Share-based payment	–	–	11	–	11
At 31 December 2018	–	1,984	132	177	2,293

Consolidated Statement of Cash Flows

For the Financial Year Ended 31 December 2019

	Note	2019 €m	2018 €m
Cash flows from operating activities			
Profit/(loss) before income tax		**677**	(404)
Adjustment for:			
Net finance costs	8	**209**	173
Depreciation charge	12, 30	**496**	379
Impairment of property, plant and equipment and intangible assets	12, 13	**8**	–
Impairment of goodwill	13	**46**	–
Amortisation of intangible assets	13	**45**	40
Amortisation of capital grants		**(2)**	(2)
Equity settled share-based payment expense	26	**39**	22
Profit on sale of property, plant and equipment		**(3)**	(3)
(Profit)/loss on purchase/disposal of businesses		**(4)**	11
Deconsolidation of Venezuela – exceptional items		**–**	1,270
Share of associates' profit (after tax)		**(2)**	–
Net movement in working capital	20	**48**	(93)
Change in biological assets	16	**6**	(3)
Change in employee benefits and other provisions		**51**	(26)
Other (primarily hyperinflation adjustments)		**4**	29
Cash generated from operations		**1,618**	1,393
Interest paid		**(233)**	(167)
Income taxes paid:			
Irish corporation tax paid		**(5)**	(10)
Overseas corporation tax (net of tax refunds) paid		**(217)**	(183)
Net cash inflow from operating activities		**1,163**	1,033
Cash flows from investing activities			
Interest received		**4**	4
Business disposals		**–**	(8)
Deconsolidation of Venezuela		**–**	(17)
Additions to property, plant and equipment and biological assets		**(612)**	(528)
Additions to intangible assets	13	**(20)**	(25)
Receipt of capital grants		**2**	2
Increase in restricted cash		**(4)**	(1)
Disposal of property, plant and equipment		**7**	7
Dividends received from associates		**1**	–
Purchase of subsidiaries (net of acquired cash)	32	**(99)**	(482)
Deferred consideration paid		**(14)**	(1)
Net cash outflow from investing activities		**(735)**	(1,049)
Cash flows from financing activities			
Proceeds from issue of new ordinary shares		**2**	–
Proceeds from bond issuance		**1,153**	600
Proceeds from other debt issuance		**417**	–
Purchase of own shares (net)	23	**(23)**	(10)
Purchase of non-controlling interests		**(81)**	(16)
(Decrease)/increase in other interest-bearing borrowings		**(222)**	94
Repayment of lease liabilities (2018: repayment of finance lease liabilities)	21	**(83)**	(2)
Repayment of borrowings		**(1,528)**	(525)
Derivative termination receipts	21	**1**	17
Deferred debt issue costs paid		**(23)**	(9)
Dividends paid to shareholders	11	**(238)**	(213)
Dividends paid to non-controlling interests	34	**(4)**	(6)
Net cash outflow from financing activities		**(629)**	(70)
Decrease in cash and cash equivalents	21	**(201)**	(86)
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January	21	**390**	503
Currency translation adjustment	21	**(17)**	(27)
Decrease in cash and cash equivalents	21	**(201)**	(86)
Cash and cash equivalents at 31 December	21, 22	**172**	390

Company Statement of Cash Flows
For the Financial Year Ended 31 December 2019

	Note	2019 €m	2018 €m
Cash flows from operating activities			
Profit before income tax	33	**263**	235
Adjustment for:			
Group creditor movements		**5**	1
Net cash inflow from operating activities		**268**	236
Cash flows from financing activities			
Group loan movements		**(32)**	(23)
Proceeds from issue of new ordinary shares		**2**	–
Dividends paid to shareholders		**(238)**	(213)
Net cash outflow from financing activities		**(268)**	(236)
Movement in cash and cash equivalents		**–**	–
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January		**–**	–
Movement in cash and cash equivalents		**–**	–
Cash and cash equivalents at 31 December		**–**	–

Notes to the Consolidated Financial Statements
For the Financial Year Ended 31 December 2019

1. General Information
Smurfit Kappa Group plc ('SKG plc' or 'the Company') and its subsidiaries (together 'SKG' or 'the Group') primarily manufacture, distribute and sell containerboard, corrugated containers and other paper-based packaging products. The Company is a public limited company whose shares are publicly traded. It is incorporated and domiciled in Ireland. The address of its registered office is Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, Ireland.

The Consolidated Financial Statements of the Group for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 6 March 2020.

2. Summary of Significant Accounting Policies
The Group has consistently applied the following significant accounting policies to all periods presented, unless otherwise stated, see *New and Amended Standards and Interpretations Effective During 2019* below in relation to IFRS 16, *Leases*.

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') as adopted by the European Union ('EU'), those parts of the Companies Act 2014 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation. The Company Financial Statements have been prepared in accordance with IFRS adopted by the EU as applied in accordance with the provisions of the Companies Act 2014. 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: certain financial assets and liabilities including derivative financial instruments; biological assets; share-based payments at grant date; pension plan assets; and contingent consideration. 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 Argentina.

The preparation of financial statements in accordance with IFRS 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 and Interpretations Effective During 2019
The Group has applied the following standards, interpretations and amendments with effect from 1 January 2019:
- IFRS 16, *Leases*;
- Amendments to IFRS 9, *Prepayment Features with Negative Compensation*;
- Amendments to IAS 28, *Long-term Interests in Associates and Joint Ventures*;
- *Annual Improvements 2015-2017 Cycle;*
- Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*; and
- IFRIC 23, *Uncertainty over Income Tax Treatments.*

The effect of applying IFRS 16 is disclosed in the *Changes in Significant Accounting Policies* note. The other changes listed above did not result in material changes to the Group's Consolidated Financial Statements.

New and Amended Standards and Interpretations Issued but not yet Effective or Early Adopted
A number of new standards and interpretations have been issued but are not yet effective for the Group. These standards 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.

Subsidiaries
Subsidiaries are entities controlled by the Group. They are consolidated from the date on which control is obtained by the Group. They are deconsolidated 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 the entity and has the ability to affect those returns through its power over the entity. 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.

2. Summary of Significant Accounting Policies continued

Basis of Consolidation continued

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 from the date on which significant influence is obtained until the date on which such influence is lost. 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's 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. 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. Where necessary, the accounting policies of associates are modified to ensure consistency with Group accounting policies.

Revenue

The Group's revenue is primarily derived from the sale of containerboard, corrugated containers and other paper-based packaging products. All revenue relates to revenue from contracts with customers. Contracts with customers include a single performance obligation to sell these products and do not generally contain multiple performance obligations. Revenue comprises the fair value of the consideration receivable for goods sold to third party customers in the ordinary course of business. It excludes sales based taxes and is net of allowances for volume based rebates and early settlement discounts.

The transaction price is the contracted price with the customer adjusted for volume based rebates and early settlement discounts. Goods are often sold with retrospective volume rebates based on aggregate sales over a certain period of time and early settlement discounts. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated rebates and discounts. Accumulated experience is used to estimate and provide for the rebates and discounts, using the most likely amount method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with credit terms consistent with market practice and are in line with normal credit terms in the entities' country of operation.

Revenue is recognised when control of the goods has transferred to the customer, being when the goods are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer and the customer has accepted the goods in accordance with the sales contract. For the Group, revenue is recognised at the point in time when delivery to the customer has taken place.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Foreign Currency

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements of the Group are presented in euro which is the presentation currency of the Group and the functional currency of the Company.

Transactions and Balances

Transactions in foreign currencies are translated into the functional currency of the entity at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the foreign exchange rate ruling at the balance sheet date. 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. 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 borrowings 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 the Consolidated Income Statement.

Group Companies

The assets and liabilities of entities that do not have the euro as their functional currency, including goodwill and fair value adjustments arising on acquisition, 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*). Under IAS 29, income, costs and balance sheet amounts are translated at the exchange rates ruling at the balance sheet date. All resulting exchange differences are recognised in other comprehensive income.

On consolidation, 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 of a foreign operation, accumulated currency translation differences are reclassified to profit or loss as part of the overall gain or loss on disposal.

2. Summary of Significant Accounting Policies continued

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.

Argentina became hyperinflationary during 2018 when the three-year cumulative inflation rate using the wholesale price index exceeded 100% indicating that Argentina is a hyperinflationary economy for accounting purposes. Consequently, it was considered as such from 1 July 2018 and the Group has applied the hyperinflationary accounting requirements to the results of our Argentinian operations from the beginning of 2018.

Business Combinations

The Group uses the acquisition method in accounting for business combinations. Under the acquisition method, the assets, liabilities and contingent liabilities of an acquired business are initially recognised at their fair value at the date of acquisition; which is the date on which control is transferred to the Group. 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 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 remeasurement of the contingent amount is recognised in the Consolidated Income Statement if it is identified as a financial liability.

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.

Where a put option is held by a non-controlling interest in a subsidiary whereby that party can require the Group to acquire the non-controlling interest's shareholding in the subsidiary at a future date and the non-controlling interest does not retain present access to the results of the subsidiary, the Group applies the anticipated acquisition method of accounting to the arrangement. The Group recognises a contingent consideration liability at fair value, being the Group's estimate of the amount required to settle that liability, which is included in the consideration transferred. Any subsequent remeasurements required due to changes in the fair value of the put liability are recognised in the Consolidated Income Statement. Where the Group has a call option over the shares held by a non-controlling interest in a subsidiary, whereby the Group can require the non-controlling interest to sell its shareholding in the subsidiary at a future date, the option is classified as a derivative and is recognised as a financial instrument on inception with fair value movements recognised in the Consolidated Income Statement.

Goodwill

Goodwill is the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities acquired. When the fair value of the identifiable assets and liabilities acquired exceeds the cost of the acquisition the values are reassessed and any remaining gain is recognised immediately in the Consolidated Income Statement. 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.

Intangible Assets

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 twenty 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.

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 in the Consolidated Income Statement as incurred. Assets are depreciated from the time they are available for use, however land is not depreciated. Depreciation on other assets is calculated to write off the carrying amount of property, plant and equipment, on a straight-line basis at the following annual rates:

- Buildings: 2 – 5%
- Plant and equipment: 3 – 33%

2. Summary of Significant Accounting Policies continued

Property, Plant and Equipment continued

The estimated residual value and the useful lives of assets are reviewed at each balance sheet date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the Consolidated Income Statement.

Capitalisation of costs in respect of constructing an asset commences when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Cost includes expenditure that is directly attributable to the construction of the asset. Construction in progress is not depreciated and is assessed for impairment when there is an indicator of impairment. When these assets are available for use, they are transferred out of construction in progress to the applicable heading under property, plant and equipment.

Impairment

Goodwill

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 the Consolidated Income Statement and are not reversed following recognition.

Impairment of Non-financial Assets

Long-term tangible and intangible assets that are subject to depreciation or amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Consolidated Income Statement 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 that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date. The impairment loss is only reversed to the extent that the asset's carrying amount does not exceed that which would have been determined had no impairment been recognised.

Impairment of Financial Assets

For trade receivables, the Group applies the simplified approach permitted by IFRS 9. The Group's impairment policy is explained in the *Trade and Other Receivables* note.

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 the Consolidated Income Statement. 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.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on a 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.

Financial Instruments

Trade receivables and debt instruments issued are initially recognised when they are originated. All other financial instruments are recognised when the Group becomes a party to its contractual provisions. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially recognised at fair value plus, for an item not at fair value through profit or loss ('FVPL'), transaction costs that are directly attributable to its acquisition or issue.

On initial recognition, a financial asset is classified as measured at amortised cost, or fair value through other comprehensive income ('FVOCI'), or FVPL. The classification is based on the business model for managing the financial assets and the contractual terms of the cash flows. Reclassification of financial assets is required only when the business model for managing those assets changes. 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 classified as measured at amortised cost or FVPL. Financial liabilities are derecognised when the Group's obligations specified in the contracts expire, are discharged or cancelled. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid, (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

2. Summary of Significant Accounting Policies continued

Financial Instruments continued

Cash and Cash Equivalents

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 stated at amortised cost.

Restricted Cash

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

Equity Instruments

Equity instruments are measured at fair value with fair value gains and losses recognised in other comprehensive income. Dividend income is recognised in profit or loss. There is no reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Any gains and losses will be reclassified within equity from the FVOCI reserve to retained earnings.

Debt Instruments

Listed and unlisted debt instruments are measured at fair value with fair value gains and losses recognised in profit or loss. Interest and dividend income is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fixed rate borrowings, which have been hedged to floating rates are measured at amortised cost adjusted for changes in value attributable to the hedged risk arising from changes in underlying market interest rates. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

Securitised Assets

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

Trade and Other Receivables

Trade and other receivables (unless it is a trade receivable without a significant financing component) are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Trade receivables without a significant financing component are initially measured at the transaction price.

Trade and Other Payables

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

Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments to manage certain foreign currency, interest rate and commodity price exposures. 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 follows:

- hedges of a particular risk associated with a recognised floating rate asset or liability or a highly probable forecast transaction (cash flow hedges);
- hedges of changes in the fair value of a recognised asset or liability (fair value hedges); and
- 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 and cost of 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.

2. Summary of Significant Accounting Policies continued

Derivative Financial Instruments and Hedging Activities continued

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. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When designating a foreign exchange derivative contract as a cash flow hedge, the currency basis spread is excluded and accounted for separately as a cost of hedging, being recognised in a cost of hedging reserve within equity.

Amounts accumulated in other comprehensive income are reclassified to the Consolidated Income Statement in the same periods that the hedged items affect profit or loss as follows:

- The reclassified gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Consolidated Income Statement 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. The deferred amounts are ultimately recognised in profit or loss as 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, unless the hedged transaction is no longer expected to occur, in which case the cumulative gain or loss that was previously recognised in other comprehensive income is transferred to the Consolidated Income Statement.

Fair Value Hedges

Where derivative hedging instruments are designated as fair value hedges, any gain or loss arising from the remeasurement of the hedging instrument to fair value is reported in the Consolidated Income Statement together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. When the hedging instrument no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the Consolidated Income Statement over the period to maturity.

Net Investment Hedges

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

Fair Value Hierarchy

The Group reports using the fair value hierarchy in relation to its assets and liabilities which are measured at fair value except for those which are exempt as defined under IFRS 13, *Fair Value Measurement*. The fair value hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value, which are described as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

A contingent liability is not recognised but is disclosed where the existence of an obligation will only be confirmed by future events or where it is not probable that an outflow of resources will be required to settle the obligation or where the amount of the obligation cannot be measured with sufficient reliability. Contingent assets are not recognised but are disclosed where an inflow of economic benefits is probable.

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, borrowing extinguishment costs, fair value loss on financial assets, fair value loss on put options arising in business combinations, net interest cost on net pension liability, net monetary loss arising in hyperinflationary economies, the interest element of lease payments and losses on derivative instruments that are not designated as hedging instruments and are recognised in profit or loss. Borrowing 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 in the Consolidated Income Statement.

2. Summary of Significant Accounting Policies continued

Finance Costs and Income continued

Finance income comprises interest income on funds invested, certain foreign currency translation gains related to financing, fair value gain on financial assets, fair value gain on put options arising in business combinations, net monetary gain arising in hyperinflationary economies, gains on derivative instruments that are not designated as hedging instruments and are recognised in profit or loss and dividend income. 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.

Income Taxes

The income tax expense recognised in each financial year comprises current and deferred tax and is recognised in the Consolidated Income Statement, 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 Income 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 liability method, on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and their tax bases. If the temporary difference arises from the 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. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

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. Deferred tax assets and liabilities are not subject to discounting.

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.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises a right-of-use asset and a lease liability at the lease commencement date which is the date at which the asset is made available for use by the Group.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, restoration costs and lease payments made at or before the commencement date less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Where the lease contains a purchase option the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised. Right-of-use assets are subject to impairment testing.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate known at the commencement date, payments for a purchase option, payments for an optional renewal period and termination option payments if the Group is reasonably certain to exercise those options. The lease term is the non-cancellable period of the lease adjusted for any renewal or termination options which are reasonably certain to be exercised. Management applies judgement in determining whether it is reasonably certain that a renewal or termination option will be exercised. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. The Group has elected to avail of the practical expedient not to separate lease components from any associated non-lease components. Lease liabilities are included in borrowings.

The lease payments are discounted using the lessee's incremental borrowing rate as the interest rate implicit in the lease is generally not readily determinable. Incremental borrowing rates are determined using a build-up approach that uses externally benchmarked information adjusted to take consideration of the lessee's risk profile and the specific lease characteristics. These characteristics include the type of leased asset, the term of the lease and the currency of the lease.

After the commencement date, the lease liability is measured at amortised cost using the effective interest method. It is remeasured if there is a modificiation, a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it is reasonably certain to exercise an option within the contract.

The Group has elected to apply the recognition exemptions for short-term and low-value leases and recognises the lease payments associated with these leases as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise certain items of IT equipment and small items of office furniture.

2. Summary of Significant Accounting Policies continued

Leases continued

Accounting Policy Applied Before 1 January 2019

Arrangements which transfered substantially all of the risks and rewards of ownership of an asset to the Group were classified as finance leases. They were 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, were included in borrowings. The interest element of lease payments was expensed in the Consolidated Income Statement over the lease period so as to produce a constant periodic rate of interest. Assets acquired under finance leases were 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 were not transferred to the Group by the lessor were classified as operating leases. Operating lease rentals, net of incentives received from the lessor, were expensed in the Consolidated Income Statement on a straight-line basis over the lease term.

Arrangements comprising transactions that did not take the legal form of a lease but conveyed the right to use an asset in return for payment, or a series of payments, were assessed to determine whether the arrangement contained a lease.

Retirement Benefit Obligations

The Group operates both defined benefit and defined contribution pension plans throughout its operations in accordance with local conditions and practice.

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 in the Consolidated Income Statement. Prepaid contributions are recognised as an asset only to the extent that a cash refund or a reduction in future payments is available.

The defined benefit pension plans are funded by payments to separately administered funds or in certain countries, in accordance with local practices, scheme liabilities are unfunded and recognised as liabilities in the Consolidated Balance Sheet.

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. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Defined benefit costs are categorised as: (1) service cost; (2) net interest expense or income; and (3) remeasurement. Service cost includes current and past service cost (which can be negative or positive) as well as gains and losses on settlements; it is included in operating profit. Past service cost is recognised at the earlier of the date when the plan amendment or curtailment occurs and the date that the Group recognises related restructuring costs. A gain or loss on settlement is recognised when the settlement occurs. Net interest, included within finance costs, is calculated by applying the discount rate to the net defined benefit asset or liability at the beginning of the year. Remeasurement is comprised of the return on plan assets (excluding net interest) 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 the Consolidated Income Statement.

The net surplus or deficit arising on the Group's defined benefit pension plans, together with the liabilities associated with the unfunded plans, are shown either within non-current assets or liabilities in the Consolidated Balance Sheet. The defined benefit pension asset or liability comprises the total for each plan of the present value of the defined benefit obligation less the fair value of plan assets. Fair value of plan assets is based on market price information and in the case of published securities, it is the published bid price. 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 in the Consolidated Income Statement 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/credit recognised in the Consolidated Income Statement 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.

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, profit or loss on disposal of assets, impairment of assets, legislative and regulatory fines, foreign exchange gains or losses on currency devaluations, profit or loss on early extinguishment of debt and fair value gains or losses on put options arising in business combinations. Judgement is used by the Group in assessing the particular items, which by virtue of their size and nature, are disclosed as exceptional items.

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 within cost of sales in the Consolidated Income Statement.

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 the Consolidated Income Statement in the same accounting periods. Grants related to the cost of an asset are recognised in the Consolidated Income Statement over the useful life of the asset within administrative expenses.

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.

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.

Significant Accounting Judgements

Consolidation of Structured 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 considers 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 Group's long-term incentive plans. 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.

Impairment of Goodwill

Judgement is required in determining whether goodwill is impaired or not. 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 provided in the *Goodwill and Intangible Assets* note.

Income Taxes

Provisions for taxes require judgement in interpreting tax legislation, current case law or practice. It may be unclear how tax law or practice applies to a particular transaction or set of circumstances. In some instances this may not be known until a tax authority or a court makes a decision in an examination, audit or appeal. The Group considers such uncertain tax positions together or separately depending on which approach better predicts how the uncertainties can be resolved. Where the Group concludes it is not probable that a tax authority will fully accept its assessment of an uncertain tax position, it reflects the effect of the uncertainty as the most likely amount or the expected value. 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 planning. The assessment of recoverability involves judgement.

Exceptional Items

Judgement is required in determining which items by virtue of their size and nature are considered exceptional and separately disclosed in the Consolidated Income Statement. The Group has outlined significant items which it believes are exceptional, due to both their size and nature, within the accounting policy for exceptional items in the *Summary of Significant Accounting Policies* note.

3. Significant Accounting Judgements, Estimates and Assumptions continued

Significant Accounting Estimates and Assumptions

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.

4. Changes in Significant Accounting Policies

IFRS 16, *Leases*, replaces IAS 17, *Leases*, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. For lessees, IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model with some exemptions for short-term and low-value leases. The lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Group has adopted IFRS 16 using the modified retrospective approach, with a date of initial application of 1 January 2019. Under this method, the impact of the standard is calculated retrospectively, however, the cumulative effect arising from the new leasing rules is recognised at the date of initial application. Accordingly, the comparative information presented for 2018 has not been restated. The new accounting policy is disclosed in the *Summary of Significant Accounting Policies* note.

The Group's Leasing Activities and how these are Accounted for

The Group leases a range of assets including property, vehicles and plant and equipment. Further information regarding the Group's leasing activities is disclosed in the *Leases* note.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership to the Group. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Under IFRS 16, the Group applies a single recognition and measurement approach for all leases, except for short-term and low-value assets, and recognises right-of-use assets and lease liabilities.

Transition

On transition to IFRS 16, the Group has elected to apply the practical expedient to grandfather the assessment of which transactions are or contain leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at either:
- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach for certain property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contained options to extend or terminate the lease.
- Relied on its assessment of whether leases were onerous under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, immediately before the date of initial application to meet the impairment requirement.

For leases previously classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined as the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impact on Consolidated Financial Statements

Impact on Transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities relating to operating leases, recognising the difference in retained earnings. Right-of-use assets were adjusted by an onerous lease contract which was previously reported in 'Provisions for liabilities'. The impact on transition is summarised below.

	1 January 2019 €m
Right-of-use assets	**331**
Deferred income tax assets	**4**
Provisions for liabilities	**(5)**
Lease liabilities presented in borrowings	**361**
Retained earnings	**(21)**

4. Changes in Significant Accounting Policies continued

Impact on Consolidated Financial Statements continued

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using the lessee's incremental borrowing rate at 1 January 2019. The weighted average rate applied was 3%.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

	€m
Operating lease commitments at 31 December 2018	**332**
Add:	
Extension options reasonably certain to be exercised	**80**
Non-lease components	**13**
Less:	
Commitments relating to short-term and low-value leases	**(2)**
Total future lease payments	**423**
Effect of discounting	**(62)**
Finance lease liabilities recognised at 31 December 2018	**19**
Lease liabilities at 1 January 2019	**380**

The impact of IFRS 16 on the Consolidated Financial Statements is set out in the *Leases* note. The impact of IFRS 16 on our Alternative Performance Measures ('APMs') is set out in the Supplementary Information section on pages 162 to 165.

5. Segment and Revenue Information

The Group has identified 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 operating segments: 1) Europe and 2) the Americas.

The Europe and the Americas segments are highly integrated. They include a system of mills and plants that primarily produce a full line of containerboard that is converted into corrugated containers within each segment. In addition, the Europe segment also produces other types of paper, such as solidboard, sack kraft paper and graphic paper; and other paper-based packaging, such as solidboard packaging and folding cartons; and bag-in-box packaging. The Americas segment, which includes a number of Latin American countries and the United States, also comprises forestry; other types of paper, such as boxboard, sack paper and graphic paper; and paper-based packaging, such as folding cartons and paper sacks. 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 year to acquire segment assets that are expected to be used for more than one year. 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[1]. Segment assets consist primarily of property, plant and equipment, right-of-use assets, 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 property, plant and equipment, other investments, derivative financial assets, deferred income tax assets, cash and cash equivalents and restricted cash. Segment liabilities are principally comprised of borrowings, operating liabilities, deferred income tax 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.

Segment capital expenditure comprises additions to property, plant and equipment (Note 12), goodwill and intangible assets (Note 13), biological assets (Note 16) and right-of-use assets (Note 30) including additions resulting from acquisitions through business combinations (Note 32).

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.

1 EBITDA as defined in the Supplementary Information section on page 162.

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 31 December 2019

5. Segment and Revenue Information continued

Revenue and results	Europe 2019 €m	The Americas 2019 €m	Total 2019 €m	Europe 2018 €m	The Americas 2018 €m	Total 2018 €m
Revenue	**6,994**	**2,054**	**9,048**	6,922	2,024	8,946
EBITDA	**1,332**	**360**	**1,692**	1,267	317	1,584
Segment exceptional items	**(124)**	**–**	**(124)**	(48)	(1,270)	(1,318)
EBITDA after exceptional items	**1,208**	**360**	**1,568**	1,219	(953)	266
Unallocated centre costs			**(42)**			(39)
Share-based payment expense			**(41)**			(24)
Depreciation and depletion (net)[1]			**(502)**			(376)
Amortisation			**(45)**			(40)
Impairment of assets (exceptional)			**(8)**			–
Impairment of goodwill (exceptional)			**(46)**			–
Other exceptional items			**–**			(18)
Finance costs			**(247)**			(220)
Finance income			**38**			47
Share of associates' profit (after tax)			**2**			–
Profit/(loss) before income tax			**677**			(404)
Income tax expense			**(193)**			(235)
Profit/(loss) for the financial year			**484**			(639)
Assets						
Segment assets	**7,610**	**2,128**	**9,738**	7,101	1,973	9,074
Investment in associates	**1**	**15**	**16**	1	13	14
Group centre assets			**171**			405
Total assets			**9,925**			9,493
Liabilities						
Segment liabilities	**2,965**	**604**	**3,569**	2,549	442	2,991
Group centre liabilities			**3,363**			3,612
Total liabilities			**6,932**			6,603
Other segmental disclosures						
Segment capital expenditure:						
Segment expenditure	**763**	**149**	**912**	1,000	88	1,088
Group centre expenditure			**–**			–
Total expenditure			**912**			1,088
Depreciation and depletion (net):						
Segment depreciation and depletion (net)	**382**	**119**	**501**	291	84	375
Group centre depreciation and depletion (net)			**1**			1
Total depreciation and depletion (net)			**502**			376
Amortisation:						
Segment amortisation	**25**	**20**	**45**	19	20	39
Group centre amortisation			**–**			1
Total amortisation			**45**			40
Other significant non-cash charges:						
Impairment of assets included in cost of sales	**–**	**8**	**8**	–	–	–
Impairment of goodwill included in other operating expenditure	**–**	**46**	**46**	–	–	–
Total other significant non-cash charges			**54**			–

1 Depreciation and depletion is net of fair value adjustments arising on biological assets.

5. Segment and Revenue Information continued

Information about Geographical Areas

The Group has a presence in 35 countries worldwide. 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 2019 €m	Revenue 2018 €m	**Non-current Assets 2019 €m**	Non-current Assets 2018 €m
Ireland	**117**	119	**55**	51
Germany	**1,291**	1,325	**553**	391
France	**1,095**	1,053	**518**	446
Mexico	**878**	794	**289**	184
United Kingdom	**774**	797	**403**	363
The Netherlands	**758**	696	**581**	650
Rest of world	**4,135**	4,162	**2,222**	1,871
	9,048	8,946	**4,621**	3,956

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, right-of-use 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 3% (2018: less than 3%) of the total goodwill of the Group of €2,383 million (2018: €2,361 million).

Disaggregation of Revenue

The Group derives revenue from the following major product lines. The economic factors which affect the nature, amount, timing and uncertainty of revenue and cash flows from the sub categories of both paper and packaging products are similar.

	2019			2018		
	Paper €m	**Packaging €m**	**Total €m**	Paper €m	Packaging €m	Total €m
Revenue by product:						
Europe	**1,134**	**5,860**	**6,994**	1,204	5,718	6,922
The Americas	**285**	**1,769**	**2,054**	306	1,718	2,024
	1,419	**7,629**	**9,048**	1,510	7,436	8,946

Packaging revenue is derived mainly from the sale of corrugated products. The remainder of packaging revenue is comprised of bag-in-box and other paper-based packaging products.

6. Cost and Income Analysis

	2019 €m	2018 €m
Expenses by function:		
Cost of sales	**6,051**	5,989
Distribution costs	**730**	705
Administrative expenses	**1,213**	1,147
Other operating expenses	**170**	66
	8,164	7,907
Exceptional items included in operating profit:		
Impairment of assets	**8**	–
Italian Competition Authority fine	**124**	–
Goodwill impairment	**46**	–
International Paper defence costs	**–**	18
Loss on disposal of Baden operations	**–**	11
GMP equalisation pension adjustment	**–**	9
Reorganisation and restructuring costs	**–**	28
	178	66

6. Cost and Income Analysis continued

Exceptional items charged within operating profit in 2019 amounted to €178 million, of which €8 million related to the impairment of property, plant and equipment and customer related intangible assets in one of our North American corrugated plants. €124 million related to the Italian Competition Authority fine levied on Smurfit Kappa Italia S.p.A., further details can be found in Note 27. The remaining €46 million related to the impairment of goodwill in Brazil. Management has reassessed the expected future business performance in the country as a result of the continuing difficult economic conditions and consequently the projected cashflows are lower, giving rise to an impairment charge.

Exceptional items charged within operating profit in 2018 amounted to €66 million. This comprised the cost of countering the unsolicited approach from International Paper of €18 million, the loss on the disposal of the Baden operations in Germany of €11 million, the guaranteed minimum pension ('GMP') adjustment in the United Kingdom of €9 million and restructuring costs in Europe of €28 million.

During the third quarter of 2018, the Government of Venezuela took control of Smurfit Kappa Carton de Venezuela's ('SKCV') business and operations. As a result of this action, SKG plc was no longer able to exercise control over its Venezuelan business and operations. As a consequence of the Group's loss of control over SKCV, the Group deconsolidated its Venezuelan operations with effect from August 2018 and recorded an exceptional charge of €1,270 million in the Consolidated Income Statement.

The Group's Consolidated Financial Statements were impacted as follows: write down of net assets of €61 million included in the Consolidated Balance Sheet with a corresponding charge in the Consolidated Income Statement and legal and reorganisation costs of €13 million charged to the Consolidated Income Statement.

As required under IAS 21, *The Effects of Changes in Foreign Exchange Rates*, currency was recycled on deconsolidation. This resulted in a non-cash exceptional charge to the Consolidated Income Statement of €1,196 million, with a corresponding credit of €1,196 million to the Consolidated Statement of Comprehensive Income. This had no impact on the net assets or total equity of the Group. It represented the transfer of negative currency reserves, generated by previous devaluations of the Bolivar Fuerte, from the foreign currency translation reserve into the retained earnings reserve.

	2019 €m	2018 €m
Expenses by nature:		
Raw materials and consumables	**3,003**	3,127
Employee benefit expense	**2,180**	2,091
Energy	**485**	449
Maintenance and repairs	**430**	410
Transportation and storage costs	**732**	700
Depreciation, amortisation and depletion	**547**	416
Impairment of assets	**54**	–
Reorganisation and restructuring costs	**5**	30
Lease expense	**19**	107
Loss on disposal of business	**–**	11
Foreign exchange gains and losses	**3**	(4)
Other expenses	**706**	570
Total	**8,164**	7,907

Included within the expenses by nature above are research and development expenses of €8 million (2018: €7 million). Research and development expenses are included within administrative expenses in the Consolidated Income Statement.

Directors' remuneration is shown in the Remuneration Report and in Note 31.

6. Cost and Income Analysis continued

Auditors' Remuneration

	KPMG Ireland 2019 €m	Other KPMG Network Firms 2019 €m	Total 2019 €m	KPMG Ireland 2018 €m	Other KPMG Network Firms 2018 €m	Total 2018 €m
Audit of entity financial statements	**2.6**	**5.9**	**8.5**	2.6	6.0	8.6
Other assurance services	**–**	**0.2**	**0.2**	0.3	0.2	0.5
Other non-audit services	**0.1**	**–**	**0.1**	1.0	–	1.0
	2.7	**6.1**	**8.8**	3.9	6.2	10.1

The audit fee for the Parent Company was €50,000 which is payable to KPMG, the Statutory Auditor (2018: €50,000).

7. Employee Benefit Expense

	2019 Number	2018 Number
Average number of persons employed by the Group by geographical area (full time equivalents):		
Europe	**30,332**	29,095
The Americas	**16,231**	16,930
	46,563	46,025

	Note	2019 €m	2018 €m
The employee benefit expense comprises:			
Wages and salaries		**1,711**	1,647
Social insurance costs		**336**	324
Share-based payment expense		**41**	24
Defined benefit expense	25	**28**	28
Defined contribution plan expense		**64**	59
Reorganisation and restructuring costs[1]		**5**	2
Charged to operating profit – pre-exceptional		**2,185**	2,084
Exceptional – reorganisation and restructuring costs		**–**	34
Exceptional – GMP equalisation		**–**	9
Finance costs	25	**17**	18
Actuarial loss on pension schemes recognised in other comprehensive income	25	**117**	6
Total employee benefit expense		**2,319**	2,151

1 These non-exceptional expenses arise in respect of individually immaterial restructurings across the Group.

8. Finance Costs and Income

	Note	2019 €m	2018 €m
Finance costs:			
Interest payable on bank loans and overdrafts		**45**	47
Interest payable on leases		**11**	1
Interest payable on other borrowings		**114**	115
Exceptional finance costs associated with debt restructuring		**37**	–
Exceptional consent fee – reporting waiver		**–**	4
Exceptional interest on early termination of cross currency swaps		**–**	2
Unwinding discount element of provisions	27	**1**	1
Foreign currency translation loss on debt		**18**	19
Fair value loss on derivatives not designated as hedges		**4**	–
Fair value loss on financial assets		**–**	1
Net interest cost on net pension liability	25	**17**	18
Net monetary loss – hyperinflation		**–**	12
Total finance costs		**247**	220
Finance income:			
Other interest receivable		**(4)**	(4)
Foreign currency translation gain on debt		**(10)**	(41)
Fair value gain on derivatives not designated as hedges		**–**	(2)
Exceptional fair value gain on financial liabilities		**(20)**	–
Fair value gain on financial assets		**(1)**	–
Net monetary gain – hyperinflation		**(3)**	–
Total finance income		**(38)**	(47)
Net finance costs		**209**	173

The exceptional finance costs of €37 million comprise of a redemption premium of €31 million and the accelerated amortisation of the debt issue costs of €6 million relating to the refinancing of the senior credit facility and the early redemption of bonds. The exceptional finance income of €20 million relates to the fair value gain on the Serbian put option at 31 December 2019.

The exceptional finance cost of €6 million in 2018 related to the fee of €4 million payable to the bondholders to secure their consent to the Group's move from quarterly to semi-annual reporting and €2 million in relation to the interest cost on the early termination of certain US dollar/euro swaps. The swaps were terminated following the paydown of the US dollar element of the 2018 bonds.

9. Income Tax Expense

Income tax expense recognised in the Consolidated Income Statement

	2019 €m	2018 €m
Current tax:		
Europe	**145**	145
The Americas	**55**	54
	200	199
Deferred tax	**(7)**	36
Income tax expense	**193**	235
Current tax is analysed as follows:		
Ireland	**7**	18
Foreign	**193**	181
	200	199

9. Income Tax Expense continued

The income tax expense for the financial year 2019 is €42 million lower than in the comparable period in 2018. However, in 2018 the income tax expense included a €14 million charge for Venezuela which does not occur in 2019 as it was deconsolidated for the full year. The remaining €28 million net reduction in the tax expense is mainly attributable to lower profitability in 2019 and other tax credits, offset in part by the tax effect of non-deductible exceptional items.

There is a net €1 million increase in current tax. In Europe, the current tax is in line with 2018 due to lower profitability and other tax credits, partly offset by the tax effect of non-deductible exceptional items. In the Americas, the current tax expense is €1 million higher than in the comparable period. However, after adjusting for the deconsolidation of Venezuela, there is an overall €15 million net increase in current tax expense on a like-for-like basis. This is primarily due to the mix of profits and exceptional items, with the tax credit on those exceptional items being recorded in deferred tax.

The movement in deferred tax from a charge of €36 million in 2018 to a tax credit of €7 million in 2019 includes the effects of the reversal of timing differences on which tax was previously recognised, as well as the use and recognition of tax losses and credits and a tax credit associated with the impairment of goodwill in Brazil.

There is a net tax credit of €22 million on exceptional items in 2019 compared to a €7 million tax credit in the prior year.

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:

	2019 €m	2018 €m
Profit/(loss) before income tax	**677**	(404)
Profit/(loss) before income tax multiplied by the standard rate of tax of 12.5% (2018: 12.5%)	**85**	(50)
Effects of:		
Income subject to different rates of tax	**106**	113
Other items	**11**	20
Adjustment to prior period tax	**(9)**	4
Effect of previously unrecognised losses	**–**	(11)
Deconsolidation of Venezuela	**–**	159
	193	235

Income Tax Recognised Within Equity

	2019 €m	2018 €m
Recognised in the Consolidated Statement of Comprehensive Income:		
Arising on defined benefit pension plans	**(26)**	–
Arising on derivative cash flow hedges	**1**	–
Total recognised in the Consolidated Statement of Comprehensive Income	**(25)**	–
Arising on hyperinflation	**4**	18
Total recognised within equity	**(21)**	18

Factors That May Affect the Future Tax Expense and Other Disclosure Requirements

Unremitted Earnings in Subsidiaries and Associates

The Group has not made provision for deferred tax in relation to temporary differences applicable to investments in subsidiaries on the basis that the Group can control their timing and choose which temporary timing differences will reverse. The Group is not obliged to remit earnings from subsidiaries. It is probable that the Group would only remit earnings which can benefit from the availability of participation tax exemption or sufficient tax credits (actual or deemed) to ensure there is no additional tax due. The aggregate amount of this temporary difference is approximately €860 million (2018: €782 million). 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.

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 ('EPS')

Basic

Basic EPS is calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year less own shares.

	2019	2018
Profit/(loss) attributable to owners of the parent (€ million)	476	(646)
Weighted average number of ordinary shares in issue (million)	236	236
Basic EPS (cent)	201.6	(273.7)

Diluted

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. These comprise convertible, deferred and matching shares issued under the Group's long-term incentive plans. Details of these plans are set out in Note 26. Where the conditions governing exercisability of these shares have been satisfied as at the end of the reporting period, they are included in the computation of diluted earnings per ordinary share.

	2019	2018
Profit/(loss) attributable to owners of the parent (€ million)	476	(646)
Weighted average number of ordinary shares in issue (million)	236	236
Potential dilutive ordinary shares assumed (million)	2	–
Diluted weighted average ordinary shares (million)	238	236
Diluted EPS (cent)	200.0	(273.7)

At 31 December 2018, there were 1,563,662 potential ordinary shares in issue that could dilute EPS in the future, but these were not included in the computation of diluted EPS in the year because they would have the effect of reducing the loss per share. Accordingly, there was no difference between basic and diluted loss per share in 2018.

Pre-exceptional

	2019	2018
Profit/(loss) attributable to owners of the parent (€ million)	476	(646)
Exceptional items included in profit/(loss) before income tax (€ million)	195	1,342
Income tax on exceptional items (€ million)	(22)	(7)
Pre-exceptional profit attributable to owners of the parent (€ million)	649	689
Weighted average number of ordinary shares in issue (million)	236	236
Pre-exceptional basic EPS (cent)	274.8	292.2
Weighted average number of ordinary shares in issue (million)	236	236
Diluted potential ordinary shares assumed (million)	2	2
Diluted weighted average ordinary shares (million)	238	238
Pre-exceptional diluted EPS (cent)	272.6	290.2

11. Dividends

The following dividends were declared and paid by the Group.

	2019 €m	2018 €m
Final: paid 72.2 cent per ordinary share on 10 May 2019 (2018: paid 64.5 cent per ordinary share on 11 May 2018)	**172**	153
Interim: paid 27.9 cent per ordinary share on 25 October 2019 (2018: paid 25.4 cent per ordinary share on 26 October 2018)	**66**	60
	238	213

The Board is recommending a final dividend of 80.9 cent per ordinary share (approximately €193 million) for 2019 to all ordinary shareholders on the share register at the close of business on 17 April 2020, subject to the approval of the shareholders at the Annual General Meeting.

12. Property, Plant and Equipment

	Land and Buildings €m	Plant and Equipment €m	Total €m
Financial year ended 31 December 2018			
Opening net book amount	1,023	2,219	3,242
Reclassifications	60	(65)	(5)
Additions	2	537	539
Acquisitions	88	237	325
Depreciation charge	(51)	(328)	(379)
Retirements and disposals	(14)	(7)	(21)
Deconsolidation of Venezuela	(11)	(8)	(19)
Hyperinflation adjustment	17	24	41
Foreign currency translation adjustment	(55)	(55)	(110)
At 31 December 2018	1,059	2,554	3,613
At 31 December 2018			
Cost or deemed cost	1,668	5,513	7,181
Accumulated depreciation and impairment losses	(609)	(2,959)	(3,568)
Net book amount	1,059	2,554	3,613
Financial year ended 31 December 2019			
Opening net book amount	**1,059**	**2,554**	**3,613**
Adjustment on initial application of IFRS 16 (Note 4)[1]	**(9)**	**(10)**	**(19)**
At 1 January 2019	**1,050**	**2,544**	**3,594**
Reclassifications	**57**	**(58)**	**(1)**
Additions	**2**	**618**	**620**
Acquisitions	**42**	**47**	**89**
Depreciation charge	**(54)**	**(355)**	**(409)**
Impairments	**–**	**(4)**	**(4)**
Retirements and disposals	**(1)**	**(3)**	**(4)**
Hyperinflation adjustment	**3**	**8**	**11**
Foreign currency translation adjustment	**7**	**17**	**24**
At 31 December 2019	**1,106**	**2,814**	**3,920**
At 31 December 2019			
Cost or deemed cost	**1,785**	**6,241**	**8,026**
Accumulated depreciation and impairment losses	**(679)**	**(3,427)**	**(4,106)**
Net book amount	**1,106**	**2,814**	**3,920**

1 Capitalised leased assets in relation to leases that were classified as 'finance leases' under IAS 17.

12. Property, Plant and Equipment continued

Land and Buildings

Included in land and buildings is an amount for land of €384 million (2018: €353 million).

Construction in Progress

Included in land and buildings and plant and equipment are amounts of €40 million (2018: €21 million) and €345 million (2018: €286 million) respectively, for construction in progress.

Assets Pledged as Security

Assets with a carrying value of €18 million (2018: €18 million) are pledged as security for loans held by the Group.

Capitalised Leased Assets – 2018

Included in the net book amount of property, plant and equipment at 31 December 2018 is an amount for capitalised leased assets of €19 million. The depreciation charge for capitalised leased assets was €2 million and the related finance charges amounted to €1 million. The net carrying amount by class of assets at 31 December 2018 was as follows:

	2018 €m
Cogeneration facilities	8
Other plant and equipment	2
Plant and equipment	10
Buildings	9
	19

From 2019, following the adoption of IFRS 16, leased assets are presented as a separate line item in the Consolidated Balance Sheet. Details in relation to the adoption of IFRS 16 are set out in Note 4. Information in relation to leased assets is set out in Note 30.

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:

	2019 €m	2018 €m
Contracted for	**258**	332
Not contracted for	**176**	261
	434	593

Impairments

Impairment tests for items of property, plant and equipment are performed on a cash-generating unit basis when impairment triggers arise. 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 2019, the Group recorded an impairment charge of €4 million in relation to one of our North American corrugated plants.

Capitalised Borrowing Costs

In 2019, the Group capitalised borrowing costs of €2 million (2018: €2 million) on qualifying assets. Borrowing costs were capitalised at an average rate of 3.7% (2018: 3.8%).

13. Goodwill and Intangible Assets

	Goodwill €m	Intangible Assets: Marketing Related €m	Intangible Assets: Customer Related €m	Intangible Assets: Software Assets €m	Total €m
Financial year ended 31 December 2018					
Opening net book amount	2,284	9	99	35	2,427
Additions	–	–	–	25	25
Acquisitions	109	–	95	–	204
Amortisation charge	–	(2)	(25)	(13)	(40)
Deconsolidation of Venezuela	(16)	–	–	–	(16)
Reclassifications	–	–	(1)	6	5
Hyperinflation adjustment	45	–	–	–	45
Foreign currency translation adjustment	(61)	–	1	–	(60)
At 31 December 2018	2,361	7	169	53	2,590
At 31 December 2018					
Cost or deemed cost	2,550	17	277	191	3,035
Accumulated amortisation and impairment losses	(189)	(10)	(108)	(138)	(445)
Net book amount	2,361	7	169	53	2,590
Financial year ended 31 December 2019					
Opening net book amount	**2,361**	**7**	**169**	**53**	**2,590**
Additions	**–**	**–**	**–**	**20**	**20**
Acquisitions	**55**	**–**	**30**	**–**	**85**
Amortisation charge	**–**	**(2)**	**(30)**	**(13)**	**(45)**
Impairment	**(46)**	**–**	**(4)**	**–**	**(50)**
Hyperinflation adjustment	**12**	**–**	**–**	**–**	**12**
Foreign currency translation adjustment	**1**	**1**	**2**	**–**	**4**
At 31 December 2019	**2,383**	**6**	**167**	**60**	**2,616**
At 31 December 2019					
Cost or deemed cost	**2,618**	**18**	**309**	**211**	**3,156**
Accumulated amortisation and impairment losses	**(235)**	**(12)**	**(142)**	**(151)**	**(540)**
Net book amount	**2,383**	**6**	**167**	**60**	**2,616**

The useful lives of intangible assets other than goodwill are finite and range from two to twenty 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 mainly to acquisitions and to customer relationships which arise from business combinations. They are amortised over their estimated useful lives of two to twenty 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 2019, goodwill of €43 million and customer related intangible assets of €30 million arose on the acquisition of a paper mill and corrugated plant in Serbia. A further €12 million of goodwill arose on the acquisition of plants in France and Bulgaria. In 2018, goodwill of €109 million arose on the acquisition of Reparenco in the Netherlands.

Impairment Testing of Intangible Assets

The Group assesses whether there is an indication that an intangible asset may be impaired. During the year, such an assessment gave rise to an impairment test in one of our North American corrugated plants to compare the carrying value of these assets with their recoverable amount. The recoverable amount was based on a value-in-use calculation. This resulted in an impairment charge of €4 million being recognised within cost of sales.

13. 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, by 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 (2018: 15) of CGUs have been identified and these are analysed between the two operating segments as follows:

	2019 Number	2018 Number
Eurozone	**6**	6
Eastern Europe	**1**	1
Scandinavia	**1**	1
United Kingdom	**1**	1
Europe	**9**	9
The Americas	**6**	6
	15	15

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

	2019 €m	2018 €m
Europe	**2,062**	2,000
The Americas	**321**	361
	2,383	2,361

An impairment charge of €46 million arose in 2019 in relation to Brazil and was recognised in other operating expenses. Management reassessed the expected future business performance in the country as a result of the continuing difficult economic conditions and consequently the projected cashflows are lower, giving rise to the impairment charge. The goodwill relating to our operations in Brazil pre-impairment represented 2% of the Group's total goodwill. No impairment arose in 2018 in any CGU 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 where available. The terminal value is estimated by applying an appropriate earnings multiple to the average cash flows for years one to nine. The Group believes a nine-year forecast is 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 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.

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 €2,383 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	
	2019	2018	**2019**	2018	**2019**	2018
Carrying amount of goodwill (€ million)	**307**	303	**408**	408	**427**	427
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)	**10.0%**	11.2%	**9.2%**	11.2%	**9.7%**	11.2%
Earnings multiple used for terminal value	**7.1**	7.1	**7.1**	7.1	**7.1**	7.1
Excess of value-in-use (€ million)	**382**	308	**395**	345	**743**	695

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.

13. Goodwill and Intangible Assets continued

Impairment Testing Methodology and Results 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	
	2019	2018	**2019**	2018	**2019**	2018
Increase in pre-tax discount rate (percentage points)	**7.1**	6.2	**6.8**	6.2	**9.5**	9.8
Reduction in terminal value multiple	**4.4**	3.6	**4.6**	3.7	**5.3**	5.2
Reduction in EBITDA	**24%**	23%	**25%**	23%	**29%**	32%

The recoverable amount of the Argentina and Chile CGU is estimated to exceed the carrying value of the CGU by €3 million (2018: €37 million). The goodwill relating to our operations in Argentina and Chile represents 1% of the Group's total goodwill. The reduction in headroom resulted from the recent deterioration in the Argentinian economy. We will continue to monitor the CGU throughout 2020. For the other CGUs, any reasonable movement in the assumptions used in the impairment test would not result in an impairment.

14. Financial Assets

Other Investments – Group

	2019 €m	2018 €m
Equity instruments – FVOCI	**–**	10
Listed[1] and unlisted debt instruments – FVPL	**10**	10
At 31 December	**10**	20

1 Listed on a recognised stock exchange.

Equity Instruments Designated at FVOCI

Equity instruments designated at FVOCI relate to an investment in equity shares of a non-listed company. The Group designated the equity instrument at FVOCI because it represents an investment that the Group intends to hold for the long-term for strategic purposes. In 2019, the Group made a fair value adjustment to its investment in equity instruments which is now valued at nil.

Listed and Unlisted Debt Instruments

The Group designated listed and unlisted debt instruments as FVPL as the cash flows do not represent solely payments of principal and interest.

In 2019, fair value gains of €1 million (2018: €1 million loss) on debt instruments were recognised in finance income (2018: finance costs).

Information about the Group's fair value measurement of its investments is included in Note 29.

Investment in Subsidiaries – Company

	2019 €m	2018 €m
At 1 January	**2,078**	2,067
Capital contribution	**22**	11
At 31 December	**2,100**	2,078

15. Investment in Associates

	2019 €m	2018 €m
At 1 January	**14**	13
Share of profit for the year	**2**	–
Dividends received from associates	**(1)**	–
Foreign currency translation adjustment	**1**	1
At 31 December	**16**	14

16. Biological Assets

	2019 €m	2018 €m
At 1 January	**111**	121
Increases due to new plantations	**11**	11
Harvested timber transferred to inventories	**(12)**	(12)
Change in fair value less estimated costs to sell	**6**	15
Deconsolidation of Venezuela	**–**	(6)
Foreign currency translation adjustment	**1**	(18)
At 31 December	**117**	111
Current	**11**	11
Non-current	**106**	100
At 31 December	**117**	111
Approximate harvest by volume (tonnes '000)	**809**	779

At 31 December 2019, the Group's biological assets consist of 68,000 (2018: 67,000) hectares of forest plantations which are held for the production of paper and packaging products or sale to third parties. These plantations provide the Group's mills in Colombia with a significant proportion of their total wood fibre needs.

The Group's biological assets 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:

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

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

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

17. Deferred Tax Assets and Liabilities

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:

	2019 €m	2018 €m
Deferred tax assets	**380**	356
Deferred tax assets/liabilities available for offset	**(195)**	(203)
	185	153
Deferred tax liabilities	**370**	376
Deferred tax assets/liabilities available for offset	**(195)**	(203)
	175	173

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.

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

	Note	2019 €m	2018 €m
Opening balance		**(20)**	52
Adjustment on initial application of IFRS 16 (Note 4)		**4**	–
At 1 January		**(16)**	52
Movement recognised in the Consolidated Income Statement	9	**7**	(36)
Movement recognised in the Consolidated Statement of Comprehensive Income	9	**25**	–
Acquisitions and disposals	32	**(9)**	(48)
Transfer between current and deferred tax		**–**	(1)
Hyperinflation adjustment – recognised in equity	9	**(4)**	(18)
Deconsolidation of Venezuela		**–**	6
Foreign currency translation adjustment		**7**	25
At 31 December		**10**	(20)

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 2018	105	131	2	222	460
Reclassifications	–	(1)	–	–	(1)
Recognised in the Consolidated Income Statement	(8)	(19)	–	(9)	(36)
Acquisitions and disposals	(4)	11	–	4	11
Deconsolidation of Venezuela	–	–	–	(3)	(3)
Foreign currency translation adjustment	–	(1)	–	(74)	(75)
At 31 December 2018	**93**	**121**	**2**	**140**	**356**
Adjustment on initial application of IFRS 16 (Note 4)	**–**	**–**	**–**	**4**	**4**
At 1 January 2019	**93**	**121**	**2**	**144**	**360**
Recognised in the Consolidated Income Statement	**(10)**	**(22)**	**3**	**22**	**(7)**
Recognised in the Consolidated Statement of Comprehensive Income	**26**	**–**	**(1)**	**–**	**25**
Foreign currency translation adjustment	**2**	**(1)**	**–**	**1**	**2**
At 31 December 2019	**111**	**98**	**4**	**167**	**380**

17. Deferred Tax Assets and Liabilities continued

	Accelerated Tax Depreciation €m	Intangible Assets Fair Values €m	Biological Assets Fair Values €m	Other €m	Total €m
Deferred tax liabilities					
At 1 January 2018	280	12	4	112	408
Recognised in the Consolidated Income Statement	(30)	(2)	(1)	33	–
Recognised in equity	–	–	–	18	18
Acquisitions and disposals	60	–	–	(1)	59
Deconsolidation of Venezuela	–	–	–	(9)	(9)
Foreign currency translation adjustment	–	–	–	(100)	(100)
At 31 December 2018	**310**	**10**	**3**	**53**	**376**
Recognised in the Consolidated Income Statement	**(19)**	**(5)**	**–**	**10**	**(14)**
Acquisitions and disposals	**5**	**4**	**–**	**–**	**9**
Hyperinflation	**1**	**–**	**–**	**3**	**4**
Foreign currency translation adjustment	**7**	**–**	**–**	**(12)**	**(5)**
At 31 December 2019	**304**	**9**	**3**	**54**	**370**

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

	2019 €m	2018 €m
Tax losses	**14**	13
Deferred interest	**–**	7
	14	20

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 €56 million (2018: €50 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 2019 €m
1 January 2022 to 31 December 2022	**2**
Greater than 4 years	**1**
Other expiry	**2**
Indefinite	**51**
	56

18. Inventories

	2019 €m	2018 €m
Raw materials	**205**	229
Work in progress	**39**	43
Finished goods	**360**	378
Consumables and spare parts	**215**	197
	819	847

19. Trade and Other Receivables

	Group 2019 €m	Group 2018 €m	Company 2019 €m	Company 2018 €m
Amounts falling due within one financial year:				
Trade receivables	**1,431**	1,475	**–**	–
Less: loss allowance	**(32)**	(35)	**–**	–
Trade receivables – net	**1,399**	1,440	**–**	–
Amounts receivable from associates	**3**	3	**–**	–
Other receivables	**166**	156	**–**	–
Prepayments	**66**	68	**–**	–
Amounts due from Group companies	**–**	–	**252**	220
	1,634	1,667	**252**	220
Amounts falling due after more than one financial year:				
Other receivables	**40**	40	**–**	–
	1,674	1,707	**252**	220

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

The Group has securitised €607 million (2018: €643 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 borrowings are shown in the Consolidated Balance Sheet.

Amounts due from Group companies are unsecured, interest free and repayable on demand.

Impairment Losses

The movement in the allowance for impairment in respect of trade receivables was as follows;

	2019 €m	2018 €m
At 1 January	**35**	34
Net remeasurement of loss allowance	**4**	3
Trade receivables written off as uncollectable	**(8)**	(4)
Acquisitions and disposals	**1**	3
Foreign currency translation adjustment	**–**	(1)
At 31 December	**32**	35

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical payment profiles of sales and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors if there is evidence to suggest that these factors affect the ability of the customers to settle the receivables.

On that basis, the loss allowance was determined as follows for trade receivables:

	2019				2018			
	Current €m	1 to 90 Days Past Due €m	More Than 90 Days Past Due €m	Total €m	Current €m	1 to 90 Days Past Due €m	More Than 90 Days Past Due €m	Total €m
Gross carrying amount	**1,189**	**210**	**32**	**1,431**	1,211	231	33	1,475
Loss allowance	**1**	**2**	**29**	**32**	1	1	33	35

19. Trade and Other Receivables continued

Impairment losses in respect of trade receivables are included in administrative expenses in the Consolidated Income Statement. Trade receivables written off as uncollectable are generally eliminated from trade receivables and the loss allowance when there is no expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and a pattern of failure to make contractual payments.

Trade receivables with a contractual amount of €4 million written off during the period are still subject to enforcement activity.

20. Net Movement in Working Capital

	2019 €m	2018 €m
Change in inventories	40	(84)
Change in trade and other receivables	52	(99)
Change in trade and other payables	(44)	90
Net movement in working capital	48	(93)

21. Movements of Liabilities Within Cash Flows Arising From Financing Activities and Net Debt Reconciliation

	Liabilities from Financing Activities					Adjustments			
	Short-term Borrowings €m	Long & Medium-term Borrowings €m	Lease Liabilities €m	Derivatives Held to Hedge Long-term Borrowings €m	Changes in Liabilities Arising from Financing Activities €m	Derivatives Held to Hedge Long-term Borrowings €m	Cash and Cash Equivalents €m	Restricted Cash €m	Net Debt €m
At 1 January 2018	(645)	(2,660)	(12)	(22)	(3,339)	22	503	9	(2,805)
Cash Flows	503	(651)	2	(17)	(163)	17	(86)	1	(231)
Acquired	(9)	(10)	–	–	(19)	–	–	–	(19)
Disposed	1	–	–	–	1	–	–	–	1
Currency translation adjustment	7	(24)	(1)	18	–	(18)	(27)	–	(45)
Other non-cash movements	(5)	(10)	(8)	9	(14)	(9)	–	–	(23)
At 31 December 2018	(148)	(3,355)	(19)	(12)	(3,534)	12	390	10	(3,122)
Adjustment on initial application of IFRS 16 (Note 4)	–	–	(361)	–	(361)	–	–	–	(361)
At 1 January 2019	(148)	(3,355)	(380)	(12)	(3,895)	12	390	10	(3,483)
Cash flows	730	(489)	83	(1)	323	1	(201)	4	127
Acquired	(2)	(9)	(6)	–	(17)	–	–	–	(17)
Currency translation adjustment	(1)	(7)	(4)	4	(8)	(4)	(17)	–	(29)
Other non-cash movements	(669)	658	(70)	6	(75)	(6)	–	–	(81)
At 31 December 2019	(90)	(3,202)	(377)	(3)	(3,672)	3	172	14	(3,483)

22. Cash and Cash Equivalents and Restricted Cash

Cash and Cash Equivalents

	2019 €m	2018 €m
Cash and current accounts	74	147
Short-term deposits	115	260
Cash and cash equivalents	189	407
Cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows		
Cash and cash equivalents	189	407
Bank overdrafts and demand loans used for cash management purposes	(17)	(17)
Cash and cash equivalents in the Consolidated Statement of Cash Flows	172	390
Restricted cash	14	10

At 31 December 2019, cash of €4 million (2018: €1 million) was held in restricted securitisation bank accounts which were not available for transfer to other Group subsidiaries or for use outside the Group. A further €10 million (2018: €9 million) of restricted cash was held in other Group subsidiaries and by a trust which facilitates the operation of the Group's long-term incentive plans.

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, 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.

	2019 €m	2018 €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

23. Capital and Reserves continued

Called Up, Issued and Fully Paid Share Capital of the Company

	Numbers of Shares of €0.001 Each						
	Convertible Shares						
	Class B	Class C	Class D	Total	Ordinary Shares	Total Shares	€m
At 1 January 2018	2,089,514	2,089,514	1,284,640	5,463,668	236,850,893	242,314,561	–
Class D shares converted to ordinary shares	–	–	(41,916)	(41,916)	41,916	–	–
Issue of Deferred Annual Bonus Plan Matching Shares	–	–	–	–	320,078	320,078	–
At 31 December 2018	2,089,514	2,089,514	1,242,724	5,421,752	237,212,887	242,634,639	–
At 1 January 2019	**2,089,514**	**2,089,514**	**1,242,724**	**5,421,752**	**237,212,887**	**242,634,639**	**–**
Class D shares converted to ordinary shares	**–**	**–**	**(407,224)**	**(407,224)**	**407,224**	**–**	**–**
Issue of Deferred Annual Bonus Plan Matching Shares	**–**	**–**	**–**	**–**	**268,216**	**268,216**	**–**
At 31 December 2019	**2,089,514**	**2,089,514**	**835,500**	**5,014,528**	**237,888,327**	**242,902,855**	**–**

At 31 December 2019 ordinary shares represented 97.9% and convertible shares represented 2.1% of issued share capital (2018: 97.8% and 2.2% respectively). The called up, issued and fully paid share capital of the Company at 31 December 2019 was €242,903 (2018: €242,635).

Share Premium

Share premium of €1,986 million (2018: €1,984 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 €m	Cash Flow Hedging Reserve €m	Cost of Hedging Reserve €m	Foreign Currency Translation Reserve €m	Share-based Payment Reserve €m	Own Shares €m	FVOCI Reserve €m	Total €m
At 1 January 2019	**575**	**(14)**	**3**	**(367)**	**185**	**(28)**	**1**	**355**
Other comprehensive income								
Foreign currency translation adjustments	**–**	**–**	**–**	**9**	**–**	**–**	**–**	**9**
Effective portion of changes in fair value of cash flow hedges	**–**	**12**	**–**	**–**	**–**	**–**	**–**	**12**
Changes in fair value of cost of hedging	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Net change in fair value of investment in equity instruments	**–**	**–**	**–**	**–**	**–**	**–**	**(11)**	**(11)**
Total other comprehensive income/(expense)	**–**	**12**	**(1)**	**9**	**–**	**–**	**(11)**	**9**
Purchase of non-controlling interest	**–**	**–**	**–**	**(29)**	**–**	**–**	**–**	**(29)**
Share-based payment	**–**	**–**	**–**	**–**	**39**	**–**	**–**	**39**
Net shares acquired by SKG Employee Trust	**–**	**–**	**–**	**–**	**–**	**(23)**	**–**	**(23)**
Shares distributed by SKG Employee Trust	**–**	**–**	**–**	**–**	**(9)**	**9**	**–**	**–**
At 31 December 2019	**575**	**(2)**	**2**	**(387)**	**215**	**(42)**	**(10)**	**351**

	Reverse Acquisition Reserve €m	Cash Flow Hedging Reserve €m	Cost of Hedging Reserve €m	Foreign Currency Translation Reserve €m	Share-based Payment Reserve €m	Own Shares €m	FVOCI Reserve €m	Total €m
At 1 January 2018	575	(19)	2	(1,382)	176	(31)	1	(678)
Other comprehensive income								
Foreign currency translation adjustments	–	–	–	1,015	–	–	–	1,015
Effective portion of changes in fair value of cash flow hedges	–	5	–	–	–	–	–	5
Changes in fair value of cost of hedging	–	–	1	–	–	–	–	1
Total other comprehensive income	–	5	1	1,015	–	–	–	1,021
Share-based payment	–	–	–	–	22	–	–	22
Net shares acquired by SKG Employee Trust	–	–	–	–	–	(10)	–	(10)
Shares distributed by SKG Employee Trust	–	–	–	–	(13)	13	–	–
At 31 December 2018	575	(14)	3	(367)	185	(28)	1	355

23. Capital and Reserves continued

Reverse Acquisition Reserve
This reserve arose on the creation of a new parent of the Group prior to listing.

Cash Flow Hedging Reserve
This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (net of tax) related to hedged transactions that have not yet occurred.

Cost of Hedging Reserve
The cost of hedging reserve reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the currency basis spread on foreign exchange contracts. It is initially recognised in other comprehensive income and accounted for similarly to gains or losses in the cash flow hedging reserve.

Foreign Currency Translation Reserve
This 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 acquired and disposed of by the SKG Employee Trust under the terms of the Deferred Annual Bonus Plan and the Deferred Bonus Plan.

	2019 €m	2018 €m
At 1 January	**28**	31
Net shares acquired by SKG Employee Trust	**23**	10
Shares distributed by SKG Employee Trust	**(9)**	(13)
At 31 December	**42**	28

	Numbers of Shares of €0.001 Each	
	2019	2018
At 1 January	**1,071,816**	1,252,961
Shares acquired by SKG Employee Trust	**946,892**	366,208
Shares distributed as part of the Deferred Annual Bonus Plan	**(394,437)**	(547,353)
Shares sold by the SKG Employee Trust	**(32,247)**	-
At 31 December	**1,592,024**	1,071,816

As at 31 December 2019 the nominal value of own shares held was €1,592 (2018: €1,072). In 2019, own shares were purchased at an average price of €26.13 (2018: €30.09) per share. The number of own shares held represents 0.7% (2018: 0.4%) of the total called up share capital of the Company. Each of these have the same nominal value as the ordinary shares.

FVOCI Reserve
Equity instruments are measured at fair value with fair value gains and losses recognised in other comprehensive income. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

24. Borrowings

Analysis of Total Borrowings

	2019 €m	2018 €m
Revolving credit facility – interest at relevant interbank rate (interest rate floor of 0%) + 0.9%[1,8]	333	–
Senior credit facility[2]		
Revolving credit facility – interest at relevant interbank rate + 1.1%	–	4
Facility A term loan – interest at relevant interbank rate + 1.35%	–	407
US$292.3 million 7.5% senior debentures due 2025 (including accrued interest)[8]	262	257
Bank loans and overdrafts	118	119
€200 million receivables securitisation variable funding notes due 2022 (including accrued interest)[7]	29	49
€230 million receivables securitisation variable funding notes due 2023[7]	69	179
€400 million 4.125% senior notes due 2020 (including accrued interest)[3,8]	–	406
€250 million senior floating rate notes due 2020 (including accrued interest)[3,8]	–	251
€500 million 3.25% senior notes due 2021 (including accrued interest)[3,8]	–	498
€500 million 2.375% senior notes due 2024 (including accrued interest)[8]	500	499
€250 million 2.75% senior notes due 2025 (including accrued interest)[8]	250	250
€1,000 million 2.875% senior notes due 2026 (including accrued interest)[4,8]	1,004	601
€750 million 1.5% senior notes due 2027 (including accrued interest)[5,8]	744	–
Leases[6]	377	19
Total borrowings	3,686	3,539
Analysed as follows:		
Current	185	167
Non-current	3,501	3,372
	3,686	3,539

1 Revolving credit facility ('RCF') of €1,350 million maturing in 2024. In January 2020, the Group secured the agreement of all lenders in its RCF to extend the maturity date by a further year to 28 January 2025.
(a) Revolver loans – €339 million, comprising €124 million and US$241 million.
(b) Drawn under ancillary facilities and facilities supported by letters of credit – nil.
(c) Other operational facilities including letters of credit – €7 million.
2 In January 2019, the senior credit facility which was due to mature in March 2020 was refinanced with a new five-year RCF.
3 €400 million 4.125% senior notes due 2020, €250 million senior floating rate notes due 2020 and €500 million 3.25% senior notes due 2021 were redeemed in full in October 2019.
4 In February 2019, the Group issued €400 million senior notes which form a single series with the existing €600 million senior notes.
5 In September 2019, the Group issued €750 million senior notes, the proceeds of which were used to redeem the 2020 senior floating rate notes and 2021 senior notes in October 2019.
6 The adoption of IFRS 16 effective 1 January 2019 increases reported leases by €356 million at 31 December 2019.
7 Secured loans and long-term obligations.
8 Unsecured loans and long-term obligations.

Included within the carrying value of borrowings are deferred debt issue costs of €37 million (2018: €27 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 €4,589 million (2018: €4,499 million) of which €3,255 million (2018: €3,466 million) was utilised at 31 December 2019. The weighted average period until maturity of undrawn committed facilities is 3.8 years (2018: 1.6 years). Pro-forma for the RCF extension in January 2020, the weighted average maturity of undrawn committed facilities increases to 4.5 years.

Maturity of Undrawn Committed Facilities

	2019 €m	2018 €m
Within 1 year	–	–
Between 1 and 2 years	170	833
More than 2 years	1,164	200
	1,334	1,033

The Group's primary sources of liquidity are cash flows from operations and borrowings under the Revolving Credit Facility ('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.

The Group's borrowing agreements contain certain covenants that restrict the Group's flexibility in certain areas such as incurrence of additional indebtedness and the incurrence of liens. The Group's borrowing agreements also contain financial covenants, the primary ones being a maximum net borrowings to EBITDA of 3.75 times and a minimum EBITDA to net interest of 3.00 times. The Group is in full compliance with the requirements of its covenant agreements throughout each of the periods presented. At 31 December 2019, as defined in the relevant facility agreement, net borrowings to EBITDA was 2.1 times (2018: 2.0 times) and EBITDA to net interest was 10.4 times (2018: 10.1 times). Excluding the impact of the application of IFRS 16, *Leases* net borrowings to EBITDA would be 2.0 times and EBITDA to net interest would be 10.6 times at 31 December 2019.

24. Borrowings continued

Maturity of Undrawn Committed Facilities continued

The Group has in place a trade receivables securitisation programme of up to €200 million at a margin of 1.375% and a February 2022 maturity. 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 €154 million of the funding and a conduit of Landescovnantbank Hessen-Thüringen Girozentrale (trading as Helaba Bank) provides €46 million of the funding.

The Group also has a trade receivables securitisation programme of up to €230 million at a margin of 1.2% and a June 2023 maturity. Receivables generated by certain of its operating companies in the UK, Germany and France are sold to special purpose subsidiaries and entities to support the funding provided by Lloyds Banking Group.

The sale of the securitised receivables under the Group's securitisation programmes is not intended to, and does not, meet the requirements for derecognition under IFRS 9, 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 2023 receivables securitisation at 31 December 2019 was €340 million (2018: €357 million). The gross amount of receivables collateralising the 2022 receivables securitisation at 31 December 2019 was €267 million (2018: €286 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 has recourse to the securitised debtors only. 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 2019, cash of €4 million (2018: €1 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

The following table sets out the average interest rates at 31 December 2019 and 2018 for each of the drawings under the senior credit facility.

	Currency	**2019 Interest Rate**	2018 Interest Rate
Senior credit facility – A	EUR	**–**	1.01%
Senior credit facility – A	US$	**–**	3.87%
Senior credit facility – A	GBP	**–**	2.08%
Senior credit facility – RCF	EUR	**–**	0.73%
RCF	EUR	**0.90%**	–
RCF	US$	**2.83%**	–

Borrowings under the RCF are available to fund the Group's working capital requirements, capital expenditure and other general requirements.

In January 2019, the Group successfully priced a €400 million add-on offering to the June 2018 €600 million 2.875% bond issue at a price of 100.75 giving a yield of 2.756%. Also, in January 2019, the Group signed and completed a new five-year €1,350 million RCF. This new RCF refinanced the Group's existing senior credit facility which was due to mature in March 2020.

In September 2019, the Group successfully priced a €750 million 1.5% bond issuance. The proceeds were used to finance the early redemption in October 2019 of €250 million senior floating rate notes due 2020 and €500 million 3.25% senior notes due 2021.

In October 2019, the Group redeemed €400 million 4.125% senior notes due 2020.

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 practices. 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 for the most part 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 Company 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 2019
Netherlands	31 December 2019
United Kingdom	31 March 2017

The expense for defined contribution pension plans for the year ended 31 December 2019 was €64 million (2018: €59 million).

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

	2019 €m	2018 €m
Present value of funded or partially funded obligations	**(2,473)**	(2,145)
Fair value of plan assets	**2,109**	1,831
Deficit in funded or partially funded plans	**(364)**	(314)
Present value of wholly unfunded obligations	**(534)**	(489)
Amounts not recognised as assets due to asset ceiling	**(1)**	(1)
Net pension liability	**(899)**	(804)

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 IAS 19, *Employee Benefits* at 31 December 2019 and 31 December 2018 are as follows:

	Eurozone		Rest of Europe		The Americas	
	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
Rate of increase in salaries	**1.60 – 2.53**	1.70 – 2.70	**2.80 – 3.00**	3.00	**1.02 – 5.00**	1.50 – 5.50
Rate of increase to pensions in payment	**Nil – 1.50**	Nil – 1.70	**Nil – 2.52**	Nil – 2.54	**Nil – 3.55**	Nil – 1.49
Discount rate for plan liabilities	**1.05**	1.90	**1.30 – 1.95**	2.20 – 2.85	**2.42 – 8.58**	3.83 – 9.45
Inflation	**1.45**	1.70	**1.80 – 3.40**	2.00 – 3.40	**0.52 – 4.00**	0.99 – 4.00

25. Employee Benefits continued

Mortality Assumptions

In assessing the Group's post retirement liabilities, the mortality assumptions chosen for the principal plans above are based on the country's population mortality experience, large pension scheme mortality experience and the plan's own mortality experience. Following a mortality investigation carried out by the pension scheme trustees in the United Kingdom, the mortality tables changed in 2017, resulting in a slightly lower life expectancy. A further decrease of life expectancy occurred in 2018 and 2019, in line with general trends in the United Kingdom. In 2018, in the Netherlands mortality tables were updated, reflecting a slight disimprovement in assumed longevity. In 2019, the fund-specific correction factors were adjusted to take into account fund-specific mortality. These fund-specific correction factors decrease the mortality probabilities compared to the unadjusted standard mortality table. In comparison to the correction factors used in 2018, the 2019 correction decreases the mortality probability slightly. In Ireland, the assumptions used are from the 2019 actuarial valuation. In Germany, the mortality table, which was updated in 2019, is that specified by statutory authorities. 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**[1]	2018
Longevity at age 65 for current pensioners (years)								
Male	**21.7**	21.5	**19.9**	20.1	**21.0**	20.9	**20.2**	20.5
Female	**24.1**	24.0	**21.8**	22.1	**23.7**	23.5	**23.7**	24.1
Longevity at age 65 for current member aged 45 (years)								
Male	**24.0**	23.9	**20.9**	21.2	**23.3**	23.2	**23.0**	23.3
Female	**26.1**	26.0	**23.0**	23.3	**25.8**	25.7	**26.0**	26.3

1 In 2019, life expectancy for Germany has been updated to reflect monthly payments instead of annual payments. As a result, reported life expectancy is showing lower than reported last year.

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

Sensitivity Analysis

The following table illustrates the key sensitivities to the amounts included in the Consolidated Financial Statements which would arise from adjusting certain key actuarial assumptions. The sensitivity of the defined benefit obligation to changes in actuarial assumptions has been calculated using the projected unit credit method, which is the same method used to calculate the pension liability in the Consolidated Balance Sheet. The methods and assumptions used in preparing the sensitivity analysis have not changed compared to the prior year. In each case all the other assumptions remain unchanged.

	Increase/(Decrease) in Pension Liabilities	
Change in Assumption	**2019 €m**	2018 €m
Increase discount rate by 0.25%	**(123)**	(104)
Decrease discount rate by 0.25%	**135**	111
Increase inflation rate by 0.25%	**46**	42
Decrease inflation rate by 0.25%	**(44)**	(40)
Increase in life expectancy by one year	**134**	103

The sensitivity information shown above has been determined by performing calculations of the liabilities using different assumptions.

25. Employee Benefits continued

Analysis of Plan Assets and Liabilities

Plan assets are comprised as follows:

	2019			2018		
	Quoted €m	Unquoted €m	Total €m	Quoted €m	Unquoted €m	Total €m
Equities	**607**	**–**	**607**	484	–	484
Corporate bonds	**216**	**–**	**216**	180	–	180
Government bonds	**406**	**–**	**406**	355	–	355
Property	**58**	**4**	**62**	64	1	65
Cash	**110**	**–**	**110**	109	–	109
Insurance contracts	**124**	**39**	**163**	111	38	149
Liability driven investment	**274**	**–**	**274**	244	–	244
Other	**256**	**15**	**271**	245	–	245
	2,051	**58**	**2,109**	1,792	39	1,831

Included in plan assets at 31 December 2019 under Property is an amount of €3.6 million (2018: €1.2 million) relating to the Group's 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 2019 was a gain of €272 million (2018: a loss of €65 million).

An analysis of the assets held by the plans is as follows:

31 December 2019	Eurozone €m	Rest of Europe €m	The Americas €m	Total €m
Equities	**411**	**176**	**20**	**607**
Corporate bonds	**144**	**39**	**33**	**216**
Government bonds	**318**	**69**	**19**	**406**
Property	**37**	**24**	**1**	**62**
Cash	**20**	**89**	**1**	**110**
Insurance contracts	**159**	**4**	**–**	**163**
Liability driven investment	**30**	**244**	**–**	**274**
Other	**94**	**177**	**–**	**271**
Fair value of plan assets	**1,213**	**822**	**74**	**2,109**
Present value of plan liabilities	**(1,822)**	**(1,076)**	**(109)**	**(3,007)**
Amounts not recognised as assets due to asset ceiling	**–**	**(1)**	**–**	**(1)**
Net pension liability	**(609)**	**(255)**	**(35)**	**(899)**

31 December 2018	Eurozone €m	Rest of Europe €m	The Americas €m	Total €m
Equities	318	148	18	484
Corporate bonds	120	33	27	180
Government bonds	289	58	8	355
Property	43	21	1	65
Cash	18	76	15	109
Insurance contracts	145	4	–	149
Liability driven investment	20	224	–	244
Other	97	148	–	245
Fair value of plan assets	1,050	712	69	1,831
Present value of plan liabilities	(1,602)	(935)	(97)	(2,634)
Amounts not recognised as assets due to asset ceiling	–	(1)	–	(1)
Net pension liability	(552)	(224)	(28)	(804)

25. Employee Benefits continued

Analysis of the Amount Charged in the Consolidated Income Statement

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

	2019 €m	2018 €m
Current service cost	24	25
Administrative expenses	5	4
Past service cost – GMP equalisation[1]	–	9
Past service cost – Other	1	(2)
Gain on settlement	(2)	–
Actuarial loss arising on other long-term employee benefits	–	1
Charged to operating profit	28	37
Net interest cost on net pension liability[2]	17	16
	45	53

1 In 2018, a High Court ruling in the United Kingdom required pension schemes to equalise benefits for the effect of GMP, which resulted in an exceptional past service cost for the Group of €9 million.
2 Net interest cost on net pension liability excludes the hyperinflation adjustment which is nil in 2019 (2018: €2 million).

The defined benefit cost for 2019 includes €4 million (2018: €4 million) which relates to other long-term employee benefits.

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

	2019 €m	2018 €m
Cost of sales	14	14
Distribution costs and administrative expenses	14	14
Exceptional items	–	9
Finance costs	17	16
	45	53

Analysis of Actuarial (Losses)/Gains Recognised in the Consolidated Statement of Comprehensive Income	2019 €m	2018 €m
Return on plan assets (excluding interest income)	228	(107)
Actuarial loss due to experience adjustments	(9)	(2)
Actuarial (loss)/gain due to changes in financial assumptions	(348)	81
Actuarial gain due to changes in demographic assumptions	12	22
Total loss recognised in the Consolidated Statement of Comprehensive Income	(117)	(6)

Movement in Present Value of Defined Benefit Obligation	2019 €m	2018 €m
At 1 January	(2,634)	(2,799)
Current service cost	(24)	(25)
Contributions by plan participants	(5)	(5)
Interest cost	(61)	(58)
Actuarial gains and losses	(345)	100
Benefits paid by plans	110	125
Past service cost	(1)	(7)
Disposals	–	27
Acquisitions	(1)	(2)
Decrease arising on settlement	6	–
Foreign currency translation adjustment	(52)	10
At 31 December	(3,007)	(2,634)

25. Employee Benefits continued

Movement in Fair Value of Plan Assets	2019 €m	2018 €m
At 1 January	**1,831**	1,953
Interest income on plan assets	**44**	42
Return on plan assets (excluding interest income)	**228**	(107)
Administrative expenses	**(5)**	(4)
Contributions by employer	**79**	69
Contributions by plan participants	**5**	5
Benefits paid by plans	**(110)**	(125)
Disposals	**–**	(1)
Reclassification	**–**	1
Decrease arising on settlements	**(4)**	–
Foreign currency translation adjustment	**41**	(2)
At 31 December	**2,109**	1,831

Movement in Asset Ceiling	2019 €m	2018 €m
At 1 January	**(1)**	(2)
Variations of the effect of the asset ceiling limit	**–**	1
At 31 December	**(1)**	(1)

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.

25. Employee Benefits continued

Maturity Analysis

The expected maturity analysis is set out in the table below:

Expected Benefit Payments:	Projected Amounts €m
Financial year 2020	**105**
Financial years 2021	**104**
Financial years 2022-2024	**333**
Financial years 2025-2029	**603**

The weighted average duration of the defined benefit obligation at 31 December 2019 is 17.44 years (2018: 16.50 years).

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 2020 for the funded schemes are €5 million and €46 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2020 are €27 million and the expected benefit payments made directly by the employer in respect of funded plans for the year ending 31 December 2020 are €1 million.

26. Share-based Payment

Share-based Payment Expense Recognised in the Consolidated Income Statement

	2019 €m	2018 €m
Charge arising from the Deferred Annual Bonus Plan & Deferred Bonus Plan	**26**	15
Charge arising from the Performance Share Plan	**13**	7
	39	22

The Group grants equity settled share-based payments to employees as part of their remuneration; there are no cash-settled share-based payments. The accounting for share-based payment expense 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.

In 2019, awards were made under the two active plans; the 2018 Deferred Bonus Plan ('DBP') and the Performance Share Plan ('PSP'). In addition, two legacy plans are still in place; the Deferred Annual Bonus Plan ('DABP') and the 2007 Share Incentive Plan ('2007 SIP'). Awards are no longer granted under the DABP or the 2007 SIP.

Deferred Bonus Plan

In May 2018, the SKG plc Annual General Meeting approved the adoption of the DBP which replaced the deferred element of the existing long-term incentive plan, the DABP described below.

Participants may be granted an award up to 150% of salary (other than a recruitment award). The actual bonus earned in any financial year is based on the achievement of clearly defined stretching annual financial targets for some of the Group's Key Performance Indicators ('KPIs'). For 2019, these were Earnings before Interest and Tax ('EBIT'), Return on Capital Employed ('ROCE') and Free Cash Flow ('FCF'), together with targets for health and safety and personal/strategic targets for the executive Directors.

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 a service condition of continuity of employment or in certain circumstances, based on normal good leaver provisions.

A summary of the activity under the DBP, for the period from 1 January 2019 to 31 December 2019 is presented below:

	Number Outstanding
At 1 January 2019	**–**
Granted in the year	**944,088**
Forfeited in the year	**(10,086)**
At 31 December 2019	**934,002**

The fair value of the Deferred Share Awards granted in 2019 was €26.13 which was the market value of the deferred shares granted.

Deferred Share Awards were granted in 2019 to eligible employees in respect of the financial year ended 31 December 2018.

The total DBP charge for the year comprises a charge pertaining to the Deferred Share Awards granted in respect of 2018 and to be granted in respect of 2019.

26. Share-based Payment continued

Performance Share Plan

In May 2018, the SKG plc Annual General Meeting approved the adoption of the PSP, which replaced the existing long-term incentive plan, the matching element of the DABP described below.

Participants may be granted an award up to 225% of salary (other than a recruitment award). Awards may vest after a three-year performance period to the extent to which the performance conditions have been met. Awards may also be subject to an additional holding period following vesting (of up to two years), during which shares subject to the PSP award will not be delivered to participants and at the end of which the PSP awards will be released (i.e. become unconditional).

The performance targets assigned to the PSP awards are set by the Remuneration Committee on the granting of awards at the start of each three-year cycle and are set out in the Remuneration Report.

The actual number of shares that will vest under the PSP is dependent on the performance conditions of the Group's EPS, ROCE and Total Shareholder Return ('TSR') (relative to a peer group) targets measured over the same three-year performance period. PSP performance conditions will be reviewed at the end of the three-year performance period and the PSP shares awarded will vest depending upon the extent to which these performance conditions have been satisfied.

The fair values assigned to the EPS and ROCE components of the PSP are equivalent to the share price on the date of award.

The Monte Carlo simulation approach was used to calculate the fair value of the TSR component of the PSP award at the 2018 and 2019 grant dates. The expected volatility rate applied was based upon both the historical and implied share price volatility levels of the Group. For the 2019 award, a rate of 26.3% was used (2018 award: 23.5%). The risk free interest rate used for the 2019 award was (0.162%) (2018 award: (0.024%)).

The total PSP charge for the year comprises a charge pertaining to the awards granted in respect of 2018 and 2019.

A summary of the awards granted under the PSP is presented below:

				Number of Shares	
	Period to Earliest Release Date	Fair Value of EPS and ROCE Components	Fair Value of TSR Component	Initial Award[1]	Net Outstanding At 31 December 2019
Granted in 2018	3 years	€33.32	€21.57	1,382,116	1,251,569
Granted in 2019	**3 years**	**€24.66**	**€12.78**	**1,883,477**	**1,812,951**

1 Awards are eligible to accrue dividend equivalents during the performance period.

	Number Outstanding	
	2019	2018
At 1 January	**1,325,792**	–
Granted in the year	**1,883,477**	1,382,116
Forfeited in the year	**(144,749)**	(56,324)
At 31 December	**3,064,520**	1,325,792

Deferred Annual Bonus Plan

In May 2011, the SKG plc Annual General Meeting approved the adoption of the 2011 DABP, which replaced the existing long-term incentive plan, the 2007 SIP.

Awards to each eligible employee under the DABP were 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 was 150% of salary. The actual bonus earned in any financial year was based on the achievement of clearly defined stretching annual financial targets for some of the Group's KPIs.

The structure of the plan was that 50% of any annual bonus earned for a financial year was deferred into SKG plc shares to be granted in the form of a Deferred Share Award. These Deferred Shares vest (i.e. become unconditional) after a three-year holding period based on a service condition of 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 could be granted up to the level of the Deferred Share Award. Following a three-year performance period, the Matching Shares could vest up to a maximum of three times the level of the Deferred Share Award. Matching Share Awards would vest provided that the Remuneration Committee considered the Group's ROCE and 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 would vest under the Matching Share Awards was dependent on the performance conditions of the Group's FCF and ROCE targets measured over the same three-year performance period on an inter-conditional basis and the multiplier was calculated by interpolation.

In 2018, the Group introduced the PSP which replaced the Matching Share Award and the DBP which replaced the deferred element of the DABP.

26. Share-based Payment continued

Deferred Annual Bonus Plan continued

The total DABP charge for the year comprises two elements; a) a charge pertaining to the Deferred Share Awards granted in respect of 2016 and 2017 and b) a charge in respect of the Matching Share Awards granted in respect of 2016.

The actual performance targets assigned to the Matching Share Awards were set by the Remuneration Committee on the granting of awards at the start of each three-year cycle. The Group was 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 2018 to 31 December 2019 is presented below:

	Number Outstanding	
	Deferred Share Award	Matching Share Award
At 1 January 2018	1,252,961	780,420
Granted in the year	364,933	–
Forfeited in the year	(14,174)	(17,900)
Additional match on vesting	–	5,666
Distributed in the year	(547,353)	(320,078)
At 31 December 2018	**1,056,367**	**448,108**
Forfeited in the year	**(15,788)**	**(7,091)**
Additional match on vesting	**–**	**37,396**
Distributed in the year	**(394,437)**	**(268,216)**
At 31 December 2019	**646,142**	**210,197**

The fair value of the awards granted in 2018 was €30.09 which was the market value on the date of the grant.

The Deferred Share Awards and Matching Share Awards which were granted in 2016 in respect of the financial year ended 31 December 2015 vested in February 2019 and were distributed to relevant employees. The market price at the date of vesting was €25.81.

The Deferred Share Awards and Matching Share Awards which were granted in 2017 in respect of the financial year ended 31 December 2016 vested in February 2020 and were distributed to relevant employees. The market price at the date of vesting was €33.49. Details of the performance targets and results for the three-year period to 31 December 2019 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 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 converted 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.

A summary of the activity under the 2007 SIP, as amended, for the period from 1 January 2018 to 31 December 2019 is presented below:

	2019		2018	
	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	**490,182**	**4.93**	532,098	4.95
Lapsed during the year	**(19,260)**	**4.36**	–	–
Exercised in the year	**(407,224)**	**4.74**	(41,916)	5.08
Outstanding at the end of the year	**63,698**	**6.33**	490,182	4.93
Exercisable at the end of the year	**63,698**	**6.33**	490,182	4.93

26. Share-based Payment continued

2007 Share Incentive Plan continued

The weighted average market price on the dates the convertible shares were exercised in the financial year ended 31 December 2019 was €27.41 (2018: €34.01).

	2019	2018
2007 SIP, as amended, convertible shares outstanding at the end of the year (number)	**63,698**	490,182
Weighted average exercise price (€ per share)	**6.33**	4.93
Weighted average remaining contractual life (years)	**0.2**	0.9

27. Provisions for Liabilities

	2019 €m	2018 €m
Current	**147**	50
Non-current	**78**	47
	225	97

	Deferred and Contingent Consideration €m	Restructuring €m	Environmental €m	Legal €m	Other €m	Total €m
At 31 December 2018	**15**	**22**	**4**	**3**	**53**	**97**
Adjustment on initial application of IFRS 16 (Note 4)	**–**	**–**	**–**	**–**	**(5)**	**(5)**
At 1 January 2019	**15**	**22**	**4**	**3**	**48**	**92**
Made during the financial year	**63**	**2**	**3**	**126**	**28**	**222**
Released during the financial year	**–**	**(1)**	**(1)**	**(1)**	**(2)**	**(5)**
Utilised during the financial year	**(14)**	**(17)**	**–**	**(1)**	**(33)**	**(65)**
Fair value adjustment	**(20)**	**–**	**–**	**–**	**–**	**(20)**
Unwinding of discount	**1**	**–**	**–**	**–**	**–**	**1**
At 31 December 2019	**45**	**6**	**6**	**127**	**41**	**225**

Deferred and Contingent Consideration

Deferred and contingent consideration represents the deferred and contingent element of acquisition consideration payable. The balance at 31 December 2019 relates to the acquisition of the following:

- Avala Ada and Fabrika Hartije Beograd, Serbia (2019) – deferred consideration payable in 2022 and deferred contingent consideration for the remaining 25% of the acquisition, payable between 2021 and 2023 through a put/call option facility;
- INPA, Brazil (2015) – deferred consideration payable in 2020; and
- Chatziioannou, Greece (2017) – deferred consideration payable in 2020.

The fair value adjustment of €20 million relates to the fair value gain on the valuation of the Serbian put option as at 31 December 2019.

Restructuring

These provisions relate to irrevocable commitments in respect of restructuring programmes throughout the Group. The provision made in 2019 relates to restructuring and reorganisation undertaken in Europe. The current year utilisation of the provision related largely to the closure of the City of Industry plant in North America and ongoing restructuring throughout Europe.

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 and other operating expenses. A provision was made in 2019 mainly due to the Italian Competition Authority ('ICA') fine. In August, the ICA notified approximately 50 companies, of which Smurfit Kappa Italia S.p.A. was one, that an investigation had found the companies to have engaged in anti-competitive practices, in relation to which the ICA levied a fine of €124 million on Smurfit Kappa Italia S.p.A. We will vigorously appeal this decision on both administrative and substantive grounds. This process may take a number of years. Legal provisions are uncertain as to timing and amount as they are subject to ongoing cases.

Other

Other comprises a number of provisions including: liabilities arising from dilapidations amounting to €7 million (2018: €10 million); employee compensation in certain countries in which we operate amounting to €22 million (2018: €21 million); Venezuelan legal and reorganisation costs following the deconsolidation of our Venezuelan operations amounting to €5 million (2018: €13 million); and numerous other items which are not individually material and are not readily grouped together.

28. Trade and Other Payables

	Group 2019 €m	Group 2018 €m	Company 2019 €m	Company 2018 €m
Amounts falling due within one financial year:				
Trade payables	**1,019**	1,065	**–**	–
Payroll taxes	**38**	37	**–**	–
Value added tax	**73**	65	**–**	–
Social insurance	**53**	56	**–**	–
Accruals	**531**	508	**–**	–
Capital payables	**123**	115	**–**	–
Other payables	**26**	25	**–**	–
Amounts payable to Group companies	**–**	–	**10**	5
	1,863	1,871	**10**	5
Amounts falling due after more than one financial year:				
Other payables	**10**	14	**–**	–
	1,873	1,885	**10**	5

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

Amounts owed to Group companies are unsecured, interest free and are repayable on demand.

29. Financial Instruments

Financial Instruments by Category

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

31 December 2019	Assets at Amortised Cost €m	Assets at Fair Value Through Profit or Loss €m	Derivatives Used for Hedging €m	Assets at Fair Value Through Other Comprehensive Income €m	Total €m
Assets per Consolidated Balance Sheet:					
Listed and unlisted debt instruments	**–**	**10**	**–**	**–**	**10**
Derivative financial instruments	**–**	**6**	**13**	**–**	**19**
Trade and other receivables[1]	**1,559**	**–**	**–**	**–**	**1,559**
Cash and cash equivalents	**189**	**–**	**–**	**–**	**189**
Restricted cash	**14**	**–**	**–**	**–**	**14**
	1,762	**16**	**13**	**–**	**1,791**

1 Excludes statutory taxes and prepayments.

The financial assets of the Company of €252 million consist of assets at amortised cost.

31 December 2019	Liabilities at Fair Value Through Profit or Loss €m	Derivatives Used for Hedging €m	Other Financial Liabilities €m	Total €m
Liabilities per Consolidated Balance Sheet:				
Borrowings	**–**	**–**	**3,686**	**3,686**
Derivative financial instruments	**3**	**13**	**–**	**16**
Trade and other payables[1]	**–**	**–**	**1,465**	**1,465**
Deferred contingent consideration	**33**	**–**	**–**	**33**
Deferred consideration	**–**	**–**	**12**	**12**
	36	**13**	**5,163**	**5,212**

1 Excludes statutory taxes and employee benefits.

The financial liabilities of the Company of €10 million consist of other financial liabilities.

29. Financial Instruments continued

Financial Instruments by Category continued

31 December 2018	Assets at Amortised Cost €m	Assets at Fair Value Through Profit or Loss €m	Derivatives Used for Hedging €m	Assets at Fair Value Through Other Comprehensive Income €m	Total €m
Assets per Consolidated Balance Sheet:					
Equity instruments	–	–	–	10	10
Listed and unlisted debt instruments	–	10	–	–	10
Derivative financial instruments	–	12	9	–	21
Trade and other receivables[1]	1,612	–	–	–	1,612
Cash and cash equivalents	407	–	–	–	407
Restricted cash	10	–	–	–	10
	2,029	22	9	10	2,070

1 Excludes statutory taxes and prepayments.

The financial assets of the Company of €220 million consist of assets at amortised cost.

31 December 2018	Liabilities at Fair Value Through Profit or Loss €m	Derivatives Used for Hedging €m	Other Financial Liabilities €m	Total €m
Liabilities per Consolidated Balance Sheet:				
Borrowings	–	–	3,539	3,539
Derivative financial instruments	3	24	–	27
Trade and other payables[1]	–	–	1,483	1,483
Deferred consideration	–	–	15	15
	3	24	5,037	5,064

1 Excludes statutory taxes and employee benefits.

The financial liabilities of the Company of €5 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.

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. Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. 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 considers 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. Tables detailing the impact of any such swaps on the Group's financial instruments have been set out elsewhere in this note.

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. Tables detailing the impact of these derivatives on the currency profile of the Group's financial instruments have been set out elsewhere in this note.

29. Financial Instruments continued

Key Financial Risks and Financial Risk Management Resulting from the Use of Financial Instruments and Related Sensitivity Analysis continued

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

Interest Rate Risk

The Group is exposed to changes in interest rates, primarily changes in Euribor. The revolving credit facility is variable rate debt, as are the Group's securitisation facilities. 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 2019, the Group had fixed an average of 90% (2018: 79%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2019 a one percentage point increase in variable interest rates would have an estimated impact on pre-tax interest expense of approximately €5 million (including the effect of interest rate swaps) over the following 12 months. Interest income on our cash balances would increase by approximately €2 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. Tables detailing the fixed and floating variable rate debt together with the impact of the related interest rate and cross currency swaps have been set out elsewhere in this note.

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 Brazilian Real), US Dollar and Eastern Europe (comprising mainly the Polish Zloty, the Czech Koruna, the Russian Rouble and the Serbian Dinar). At the end of 2019, approximately 99% (2018: 99%) of its non euro denominated net assets consisted of the Swedish Krona 24% (2018: 26%), Sterling 9% (2018: 9%), Latin American currencies 44% (2018: 53%), US Dollar 3% (2018: 1%) and Eastern European currencies 19% (2018: 10%). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2019 rate would reduce shareholders' equity by approximately €20 million (2018: €16 million).

Commodity Price Risk

Containerboard

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

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

The price of recovered paper can fluctuate significantly within a given year, affecting the operating results of 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 2019 and 2018, 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. At each of 31 December 2019 and 2018, the Group held no derivatives to mitigate such risks.

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 €23.92 per megawatt-hour, decreased to €10.84 in August 2019 and was €15.90 per megawatt-hour in December 2019, giving an average price of €15.42 for 2019. 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.

Carbon prices increased significantly in 2019, leading to increased electricity market prices and overall energy costs.

The Group's overall energy costs increased by approximately 8% when compared to 2018 mainly due to acquisitions.

29. Financial Instruments continued

Key Financial Risks and Financial Risk Management Resulting from the Use of Financial Instruments and Related Sensitivity Analysis continued

Tables detailing the Group's energy derivatives have been set out elsewhere in this note.

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; and
- 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:

	2019 €m	2018 €m
Cash and cash equivalents	**189**	407
Committed undrawn facilities	**1,334**	1,033
Liquidity reserve	**1,523**	1,440
Borrowings due within one year – contractual undiscounted cash flows	**(277)**	(264)
Net position	**1,246**	1,176

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 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 €1,334 million at 31 December 2019; and the Group has cash and cash equivalents of €189 million at 31 December 2019.

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.

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 as a multiple of EBITDA (earnings before exceptional items, share-based payment expense, share of associates' profit (after tax), net finance costs, income tax expense, depreciation and depletion (net) and intangible asset amortisation). Maximum levels for this ratio are set under Board approved policy. At 31 December 2019 the net debt to EBITDA ratio of the Group was 2.1 times (net debt of €3,483 million) which compares to 2.0 times (net debt of €3,122 million) at the end of 2018. This gives the Group continuing headroom compared to the actual covenant level at 31 December 2019 of 3.75 times. Excluding the impact of the application of IFRS 16, *Leases* the net debt to EBITDA ratio would be 2.0 times at 31 December 2019.

On the basis of pre-exceptional operating profit, the Group's return on capital employed was 17.0% compared to 19.3% in 2018. The return on capital employed comprises pre-exceptional operating profit plus share of associates' profit (after tax) as a percentage of average capital employed (where average capital employed is the average of total equity and net debt at the current and prior year end). Capital employed at 31 December 2019 was €6,476 million, (2018: €6,012 million). The post-exceptional return on capital employed was 14.2% in 2019 (2018: 18.1%).

The capital employed of the Company at 31 December 2019 was €2,100 million (2018: €2,078 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. Further information on the Group approach to providing for expected credit losses is set out in Note 19.

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 2019 of €203 million, 52% was with financial institutions in the A rating category of Standard & Poor's or Moody's and 29% was with financial institutions in the AA/Aa or higher rating category.

29. Financial Instruments continued

Key Financial Risks and Financial Risk Management Resulting from the Use of Financial Instruments and Related Sensitivity Analysis continued

The remaining 19% was represented mainly by cash held with banks in Latin America which fell outside the A or higher ratings categories. At 31 December 2019 derivative transactions were with counterparties with ratings ranging from BB- to AA- with Standard & Poor's or B3 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 5.

Market Risk – Equity Instruments

The Group's equity instruments principally comprise an investment in an unlisted entity which operates in a similar paper processing market to the Group in Europe. In 2019 the Group made a fair value adjustment to the unlisted investment which is now valued at nil.

Market Risk – Listed and Unlisted Debt Instruments

The Group's listed and unlisted debt instruments principally comprise 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.

Further details on equity instruments and listed and unlisted debt instruments are set out in Note 14.

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 IFRS 9, have been set out below:

	2019 €m	2018 €m
Non-current derivative assets		
Cash flow hedges:		
Cross currency swaps	6	8
Total non-current derivative assets	6	8
Current derivative assets		
Cash flow hedges:		
Foreign currency forwards	3	1
Cross currency swaps	4	–
Not designated as hedges:		
Foreign currency forwards	1	–
Cross currency swaps	4	6
Energy hedging contracts	1	6
Total current derivative assets	13	13
Total derivative assets	19	21
Non-current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	–	(3)
Cross currency swaps	(9)	(14)
Total non-current derivative liabilities	(9)	(17)
Current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	(3)	(3)
Foreign currency forwards	–	(3)
Cross currency swaps	(1)	(1)
Not designated as hedges:		
Foreign currency forwards	–	(1)
Cross currency swaps	(1)	–
Energy hedging contracts	(2)	(2)
Total current derivative liabilities	(7)	(10)
Total derivative liabilities	(16)	(27)
Net asset/(liability) on derivative financial instruments	3	(6)

29. Financial Instruments continued

Fair Value Hierarchy

Fair value measurement at 31 December 2019	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Other investments:				
Listed	2	–	–	2
Unlisted	–	8	–	8
Derivative financial instruments:				
Assets at fair value through profit or loss	–	6	–	6
Derivatives used for hedging	–	13	–	13
Derivative financial instruments:				
Liabilities at fair value through profit or loss	–	(3)	–	(3)
Derivatives used for hedging	–	(13)	–	(13)
Deferred contingent consideration	–	–	(33)	(33)
	2	11	(33)	(20)

Fair value measurement at 31 December 2018	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Other investments:				
Listed	1	–	–	1
Unlisted	–	7	12	19
Derivative financial instruments:				
Assets at fair value through profit or loss	–	12	–	12
Derivatives used for hedging	–	9	–	9
Derivative financial instruments:				
Liabilities at fair value through profit or loss	–	(3)	–	(3)
Derivatives used for hedging	–	(24)	–	(24)
	1	1	12	14

The fair value of listed investments is determined by reference to their bid price at the reporting date. Unlisted investments are valued using recognised valuation techniques for the underlying security including discounted cash flows and similar unlisted equity valuation models.

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.

Financial Instruments in Level 3

The following table presents the changes in level 3 instruments for the years ended 31 December 2019 and 31 December 2018:

	Deferred Contingent Consideration €m	Other Investments €m
Balance at 1 January 2018	–	12
Gain included in OCI – net change in fair value (unrealised)	–	–
Balance at 31 December 2018	–	12
Balance at 1 January 2019	–	12
Arising in a business combination	(53)	–
Gain included in exceptional finance income – net change in fair value	20	–
Loss included in OCI – net change in fair value	–	(12)
Balance at 31 December 2019	(33)	–

The valuation model for the unlisted investment measured in accordance with level 3 of the fair value hierarchy is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of the non-marketability of the equity securities, and the revenue and EBITDA of the investee. The estimate is adjusted for the net debt of the investee. In 2019 the Group made a fair value adjustment to the unlisted investment measured in accordance with level 3 of the fair value hierarchy which is now valued at nil. Further details of the listed and unlisted investments are set out in Note 14.

Deferred contingent consideration arose in relation to the put option on the acquisition of Serbia (Note 27) in the period. The valuation model for the deferred contingent consideration measured in accordance with level 3 of the fair value hierarchy is based on the present value of the expected payment discounted using a risk-adjusted discount rate. The unobservable input in determining the fair value is the underlying profitability of the business unit to which the consideration relates. A reasonable change to the unobservable inputs would have an immaterial impact on the fair value of the deferred contingent consideration.

There were no reclassifications or transfers between the levels of the fair value hierarchy during the period.

29. Financial Instruments continued

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.

Hedge ineffectiveness is determined at the inception of the hedge relationship and through periodic prospective hedge effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and notional amounts. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As the Group enters into hedge relationships where the critical terms of the hedging instrument materially match the terms of the hedged item, a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness for interest rate swaps and cross currency swaps may occur due to:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the swaps which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in the hedged risk;
- changes in the contractual terms or timing of the payments on the hedged item; or
- the fair value of the hedging instrument on the hedge relationship designation date (if not zero).

There was no material ineffectiveness in hedged risk in relation to these hedges in 2019 and 2018. 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 2020 to 2023, in line with the underlying debt being hedged.

The Group has also entered into a limited number of bunker fuel swaps to hedge against variability in the cost of bunker fuel included in certain of its shipping contracts. Hedge effectiveness is assessed using the same principles as those used for designated interest rate and cross currency swaps. In hedges of bunker fuel costs ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated or if there are changes in the credit risk of the Group or the counterparty. These hedges have been highly effective in achieving offsetting cash flows with no ineffectiveness recorded. These fair value gains and losses are expected to impact on profit and loss over the period from 2020 to 2021.

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. Hedge effectiveness is assessed using the same principles as those used for designated interest rate, cross currency and bunker fuel swaps. In hedges of foreign currency sales and purchases ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated or if there are changes in the credit risk of the Group or the counterparty. These hedges have been highly effective in achieving offsetting cash flows with no ineffectiveness recorded. These fair value gains and losses are expected to impact on profit and loss during 2020.

The Group's hedging reserves disclosed in Note 23 relate to the following hedging instruments:

	Cost of Hedging Reserve €m	**Interest Rate Swaps €m**	**Cross Currency Swaps €m**	**Foreign Currency Forwards €m**	**Total Hedge Reserves €m**
At 1 January 2019	**3**	**(5)**	**(6)**	**(3)**	**(11)**
Change in fair value of hedging instrument recognised in OCI	**–**	**–**	**3**	**2**	**5**
Reclassified from OCI to profit or loss – included in finance costs	**(1)**	**3**	**2**	**–**	**4**
Reclassified from OCI to profit or loss – included in revenue	**–**	**–**	**–**	**3**	**3**
Movement in deferred tax	**–**	**–**	**(1)**	**–**	**(1)**
At 31 December 2019	**2**	**(2)**	**(2)**	**2**	**–**

	Cost of Hedging Reserve €m	Interest Rate Swaps €m	Cross Currency Swaps €m	Foreign Currency Forwards €m	Total Hedge Reserves €m
At 1 January 2018	2	(9)	(10)	–	(17)
Costs of hedging deferred and recognised in OCI	2	–	–	–	2
Change in fair value of hedging instrument recognised in OCI	–	(1)	(2)	(3)	(6)
Reclassified from OCI to profit or loss – included in finance costs	(1)	5	6	–	10
At 31 December 2018	3	(5)	(6)	(3)	(11)

29. Financial Instruments continued

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 IFRS 9 is not applied to these derivative instruments because a natural offset is effectively already achieved through fair valuing the derivatives through the profit or loss as required by IFRS 9, 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*.

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 IFRS 9 and are recognised at fair value through the profit or loss as required by that standard.

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

Interest Rate Risk Management

The Group adopts a policy of ensuring that between 55% and 90% of its interest rate risk exposure is at fixed rates over the next twelve months. This is achieved partly by entering into fixed rate instruments and partly by borrowing at a floating rate and using interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1.

Outstanding interest rate swap agreements at 31 December 2019 are summarised as follows:

Currency	**Notional Principal (million)**	**Termination Dates**	**% Fixed Payable**	**% Variable Receivable**
EUR	**74**	**2020**	**1.460-1.488**	**Euribor**
EUR	**100**	**2021**	**1.314-1.508**	**Euribor**

Outstanding interest rate swap agreements at 31 December 2018 are summarised as follows:

Currency	Notional Principal (million)	Termination Dates	% Fixed Payable	% Variable Receivable
EUR	50	2019	0.844-0.909	Euribor
EUR	74	2020	1.460-1.488	Euribor
EUR	100	2021	1.314-1.508	Euribor

The effects of the designated interest rate swaps on the Group's financial position and performance are as follows:

	2019 €m	2018 €m
Carrying amount – liability	**(3)**	(6)
Notional amount	**174**	224
Line item in balance sheet – hedging instrument	**Derivative financial instruments**	Derivative financial instruments
Line item in balance sheet – hedged item	**Borrowings**	Borrowings
Maturity dates	**October 2020 – January 2021**	January 2019 – January 2021
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instrument recognised in OCI	**–**	(1)
Change in fair value of hedged item used to determine hedge effectiveness	**–**	1
Weighted average hedged rate	**1.4%**	1.3%

Following the decision in 2017 by the U.K. Financial Conduct Authority in the UK to phase out the London Interbank Offered Rate ('LIBOR') by the end of 2021 and the recent reforms of the Euro Interbank Offered Rate ('EURIBOR') from the previous quote-based methodology to a new hybrid methodology, the Group has evaluated its floating rate debt maturing after 2021. The Group believes that its contracts with interest rates based on these benchmark rates adequately provide for an alternative calculation of interest in the event that they are unavailable. The Group believes that it is well placed to manage the discontinuation, reform or replacement of these important benchmark rates and that the impact on the Group and its ability to manage its interest rate risk will be immaterial.

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29. Financial Instruments continued

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 2019 the Group had entered into €232 million (2018: €309 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2019 the Group had also entered into further short-term currency swaps of €634 million equivalent (2018: €538 million) as part of its short-term liquidity management.

The Group is exposed to transactional foreign exchange currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of the Group companies. The Group's risk management policy allows the hedging of estimated foreign currency exposure in respect of highly probable forecast sales and purchases, primarily in Sweden and Poland. As such, certain subsidiaries enter into foreign currency forward contracts to hedge highly probable forecast foreign currency sales and purchases for which hedge accounting under IFRS 9 is applied.

The effects of the designated foreign currency forwards on the Group's financial position and performance are as follows:

	2019 €m	2018 €m
Foreign currency forwards – sales:		
Carrying amount – asset	**3**	1
Carrying amount – liability	**–**	(3)
Notional amount	**111**	159
Line item in balance sheet – hedging instrument	**Derivative financial instruments**	Derivative financial instruments
Line item in balance sheet – hedged item	**Trade and other receivables**	Trade and other receivables
Maturity dates	**January 2020 – December 2020**	January 2019 – December 2019
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instrument recognised in OCI	**2**	(3)
Change in fair value of hedged item used to determine hedge effectiveness	**(2)**	3
Weighted average EUR:SEK forward contract rate	**10.87**	10.11
Weighted average GBP:SEK forward contract rate	**12.33**	11.28
Foreign currency forwards – inventory purchases:		
Carrying amount – asset	**–**	–
Carrying amount – liability	**–**	–
Notional amount	**29**	19
Line item in balance sheet – hedging instrument	**Derivative financial instruments**	Derivative financial instruments
Line item in balance sheet – hedged item	**Inventories**	Inventories
Maturity dates	**January 2020 – August 2020**	January 2019 – January 2020
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instrument recognised in OCI	**–**	–
Change in fair value of hedged item used to determine hedge effectiveness	**–**	–
Weighted average EUR:PLN forward contract rate	**4.30**	4.32

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. In addition, the Group entered into a number of cross currency swaps in respect of the funding of its acquisition in Brazil, which are set out in more detail in the table below.

Outstanding currency swap agreements at 31 December 2019 are summarised as follows:

Currency Swapped (million)	Currency Received (million)	Maturity Date	Interest Rate Paid	Interest Rate Received
EUR 22	**BRL 87**	**2020**	**127.26% CDI**	**Euribor +2.25%**
EUR 5	**BRL 20**	**2020**	**133.80% CDI**	**Euribor +2.00%**
EUR 38	**BRL 150**	**2021**	**129.22% CDI**	**Euribor +2.50%**
US$ 56	**EUR 50**	**2021**	**US$ Libor +0.90%**	**Euribor +0.79%**
US$ 154	**EUR 144**	**2023**	**5.30%**	**7.50%**

29. Financial Instruments continued

Foreign Exchange Risk Management continued

Outstanding currency swap agreements at 31 December 2018 are summarised as follows:

Currency Swapped (million)	Currency Received (million)	Maturity Date	Interest Rate Paid	Interest Rate Received
EUR 22	BRL 87	2020	127.26% CDI	Euribor +2.25%
EUR 38	BRL 150	2021	129.22% CDI	Euribor +2.50%
US$ 154	EUR 144	2023	5.30%	7.50%

The effects of the cross currency swaps designated as cash flow hedges on the Group's financial position and performance are as follows:

	2019 €m	2018 €m
Hedge of US$ debt:		
Carrying amount – asset	**–**	–
Carrying amount – liability	**(10)**	(15)
Notional amount – EUR	**194**	144
Line item in balance sheet – hedging instrument	**Derivative financial instruments**	Derivative financial instruments
Line item in balance sheet – hedged item	**Borrowings**	Borrowings
Maturity dates	**January 2021 & November 2023**	November 2023
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instrument recognised in OCI	**3**	(3)
Change in fair value of hedged item used to determine hedge effectiveness	**(3)**	3
Weighted average EUR:USD hedged rate	**1.08**	1.07
Hedge – Brazil acquisition funding:		
Carrying amount – asset	**10**	8
Notional amount – BRL	**256**	237
Line item in balance sheet – hedging instrument	**Derivative financial instruments**	Derivative financial instruments
Line item in balance sheet – hedged item	**Borrowings**	Borrowings
Maturity dates	**June 2020 & June 2021**	June 2020 & June 2021
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instrument recognised in OCI	**–**	1
Change in fair value of hedged item used to determine hedge effectiveness	**–**	(1)
Weighted average EUR:BRL hedged rate	**3.93**	3.90

Energy Risk Management

The Group had the following energy hedging contracts outstanding at the end of 31 December 2019 and 2018. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

	2019		2018	
	Notional	**Maturity**	Notional	Maturity
Energy contracts	**€7 million**	**Q1 2020 – Q4 2022**	€9 million	Q1 2019 – Q4 2022

29. Financial Instruments continued

Effective Interest Rates and Repricing Analysis

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

31 December 2019	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	7.56%	–	–	–	–	262	262
2024 notes	2.64%	–	–	–	500	–	500
2025 notes	2.98%	–	–	–	–	250	250
2026 notes	3.06%	–	–	–	–	1,004	1,004
2027 notes	1.68%	–	–	–	–	744	744
Bank loans/overdrafts	6.09%	–	–	15	14	4	33
Effect of interest rate swaps		–	74	100	–	–	174
Total		–	74	115	514	2,264	2,967
Leases	3.05%	3	8	21	128	217	377
Total fixed rate liabilities		3	82	136	642	2,481	3,344
Floating rate instruments							
Assets:							
Cash and cash equivalents	0.19%	189	–	–	–	–	189
Restricted cash	0.96%	14	–	–	–	–	14
Total floating rate assets		203	–	–	–	–	203
Liabilities:							
Revolving credit facility	2.64%	333	–	–	–	–	333
2022 receivables securitisation	2.08%	29	–	–	–	–	29
2023 receivables securitisation	1.24%	69	–	–	–	–	69
Bank loans/overdrafts	10.72%	85	–	–	–	–	85
Effect of interest rate swaps	1.85%	(174)	–	–	–	–	(174)
Total floating rate liabilities		342	–	–	–	–	342
Total net position		(142)	(82)	(136)	(642)	(2,481)	(3,483)

29. Financial instruments continued

Effective Interest Rates and Repricing Analysis continued

31 December 2018	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	7.57%	–	–	–	–	257	257
2020 fixed rate notes	4.39%	–	–	406	–	–	406
2021 notes	3.50%	–	–	–	498	–	498
2024 notes	2.65%	–	–	–	–	499	499
2025 notes	2.99%	–	–	–	–	250	250
2026 notes	3.09%	–	–	–	–	601	601
Bank loans/overdrafts	8.00%	–	–	8	23	6	37
Effect of interest rate swaps		50	–	74	100	–	224
Total		50	–	488	621	1,613	2,772
Finance leases	4.03%	–	–	1	1	17	19
Total fixed rate liabilities		50	–	489	622	1,630	2,791
Floating rate instruments							
Assets:							
Cash and cash equivalents	0.24%	407	–	–	–	–	407
Restricted cash	1.32%	10	–	–	–	–	10
Total floating rate assets		417	–	–	–	–	417
Liabilities:							
Senior credit facility	2.26%	411	–	–	–	–	411
2022 receivables securitisation	1.63%	49	–	–	–	–	49
2023 receivables securitisation	1.87%	179	–	–	–	–	179
2020 floating rate notes	3.46%	251	–	–	–	–	251
Bank loans/overdrafts	10.53%	82	–	–	–	–	82
Effect of interest rate swaps	1.63%	(224)	–	–	–	–	(224)
Total floating rate liabilities		748	–	–	–	–	748
Total net position		(381)	–	(489)	(622)	(1,630)	(3,122)

29. Financial Instruments continued

Liquidity Analysis

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

31 December 2019	**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		–	1,465	–	–	–	1,465
Revolving credit facility	4.1	–	7	7	354	–	368
2022 receivables securitisation	2.1	–	–	–	30	–	30
2023 receivables securitisation	3.5	–	1	1	71	–	73
Bank loans/overdrafts	1.1	18	80	13	17	2	130
2025 debentures	5.8	–	20	20	59	280	379
2024 notes	4.1	–	12	12	530	–	554
2025 notes	5.0	–	7	7	21	253	288
2026 notes	6.0	–	29	29	86	1,043	1,187
2027 notes	7.7	–	11	11	34	784	840
		18	1,632	100	1,202	2,362	5,314
Leases	5.0	–	86	71	133	143	433
		18	1,718	171	1,335	2,505	5,747
Derivitive liabilities		–	4	1	–	–	5
Deferred consideration		–	2	–	10	–	12
Deferred contingent consideration		–	–	33	–	–	33
Total liabilities		18	1,724	205	1,345	2,505	5,797

31 December 2018	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		–	1,483	–	–	–	1,483
Senior credit facility	1.0	–	74	347	–	–	421
2022 receivables securitisation	3.1	–	–	–	51	–	51
2023 receivables securitisation	4.5	–	3	3	188	–	194
Bank loans/overdrafts	1.4	17	67	18	21	9	132
2025 debentures	6.8	–	19	19	57	294	389
2020 fixed rate notes	1.1	–	17	408	–	–	425
2020 floating rate notes	1.8	–	8	258	–	–	266
2021 notes	2.4	–	16	16	508	–	540
2024 notes	5.0	–	12	12	36	506	566
2025 notes	6.0	–	7	7	21	260	295
2026 notes	6.9	–	18	17	52	643	730
		17	1,724	1,105	934	1,712	5,492
Finance leases	5.8	–	2	3	6	12	23
		17	1,726	1,108	940	1,724	5,515
Derivative liabilities		–	4	4	1	–	9
Deferred consideration		–	14	1	–	–	15
Total liabilities		17	1,744	1,113	941	1,724	5,539

The financial liabilities of the Company of €10 million (2018: €5 million) are repayable on demand.

29. Financial Instruments continued

Liquidity Analysis continued

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

31 December 2019	Less Than 1 Year €m	1-2 Years €m	2-5 Years €m	More Than 5 Years €m	Total €m
Liabilities:					
Cross currency swaps	(661)	(90)	(159)	–	(910)
Foreign currency forwards	(229)	–	–	–	(229)
Total outflow	(890)	(90)	(159)	–	(1,139)
Assets:					
Cross currency swaps	673	98	146	–	917
Foreign currency forwards	232	–	–	–	232
Total inflow	905	98	146	–	1,149

31 December 2018	Less Than 1 Year €m	1-2 Years €m	2-5 Years €m	More Than 5 Years €m	Total €m
Liabilities:					
Cross currency swaps	(546)	(29)	(197)	–	(772)
Foreign currency forwards	(297)	(1)	–	–	(298)
Total outflow	(843)	(30)	(197)	–	(1,070)
Assets:					
Cross currency swaps	549	33	186	–	768
Foreign currency forwards	294	1	–	–	295
Total inflow	843	34	186	–	1,063

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 2019 and 2018 the Company had no material financial assets or liabilities denominated in foreign currencies.

31 December 2019	Euro €m	Sterling €m	Latin America[1] €m	US Dollar €m	Other €m	Total €m
Trade and other receivables	927	132	227	119	154	1,559
Listed and unlisted debt instruments	10	–	–	–	–	10
Cash and cash equivalents	122	16	15	17	19	189
Restricted cash	9	–	–	4	1	14
Total assets	1,068	148	242	140	174	1,772
Trade and other payables	938	95	155	141	136	1,465
Revolving credit facility	118	–	–	215	–	333
2022 receivables securitisation	29	–	–	–	–	29
2023 receivables securitisation	69	–	–	–	–	69
Bank loans/overdrafts	11	–	71	33	3	118
2025 debentures	–	–	–	262	–	262
2024 notes	500	–	–	–	–	500
2025 notes	250	–	–	–	–	250
2026 notes	1,004	–	–	–	–	1,004
2027 notes	744	–	–	–	–	744
	3,663	95	226	651	139	4,774
Finance leases	175	44	8	139	11	377
Deferred consideration	12	–	–	–	–	12
Deferred contingent consideration	33	–	–	–	–	33
Total liabilities	3,883	139	234	790	150	5,196
Impact of foreign exchange contracts	(15)	216	55	(168)	(96)	(8)
Total (liabilities)/assets	(2,800)	(207)	(47)	(482)	120	(3,416)

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

29. Financial Instruments continued

Currency Analysis continued

31 December 2018	Euro €m	Sterling €m	Latin America[1] €m	US Dollar €m	Other €m	Total €m
Trade and other receivables	919	140	199	197	157	1,612
Equity instruments	10	–	–	–	–	10
Listed and unlisted debt instruments	10	–	–	–	–	10
Cash and cash equivalents	269	39	13	60	26	407
Restricted cash	6	–	–	3	1	10
Total assets	1,214	179	212	260	184	2,049
Trade and other payables	926	105	127	163	162	1,483
Senior credit facility	255	106	–	50	–	411
2022 receivables securitisation	49	–	–	–	–	49
2023 receivables securitisation	93	86	–	–	–	179
Bank loans/overdrafts	14	1	61	42	1	119
2025 debentures	–	–	–	257	–	257
2020 fixed rate notes	406	–	–	–	–	406
2020 floating rate notes	251	–	–	–	–	251
2021 notes	498	–	–	–	–	498
2024 notes	499	–	–	–	–	499
2025 notes	250	–	–	–	–	250
2026 notes	601	–	–	–	–	601
	3,842	298	188	512	163	5,003
Finance leases	10	–	–	9	–	19
Deferred consideration	1	–	–	14	–	15
Total liabilities	3,853	298	188	535	163	5,037
Impact of foreign exchange contracts	(127)	109	55	61	(99)	(1)
Total (liabilities)/assets	(2,512)	(228)	(31)	(336)	120	(2,987)

1 Latin America includes currencies such as the Mexican Peso, Colombian Peso and Brazilian Real. 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

	2019		2018	
	Carrying Value €m	Fair Value €m	Carrying Value €m	Fair Value €m
Trade and other receivables[1]	1,559	1,559	1,612	1,612
Equity instruments[2]	–	–	10	10
Listed and unlisted debt instruments[2]	10	10	10	10
Cash and cash equivalents[3]	189	189	407	407
Derivative assets[4]	19	19	21	21
Restricted cash[3]	14	14	10	10
	1,791	1,791	2,070	2,070
Trade and other payables[1]	1,465	1,465	1,483	1,483
Senior credit facility[5]	–	–	411	411
Revolving credit facility[5]	333	333	–	–
2022 receivables securitisation[3]	29	29	49	49
2023 receivables securitisation[3]	69	69	179	179
Bank overdrafts[3]	118	118	119	119
2025 debentures[6]	262	328	257	296
2020 fixed rate notes[6]	–	–	406	421
2020 floating rate notes[6]	–	–	251	260
2021 notes[6]	–	–	498	521
2024 notes[6]	500	540	499	505
2025 notes[6]	250	277	250	254
2026 notes[7]	1,004	1,110	601	600
2027 notes[8]	744	759	–	–
	4,774	5,028	5,003	5,098
Derivative liabilities[4]	16	16	27	27
Deferred consideration	12	12	15	15
Deferred contingent consideration[7]	33	33	–	–
	4,835	5,089	5,045	5,140
Total net position	(3,044)	(3,298)	(2,975)	(3,070)

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 financial assets is determined by reference to their bid price at the reporting date. Unlisted 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, energy and commodity 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 (level 2) 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. The fair value (level 2) of the revolving 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 The fair value (level 2) is based on broker prices at the balance sheet date.
7 The fair value of deferred consideration is based on the present value of the expected payment, discounted using an appropriate market discount rate at the balance sheet date.
8 The fair value of deferred contingent consideration is based on the present value of the expected payment, discounted using a risk-adjusted discount rate.

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

30. Leases

Amounts Recognised in the Consolidated Balance Sheet

	2019 €m	1 January 2019[1] €m
Right-of-use assets:		
Land and buildings	250	255
Vehicles	62	61
Plant and equipment	34	34
	346	350

The Group presents lease liabilities in borrowings in the Consolidated Balance Sheet. The amounts included within borrowings are as follows:

	2019 €m	1 January 2019[1] €m
Lease liabilities:		
Current	78	73
Non-current	299	307
	377	380

1 In 2018, the Group recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 only. For adjustments recognised on adoption of IFRS 16 on 1 January 2019 please refer to the *Changes in Significant Accounting Policies* note. The maturity analysis of lease liabilities is included in the *Financial Instruments* note.

Additions to the right-of-use assets during 2019 were €87 million, of which €8 million related to acquired right-of-use assets (Note 32).

Amounts Recognised in the Consolidated Income Statement

The Consolidated Income Statement includes the following amounts relating to leases:

	2019 €m
Depreciation charge of right-of-use assets:	
Land and buildings	44
Vehicles	31
Plant and equipment	12
	87
Interest expense on lease liabilities	11
Expenses relating to short-term leases	11
Expenses relating to leases of low-value assets	2
Expenses relating to variable lease payments not included in the lease liabilities	6

Lease commitments for short-term leases are similar to the portfolio of short-term leases for which the costs were expensed to the Consolidated Income Statement.

30. Leases continued

Amounts Recognised in the Consolidated Statement of Cash Flows

	2019 €m
Total cash outflow for leases	**113**

Leasing Activites

The Group enters into leases for a range of assets, principally relating to property. These property leases, which consist of office buildings and warehouses, have varying terms, renewal rights and escalation clauses, including periodic rent reviews linked with indices. The Group also leases vehicles which include motor vehicles for management and sales functions and trucks for distribution. Plant and equipment includes a lease for a cogeneration facility (previously classified as a finance lease under IAS 17).

The effect of excluding future cash outflows arising from variable lease payments, termination options, residual value guarantees, and leases not yet commenced from lease liabilities was not material for the Group. Income from subleasing and gains/losses on sale and leaseback transactions were not material for the Group. The terms and conditions of these leases do not impose significant financial restrictions on the Group.

Extension and Termination Options

Extension and termination options are included in a number of property, equipment and vehicle leases throughout the Group. They are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

In determining whether or not a renewal or termination option will be taken, the following factors are normally the most relevant.

- If there are significant penalties to terminate (or not to extend), the Group is typically reasonably certain to extend (or not terminate).
- If leasehold improvements are expected to have a significant remaining value, when the option becomes exercisable, the Group is typically reasonably certain to extend (or not to terminate).
- Strategic importance of the asset to the Group.
- Past practice.
- Costs and business disruption to replace the asset.

The lease term is reassessed if an option is actually exercised (or not exercised) and this decision has not already been reflected in the lease term as part of a previous determination. The assessment of reasonable certainty is revised only if a significant change in circumstances occurs, which affects this assessment, and this is within the control of the lessee.

Comparative Lease Disclosures Under IAS 17

Operating Leases

Future minimum lease payments under non-cancellable operating leases were as follows:

	2018 €m
Within one year	82
Within two to five years	166
Over five years	84
	332

The Group leased properties, plant and equipment and vehicles under operating leases. The leases had various terms, escalation clauses and renewal rights.

Finance Leases

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

	2018	
	Minimum Payments €m	Present Value of Minimum Payments €m
Within one year	2	2
Within two to five years	8	5
Over five years	14	12
Total minimum lease payments	24	19
Less: amounts allocated to future finance costs	(5)	–
Present value of minimum lease payments	19	19

The Group had an arrangement in place in relation to a cogeneration facility that did not take the legal form of a lease but conveyed the right to use the underlying assets in return for a series of payments. This arrangement had been assessed as having the substance of a finance lease arrangement.

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 pages 97 and 98. A listing of the principal subsidiaries is provided on pages 159 and 160.

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

	2019 €m	2018 €m
Sale of goods	**13**	12
Rendering of services	**–**	1
Receiving of services	**(2)**	(2)

These transactions are undertaken and settled at normal trading terms. No guarantees are given or received by either party.

The receivables from related parties of €3 million (2018: €3 million) 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 are nil in the current year (2018: nil).

No provision has been made in 2019 or 2018 relating to balances with related parties.

Transactions with Other Related Parties

There were no transactions with other related parties during 2019 or 2018.

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.

	2019 €m	2018 €m
Short-term employee benefits	**5**	5
Post-employment benefits	**–**	1
Share-based payment expense	**3**	2
	8	8

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 acquisitions completed by the Group during the year, together with percentages acquired and completion dates, were as follows:

- Fabrika Hartije d.o.o. Beograd ('FHB') and Avala Ada d.o.o. Beograd ('Avala Ada'), (75%, 1 January 2019 with put and call options in place over the remaining 25%), respectively a paper mill and a corrugated plant in Serbia;
- Balkanpack EOOD ('Balkanpack'), (100%, 28 February 2019), an integrated corrugated plant in Bulgaria; and
- Vitavel AD ('Vitavel'), (100%, 30 April 2019), an integrated corrugated plant in Bulgaria.

The table below reflects the fair value of the identifiable net assets acquired in respect of the acquisitions completed during the year. Any amendments to fair values will be made within the twelve month period from the date of acquisition, as permitted by IFRS 3, *Business Combinations*. None of the business combinations completed during the year were considered sufficiently material to warrant separate disclosure of the fair values attributable to those combinations.

	Total[1] €m
Non-current assets	
Property, plant and equipment	89
Right-of-use assets	8
Intangible assets	30
Current assets	
Inventories	7
Trade and other receivables	23
Cash and cash equivalents	10
Non-current liabilities	
Employee benefits	(1)
Deferred income tax liabilities	(9)
Borrowings	(11)
Current liabilities	
Borrowings	(6)
Trade and other payables	(18)
Current income tax liabilities	(1)
Net assets acquired	121
Goodwill	55
Negative goodwill	(4)
Consideration	172
Settled by:	
Cash	109
Deferred consideration	10
Deferred contingent consideration	53
	172

1 In addition to the 2019 acquisitions, the amounts also include fair value adjustments in relation to 2018 acquisitions.

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.

During the year, the Group recognised €4 million of negative goodwill from the Papcart acquisition in 2018. This is included within administrative expenses in the Consolidated Income Statement. The bargain purchase arose as a result of the owners of the entity making a strategic decision to leave the business, within a specific time frame.

None of the goodwill recognised is expected to be deductible for tax purposes.

Net Cash Outflow Arising on Acquisition	€m
Cash consideration	109
Less cash and cash equivalents acquired	(10)
Total	**99**

The gross contractual value of trade and other receivables as at the respective dates of acquisition amounted to €24 million. The fair value of these receivables is estimated at €23 million (all of which is expected to be recoverable).

Acquisition-related costs of €1 million were incurred and are included within administrative expenses in the Consolidated Income Statement.

The Group's acquisitions in 2019 have contributed €76 million to revenue and €5 million to profit after tax. The proforma revenue and profit after tax of the Group for the year ended 31 December 2019 would have been €9,052 million and €485 million respectively, had the acquisitions taken place at the start of the current reporting period.

The deferred contingent consideration is for the remaining 25% of our Serbian acquisition. Put and call options are in place over this non-controlling interest and the Group has applied the anticipated acquisition method of accounting for this arrangement. The present value is based on a multiple of underlying profitability.

There have been no acquisitions completed subsequent to the balance sheet date which would be individually material to the Group, thereby requiring disclosure under either IFRS 3 or IAS 10, *Events after the Balance Sheet Date*.

33. Profit Dealt with in the Parent Company

In accordance with Section 304 of the Companies Act 2014, the Company is availing of the exemption from presenting its individual Income Statement to the AGM and from filing it with the Registrar of Companies. A profit after tax of €263 million (2018: a profit after tax of €235 million) has been dealt with in the Income Statement of the Company.

34. Principal Subsidiaries

Each of Smurfit Kappa Group plc, Smurfit Kappa Investments Limited, Smurfit Kappa Holdings Limited and Smurfit Kappa Acquisitions Unlimited Company with an address at Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, is a holding company with no operations of its own. Smurfit Kappa Acquisitions Unlimited Company is a Public Unlimited 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. Calle 15 No. 18-109 Puerto Isaacs, Yumbo – Valle del Cauca, Colombia	Manufacture and sale of paperboard, paper sacks, writing paper and packaging products	**Colombia**	97.7
Grupo Smurfit México, S.A. de C.V. Miguel de Cervantes Saavedra, 301, Torre B Piso 8. Colonia Ampliación Granada, Alc. Miguel Hidalgo Ciudad de Mexico, c.p. 11520, Mexico	Manufacture and sale of paperboard and packaging products	**Mexico**	100
Smurfit Kappa Nettingsdorfer AG & Co KG Nettingsdorfer Straße 40, 4053 Haid bei Ansfelden, Austria	Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board	**Austria**	100
Smurfit International B.V. Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Principal international holding company	**Netherlands**	100
Smurfit Kappa de Argentina, S.A. Av. Cordoba 838, 9 Floor, of. 18, Ciudad de Buenos Aires, Argentina	Manufacture and sale of paperboard and packaging products	**Argentina**	100
Smurfit Kappa Deutschland GmbH Tilsiter Straße 162, 22047 Hamburg, Germany	Holding company for German operations whose principal activities are the manufacture and sale of paperboard, solidboard and packaging products	**Germany**	100

34. Principal Subsidiaries continued

Subsidiaries[1]	Principal Activities	Country of Incorporation[2]	Holding %
Smurfit Kappa Europe B.V. Evert van den Beekstraat 1-106, 1118 CL Schiphol, The Netherlands	International holding company	**Netherlands**	100
Smurfit Kappa Italia, S.p.A. Via Vicenzo Monti 12 20123 Milano (MI), Italy	Manufacture and sale of paperboard and packaging products	**Italy**	100
Smurfit Kappa Holdings US, Inc. 913 N. Market Street Suite 200, Wilmington, DE 19801 USA	Holding company for North America and certain Mexican operations whose principal activities are the manufacture and sale of paperboard and packaging products	**United States**	100
Smurfit Kappa Ireland Limited Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, Ireland	Manufacture and sale of 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 Norway which manufacture and sell packaging products	**Sweden**	100
Smurfit Kappa Nederland B.V. Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Holding company for Dutch operations which manufacture paperboard 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 do Brasil Indústria de Embalagens S.A Rua Castilho, 392, Cj.162, Brooklin, CEP 04568-010 São Paulo, Brazil	Holding company for operations in Brazil whose principal activities are the manufacture and sale of paperboard and packaging products	**Brazil**	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 Unlimited Company Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, Ireland	Finance company	**Ireland**	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.

34. Principal Subsidiaries continued

Section 357 Guarantees

Pursuant to the provisions of Section 357, Companies Act 2014, Smurfit Kappa Group plc has irrevocably guaranteed all commitments entered into by certain of its Irish subsidiaries (including amounts shown as liabilities in the statutory financial statements of such subsidiaries) for the financial year ended 31 December 2019 and as a result such subsidiaries have been exempted from the filing provisions of Section 347, Companies Act 2014. These Irish subsidiaries are as follows – Belgray Holdings Unlimited Company, Brenchley Limited, Claystoke Designated Activity Company, Damous Limited, DLRS (Holdings) Limited, Smurfit Kappa Security Concepts Limited, Gorda Limited, Iona Print Limited, iVenus Limited, Jefferson Smurfit & Sons Limited, Margrave Investments Limited, Smurfit International Designated Activity Company, Smurfit Investments (Ireland) Limited, Smurfit Kappa Holdings Limited, Smurfit Kappa Investments Limited, Smurfit Kappa Ireland Limited, Smurfit Kappa Irish Paper Sacks Limited, Smurfit Kappa Leasing Unlimited Company, Smurfit Kappa News Press Limited, Smurfit Kappa Packaging Limited, Smurfit Kappa Services Limited, Smurfit Kappa Treasury Funding Designated Activity Company, Smurfit Kappa Treasury Receivables Designated Activity Company, Smurfit Natural Resources Limited, Smurfit Securities 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., Smurfit Kappa Europe B.V., Smurfit Kappa Nederland B.V., Smurfit Kappa Technical Services 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., Smurfit Kappa Orko-Pak B.V., Smurfit Kappa ELCORR B.V., Smurfit Kappa Trobox Kartonnages B.V., Smurfit Kappa Zedek B.V., Smurfit Kappa North East Europe Head Office B.V., Kartonfabriek Britannia B.V., Smurfit Kappa Recycling B.V., Smurfit Kappa Development Centre 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 Group IS Nederland B.V., Smurfit Kappa Finance B.V., Smurfit Kappa Hexacomb B.V., Reparenco Holding B.V., Smurfit Kappa Parenco B.V., Parenco Energy B.V., Reparco Nederland B.V., Smurfit Kappa Roermond Machines B.V.

Non-controlling Interests

	2019 €m	2018 €m
At 1 January	**131**	151
Share of profit for the financial year	**8**	7
Purchase of non-controlling interest	**(97)**	(3)
Dividends paid	**(4)**	(6)
Defined benefit pension plans	**–**	(1)
Deconsolidation of Venezuela	**–**	(7)
Hyperinflation adjustment	**–**	10
Foreign currency translation adjustment	**3**	(20)
At 31 December	**41**	131

During the year, the Group acquired an additional 27.8% interest in Cartón de Colombia, S.A., increasing its ownership from 69.9% to 97.7%.

COMUNICADO DE PRENSA

29 de julio: Smurfit Kappa Group plc ('SKG' o 'el Grupo') anunció el día de hoy los resultados para el semestre que termina el 30 de junio de 2020.

2020 Primer Semestre | Medidas Clave de Desempeño Financiero

€m	S1 2020	S1 2019	Cambio
Ingresos	€4.203	€4.622	(9%)
EBITDA[1]	€735	€847	(13%)
Margen de EBITDA[1]	17.5%	18.3%	
Utilidades Operativas antes de Partidas Excepcionales[1]	€450	€558	(19%)
Utilidades antes del Impuesto sobre la Renta	€383	€456	(16%)
EPS Básicas (centavos)	116,9	140,6	(17%)
EPS Básicas antes de Partidas Excepcionales (centavos)[1]	116,9	141,6	(17%)
Flujo de Caja Libre[1]	€238	€159	50%
Retorno sobre el Capital Empleado[1]	14,8%	18,7%	
Deuda Neta[1]	€3.257	€3.751	
Deuda Neta a EBITDA (LTM)[1]	2,1x	2,2x	

Puntos Clave

- Sólido desempeño frente a métricas clave
- EBITDA de millones €735, con un margen de EBITDA del 17,5%
- Flujo de caja libre de €238 millones
- ROCE del 14,8%
- Apalancamiento de 2,.1x
- Pago de dividendos de 80,9 centavos por acción

Revisión de Desempeño y Perspectiva
Tony Smurfit, Director Ejecutivo del Grupo, comentó:

"Estamos muy complacidos de reportar otro desempeño sólido en todas nuestras métricas clave para el primer semestre de 2020. Nuestro EBITDA de €735 millones con un margen del 17,5%, junto con un sólido flujo de caja libre de €238 millones, demuestran la fortaleza del grupo.

"Sigo estando increíblemente orgulloso de todo el equipo de SKG que ha logrado estos resultados en el contexto del COVID-19, el cual creó un entorno operativo extremadamente desafiante. Nuestras prioridades clave han sido, y siguen siendo, la salud, la seguridad y el

[1] En Información Financiera Complementaria en la página 29 se incluye información adicional en relación con nuestras Medidas de Desempeño Alternativas ("APM").

Valentina
Traductora e
Intérprete
Oficial
16 MAR. 2021

bienestar de nuestros 46.000 empleados y la continuidad del suministro a nuestros 65.000 clientes. La solidez y la escala de nuestro sistema integrado y nuestra experiencia en la cadena de suministro nos permitieron garantizar la continuidad del suministro de productos esenciales para la vida cotidiana en múltiples sectores. Estamos demostrando una vez más que nuestro modelo de negocio, diversidad geográfica y compromiso con la innovación y la sostenibilidad continúan siendo exitosos.

"Nuestro negocio en Europa mostró un desempeño sólido en el primer semestre con un margen de EBITDA del 17,6% y volúmenes constantes de cajas de cartón corrugado.

"El margen EBITDA del negocio de las Américas volvió a mejorar año tras año de 17,1% a 19,0%.

"Durante el primer semestre, el Grupo completó su mayor inversión de €134 millones en una caldera de recuperación en Austria. Me complace informar que esto reducirá nuestras emisiones de CO_2 en 40.000 toneladas o un 1,5% más hacia el objetivo de emisiones de sostenibilidad del Grupo.

"Los empaques de papel son renovables, reciclables y biodegradables. Junto con las megatendencias del comercio electrónico y el deseo de los consumidores de soluciones de embalaje sostenibles, el cartón ondulado es la solución de transporte y comercialización más innovadora y sostenible. SKG se encuentra en una posición única para capitalizar estas tendencias a largo plazo con su oferta de mercado inigualable y aplicaciones comerciales INTELIGENTES que le permiten a nuestros clientes aumentar las ventas, reducir los costos y mitigar el riesgo. En un mundo cada vez más complejo, SKG es el socio de embalaje preferido.

"SKG ha vuelto a demostrar su fuerza y la consistencia de su compromiso a través de estos resultados. Este desempeño refleja: inversión de capital focalizada; adquisiciones efectivas; un enfoque continuo hacia la innovación y la sostenibilidad; y, sobre todo, la calidad de nuestras personas. SKG seguirá siendo ágil y resistente, seguirá cumpliendo y, aunque persistan los riesgos económicos y macro conocidos, confiamos en nuestras perspectivas futuras.

"En abril, a la luz de la incertidumbre macro debido a la pandemia por el COVID-19, la Junta actuó con prudencia al retirar su recomendación de pagar un dividendo final de 80,9 centavos por acción. En ese momento, declaramos que la Junta seguía comprometida con proporcionarle a los accionistas un flujo de dividendos atractivo. En consecuencia, la Junta ahora ha decidido pagar un dividendo a cuenta de 80,9 centavos por acción, un monto equivalente al dividendo final retirado. Esta decisión subraya la convicción de la Junta en las fortalezas inherentes del negocio de SKG, su balance general, la generación de flujo de caja libre y sus perspectivas a largo plazo y nuestro reconocimiento de la importancia de los dividendos para los accionistas".

Inglés - Español
Valentina Marín Gómez
Traductora e Intérprete Oficial

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Este anuncio contiene información privilegiada. La persona responsable de organizar la publicación de este anuncio en nombre de Smurfit Kappa Group plc es Gillian Carson-Callan, Secretaria de la Compañía. La fecha y hora de este anuncio coincide con la fecha y hora en que ha sido comunicado a los medios de comunicación, a las 7 am del 29 de julio de 2020.

Sobre Smurfit Kappa

Smurfit Kappa, una compañía FTSE 100, es uno de los principales proveedores de soluciones de embalaje en papel en el mundo, con aproximadamente 46.000 empleados en más de 350 plantas de producción en 35 países y con ingresos de €9.000 millones en 2019. Estamos ubicados en 23 países de Europa y 12 de América. Somos el único actor panregional a gran escala en América Latina.

Con nuestro equipo proactivo, utilizamos sin descanso nuestra amplia experiencia y conocimientos, respaldados por nuestra escala, para abrir oportunidades para nuestros clientes. Colaboramos con clientes con visión de futuro compartiendo un conocimiento superior del producto, comprensión e información del mercado sobre las tendencias de embalaje para garantizar el éxito comercial en sus mercados. Contamos con un portafolio inigualable de soluciones de embalaje en papel, el cual es actualizado constantemente con nuestras innovaciones líderes en el mercado. Esto es reforzado por los beneficios de nuestra integración, con un diseño de papel óptimo, logística, puntualidad en el servicio y nuestras plantas de empaque que obtienen la mayoría de sus materias primas de nuestras propias fábricas de papel.

Nuestros productos, los cuales son 100% renovables y son producidos de forma sostenible, mejoran la huella medioambiental de nuestros clientes. Síganos en LinkedIn, Twitter, Facebook, YouTube.

smurfitkappa.com

Declaraciones Prospectivas

Este Anuncio contiene ciertas declaraciones que son prospectivas. Las declaraciones son de naturaleza prospectiva y no se basan en hechos históricos, sino más bien en las expectativas actuales del Grupo sobre eventos futuros, e involucran riesgos e incertidumbres porque se relacionan con eventos y dependen de circunstancias que ocurrirán en el futuro. Aunque el Grupo considera que las expectativas y supuestos actuales con respecto a estas declaraciones prospectivas son razonables, no puede garantizar que estas expectativas sean correctas. Existe una serie de factores que podrían hacer que los resultados y acontecimientos reales difieran sustancialmente de aquellos expresados o implícitos en las declaraciones prospectivas.

Por lo tanto, las declaraciones prospectivas deben interpretarse a la luz de dichos factores. Se advierte que no debe depositar una confianza indebida en ninguna declaración a futuro, ya que hace referencia únicamente a la fecha en que se realizó. Aparte de las obligaciones legales o regulatorias, el Grupo no tiene ninguna obligación, y renuncia expresamente a cualquier intención u obligación, de actualizar o revisar cualquier declaración prospectiva, ya sea como resultado de nueva información, eventos futuros o de otro tipo.

Contactos

Garrett Quinn
Smurfit Kappa
T: +353 1 202 71 80
E: ir@smurfitkappa.com

Melanie Farrell
FTI Consulting
T: +353 1 765 08 00
E: smurfitkappa@fticonsulting.com

Primer Semestre de 2020 | Resumen de Desempeño

El Grupo reportó un EBITDA para el primer semestre de €735 millones, un 13% menor que en 2019. El margen de EBITDA del Grupo fue del 17,5%, por debajo del 18,3% en el primer semestre de 2019. El resultado refleja la resistencia del modelo integrado del Grupo y los beneficios de nuestra innovación centrada en el cliente, programa de gastos de capital, gestión rigurosa de costos y menores costos de fibra recuperada año tras año.

En Europa, el EBITDA disminuyó un 16% hasta los €575 millones. El margen de EBITDA fue del 17,6%, por debajo del 19,3% en 2019. La demanda de cajas aumentó aproximadamente en un 1% en términos absolutos y se mantuvo estable en términos orgánicos, un 2% más en el primer trimestre y un 2% más en el segundo trimestre, ya que se vio impactada negativamente por la pandemia. El precio del cartón ondulado estuvo en línea con las expectativas.

El Grupo continuó fortaleciendo su plataforma operativa en el primer semestre con la implementación de una serie de proyectos importantes en nuestras divisiones de cartón y papel. Cabe destacar la exitosa puesta en marcha de la nueva caldera de recuperación en la fábrica de kraftliner de Nettingsdorf en Austria; una inversión de €134 millones que reducirá las emisiones de CO_2 en 40.000 toneladas, una reducción del 1,5% hacia el objetivo de reducción de emisiones de CO_2 del Grupo. Durante el semestre, el Grupo también completó la actualización de PM5 en su fábrica de kraftliner en Burdeos, Francia, que agregará 44.000 toneladas de capacidad.

Los precios europeos de testliner y kraftliner se han reducido en €120 por tonelada y €165 por tonelada respectivamente desde el máximo de octubre de 2018 a junio de 2020. El precio de testliner y kraftliner aumentó en €30 por tonelada en marzo y abril respectivamente antes de caer €30 por tonelada en julio.

En América, el EBITDA disminuyó un 1% en el primer semestre de 2019 hasta €178 millones. Sin embargo, el margen EBITDA mejoró de 17,1% en el primer semestre de 2019 a 19,0% en el primer semestre de 2020. Colombia, México y los EE.UU. representaron más del 85% de las utilidades de la región con un sólido desempeño en los tres países. Después de un sólido comienzo de año, los volúmenes en la región se vieron fuertemente afectados por el COVID-19 durante el segundo trimestre. Como resultado de ello, los volúmenes del primer semestre se redujeron un 2,6% interanual.

El Grupo registró un flujo de caja libre de €238 millones en el primer semestre de 2020 frente a los €159 millones del primer semestre de 2019. El perfil de vencimiento promedio de la deuda del Grupo era de 5,0 años al 30 de junio de 2020 con una tasa de interés promedio del 2,82%. La relación de deuda neta a EBITDA fue de 2,1x en el semestre, en línea con el cierre del año. El Grupo se mantiene sólidamente posicionado dentro de su calificación crediticia Ba1/BB+/BB+. El 13 de enero de 2020, el Grupo obtuvo el acuerdo de todos los prestamistas en su Línea de Crédito Rotativo ("RCF") para prorrogar la fecha de vencimiento un año más hasta el 28 de enero de 2025.

Primer Semestre de 2020 | Desempeño Financiero

Los ingresos del primer semestre ascendieron a €4.203 millones, un 9% menos que en el primer semestre de 2019 o un 7% de forma subyacente. Este resultado refleja el impacto negativo del COVID-19 en la demanda, el impacto adverso de la moneda y la caída de los precios de las cajas.

El EBITDA del primer semestre fue de €735 millones, un 13% menos que en el primer semestre de 2019. El impacto del COVID-19 se vio reflejado en los resultados tanto de Europa como de América. Sobre una base subyacente, el EBITDA del Grupo se redujo un 12% interanual, Europa disminuyó un 16% y América aumentó un 5%.

Las utilidades operativas antes de partidas excepcionales para el primer semestre de 2020, de €450 millones, fue un 19% inferior a los €558 millones registrados en el mismo período de 2019.

No hubo partidas excepcionales cargadas a la utilidad operativa en el primer semestre de 2020 y 2019.

No se cargaron costos financieros excepcionales en el primer semestre de 2020. Los costos financieros excepcionales cobrados en el primer semestre de 2019 ascendieron a €3 millones, lo que refleja la amortización acelerada de los costos de emisión de deuda relacionados con la refinanciación de la línea de crédito preferente.

Los costos financieros netos previos a partidas excepcionales de €68 millones fueron €32 millones menores en 2020, lo que refleja una disminución en los intereses en efectivo y un cambio positivo de una pérdida por conversión de moneda extranjera sobre la deuda de €3 millones en 2019 a una ganancia de €5 millones en 2020.

Con la disminución de €108 millones en las utilidades operativas antes de partidas excepcionales parcialmente compensada por la disminución de €32 millones en los costos financieros netos, las utilidades previas a partidas excepcionales antes del impuesto sobre la renta fue de €383 millones, €76 millones menos que en 2019.

Sin partidas excepcionales, las utilidades antes de impuestos del primer semestre de 2020 fueron de €383 millones frente a las utilidades de €456 millones en 2019. El gasto por impuesto sobre la renta fue de €105 millones frente a los €118 millones de 2019, lo que tuvo como resultado utilidades por €278 millones para 2020 frente a las utilidades de €338 millones en 2019.

Las EPS básicas para el primer semestre de 2020 fueron de 116,9 centavos, en comparación las EPS de 140,6 centavos de 2019. En condiciones previas a partidas excepcionales, las EPS fueron de 116,9 centavos en 2020, un 17% menos que las EPS de 141,6 centavos en el primer semestre de 2019.

Primer Semestre de 2020 | Flujo de Caja Libre

El flujo de caja libre en el primer semestre de 2020 fue de €238 millones en comparación con los €159 millones de 2019, lo que representa un aumento de €79 millones. Una reducción del EBITDA de €112 millones fue más que compensada por menores salidas por gastos de capital, gastos por intereses en efectivo y otras partidas y un menor flujo de salida de capital de trabajo.

El flujo de salida de capital de trabajo en 2020 fue de €32 millones en comparación con €169 millones en 2019. El flujo de salida de 2020 se debió principalmente a un aumento de los inventarios, compensado en parte por una disminución de los deudores y un aumento de los acreedores. El capital de trabajo ascendió a €679 millones a junio de 2020, lo que representa el 8,4% de los ingresos anualizados frente al 9,8% a junio de 2019 y al 7,2% a diciembre de 2019.

Los gastos de capital ascendieron a €230 millones (lo que equivale al 84% de la depreciación) en comparación con €272 millones (lo que equivale al 103%) para el mismo periodo de 2019.

Los intereses en efectivo ascendieron a €61 millones en 2020 en comparación con €82 millones en 2019, en donde la disminución estuvo relacionada principalmente con un cupón más bajo de nuestros bonos más recientes, cuyos ingresos fueron utilizados para redimir bonos con un cupón más alto.

Los pagos de impuestos en el primer semestre de 2020 por €98 millones fueron €6 millones más altos que en 2019.

Primer Semestre de 2020 | Estructura de Capital

La deuda neta fue de €3.257 millones a finales de junio, lo que se tradujo en una relación de deuda neta a EBITDA de 2,1x frente a 2,1x a finales de diciembre de 2019 y 2,2x a finales de junio de 2019. El balance general del Grupo sigue proporcionando considerable flexibilidad estratégica financiera, sujeta al rango de apalancamiento establecido de 1,75x a 2,5x a lo largo del ciclo y la calificación crediticia de SKG de Ba1/BB+/BB+.

A 30 de junio de 2020, el tasa de interés promedio del Grupo era del 2,82% frente al 3,18% al 31 de diciembre de 2019. La base de financiación diversificada del Grupo y el perfil de vencimiento a largo plazo de 5,0 años proporcionan una perspectiva de financiación estable. En términos de liquidez, el Grupo mantenía saldos de caja de €646 millones a finales de junio, los cuales fueron complementados con compromisos disponibles de €931 millones en el marco de su RCF y de €156 millones en el marco de sus programas de titulización.

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Dividendos

La Junta ha decidido pagar un dividendo a cuenta del 80,9% por acción (aproximadamente €193 millones). Se propone pagar este dividendo el 11 de septiembre de 2020 a todos los accionistas ordinarios que figuran en el registro de acciones al cierre de operaciones el 14 de agosto de 2020.

Primer Semestre de 2020 | Sostenibilidad

En mayo, el Grupo publicó su decimotercer Informe Anual sobre Desarrollo Sostenible ('DEG'). El Grupo reportó una reducción del 32,9% en la intensidad de las emisiones de CO_2 fósil desde su línea base de 2005. El objetivo del Grupo consiste en reducir las emisiones relativas de CO_2 en un 40% para 2030, en relación con la línea base de 2005.

SKG también se ha comprometido a alinear su objetivo de CO_2 con la iniciativa Science Based Target ("SBT"). Esto es una confirmación de que el objetivo del Grupo no solo es ambicioso por derecho propio, sino que estará alineado con el Acuerdo de París y las recomendaciones de los últimos hallazgos de la ciencia del clima.

Además de la validación de SBT, nos basamos en más de una década de informes de sostenibilidad al respaldar las recomendaciones del Grupo de Trabajo sobre Divulgaciones Financieras Relacionadas con el Clima.

El último SDR, el cual se encuentra estructurado en las tres áreas de enfoque estratégico de Personas, Planeta y Negocios que generan un Impacto, proporciona detalles completos sobre los factores que contribuyen a la reducción de emisiones.

En Personas, estos incluyen el considerable progreso que logrado en el área de seguridad con una reducción del 17% en la Tasa Total de Lesiones Registrables del Grupo. En Planeta, estos incluyen un enfoque estratégico en la eficiencia energética y el uso de fuentes renovables de combustible como la biomasa. En Negocios que generan un Impacto, estos incluyen €3,5 millones de inversión en iniciativas sociales, incluyendo la educación y la salud infantil en 2019.

Durante el primer semestre de 2020, se alcanzó un logro significativo en nuestro programa de reducción de CO_2 con la exitosa puesta en marcha de la nueva caldera de recuperación en la fábrica de kraftliner de Nettingsdorf en Austria; una inversión de €134 millones que reducirá las emisiones de CO_2 en 40.000 toneladas, un 1,5% más hacia el objetivo total de reducción de emisiones de CO_2 del Grupo.

En mayo, el Grupo demostró aún más su liderazgo intelectual en sostenibilidad con la publicación de la "Encuesta de Equilibrio entre Sostenibilidad y Rentabilidad", la cual fue llevada a cabo entre 200 altos ejecutivos y 1.500 consumidores en el Reino Unido, examinando las opiniones de la comunidad empresarial y de los consumidores sobre sostenibilidad y cómo se están adaptando para crear un futuro más sostenible.

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Con el creciente impacto del COVID-19 y su impacto en nuestros empleados, se pusieron en marcha una serie de iniciativas en todo el Grupo que incluyen: múltiples programas locales de seguridad y participación de los empleados, una encuesta global de empleados para ayudar a comprender de mejor manera los desafíos que enfrentan nuestros empleados y brindar una respuesta adecuada, un día de salud y seguridad dedicado a mantenerse seguro durante la pandemia, actualizaciones semanales para ayudar a mantener a las personas informadas, así como seminarios web sobre liderazgo para ayudar a nuestros gerentes a lidiar con las consecuencias inevitables de la pandemia entre nuestros colaboradores. SKG también ha mirado fuera de nuestra organización y ha realizado donaciones benéficas adicionales de más de €2 millones para apoyar a las comunidades locales en las que operamos.

SKG sigue figurando en varios índices medioambientales, sociales y de gobernanza, como FTSE4Good, Green Economy Mark de la Bolsa de Valores de Londres, Euronext Vigeo Europe 120, STOXX Global ESG Leaders, ISS Solactive y el registro de inversiones sostenibles de Ethibel. SKG también tiene un excelente desempeño ante una serie de organismos de certificación, incluyendo a MSCI y Sustainalytics.

Primer Semestre de 2020 | Oferta Comercial e Innovación

SKG ha continuado brindando valor a nuestros clientes incluso durante el COVID-19. Adaptamos nuestras formas de trabajar en todas nuestras operaciones y la mayoría de nuestras actividades comerciales se volvieron virtuales. Durante el primer semestre, el Grupo, liderado por sus ingenieros de embalaje y personal de ventas, impartió seminarios web virtuales sobre empaques en el comercio electrónico, Better Planet Packaging, nuestras Aplicaciones Inteligentes y muchos temas más, a más de 1.000 clientes.

Como resultado de un mayor enfoque de nuestros clientes en la reducción de la huella de carbono y la mejora de los márgenes, la aplicación SupplySmart de SKG es utilizada cada vez más en todas nuestras operaciones. A través de una combinación de herramientas, datos y experiencia únicos, SupplySmart le permite a nuestros clientes optimizar su cadena de suministro utilizando soluciones de empaque mejoradas, con la total seguridad de que están tomando decisiones de evaluación de riesgos que brindarán ahorros de costos medibles y una reducción específica de CO_2.

El producto TopClip, lanzado recientemente, es un ejemplo de nuestra experiencia en empaques innovadores para abordar el deseo del consumidor de soluciones de embalaje más sostenibles. Smurfit Kappa se ha asociado con KHS, el mayor proveedor de sistemas de llenado y embalaje del mundo, para ofrecer una solución multipack que elimina la necesidad de envoltura retráctil en latas y botellas. La solución TopClip fue lanzada al mercado durante el segundo trimestre con Royal Grolsch (parte del gigante mundial de alimentos y bebidas Asahi) generando un interés significativo entre otros fabricantes de bebidas.

Flujo de Caja Resumido

En la siguiente tabla se muestran los flujos de caja resumidos para el semestre.

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
EBITDA	735	847
Gasto por intereses en efectivo	(61)	(82)
Cambio en el capital de trabajo	(32)	(169)
Provisiones corrientes	(6)	(17)
Gasto de capital	(230)	(272)
Cambio en acreedores de capital	(51)	(34)
Impuestos pagados	(98)	(92)
Venta de propiedad, planta y equipo	1	2
Otros	(20)	(24)
Flujo de caja libre	238	159
Compra de acciones de tesorería (neto)	(16)	(25)
Compra de negocios, inversiones y NCI*	(21)	(204)
Dividendos	-	(175)
Recibos por terminación de dividendos	9	-
Flujo de entrada/(salida) neto de efectivo	210	(245)
Deuda neta adquirida	(1)	(4)
Ajusta por aplicación inicial del NIIF 16	-	(361)
Costos por emisión de deuda diferida amortizados	(4)	(7)
Ajuste por conversión de divisas	21	(12)
Disminución/(aumento) en deuda neta	226	(629)

* NCI hace referencia a participaciones minoritarias.

Financiamiento y Liquidez

Las principales fuentes de liquidez del Grupo son el flujo de caja de las operaciones y los préstamos en el marco del RCF. Los usos principales del efectivo del Grupo son para financiar las operaciones diarias, gastos de capital, servicio de la deuda, dividendos y otras actividades de inversión, incluyendo adquisiciones.

Al 30 de junio de 2020, el Grupo tenía en circulación €500 millones en pagarés preferentes al 2,375% con vencimiento en 2024, €250 millones en pagarés preferentes al 2,75% con vencimiento en 2025, US$292,3 millones en obligaciones preferentes al 7,50% con vencimiento en 2025, €1.000 millones en pagarés preferentes al 2,875% con vencimiento en 2026 y €750 millones en pagarés preferentes al 1,5% con vencimiento en 2027.

El Grupo tenía en circulación pagarés de financiación variable por un valor de €148,3 millones y STG£ 10 millones emitidos en el marco del programa de titulización de cuentas por cobrar de €230 millones con vencimiento en junio de 2023, junto con pagarés de financiación variable por un valor de €115 millones emitidos en el marco del programa de titulización de cuentas por cobrar de €200 millones con vencimiento en Febrero de 2022.

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El Grupo también tiene un RCF de €1.350 millones con fecha de vencimiento del 28 de enero de 2025. Al 30 de junio de 2020, los giros del Grupo sobre esta línea ascendieron a €124 millones y US$323,6 millones, con otros €6 millones girados en líneas operativas que incluyen cartas de crédito bajo diversas líneas auxiliares.

En la siguiente tabla se muestran las tasas de interés al 30 de junio de 2020 para cada uno de los giros de los préstamos del RCF:

Acuerdo de Préstamo	**Moneda**	**Tasa de Interés**
Línea de Crédito Rotativo	EUR	0,900%
	USD	1,660% - 2,211%

Los préstamos en virtud del RCF están disponibles para financiar los requisitos de capital de trabajo, los gastos de capital y otros fines corporativos generales del Grupo.

En enero de 2020, el Grupo logró el acuerdo de todos los prestamistas en su RCF de €1.350 millones para prorrogar la fecha de vencimiento un año más hasta el 28 de enero de 2025.

Políticas de Riesgo de Mercado y Gestión de Riesgos

El Grupo está expuesto al impacto de variaciones en las tasas de interés y fluctuaciones en la tasa de cambio debido a sus actividades de inversión y financiación y sus operaciones en diferentes divisas. La exposición al riesgo de tasa de interés es gestionado logrando un equilibrio adecuado de financiación a tasa fija y variable. Al 30 de junio de 2020, el Grupo había fijado un promedio del 82% de su costo por intereses sobre los préstamos durante los doce meses siguientes.

La deuda a tasa fija del Grupo se componía de €500 millones en pagarés preferentes al 2,375% con vencimiento en 2024, €250 millones en pagarés preferentes al 2,75% con vencimiento en 2025, US$292,3 millones en obligaciones preferentes al 7,50% con vencimiento en 2025, €1.000 millones en pagarés preferentes al 2,875% con vencimiento en 2026 y €750 millones en pagarés preferentes al 1,5% con vencimiento en 2027. Además, el Grupo contaba con €174 millones en swaps de tasas de interés que convertían préstamos de tasa variable a tasa fija con fechas de vencimiento comprendidas entre octubre de 2020 y enero de 2021.

Las utilidades del Grupo se ven afectadas por cambios en las tasas de interés a corto plazo como resultado de sus préstamos a tasa variable. Si las tasas de interés LIBOR/EURIBOR para estos préstamos aumentaran en un uno por ciento, los gastos por intereses del Grupo aumentarían y los ingresos antes de impuestos disminuirían en aproximadamente €7 millones durante los siguientes doce meses. Los ingresos por intereses sobre los saldos de efectivo del Grupo aumentarían en aproximadamente €6 millones asumiendo un aumento del uno por ciento en las tasas de interés aplicadas sobre dichos saldos durante los siguientes doce meses.

El Grupo utiliza préstamos en moneda extranjera, swaps de moneda, opciones y contratos forward en la gestión de sus exposiciones en moneda extranjera.

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Principales Riesgos e Incertidumbres

La valoración y evaluación de riesgos es una parte integral del proceso de gestión en todo el Grupo. Los riesgos son identificados y evaluados y se implementan estrategias de gestión de riesgos adecuadas en cada nivel de la organización.

La Junta, junto con la alta gerencia, identifica los principales riesgos comerciales que enfrenta el Grupo y determina el curso de acción apropiado para gestionar dichos riesgos.

La Junta monitorea regularmente todos los riesgos del Grupo y se toman las acciones apropiadas para mitigar dichos riesgos o abordar sus posibles consecuencias adversas. Como parte de la evaluación de riesgos semestral, la Junta ha considerado el impacto de la pandemia del COVID-19 sobre los principales riesgos del Grupo.

El Grupo es una parte integral de la cadena de suministro de suministros esenciales y críticos y, como resultado de ello, no se ha producido ninguna interrupción significativa en nuestro negocio hasta la fecha. Además, se han introducido una serie de medidas y mitigaciones para garantizar la seguridad continua de nuestros empleados.

Nuestra evaluación ha concluido que nuestros principales riesgos permanecen inalterados. La Junta continuará monitoreando el impacto potencial de la pandemia del COVID-19 a medida que el Grupo avanza durante el semestre restante del año.

A continuación se resumen los principales riesgos e incertidumbres para el semestre restante del año.

- Si el clima económico actual se deteriorara como resultado de la incertidumbre geopolítica (incluido el Brexit), las tensiones comerciales y/o la actual pandemia por el COVID-19, podría dar lugar a una mayor desaceleración económica que, si se mantiene durante un periodo de tiempo significativo, podría afectar negativamente la posición financiera y los resultados de las operaciones del Grupo.

- La naturaleza cíclica de la industria del embalaje podría dar lugar a un exceso de capacidad y, en consecuencia, amenazar la estructura de precios del Grupo.

- Si las operaciones en cualquiera de las instalaciones del Grupo (en particular sus plantas clave) son interrumpidas durante un período de tiempo significativo, podría afectar negativamente la posición financiera y los resultados de las operaciones del Grupo.

- Las fluctuaciones de precios de las materias primas y los costos energéticos podrían afectar negativamente los costos de fabricación del Grupo.

- El Grupo está expuesto a las fluctuaciones de las tasas de cambio.

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- Es posible que el Grupo no pueda atraer y contratar empleados debidamente calificados como se requiere para su negocio.

- No mantener buenas prácticas de salud y seguridad podría tener un efecto adverso en el negocio del Grupo.

- El Grupo está sujeto a un número creciente de leyes y regulaciones ambientales, y el costo del cumplimiento o del incumplimiento de las leyes y regulaciones actuales y futuras podría afectar negativamente el negocio del Grupo.

- El Grupo está sujeto a leyes antimonopolio y similares en las jurisdicciones en las que opera.

- El Grupo, al igual que otras grandes empresas globales, es susceptible a ataques cibernéticos que amenazan la confidencialidad, integridad y disponibilidad de los datos en sus sistemas.

Los principales riesgos e incertidumbres a los que se enfrenta el Grupo se describen en nuestro Informe Anual de 2019 en las páginas 32-33. El Informe Anual está disponible en nuestra página web: smurfitkappa.com.

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Estado Consolidado Condensado de Resultados - Semestre

	Semestre hasta 30-jun-20 Sin auditar			Semestre hasta 30-jun-19 Sin auditar		
	Antes de partidas excepcionales 2020 €m	**Partidas excepcionales 2020 €m**	**Total 2020 €m**	Antes de partidas excepcionales 2020 €m	Partidas excepcionales 2020 €m	Total 2020 €m
Ingresos	**4.203**	-	**4.203**	4.622	-	4.622
Costo de ventas	**(2.794)**	-	**(2.794)**	(3.089)	-	(3.089)
Utilidades brutas	**1.409**	-	**1.409**	1.533	-	1.533
Costos de distribución	**(357)**	-	**(357)**	(363)	-	(363)
Gastos administrativos	**(602)**	-	**(602)**	(612)	-	(612)
Utilidades operativas	**450**	-	**450**	558	-	558
Costos financieros	**(85)**	-	**(85)**	(107)	(3)	(110)
Ingresos financieros	**17**	-	**17**	7	-	7
Participación en utilidades de asociadas (antes de impuestos)	**1**	-	**1**	1	-	1
Utilidades antes del impuesto sobre la renta	**383**	-	**383**	459	(3)	456
Gasto por impuesto sobre la renta			**(105)**			(118)
Utilidades del periodo financiero			**278**			338
Atribuible a:						
Propietarios de la compañía matriz			**277**			332
Participaciones minoritarias			**1**			6
Utilidades del periodo financiero			**278**			338
Utilidades por acción						
Utilidades básicas por acción - centavos			**116,9**			140,6

Utilidades diluidas por acción - centavos	116,4	139,8

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Estado Consolidado Condensado de Resultados Integrales - Semestre

	Semestre hasta 30-jun-20 Sin auditar €m	Semestre hasta 30-jun-19 Sin auditar €m
Utilidades del periodo financiero	**278**	338
Otros resultados integrales:		
Partidas que pueden ser reclasificadas posteriormente en resultados		
Ajustes por conversión de divisas		
- Que surgen en el periodo	**(181)**	4
- Reciclados al Estado Consolidado Condensado de Resultados	**1**	-
Parte efectiva de cambios en el valor razonable de las coberturas de flujo de caja:		
- Movimientos fuera de la reserva	**1**	4
- Ganancia/(pérdida) de valor razonable de coberturas de flujo de caja	**8**	(1)
- Movimiento en impuestos diferidos	**(1)**	-
Cambios en el valor razonable del costo de cobertura		
- Nuevos ajustes de valor razonable a la reserva	**(1)**	(1)
	(173)	6
Partidas que no serán reclasificadas posteriormente en resultados		
Planes de pensiones de beneficios definidos:		
- Pérdida actuarial	**(29)**	(78)
- Movimiento en impuestos diferidos	**9**	9
	(20)	(69)
Total otros gastos integrales	**(193)**	(63)
Total resultados integrales para el periodo financiero	**85**	275
Atribuible a:		
Propietarios de la compañía matriz	**87**	268
Participaciones minoritarias	**(2)**	7
Total resultados integrales para el periodo financiero	**85**	275

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Balance General Consolidado Condensado

	30-jun-20 Sin auditar €m	30-jun-19 Sin auditar €m	31-dic-19 Sin auditar €m
ACTIVOS			
Activos no corrientes			
Propiedad, planta y equipo	**3.779**	3.724	3.920
Activos por derecho de uso	**321**	331	346
Goodwill y activos intangibles	**2.572**	2.672	2.616
Otras inversiones	**10**	21	10
Inversión en asociadas	**12**	15	16
Activos biológicos	**96**	103	106
Otras cuentas por cobrar	**29**	36	40
Instrumentos financieros derivados	**-**	4	6
Activos por impuesto sobre la renta diferido	**220**	149	185
	7.039	7.055	7.245
Activos corrientes			
Inventarios	**832**	856	819
Activos biológicos	**10**	11	11
Cuentas comerciales y otras cuentas por cobrar	**1.585**	1.845	1.634
Instrumentos financieros derivados	**29**	11	13
Efectivo restringido	**7**	13	14
Efectivo y equivalentes de efectivo	**639**	234	189
	3.102	2.970	2.680
	10.141	10.025	9.925
PATRIMONIO			
Capital y reservas atribuibles a propietarios de compañía matriz			
Capital accionario	**-**	-	-
Prima por emisión de acciones	**1.986**	1.984	1.986
Otras reservas	**169**	331	351
Utilidades retenidas	**894**	549	615
Total patrimonio atribuible a propietarios de compañía matriz	**3.049**	2.864	2.952
Participaciones minoritarias	**14**	38	41
Total patrimonio	**3.063**	2.902	2.993
PASIVOS			
Pasivos no corrientes			
Empréstitos	**3.729**	3.393	3.501
Beneficios de empleados	**900**	865	899
Instrumentos financieros derivados	**3**	13	9

Pasivos por impuesto sobre la renta diferido	**212**	164	175
Pasivos por impuesto sobre la renta no corriente	**25**	39	27
Provisiones para pasivos	**76**	98	78
Subvenciones de capital	**16**	18	18
Otras cuentas por pagar	**9**	16	10
	4.970	4.606	4.717
Pasivos corrientes			
Empréstitos	**174**	605	185
Cuentas comerciales y otras cuentas por pagar	**1.767**	1.832	1.863
Pasivos por impuesto sobre la renta corriente	**19**	41	13
Instrumentos financieros derivados	**8**	12	7
Provisiones para pasivos	**140**	27	147
	2.108	2.517	2.215
Total pasivos	**7.078**	7.123	6.932
Total patrimonio y pasivos	**10.141**	10.025	9.925

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Estado Consolidado Condensado de Cambios en el Patrimonio

	Atribuible a propietarios de compañía matriz						
	Capital accionario	Prima por emisión de acciones	Otras reservas	Utilidades retenidas	Total	Participaciones minoritarias	Total patrimonio
	€m	€m	€m	€m	€m	€m	€m
Sin auditar							
Al 1 de enero de 2020	-	1.986	351	615	2.952	41	2.993
Utilidades del periodo financiero	-	-	-	277	277	1	278
Otros resultados integrales							
Ajustes por conversión de divisas	-	-	(177)	-	(177)	(3)	(180)
Planes de pensiones de beneficios definidos	-	-	-	(20)	(20)	-	(20)
Parte efectiva de cambios en el valor razonable de coberturas flujos de caja	-	-	8	-	8	-	8
Cambios en el valor razonable del costo de cobertura	-	-	(1)	-	(1)	-	(1)
Total (gastos)/ingresos integrales del periodo financiero	-	-	(170)	257	87	(2)	85
Compra de participaciones minoritarias	-	-	(7)	12	5	(25)	(20)
Ajuste por hiperinflación	-	-	-	10	10	-	10
Pago con base en acciones	-	-	11	-	11	-	11
Acciones Netas adquiridas por el Fideicomiso de Empleados de SKG	-	-	(16)	-	(16)	-	(16)
Al 30 de junio de 2020	-	1.986	169	894	3.049	14	3.063
Sin auditar							
Al 1 de enero de 2019	-	1.984	355	399	2.738	131	2.869
Utilidades del periodo financiero	-	-	-	332	332	6	338
Otros resultados integrales							

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Ajustes por conversión de divisas	-	-	3	-	3	1	4
Planes de pensiones de beneficios definidos	-	-	-	(69)	(69)	-	(69)
Parte efectiva de cambios en el valor razonable de coberturas flujos de caja	-	-	3	-	3	-	3
Cambios en el valor razonable del costo de cobertura	-	-	(1)	-	(1)	-	(1)
Total (gastos)/ingresos integrales del periodo financiero	-	-	5	263	268	7	275
Compra de participaciones minoritarias	-	-	(29)	45	16	(97)	(81)
Ajuste por hiperinflación	-	-	-	14	14	-	14
Dividendos pagados	-	-	-	(172)	(172)	(3)	(175)
Pago con base en acciones	-	-	25	-	25	-	25
Acciones Netas adquiridas por el Fideicomiso de Empleados de SKG	-	-	(25)	-	(25)	-	(25)
Al 30 de junio de 2020	-	1.984	331	549	2.864	38	2.902

En la Nota 13 se proporciona un análisis de los movimientos en Otras reservas.

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Estado Consolidado Condensado de Flujos de Caja

	Semestre hasta 30-jun-20 Sin auditar €m	Semestre hasta 30-jun-19 Sin auditar €m
Flujos de caja de actividades operativas		
Utilidades antes del impuesto sobre la renta	**383**	456
Costos financieros netos	**68**	103
Cargo por depreciación	**251**	238
Amortización de activos intangibles	**22**	21
Amortización de subvenciones de capital	**(2)**	(1)
Gasto por pagos con base en acciones liquidados con acciones	**11**	25
Utilidad en venta de propiedad, planta y equipo	**-**	(2)
Utilidad en compra de negocios	**(4)**	-
Participación en utilidades de asociadas (después de impuestos)	**(1)**	(1)
Movimiento neto en el capital de trabajo	**(33)**	(169)
Cambio en activos biológicos	**1**	5
Cambio en beneficio de empleados y otras provisiones	**(26)**	(44)
Otros (principalmente ajustes por hiperinflación)	**3**	3
Efectivo generado por las operaciones	**673**	634
Intereses pagados	**(63)**	(98)
Impuestos sobre la renta pagados:		
Impuesto de sociedades de Irlanda (libre de rembolsos fiscales) pagado	**(6)**	(7)
Impuesto de sociedades en el extranjero (libre de rembolsos fiscales) pagado	**(92)**	(85)
Efectivo neto de actividades operativas	**512**	444
Flujos de caja de actividades de inversión		
Intereses recibidos	**1**	2
Adiciones a propiedad, planta y equipo y activos biológicos	**(246)**	(282)
Adiciones a activos intangibles	**(9)**	(8)
Recibo de subvenciones de capital	**-**	1
Disminución/(aumento) en efectivo restringido	**7**	(3)
Enajenación de propiedad, planta y equipo	**1**	4
Compra de subsidiarias	**(1)**	(99)
Contraprestación diferida pagada	**-**	(14)
Efectivo neto de actividades de inversión	**(247)**	(399)

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Flujos de caja de actividades de financiación		
Ingresos de emisión de bonos	-	403
Ingresos de emisión de otra deuda	-	417
Compra de acciones de tesorería (neto)	**(16)**	(25)
Compra de participaciones minoritarias	**(20)**	(81)
Pago de préstamos	-	(399)
Incremento/(disminución) en otros préstamos que devengan intereses	**241**	(306)
Pago de pasivos por arrendamiento	**(35)**	(39)
Recibos por terminación de derivados	**9**	-
Costos por emisión de deuda diferidos pagados	**(1)**	(13)
Dividendos pagados a accionistas	-	(172)
Dividendos pagados a participaciones minoritarias	-	(3)
Efectivo neto de actividades de financiación	**178**	(218)
Incremento/(disminución) en efectivo y equivalentes de efectivo	**443**	(173)
Conciliación del efectivo y equivalentes de efecto al inicio y final del periodo		
Efectivo y equivalentes de efectivo al 1 de enero	**172**	390
Ajuste por conversión de divisas	**12**	(5)
Incremento/(disminución) en efectivo y equivalentes de efectivo	**443**	(173)
Efectivo y equivalentes de efectivo al 30 de junio	**627**	212

En la Nota 11 se proporciona un análisis del movimiento neto en el capital de trabajo.

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Notas a los Estados Financieros Intermedios Consolidados Condensados

1. Información General

Smurfit Kappa Group plc ('SKG plc' o 'la Compañía') y sus subsidiarias (en conjunto, 'SKG' o 'el Grupo') principalmente fabrican, distribuyen y venden cartón, empaques de cartón ondulado y otros productos de embalaje a base de papel. La Compañía es una sociedad anónima cuyas acciones cotizan en bolsa. Está constituida y domiciliada en Irlanda. La dirección de su domicilio social es Beech Hill, Clonskeagh, Dublín 4, D04 N2R2, Irlanda.

2. Bases de Elaboración y Políticas Contables

Base de elaboración y políticas contables
Los Estados Financieros Intermedios Consolidados Condensados incluidos en este informe han sido elaborados de acuerdo con las Regulaciones de Transparencia (Directiva 2004/109/EC) de 2007, las Reglas de Transparencia relacionadas del Banco Central de Irlanda y la norma NIC 34, *Información Financiera Intermedia*, según ha sido adoptada por la Unión Europea. En este informe se incluye el balance general a 30 de junio de 2019; esta información es complementaria y no es requerida por la norma NIC 34. Este informe debe leerse junto con los Estados Financieros Consolidados para el ejercicio financiero finalizado el 31 de diciembre de 2019 incluidos en el Informe Anual de 2019 del Grupo que está disponible en la página web del Grupo: smurfitkappa.com.

Las políticas contables adoptadas por el Grupo y los juicios, estimaciones y supuestos contables significativos formulados por la administración en la elaboración de los Estados Financieros Intermedios Consolidados Condensados son consistentes con aquellos descritos y aplicados en el Informe Anual para el ejercicio financiero terminado el 31 de diciembre de 2019, además de evaluar el impacto de la pandemia del COVID-19 como se establece a continuación. Varios cambios a las NIIF entraron en vigencia en 2020; sin embargo, no tuvieron un efecto significativo en los Estados Financieros Intermedios Consolidados Condensados incluidos en este informe.

Impacto del COVID-19
El Grupo ha considerado el impacto de la pandemia del COVID-19 con respecto a todos los juicios y estimaciones que formula en la aplicación de sus políticas contables. Esto incluyó la evaluación de la recuperabilidad de las cuentas comerciales por cobrar y el inventario. Los clientes del Grupo operan principalmente en el sector de bienes de consumo, que ha demostrado ser resistente durante la pandemia del COVID-19 hasta la fecha. No se ha producido un deterioro significativo en la antigüedad de las cuentas comerciales por cobrar o una prórroga en la rotación de cartera en el periodo y no se espera ninguno dado el perfil de los clientes del Grupo. Como resultado de estas revisiones, no hubo ningún aumento sustancial en las pérdidas por deterioro de las cuentas comerciales por cobrar o las provisiones de inventario. El Grupo también evaluó los activos no financieros en busca de indicaciones de deterioro. No se identificó ningún deterioro.

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La administración reevaluó el valor en libros del goodwill (€2.400 millones) para los indicadores de deterioro al 30 de junio de 2020. Las proyecciones de flujo de caja fueron actualizadas para incorporar escenarios futuros del COVID-19 y las tasas de descuento fueron ajustadas para reflejar los riesgos asociados con cada unidad generadora de efectivo ('UGE'). La prueba no arrojó ningún deterioro. Si bien el margen en nuestra UGE de Brasil no ha disminuido desde el 31 de diciembre de 2019, es sensible a los cambios en los supuestos subyacentes y continuaremos monitoreando esta UGE debido a las continuas condiciones difíciles en el país.

Empresa en marcha

El Grupo es un fabricante altamente integrado de productos de embalaje a base de papel con posiciones líderes en el mercado, activos de calidad y un amplio alcance geográfico. La posición financiera del Grupo, su generación de efectivo, recursos de capital y liquidez continúan proporcionando una plataforma de financiación estable.

Los Directores han evaluado los principales riesgos e incertidumbres descritos en la página 9, los cuales incluyen el deterioro del clima económico actual debido a la pandemia por el COVID-19. El Grupo es una parte integral de la cadena de suministro de suministros esenciales y críticos y, como resultado de ello, no se ha producido ninguna interrupción significativa en nuestro negocio hasta la fecha. Además, se han introducido una serie de medidas y mitigaciones para garantizar la seguridad continua de nuestros empleados. El Grupo tuvo en cuenta el impacto potencial de la pandemia y la variedad de resultados que podría tener en la posición financiera y los resultados de las operaciones del Grupo. En los escenarios revisados, el Grupo sigue teniendo un margen significativo en relación con nuestros compromisos financieros.

La base de financiación diversificada y el perfil de vencimiento a largo plazo de 5,0 años del Grupo proporcionan una perspectiva de financiación estable. Al 30 de junio de 2020, el Grupo tenía una posición de liquidez muy sólida de más de €1.700 millones, que incluía saldos en efectivo de €646 millones, líneas de crédito comprometidas disponibles no utilizadas de €931 millones en el marco de su RCF y €156 millones en el marco de sus programas de titulización.

Después de evaluar los principales riesgos a los que se enfrenta el Grupo, junto con los pronósticos del Grupo y un importante margen financiero, los Directores consideran que el Grupo se encuentra en una posición adecuada para gestionar estos riesgos con éxito y tienen una expectativa razonable de que la Compañía, y el Grupo en su conjunto, cuentan con recursos adecuados para continuar operando en el futuro previsible. Por esta razón, continúan adoptando el principio de empresa en marcha al preparar los Estados Financieros Intermedios Consolidados Condensados.

Estados financieros estatutarios y dictamen de auditoría

Los auditores del Grupo no han auditado ni revisado los Estados Financieros Intermedios Consolidados Condensados contenidos en este informe.

Los Estados Financieros Intermedios Consolidados Condensados presentados no constituyen estados financieros estatutarios completos. Los estados financieros estatutarios completos

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para el ejercicio que finalizó el 31 de diciembre de 2019 serán presentados ante el Registro de Sociedades de Irlanda a su debido tiempo. El informe de auditoría sobre esos estados financieros estatutarios no tenía salvedades.

3. Información sobre Ingresos y Segmentos

El Grupo ha identificado segmentos operativos basándose en la manera en que los informes son revisados por el Jefe de Decisiones Operativas ('CODM'). Se determina que el CODM es el equipo de gestión ejecutiva responsable de evaluar el desempeño, asignar recursos y tomar decisiones estratégicas. El Grupo ha identificado dos segmentos operativos: 1) Europa y 2) América.

Los segmentos de Europa y América están altamente integrados. Incluyen un sistema de instalaciones y plantas que producen principalmente una línea completa de cartón para contenedores que es convertido en contenedores corrugados dentro de cada segmento. Además, el segmento de Europa también produce otros tipos de papel, como cartón sólido, papel kraft para sacos y papel gráfico; y otros embalajes a base de papel, como empaques de cartón sólido y cartones plegables; y embalaje *bag-in-box*. El segmento de las Américas, el cual incluye varios países de América Latina y los Estados Unidos, también comprende la silvicultura; otros tipos de papel, como cartulina, papel para sacos y papel gráfico; y empaques a base de papel, como cartones plegables y sacos de papel. Los ingresos entre segmentos no son importantes. No se han agregado segmentos operativos para propósitos de divulgación.

La utilidad de los segmentos es medida con base en el EBITDA.

	Semestre hasta 30-jun-20			Semestre hasta 30-jun-19		
	Europa €m	**América €m**	**Total €m**	Europa €m	América €m	Total €m
Ingresos y resultados						
Ingresos	**3.268**	**935**	**4.203**	3.574	1.048	4.622
EBITDA	**575**	**178**	**753**	688	179	867
Costos centrales no asignados			**(18)**			(20)
Gasto por pagos con base en acciones			**(11)**			(25)
Depreciación y agotamiento (neto)			**(252)**			(243)
Amortización			**(22)**			(21)
Costos financieros			**(85)**			(110)
Ingresos financieros			**17**			7
Participación en utilidades de asociadas (después de impuestos)			**1**			1
Utilidades antes del impuesto sobre la renta			**383**			456
Gasto por impuesto sobre la renta			**(105)**			(118)

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Información de ingresos sobre áreas geográficas

El Grupo tiene presencia en 35 países en todo el mundo. El siguiente es un análisis geográfico presentado de acuerdo con la norma NIIF 8, *Segmentos Operativos*, que requiere la revelación de información sobre el país de domicilio (Irlanda) y los países con ingresos significativos.

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Irlanda	**52**	55
Alemania	**604**	658
Francia	**474**	571
México	**418**	451
Holanda	**373**	377
España	**362**	393
Reino Unido	**355**	388
Resto del Mundo	**1.565**	1.729
Ingresos	**4.203**	4.622

Los ingresos se derivan casi en su totalidad de la venta de bienes y son revelados en función de la ubicación de la producción.

Desglose de ingresos

El Grupo obtiene ingresos de las siguientes líneas principales de productos. Los factores económicos que afectan la naturaleza, cantidad, oportunidad e incertidumbre de los ingresos y flujos de caja de las subcategorías de productos de papel y embalaje son similares.

	Semestre hasta 30-jun-20			Semestre hasta 30-jun-19		
	Papel €m	**Embalaje €m**	**Total €m**	Papel €m	Embalaje €m	Total €m
Europa	**499**	**2.769**	**3.268**	600	2.974	3.574
América	**106**	**829**	**935**	146	902	1.048
Ingresos por producto	**605**	**3.598**	**4.203**	746	3.876	4.622

Los ingresos por empaque se derivan principalmente de la venta de productos corrugados. El resto de los ingresos por embalaje se componen de embalajes *bag-in-box* y otros productos de embalaje a base de papel.

4. Partidas Excepcionales

Las siguientes partidas son consideradas de naturaleza excepcional:

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	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Costos financieros excepcionales	-	3
Total partidas excepcionales	-	3

No hubo partidas excepcionales cargadas en la utilidad operativa en ninguno de los ejercicios.

Los costos financieros excepcionales cargados en 2019 ascendieron a €3 millones, lo que representa la amortización acelerada de los costos de emisión de deuda relacionados con la refinanciación de la línea de crédito preferente.

5. Costos e Ingresos Financieros

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Costos financieros:		
Intereses por pagar sobre préstamos y sobregiros bancarios	16	23
Intereses por pagar sobre arrendamientos	5	6
Intereses por pagar sobre otros préstamos	45	59
Costos financieros excepcionales asociados con la restructuración de deuda	-	3
Reversión de elementos de descuento de provisiones	-	1
Pérdida en conversión de divisas sobre deuda	10	6
Pérdida de valor razonable en derivados no designados como coberturas	1	3
Pérdida de valor razonable en activos financieros	1	-
Costo por intereses neto en pasivos pensionales netos	6	9
Pérdida monetaria neta – hiperinflación	1	-
Total costos financieros	85	110
Ingresos financieros:		
Otros intereses por cobrar	(1)	(2)
Ganancia por conversión de divisas en deuda	(15)	(3)
Ganancia de valor razonable en derivados no designados como coberturas	(1)	-
Ganancia de valor razonable en activos financieros	-	(1)
Ganancia monetaria neta – hiperinflación	-	(1)
Total ingresos financieros	(17)	(7)
Costos financieros netos	**68**	103

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6. Gasto por Impuesto sobre la Renta

Gasto por impuesto sobre la renta reconocido en el Estado Consolidado Condensado de Resultados

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Impuestos corrientes:		
Europa	**74**	81
América	**30**	30
	104	111
Impuesto diferido	**1**	7
Gasto por impuesto sobre la renta	**105**	118
El impuesto corriente es analizado de la siguiente manera:		
Irlanda	**8**	4
Extranjero	**96**	107
	104	111

Impuesto sobre la renta reconocido en el Estado Consolidado Condensado de Resultados Integrales

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Que surge de planes de pensiones de beneficios definidos	**(9)**	(9)
Que surge de coberturas de flujos de caja de derivados	**1**	-
	(8)	(9)

El gasto por impuesto sobre la renta en 2020 es €13 millones menor que en el período comparable en 2019, principalmente debido a una menor rentabilidad.

Se produjo una disminución de €7 millones en el gasto por impuestos corrientes. En Europa, el gasto es €7 millones menor, principalmente debido a cambios en la rentabilidad y diferencias temporales. En las Américas, el gasto por impuestos corrientes está en línea con el gasto de 2019.

El cargo por impuesto diferido es €6 millones menor que en el período comparable en 2019. La disminución se debe en gran parte a la reversión de las diferencias temporales sobre las que se reconoció previamente el impuesto diferido.

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No hay ningún gasto o crédito por impuesto sobre la renta asociado con partidas excepcionales ni en 2020 ni en 2019.

7. Beneficios de Empleados – Planes de Beneficios Definidos

En la siguiente tabla se muestran los componentes del costo de beneficios definidos del período:

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Costo corriente del servicio	**17**	14
Pérdida actuarial que surge de otros beneficios de empleados a largo plazo	**1**	-
Ganancia en liquidación	**-**	(1)
Costo por intereses neto en pasivo pensional neto	**6**	9
Costo por beneficios definidos	**24**	22

En el costo de ventas, los costos de distribución y los gastos administrativos incluyen un costo por beneficios definidos de €18 millones (2019: €13 millones). El costo neto por intereses sobre el pasivo pensional neto de €6 millones (2019: €9 millones) se incluye en los costos financieros en el Estado Consolidado Condensado de Resultados.

Análisis de (pérdidas)/ganancias actuariales reconocidas en el Estado Condensado Consolidado de Resultados Integrales:

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Retorno sobre los activos del plan (excluyendo ingresos por intereses)	**22**	167
Ganancia actuarial debido a ajustes por experiencia	**-**	1
Ganancia actuarial debido a cambios en supuestos financieros	**(50)**	(253)
(Pérdida)/ganancia actuarial debido a cambios en supuestos demográficos	**(1)**	7
Total pérdida reconocida en el Estado Consolidado Condensado de Resultados Integrales	**(29)**	(78)

Los montos reconocidos en el Balance General Consolidado Condensado fueron los siguientes:

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	30-jun-20 €m	30-jun-19 €m
Valor presente de obligaciones financiadas o parcialmente financiadas	**(2.443)**	(2.473)
Valor razonable de activos del plan	**2.070**	2.109
Déficit en activos del plan financiados o parcialmente financiados	**(373)**	(364)
Valor presente de obligaciones completamente no financiadas	**(526)**	(534)
Montos no reconocidos en activos debido a tope de activos	**(1)**	(1)
Pasivo pensional neto	**(900)**	(899)

Los supuestos clave relacionados con las tasas de descuento e inflación fueron reevaluados el 30 de junio de 2020 y fueron actualizados para reflejar las condiciones del mercado en esa fecha.

8. Utilidades por Acción ('EPS')

Básicas

Las EPS básicas son calculadas dividiendo la utilidad atribuible a los propietarios de la compañía matriz por el promedio ponderado del número de acciones ordinarias emitidas durante el período menos las acciones de tesorería.

	Semestre hasta 30-jun-20	Semestre hasta 30-jun-19
Utilidades atribuibles a propietarios de compañía matriz (millones de euros)	**277**	332
Promedio ponderado del número de acciones ordinarias en emisión (millones)	**237**	236
EPS básicas (centavos)	**116,9**	140,6

Diluidas

Las EPS diluidas son calculadas ajustando el promedio ponderado del número de acciones ordinarias en circulación para asumir la conversión de todas las acciones ordinarias potenciales dilutivas. Estas comprenden acciones convertibles y diferidas emitidas bajo los planes de incentivos a largo plazo del Grupo. Cuando las condiciones que rigen la posibilidad de ejercer y el otorgamiento de estas acciones han sido cumplidas al final del período sobre el que se informa, se incluyen en el cálculo de las utilidades diluidas por acción ordinaria.

	Semestre hasta 30-jun-20	Semestre hasta 30-jun-19
Utilidades atribuibles a propietarios de compañía matriz (millones de euros)	**277**	332

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Promedio ponderado del número de acciones ordinarias en emisión (millones)	**237**	236
Acciones ordinarias potencialmente dilutivas asumidas (millones)	**1**	1
Promedio ponderado de acciones ordinarias diluidas (millones)	**238**	237
	116,4	139,8

Antes de partidas excepcionales

	Semestre hasta 30-jun-20	Semestre hasta 30-jun-19
Utilidades atribuibles a propietarios de compañía matriz (millones de euros)	**277**	332
Partidas excepcionales incluidas en las utilidades antes del impuesto sobre la renta (Nota 4) (millones de euros)	**-**	3
Utilidades antes de partidas excepcionales atribuibles a propietarios de compañía matriz (millones de euros)	**277**	335
Promedio ponderado del número de acciones ordinarias en emisión (millones)	**237**	236
EPS básicas antes de partidas excepcionales (millones)	**116,9**	141,6
Promedio ponderado de acciones ordinarias diluidas (millones)	**238**	237
EPS básicas antes de partidas excepcionales (millones)	**116,4**	140,8

9. Dividendos

La Junta ha decidido pagar un dividendo a cuenta de 80,9 centavos por acción (aproximadamente €193 millones). Se propone pagar este dividendo el 11 de septiembre de 2020 a todos los accionistas ordinarios que figuran en el registro de acciones al cierre de operaciones el 14 de agosto de 2020.

10. Propiedades, Planta y Equipo

	Terrenos y edificios €m	**Planta y equipo €m**	**Total €m**
Semestre finalizado el 30 de junio de 2020			
Valor en libros neto al inicio del periodo	**1.106**	**2.814**	**3.920**
Reclasificaciones	**18**	**(23)**	**(5)**
Adiciones	**-**	**190**	**190**
Adquisiciones	**2**	**1**	**3**
Cargo por depreciación	**(28)**	**(180)**	**(208)**

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Retiros y enajenaciones	-	(1)	(1)
Ajuste por hiperinflación	1	3	4
Ajuste por conversión de divisas	(33)	(91)	(124)
Al 30 de junio de 2020	**1.066**	**2.713**	**3.779**
Ejercicio financiero finalizado el 31 de diciembre de 2019			
Valor en libros neto al inicio del periodo	1.050	2.544	3.594
Reclasificaciones	57	(58)	(1)
Adiciones	2	618	620
Adquisiciones	42	47	89
Cargo por depreciación	(54)	(355)	(409)
Deterioros	-	(4)	(4)
Retiros y enajenaciones	(1)	(3)	(4)
Ajuste por hiperinflación	3	8	11
Ajuste por conversión de divisas	7	17	24
Al 31 de diciembre de 2019	1.106	2.814	3.920

11. Movimiento Neto en el Capital de Trabajo

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Cambio en inventarios	**(37)**	2
Cambio en cuentas comerciales y otras cuentas por cobrar	**2**	(132)
Cambio en cuentas comerciales y otras cuentas por pagar	**2**	(39)
Movimiento neto en capital de trabajo	**(33)**	(169)

12. Análisis de la Deuda Neta

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Línea de crédito rotativo – intereses a la tasa interbancaria relevante (tasa de interés mínima del 0%) + 0,9%[1]	**407**	333
Obligaciones preferentes de US$292,3 millones al 7,5% con vencimiento en 2025 (incluyendo intereses devengados)	**263**	262
Préstamos y sobregiros bancarios	**100**	118
Pagarés de financiación a tasa variable de titulización por cobrar de €200 millones con vencimiento en 2022 (incluyendo intereses devengados)	**114**	29

Pagarés de financiación a tasa variable de titulización por cobrar de €230 millones con vencimiento en 2023	**158**	69
Pagarés preferentes de €500 millones al 2,375% con vencimiento en 2024 (incluyendo intereses devengados)	**501**	500
Pagarés preferentes de €250 millones al 2,75% con vencimiento en 2025 (incluyendo intereses devengados)	**250**	250
Pagarés preferentes de €1.000 millones al 2,875% con vencimiento en 2026 (incluyendo intereses devengados)	**1.004**	1.004
Pagarés preferentes de €750 millones al 1,5% con vencimiento en 2027 (incluyendo intereses devengados)	**745**	744
Deuda bruta antes de arrendamientos	**3.542**	3.309
Arrendamientos	**361**	377
Deuda bruta incluyendo arrendamientos	**3.903**	3.686
Efectivo y equivalentes de efectivo (incluyendo efectivo restringido)	**(646)**	(203)
Deuda neta incluyendo arrendamientos	**3.257**	3.483

(1) En enero de 2020, el Grupo logró el acuerdo de todos los prestamistas en su RCF de €1.350 millones para prorrogar la fecha de vencimiento un año más hasta el 28 de enero de 2025.
(a) Préstamos rotativos: €413 millones
(b) Girados con cargo a líneas auxiliares y líneas respaldadas por cartas de crédito: cero
(c) Otras líneas operativas, incluyendo cartas de crédito: €6 millones

13. Otras Reservas

Las otras reservas incluidas en el Estado Consolidado Condensado de Cambios en el Patrimonio se componen de lo siguiente:

	Reserva de adquisición inversa €m	Reserva de cobertura de flujos de caja €m	Reserva del costo de cobertura €m	Reserva de conversión de divisas €m	Reserva de pagos con base en acciones €m	Acciones de tesorería €m	Reserva de FVOCI €m	Total €m
Al 1 de enero 2020	**575**	**(2)**	**2**	**(387)**	**215**	**(42)**	**(10)**	**351**
Otros resultados integrales								
Ajustes por conversión de divisas	-	-	-	(177)	-	-	-	(177)
Parte efectiva de cambios en valor razonable de coberturas de flujos de caja	-	8	-	-		-		8
Cambios en valor razonable del	-	-	(1)	-	-	-		(1)

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costo de cobertura								
Total otros ingresos/(gastos) integrales	-	8	(1)	(177)	-	-	-	(170)
Compra de participación minoritaria	-	-	-	(7)	-	-	-	(7)
Pagos con base en acciones	-	-	-	-	11	-	-	11
Acciones netas adquiridas por el Fideicomiso de Empleados de SKG	-	-	-	-	-	(16)	-	(16)
Acciones distribuidas por el Fideicomiso de Empleados de SKG	-	-	-	-	(9)	9	-	-
Al 30 de junio 2020	575	6	1	(571)	217	(49)	(10)	169
Al 1 de enero 2019	575	(14)	3	(367)	185	(28)	1	355
Otros resultados integrales								
Ajustes por conversión de divisas	-	-	-	3	-	-	-	3
Parte efectiva de cambios en valor razonable de coberturas de flujos de caja	-	3	-	-	-	-	-	3
Cambios en valor razonable del costo de cobertura	-	-	(1)	-	-	-	-	(1)
Total otros ingresos/(gastos) integrales	-	3	(1)	3	-	-	-	5
Compra de participación minoritaria	-	-	-	(29)	-	-	-	(29)
Pagos con base en acciones	-	-	-	-	25	-	-	25
Acciones netas adquiridas por el Fideicomiso de Empleados de SKG	-	-	-	-	-	(25)	-	(25)
Acciones distribuidas por el Fideicomiso de Empleados de SKG	-	-	-	-	(9)	9	-	-
Al 30 de junio 2019	575	(11)	2	(393)	201	(44)	1	331

14. Jerarquía de valor razonable

En la siguiente tabla se presentan los activos y pasivos financieros del Grupo medidos a valor razonable al 30 de junio de 2020:

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	Nivel 1 €m	Nivel 2 €m	Nivel 3 €m	Total €m
Otras inversiones				
Con cotización en bolsa	**2**	**-**	**-**	**2**
Sin cotización en bolsa	**-**	**8**	**-**	**8**
Instrumentos financieros derivados:				
Activos a valor razonable en el Estado Consolidado Condensado de Resultados	**-**	**11**	**-**	**11**
Derivados utilizados para propósitos de cobertura	**-**	**18**	**-**	**18**
Instrumentos financieros derivados:				
Activos a valor razonable en el Estado Consolidado Condensado de Resultados	**-**	**(7)**	**-**	**(7)**
Derivados utilizados para propósitos de cobertura	**-**	**(4)**	**-**	**(4)**
Contraprestación contingente diferida	**-**	**-**	**(33)**	**(33)**
	2	**26**	**(33)**	**(5)**

En la siguiente tabla se presentan los activos y pasivos financieros del Grupo medidos a valor razonable al 31 de diciembre de 2019:

	Nivel 1 €m	Nivel 2 €m	Nivel 3 €m	Total €m
Otras inversiones				
Con cotización en bolsa	2	-	-	2
Sin cotización en bolsa	-	8	-	8
Instrumentos financieros derivados:				
Activos a valor razonable en el Estado Consolidado Condensado de Resultados	-	6	-	6
Derivados utilizados para propósitos de cobertura	-	13	-	13
Instrumentos financieros derivados:				
Activos a valor razonable en el Estado Consolidado Condensado de Resultados	-	(3)	-	(3)
Derivados utilizados para propósitos de cobertura	-	(13)	-	(13)
Contraprestación contingente diferida	-	-	(33)	(33)
	2	11	(33)	(20)

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El valor razonable de las inversiones cotizadas es determinado por referencia a su precio de oferta en la fecha de reporte. Las inversiones no cotizadas son valoradas utilizando técnicas de valoración reconocidas para el título subyacente, incluyendo flujos de caja descontados.

El valor razonable de los instrumentos financieros derivados establecidos anteriormente ha sido medido de acuerdo con el nivel 2 de la jerarquía de valor razonable. Todos son instrumentos derivados simples, valorados con referencia a tasas de cambio, tasas de interés o precios de corredores observables.

La contraprestación contingente diferida está relacionada con la opción de venta sobre nuestra adquisición en Serbia. El modelo de valoración de la contraprestación contingente diferida, medida de acuerdo con el nivel 3 de la jerarquía de valor razonable, se basa en el valor presente del pago esperado descontado utilizando una tasa ajustada al riesgo. El dato de entrada no observable para determinar el valor razonable es la rentabilidad subyacente de la unidad de negocio a la que se refiere la contraprestación. Un cambio razonable en los datos de entrada no observables no tendría un impacto significativo en el valor razonable de la contraprestación contingente diferida.

No hubo cambios en los valores razonables de los instrumentos de nivel 3 durante el período.

No hubo reclasificaciones o transferencias entre los niveles de la jerarquía de valor razonable durante el período.

15. Valor Razonable

En la siguiente tabla se muestra el valor razonable de los principales activos y pasivos financieros del Grupo. La determinación de estos valores razonables se basa en las descripciones establecidas en la Nota 2 a los Estados Financieros Consolidados del Informe Anual de 2019 del Grupo.

	30-jun-20		30-jun-19	
	Valor en libros €m	**Valor razonable €m**	Valor en libros €m	Valor razonable €m
Cuentas comerciales y otras cuentas por cobrar[1]	**1.483**	**1.483**	1.559	1.559
Instrumentos de deuda con y sin cotización en bolsa[2]	**10**	**10**	10	10
Efectivo y equivalentes de efectivo[3]	**639**	**639**	189	189
Activos derivados[4]	**29**	**29**	19	19
Efectivo restringido[2]	**7**	**7**	14	14
	2.168	**2.168**	1.791	1.791
Cuentas comerciales y otras cuentas por pagar[1]	**1.354**	**1.354**	1.465	1.465
Línea de crédito rotativo[5]	**407**	**407**	333	333
Titulización de cuentas por cobrar de 2022[3]	**114**	**114**	29	29

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Titulización de cuentas por cobrar de 2022[5]	**158**	**158**	69	69
Sobregiros bancarios[3]	**100**	**100**	118	118
Obligaciones de 2025[6]	**263**	**309**	262	328
Pagarés de 2024[6]	**501**	**516**	500	540
Pagarés de 2025[6]	**250**	**260**	250	277
Pagarés de 2026[6]	**1.004**	**1.046**	1.004	1.110
Pagarés de 2027[6]	**745**	**719**	744	759
	4.896	**4.983**	4.774	5.028
Pasivos por derivados[4]	**11**	**11**	16	16
Contraprestación diferida[7]	**12**	**12**	12	12
Contraprestación contingente diferida[8]	**33**	**33**	33	33
	4.952	**5.039**	4.835	5.089
Total posición neta	**(2.784)**	**(2.871)**	(3.044)	(3.298)

(1) El valor razonable de las cuentas comerciales y otras cuentas por cobrar y por pagar es estimado como el valor presente de los flujos de caja futuros, descontados a la tasa de interés de mercado a la fecha de reporte.

(2) El valor razonable de los activos financieros cotizados es determinado por referencia a su precio de oferta en la fecha de reporte. Los activos financieros no cotizados son valorados utilizando técnicas de valoración reconocidas para el valor subyacente, incluyendo flujos de caja descontados.

(3) Se estima que el valor en libros reportado en el Balance General Consolidado Condensado se aproxima al valor razonable debido al vencimiento a corto plazo de estos instrumentos y, en el caso de la titulización de cuentas por cobrar, la naturaleza variable de la línea de crédito y las fechas de revisión.

(4) El valor razonable de los contratos forward de energía y divisas se basa en su precio de mercado cotizado, si está disponible. Si un precio de mercado cotizado no está disponible, entonces el valor razonable es estimado descontando la diferencia entre el precio forward contractual y el precio forward actual para el vencimiento residual del contrato utilizando una tasa de interés libre de riesgo (basada en bonos gubernamentales). El valor razonable de los swaps de tasa de interés se basa en el descuento de los flujos de caja futuros estimados con base en los términos y vencimiento de cada contrato y usando tasas de interés de mercado para un instrumento similar en la fecha de medición.

(5) El valor razonable (nivel 2) del RCF se basa en el valor presente de sus flujos de caja futuros estimados descontados a una tasa de descuento de mercado adecuada a la fecha del balance.

(6) El valor razonable (nivel 2) se basa en los precios de corredores a la fecha del balance.

(7) El valor razonable de la contraprestación diferida se basa en el valor presente del pago esperado, descontado utilizando una tasa de descuento ajustada al riesgo.

(8) El valor razonable de la contraprestación contingente diferida se basa en el valor presente del pago esperado, descontado utilizando una tasa de descuento ajustada al riesgo.

16. Transacciones con Partes Relacionadas

Los detalles de las transacciones con partes relacionadas con respecto al ejercicio terminado el 31 de diciembre de 2019 se incluyen en la Nota 31 a los Estados Financieros Consolidados del Informe Anual de 2019 del Grupo. El Grupo continuó realizando transacciones en el giro ordinario de los negocios con sus asociadas y otras partes relacionadas durante el período. No hubo transacciones con partes relacionadas en el primer semestre de 2020 o cambios en las transacciones con partes relacionadas revelados en los Estados Financieros Consolidados de 2019 que hayan tenido un efecto significativo en la situación financiera o en el desempeño del Grupo.

17. Aprobación de la Junta

Este informe intermedio ha sido aprobado por el Junta Directiva el 28 de julio de 2020.

18. Distribución del Informe Intermedio

Este informe intermedio de 2020 está disponible en el página web del Grupo: smurfitkappa.com.

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Declaración de Responsabilidad con Respecto al Semestre Finalizado el 30 de junio de 2020

Los Directores, cuyos nombres y funciones se enumeran en las páginas 54 a 56 del Informe Anual del Grupo 2019, son los responsables de elaborar este informe de gestión intermedio y los Estados Financieros Intermedios Consolidados Condensados de conformidad con las Regulaciones de Transparencia (Directiva 2004/109/CE). 2007, las Reglas de Transparencia relacionadas del Banco Central de Irlanda y la norma NIC 34, *Información Financiera Intermedia*, según sea adoptada por la Unión Europea.

Los Directores confirman que, a su leal saber y entender:

- Los Estados Financieros Intermedios Consolidados Condensados correspondientes al semestre finalizado el 30 de junio de 2020 han sido elaborados de conformidad con las normas contables internacionales aplicables a la información financiera intermedia, la norma NIC 34, adoptada de conformidad con el procedimiento previsto en el artículo 6 de la Regulación (CE) No. 1606/2002 del Parlamento y del Consejo Europeo del 19 de julio de 2002;

- El informe de gestión intermedio incluye una revisión razonable de los hechos importantes que han ocurrido durante el primer semestre del ejercicio y su impacto en los Estados Financieros Intermedios Consolidados Condensados para el semestre finalizado el 30 de junio de 2020, y una descripción de los principales riesgos e incertidumbres para los semestres restantes;

- El informe de gestión intermedio incluye una revisión razonable de las transacciones con partes relacionadas han sido llevadas a cabo durante el primer semestre del ejercicio financiero actual y que han afectado sustancialmente la situación o el desempeño financiero del Grupo durante ese período, y cualquier cambio en las transacciones con partes relacionadas descritas en el último Informe Anual que podrían tener un efecto significativo en la situación o el desempeño financiero del Grupo en el primer semestre del ejercicio en curso.

Firmado en nombre de la Junta

A. Smurfit, Director y Director Ejecutivo
K. Bowles, Director y Director Financiero

28 de julio de 2020.

Inglés - Español - Inglés
Valentina Marín Gómez
Traductora e Intérprete Oficial
Res. No. 0409 de 2015

16 MAR. 2021

Información Financiera Complementaria

Medidas Alternativas de Desempeño

El Grupo utiliza ciertas medidas financieras como se establece a continuación para evaluar el desempeño financiero del Grupo. Estas Medidas Alternativas de Desempeño ('APM') no están definidas bajo las normas NIIF y son presentadas porque consideramos que ellas, y medidas similares, brindan tanto a la administración de SKG como a los usuarios de los Estados Financieros Consolidados Condensados información financiera adicional útil al evaluar el desempeño operativo y financiero del Grupo.

Estas medidas pueden no ser comparables con otras medidas similares utilizadas por otras empresas, y no son medidas según las normas NIIF u otros principios de contabilidad generalmente aceptados, y no deben considerarse de forma aislada o como sustitutos de la información contenida en nuestros estados financieros consolidados condensados.

Las principales APM utilizadas por el Grupo, junto con las conciliaciones en las que las medidas distintas de las normas NIIF no son fácilmente identificables en los Estados Financieros Consolidados Condensados, son las siguientes:

EBITDA

Definición

El EBITDA corresponde a las utilidades antes de partidas excepcionales, gastos por pagos con base en acciones, participación en las utilidades de las asociadas (después de impuestos), costos financieros netos, gasto por impuestos sobre la renta, depreciación y agotamiento (neto) y amortización de activos intangibles. Es una medida apropiada y útil que es utilizada para comparar el desempeño financiero recurrente entre períodos. A continuación se incluye una conciliación de las utilidades con el EBITDA:

Conciliación de las utilidades con el EBITDA

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Utilidades del periodo financiero	**278**	338
Gasto por impuesto sobre la renta (después de partidas excepcionales)	**105**	118
Costos financieros netos (después de partidas excepcionales)	**68**	103
Participación en utilidades de asociadas (después de impuestos)	**(1)**	(1)
Gasto por pagos con base en acciones	**11**	25
Depreciación, agotamiento (neto) y amortización	**274**	264
EBITDA	**735**	847

Margen de EBITDA

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Definición
El margen de EBITDA es una medida de rentabilidad que resulta de dividir nuestro EBITDA entre los ingresos.

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
EBITDA	**735**	847
Ingresos	**4.203**	4.622
Margen de EBITDA	**17,5%**	18,3%

Utilidades operativas antes de partidas excepcionales
Definición
Las utilidades operativas antes de partidas excepcionales representa las utilidades operativas según son reportadas en el Estado Consolidado Condensado de Resultados antes de partidas excepcionales. Se excluyen las partidas excepcionales para evaluar el desempeño financiero subyacente de nuestras operaciones.

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Utilidades operativas	**450**	558
Partidas excepcionales	**-**	-
Utilidades operativas antes de partidas excepcionales	**450**	558

Utilidades básicas por acción antes de partidas excepcionales
Definición
Las EPS básicas antes de partidas excepcionales sirve como un indicador efectivo de nuestra rentabilidad, ya que excluye partidas excepcionales únicas y, junto con otras métricas como el ROCE, es una medida de nuestra solidez financiera.

Las EPS básicas antes de partidas excepcionales son calculadas dividiendo la utilidad atribuible a los propietarios de la compañía matriz, ajustada por partidas excepcionales incluidas en las utilidades antes del impuesto sobre la renta y en el impuesto sobre la renta sobre partidas excepcionales, entre el promedio ponderado del número de acciones ordinarias en emisión. El cálculo de las EPS básicas antes de partidas excepcionales se muestra en la Nota 8.

Flujo de Caja Libre ('FCF')
Definición
El FCF es el resultado de los flujos de entrada y salida de efectivo de nuestras actividades operativas, y es anterior a los que surgen a partir de las actividades de adquisición y enajenación. Usamos FCF para evaluar y comprender el desempeño operativo total del negocio y para identificar tendencias subyacentes.

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El flujo de caja resumido es elaborado sobre una base diferente al Estado Consolidado Condensado de Flujos de Caja según las normas NIIF ('flujo de caja según las normas NIIF') y, como tal, las partidas de conciliación entre el EBITDA y el (aumento)/disminución de la deuda neta pueden diferir de los importes presentados en el flujo de caja según las normas NIIF. Las principales diferencias son las siguientes:

(a) El flujo de caja resumido detalla los movimientos en la deuda neta. El flujo de caja según las normas NIIF detalla los movimientos en efectivo y equivalentes de efectivo.

(b) El FCF es conciliado con el efectivo generado por las operaciones en el flujo de caja según las normas NIIF como se muestra en la siguiente tabla. Los principales ajustes hacen referencia a intereses en efectivo, gastos de capital, pago de impuestos y venta de propiedades, planta y equipo.

(c) El flujo de caja según las normas NIIF tiene subpartidas diferentes a aquellas utilizadas en el flujo de caja resumido.

- Las provisiones actuales en el flujo de caja resumido se incluyen dentro de "cambio en los beneficios de empleados y otras provisiones" en el flujo de caja según las normas NIIF.

- El total de gastos de capital y el cambio en los acreedores de capital en el flujo de caja resumido incluye adiciones a activos intangibles que se muestran por separado en el flujo de caja según las normas NIIF. También incluye los activos por derecho de uso que están excluidos de las adiciones a propiedades, planta y equipo y activos biológicos en el flujo de caja según las normas NIIF.

- 'Otros' en el flujo de caja resumido incluye cambios en los beneficios de empleados y otras provisiones (excluyendo las provisiones corrientes), amortización de subvenciones de capital, recepción de subvenciones de capital y dividendos recibidos de asociadas que se muestran por separado en el flujo de caja según las normas NIIF.

Conciliación del Flujo de Caja Libre con el Efectivo Generado por las Operaciones

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Flujo de caja libre	**238**	159
Partidas de conciliación:		
Intereses en efectivo	**61**	82
Gastos de capital (libre d cambio en acreedores de capital)	**281**	306
Pagos de impuestos	**98**	92
Venta de propiedad, planta y equipo	**(1)**	(2)

Terminaciones/modificaciones de arrendamientos (en 'Otros' en el resumen de flujos de caja)	**(3)**	-
Utilidad en venta de propiedad, planta y equipo – partidas no excepcionales	-	(2)
Recibo de subvenciones de capital (en 'Otros' en el resumen de flujos de caja)	-	(1)
Actividades de financiamiento no monetarias	**(1)**	-
Efectivo generado de las operaciones	**673**	634

Retorno sobre el capital empleado ('ROCE')

Definición

El ROCE mide las utilidades del capital empleado. Es calculado como las utilidades operativas antes de partidas excepcionales más la participación de las utilidades de las asociadas (después de impuestos) de los últimos doce meses ('LTM') dividas por el capital empleado promedio (donde el capital empleado promedio corresponde al promedio del capital total y la deuda neta al inicio y al final de LTM).

	30-jun-20 €m	30-jun-19 €m
Utilidades operativas antes de partidas excepcionales más participación en utilidades de asociadas (después de impuestos) LTM	**957**	1.134
Total patrimonio – final del periodo actual	**3.063**	2.902
Deuda neta – final del periodo actual	**3.257**	3.751
Capital empleado – final del periodo actual	**6.320**	6.653
Total patrimonio – final del periodo actual	**2.902**	2.628
Deuda neta – final del periodo actual	**3.751**	2.871
Capital empleado – final del periodo actual	**6.653**	5.499
Capital empleado promedio	**6.486**	6.076
Retorno sobre el capital empleado	**14,8%**	18,7%

Deuda Neta

Definición

La deuda neta comprende préstamos netos de efectivo y equivalentes de efectivo y efectivo restringido. Consideramos que esta medida destaca el movimiento general resultante de nuestro desempeño operativo y financiero.

	30-jun-20 €m	30-jun-19 €m	31-dic-19 €m
Préstamos (ver Nota 12)	**3.903**	3.998	3.686
Menos:			
Efectivo restringido	**(7)**	(13)	(14)
Efectivo y equivalentes de efectivo	**(639)**	(234)	(189)
Deuda neta	**3.257**	3.751	3.483

Deuda neta a EBITDA

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Definición

El apalancamiento (relación de deuda neta a EBITDA) es una medida importante de nuestra posición financiera general.

	30-jun-20	30-jun-19	31-dic-19
	€m	€m	€m
Deuda neta	**3.257**	3.751	3.483
EBITDA LTM	**1.538**	1.668	1.650
Deuda neta a EBITDA (múltiplo)	**2,1**	2,2	2,1

Gasto por intereses en efectivo

Definición

Los intereses en efectivo son los intereses pagados libres de los intereses recibidos, los movimientos en los intereses devengados y los flujos de salida que no son causados por las actividades operativas normales.

	Semestre hasta 30-jun-20	Semestre hasta 30-jun-19
	€m	€m
Intereses pagados por flujo de caja según NIIF	**63**	98
Intereses recibidos por flujo de caja según NIIF	**(1)**	(2)
Movimiento en intereses devengados	**(1)**	4
Costo inicial de bonos rembolsados	**-**	(18)
Gasto por intereses en efectivo	**61**	82

Gastos de capital

Definición

Los gastos de capital comprenden adiciones a propiedades, planta y equipo, activos por derecho de uso, activos biológicos y activos intangibles.

	Semestre hasta 30-jun-20	Semestre hasta 30-jun-19
	€m	€m
Propiedad, planta y equipo	**190**	243
Activos por derecho de uso	**26**	16
Activos biológicos	**5**	5
Activos intangibles	**9**	8
Total gastos de capital	**230**	272
Cambio en acreedores de capital	**51**	34
Menos adiciones a activos por derecho de uso	**(26)**	(16)
Flujo de caja según NIIF	**255**	290

Gastos de capital como porcentaje de la depreciación

Definición

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Los gastos de capital según se definen anteriormente como un porcentaje de la depreciación total. La depreciación total incluye la depreciación de propiedades, planta y equipo, activos por derecho de uso, cambio en activos biológicos y amortización de activos intangibles.

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Gastos de capital	**230**	272
Depreciación	**274**	264
Gastos de capital como porcentaje de la depreciación	**84%**	103%

Capital de trabajo

Definición

El capital de trabajo representa el total de inventarios, cuentas comerciales y otras cuentas por cobrar y cuentas comerciales y otras cuentas por pagar.

	30-jun-20 €m	30-jun-19 €m
Inventarios	**832**	856
Cuentas comerciales y otras cuentas por cobrar (corrientes y no corrientes)	**1.614**	1.881
Cuentas comerciales y otras cuentas por pagar	**(1.767)**	(1.832)
Capital de trabajo	**679**	905

Capital de trabajo como porcentaje de las ventas

Definición

El capital de trabajo como porcentaje de las ventas representa el capital de trabajo como se define anteriormente y se muestra como un porcentaje de los ingresos trimestrales anualizados.

	Semestre hasta 30-jun-20 €m	Semestre hasta 30-jun-19 €m
Capital de trabajo	**679**	905
Ingresos anualizados	**8.038**	9.224
Capital de trabajo como porcentaje de las ventas	**8,4%**	9,8%

EBITDA e ingresos subyacentes

Definición

El EBITDA y los ingresos subyacentes son obtenidos excluyendo el EBITDA incremental y los aportes a los ingresos de adquisiciones y enajenaciones del ejercicio actual y anterior y el impacto de la conversión de divisas, la hiperinflación y cualquier partida no recurrente.

El Grupo utiliza el EBITDA subyacente y los ingresos subyacentes como indicadores de desempeño adicionales para evaluar el desempeño de forma homogénea cada ejercicio.

	Europa 30-jun-20	América 30-jun-20	Total 30-jun-20	Europa 30-jun-19	América 30-jun-19	Total 30-jun-19
EBITDA						
Divisas	-	(6%)	(1%)	(1%)	-	-
Hiperinflación	-	-	-	-	(2%)	(1%)
Adquisiciones / enajenaciones	-	-	-	6%	(3%)	4%
NIIF 16	-	-	-	5%	10%	6%
Cambio en EBITDA subyacente	(16%)	5%	(12%)	7%	9%	8%
Cambio en EBITDA reportado	(16%)	(1%)	(13%)	17%	14%	17%
Ingresos						
Divisas	-	(8%)	(2%)	-	-	-
Adquisiciones / enajenaciones	-	-	-	4%	(7%)	-
Cambio en ingresos subyacentes	(9%)	(3%)	(7%)	1%	9%	4%
Cambio en ingresos reportados	(9%)	(11%)	(9%)	5%	2%	4%

Valentinamg

FIRMA REGISTRADA DILIGENCIA DE AUTENTICACION

NOTARIA 11

El suscrito Notario 11 del Círculo de Bogotá certifica que la firma que aparece en éste documento guarda similitud con la registrada en ésta notaria por VALENTINA MARIN GOMEZ según la confrontación que se ha hecho de ella(s).
Bogotá D.C. 17/03/2021

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REPUBLICA DE COLOMBIA
NOTARIA 11
Nelson J. Sanchez Garcia
Notario (E)
NOTARIA 11 DEL CIRCULO DE BOGOTA D.C.

PRESS RELEASE

29 July: Smurfit Kappa Group plc ('SKG' or 'the Group') today announced results for the 6 months ending 30 June 2020.

2020 First Half | Key Financial Performance Measures

€m	H1 2020	H1 2019	Change
Revenue	€4,203	€4,622	(9%)
EBITDA [1]	€735	€847	(13%)
EBITDA Margin [1]	17.5%	18.3%	
Operating Profit before Exceptional Items [1]	€450	€558	(19%)
Profit before Income Tax	€383	€456	(16%)
Basic EPS (cent)	116.9	140.6	(17%)
Pre-exceptional Basic EPS (cent) [1]	116.9	141.6	(17%)
Free Cash Flow [1]	€238	€159	50%
Return on Capital Employed [1]	14.8%	18.7%	
Net Debt [1]	€3,257	€3,751	
Net Debt to EBITDA (LTM) [1]	2.1x	2.2x	

Key Points

- Strong performance against key metrics
- EBITDA of €735 million, with an EBITDA margin of 17.5%
- Free cash flow of €238 million
- ROCE of 14.8%
- Leverage of 2.1x
- Dividend payment of 80.9 cent per share

Performance Review and Outlook

Tony Smurfit, Group CEO, commented:

"We are very pleased to report another strong performance across all our key metrics for the first half of 2020. Our EBITDA of €735 million with a margin of 17.5%, together with strong free cash flow of €238 million, demonstrate the strength of the Group.

"I remain incredibly proud of the entire SKG team who have delivered these results against the backdrop of COVID-19, which created an extremely challenging operating environment. Our key priorities have been, and continue to be, the health, safety and well-being of our 46,000 employees and the continuity of supply to our 65,000 customers. The strength and scale of our integrated system and our supply chain expertise meant we were able to ensure the continuity of supply of essential products for everyday life across multiple sectors. We are again proving that our business model, geographic diversity and our commitment to innovation and sustainability continue to deliver.

"Our European business performed strongly in the first six months with an EBITDA margin of 17.6% and flat corrugated box volumes.

"The EBITDA margin of the Americas business improved again year-on-year from 17.1% to 19.0%.

[1] Additional information in relation to our Alternative Performance Measures ('APMs') is set out in Supplementary Financial Information on page 29.

“During the first six months, the Group completed its largest ever investment, €134 million, in a recovery boiler in Austria. I am happy to report that this will reduce our CO_2 emissions by 40,000 tonnes or a further 1.5% towards the Group’s sustainability emissions target.

“Paper-based packaging is renewable, recyclable and bio-degradable. Together with the mega-trends of e-commerce and the consumers’ desire for sustainable packaging solutions, corrugated is the most innovative and sustainable transport and merchandising solution. SKG is uniquely positioned to capitalise on these long-term trends with its unrivalled market offering and SMART business applications that enable our customers to increase sales, reduce costs and mitigate risk. In an increasingly complex world, SKG is the packaging partner of choice.

“SKG has again demonstrated its strength and the consistency of its delivery through these results. This performance reflects: targeted capital investment; effective acquisitions; a continued focus on innovation and sustainability; and, above all else, the quality of our people. SKG will remain agile and resilient, continuing to deliver, and while known macro and economic risks remain, we are confident in our future prospects.

“In April, in light of the macro uncertainty due to the COVID-19 pandemic, the Board acted prudently in withdrawing its recommendation to pay a final dividend of 80.9 cent per share. We stated at that time that the Board remained committed to providing shareholders with an attractive dividend stream. Consequently, the Board has now decided to pay an interim dividend of 80.9 cent per share, the equivalent amount of the withdrawn final dividend. This decision underscores the Board’s belief in the inherent strengths of the SKG business, its balance sheet, free cash flow generation and its long-term prospects and our recognition of the importance of dividends to shareholders.”

This announcement contains inside information. The person responsible for arranging for the release of this announcement on behalf of Smurfit Kappa Group plc is Gillian Carson-Callan, Company Secretary. The date and time of this announcement is the same as the date and time that it has been communicated to the media, at 7am on 29 July 2020.

About Smurfit Kappa

Smurfit Kappa, a FTSE 100 company, is one of the leading providers of paper-based packaging solutions in the world, with approximately 46,000 employees in over 350 production sites across 35 countries and with revenue of €9.0 billion in 2019. We are located in 23 countries in Europe, and 12 in the Americas. We are the only large-scale pan-regional player in Latin America.

With our proactive 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-based 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. Follow us on LinkedIn, Twitter, Facebook, YouTube.
smurfitkappa.com

Forward Looking Statements

This Announcement contains certain statements that are forward-looking. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations of the Group about future events, and involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. Although the Group believes that current expectations and assumptions with respect to these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements. Forward-looking statements should therefore be construed in the light of such factors. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date made. Other than in accordance with legal or regulatory obligations, the Group is not under any obligation, and expressly disclaims any intention or obligation, to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Contacts

Garrett Quinn
Smurfit Kappa
T: +353 1 202 71 80
E: ir@smurfitkappa.com

Melanie Farrell
FTI Consulting
T: +353 1 765 08 00
E: smurfitkappa@fticonsulting.com

2020 First Half | Performance Overview

The Group reported EBITDA for the first half of €735 million, down 13% on 2019. The Group EBITDA margin was 17.5%, down from 18.3% in the first half of 2019. The result reflects the resilience of the Group's integrated model and the benefits of our customer-focused innovation, capital spend programme, rigorous cost management and lower year-on-year recovered fibre costs.

In Europe, EBITDA decreased by 16% to €575 million. The EBITDA margin was 17.6%, down from 19.3% in 2019. Box demand was up approximately 1% on an absolute basis and flat on an organic basis, up 2% in the first quarter and off 2% in the second quarter, negatively impacted by the pandemic. Corrugated pricing was in line with expectations.

The Group continued to strengthen its operating platform in the first half with the implementation of a number of significant projects across our corrugated and paper divisions. Of note was the successful start-up of the new recovery boiler at the Nettingsdorf kraftliner mill in Austria; a €134 million investment that will cut CO_2 emissions by 40,000 tonnes, a reduction of 1.5% towards the Group's CO_2 emissions reduction target. During the half, the Group also completed the upgrade of PM5 at its kraftliner mill in Bordeaux, France which will add 44,000 tonnes of capacity.

European pricing for testliner and kraftliner has reduced by €120 per tonne and €165 per tonne respectively from the high of October 2018 to June 2020. The price of testliner and kraftliner increased by €30 per tonne in March and April respectively before falling by €30 per tonne in July.

In the Americas, EBITDA decreased by 1% on the first half of 2019 to €178 million. However, the EBITDA margin improved from 17.1% in the first half of 2019 to 19.0% in the first half of 2020. Colombia, Mexico and the US accounted for over 85% of the region's earnings with strong performances in all three countries. After a strong start to the year, volumes in the region were heavily impacted by COVID-19 during the second quarter. As a result, volumes for the first half were down 2.6% year-on-year.

The Group reported free cash flow of €238 million in the first half of 2020 compared to €159 million in the first half of 2019. The average maturity profile of the Group's debt was 5.0 years at 30 June 2020 with an average interest rate of 2.82%. Net debt to EBITDA was 2.1x at the half year, in line with the year end. The Group remains strongly positioned within its Ba1/BB+/BB+ credit rating. On 13 January 2020, the Group secured the agreement of all lenders in its Revolving Credit Facility ('RCF') to extend the maturity date by a further year to 28 January 2025.

2020 First Half | Financial Performance

Revenue for the first half was €4,203 million, down 9% on the first half of 2019 or 7% on an underlying basis. This result reflects the negative impact of COVID-19 on demand, the adverse impact of currency, and the fall in box prices.

EBITDA for the first half was €735 million, 13% down on the first half of 2019. The impact of COVID-19 was reflected in the results of both Europe and the Americas. On an underlying basis, Group EBITDA was down 12% year-on-year, with Europe down 16% and the Americas up 5%.

Operating profit before exceptional items for the first half of 2020 at €450 million was 19% lower than €558 million for the same period of 2019.

There were no exceptional items charged within operating profit in the first half of both 2020 and 2019.

There were no exceptional finance costs charged in the first half of 2020. Exceptional finance costs charged in the first half of 2019 amounted to €3 million reflecting the accelerated amortisation of the debt issue costs relating to the refinancing of the senior credit facility.

Pre-exceptional net finance costs at €68 million were €32 million lower in 2020 reflecting a decrease in cash interest and a positive swing from a foreign currency translation loss on debt of €3 million in 2019 to a gain of €5 million in 2020.

With the €108 million decrease in operating profit before exceptional items partly offset by the €32 million decrease in net finance costs, the pre-exceptional profit before income tax was €383 million, €76 million lower than in 2019.

With no exceptional items, the profit before tax for the first half of 2020 was €383 million compared to a profit of €456 million in 2019. The income tax expense was €105 million compared to €118 million in 2019, resulting in a profit of €278 million for 2020 compared to a profit of €338 million in 2019.

Basic EPS for the first half of 2020 was 116.9 cent, compared to 140.6 cent in 2019. On a pre-exceptional basis, EPS was 116.9 cent in 2020, 17% lower than the 141.6 cent in the first half of 2019.

2020 First Half | Free Cash Flow

Free cash flow in the first half of 2020 was €238 million compared to €159 million for 2019 – an increase of €79 million. An EBITDA reduction of €112 million was more than offset by lower outflows for capital expenditure, cash interest expense and other items and a lower working capital outflow.

The working capital outflow in 2020 was €32 million compared to €169 million in 2019. The outflow in 2020 was primarily driven by an increase in stocks, partly offset by a decrease in debtors and an increase in creditors. Working capital amounted to €679 million at June 2020, representing 8.4% of annualised revenue compared to 9.8% at June 2019 and 7.2% at December 2019.

Capital expenditure amounted to €230 million (equating to 84% of depreciation) compared to €272 million (equating to 103%) for the same period in 2019.

Cash interest amounted to €61 million in 2020 compared to €82 million in 2019 with the decrease primarily relating to the lower coupon on our more recent bonds, the proceeds of which were used to redeem higher coupon bonds.

Tax payments in the first half of 2020 of €98 million were €6 million higher than in 2019.

2020 First Half | Capital Structure

Net debt was €3,257 million at the end of June, resulting in a net debt to EBITDA ratio of 2.1x compared to 2.1x at the end of December 2019 and 2.2x at the end of June 2019. The Group's balance sheet continues to provide considerable financial strategic flexibility, subject to the stated leverage range of 1.75x to 2.5x through the cycle and SKG's Ba1/BB+/BB+ credit rating.

At 30 June 2020, the Group's average interest rate was 2.82% compared to 3.18% at 31 December 2019. The Group's diversified funding base and long-dated maturity profile of 5.0 years provide a stable funding outlook. In terms of liquidity, the Group held cash balances of €646 million at the end of June, which were further supplemented by available commitments of €931 million under its RCF and €156 million under its securitisation programmes.

Dividends

The Board has decided to pay an interim dividend of 80.9 cent per share (approximately €193 million). It is proposed to pay this dividend on 11 September 2020 to all ordinary shareholders on the share register at the close of business on 14 August 2020.

2020 First Half | Sustainability

In May, the Group released its 13th annual Sustainable Development Report ('SDR'). The Group reported a 32.9% reduction in fossil CO_2 emission intensity from its 2005 baseline. The Group's target is to reduce relative CO_2 emissions by 40% by 2030, relative to the 2005 baseline.

SKG has also committed to align its CO_2 target with the Science Based Target ('SBT') initiative. This is confirmation that not only is the Group's target ambitious in its own right, but it will be aligned with the Paris Agreement and the recommendations of the latest climate science findings.

In addition to SBT validation, we are building on more than a decade of sustainability reporting by supporting the recommendations of the Taskforce on Climate-related Financial Disclosures.

The latest SDR, which is structured on the three strategic focus areas of People, Planet and Impactful Business, provides comprehensive detail on the contributing factors in the reduction of emissions.

On People, these include the considerable progress that was made in the area of safety with a 17% reduction in the Group's Total Recordable Injury Rate. On Planet, these include a strategic focus on energy efficiency and the use of renewable sources of fuel such as biomass. On Impactful Business, these include €3.5 million of investment in social initiatives including children's education and health in 2019.

During the first half of 2020, a significant achievement in our CO_2 reduction programme was made with the successful start-up of the new recovery boiler at the Nettingsdorf kraftliner mill in Austria; a €134 million investment that will cut CO_2 emissions by 40,000 tonnes, a further 1.5% towards the Group's total CO_2 emissions reduction target.

In May, the Group further demonstrated its thought leadership in sustainability with the publication of the "Balancing Sustainability and Profitability Survey", which was conducted among 200 senior executives and 1,500 consumers in the UK, examining the business community's and consumers' views on sustainability and how they are adapting to create a more sustainable future.

With the growing impact of COVID-19 and its impact on our employees, a number of Group-wide initiatives were put in place including; multiple local employee safety and engagement programmes, a global employee survey to help better understand the challenges being faced by our employees and shape an appropriate response, a health and safety day dedicated to staying safe during the pandemic, weekly updates to help keep people informed, as well as leadership webinars to help our managers deal with the inevitable consequences of the pandemic on our people. SKG has also looked outside of our organisation and made additional charitable donations of over €2 million to support the local communities in which we operate.

SKG continues to be listed on various environmental, social and governance indices, such as FTSE4Good, the Green Economy Mark from the London Stock Exchange, Euronext Vigeo Europe 120, STOXX Global ESG Leaders, ISS Solactive and Ethibel's sustainable investment register. SKG also performs strongly across a number of third party certification bodies, including MSCI and Sustainalytics.

2020 First Half | Commercial Offering and Innovation

SKG has continued to deliver value to our customers even during COVID-19. We adapted our ways of working across our operations with most of our commercial activities going virtual. During the first half the Group, led by their packaging engineers and sales people, delivered virtual webinars on e-commerce packaging, Better Planet Packaging, our Smart Applications, and many more, to over 1,000 customers.

As a result of an increased focus from our customers on carbon footprint reduction and margin improvement, SKG's SupplySmart application is being used more and more across our operations. Through the combination of unique tools, data and expertise, SupplySmart enables our customers to optimise their supply chain using improved packaging solutions, with the full assurance that they are making risk assessed decisions that will deliver measurable cost savings and targeted CO_2 reduction.

The recently launched TopClip product is an example of our innovative packaging expertise in addressing the consumer desire for more sustainable packaging solutions. Smurfit Kappa is partnering with KHS, the largest supplier of filling and packaging systems in the world, to deliver a multipack solution that eliminates the need for shrink wrap on cans and bottles. The TopClip solution was launched on the market during the second quarter with Royal Grolsch (part of the global food and beverage giant Asahi) with significant interest generated among other beverage manufacturers.

Summary Cash Flow

Summary cash flows for the six months are set out in the following table.

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
EBITDA	**735**	847
Cash interest expense	**(61)**	(82)
Working capital change	**(32)**	(169)
Current provisions	**(6)**	(17)
Capital expenditure	**(230)**	(272)
Change in capital creditors	**(51)**	(34)
Tax paid	**(98)**	(92)
Sale of property, plant and equipment	**1**	2
Other	**(20)**	(24)
Free cash flow	**238**	159
Purchase of own shares (net)	**(16)**	(25)
Purchase of businesses, investments and NCI*	**(21)**	(204)
Dividends	**-**	(175)
Derivative termination receipts	**9**	-
Net cash inflow/(outflow)	**210**	(245)
Net debt acquired	**(1)**	(4)
Adjustment on initial application of IFRS 16	**-**	(361)
Deferred debt issue costs amortised	**(4)**	(7)
Currency translation adjustment	**21**	(12)
Decrease/(increase) in net debt	**226**	(629)

* NCI refers to non-controlling interests

Funding and Liquidity

The Group's primary sources of liquidity are cash flow 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.

At 30 June 2020, the Group had outstanding, €500 million 2.375% senior notes due 2024, €250 million 2.75% senior notes due 2025, US$292.3 million 7.50% senior debentures due 2025, €1,000 million 2.875% senior notes due 2026 and €750 million 1.5% senior notes due 2027.

The Group had outstanding €148.3 million and STG£10 million variable funding notes issued under the €230 million accounts receivable securitisation programme maturing in June 2023, together with €115 million variable funding notes issued under the €200 million accounts receivable securitisation programme maturing in February 2022.

The Group also has a €1,350 million RCF with a maturity date of 28 January 2025. At 30 June 2020, the Group’s drawings on this facility comprised €124 million and US$323.6 million, with a further €6 million drawn in operational facilities including letters of credit drawn under various ancillary facilities.

Funding and Liquidity (continued)

The following table provides the interest rates at 30 June 2020 for each of the drawings under the RCF loans:

Borrowing Arrangement	Currency	Interest Rate
Revolving Credit Facility	EUR	0.900%
	USD	1.660% - 2.211%

Borrowings under the RCF are available to fund the Group's working capital requirements, capital expenditures and other general corporate purposes.

In January 2020, the Group secured the agreement of all lenders in its RCF of €1,350 million to extend the maturity date by a further year to 28 January 2025.

Market Risk and Risk Management Policies

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 30 June 2020, the Group had fixed an average of 82% of its interest cost on borrowings over the following twelve months.

The Group's fixed rate debt comprised €500 million 2.375% senior notes due 2024, €250 million 2.75% senior notes due 2025, US$292.3 million 7.50% senior debentures due 2025, €1,000 million 2.875% senior notes due 2026 and €750 million 1.5% senior notes due 2027. In addition the Group had €174 million in interest rate swaps converting variable rate borrowings to fixed rate with maturity dates ranging from October 2020 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 increased by one percent, the Group's interest expense would increase, and income before taxes would decrease, by approximately €7 million over the following twelve months. Interest income on the Group's cash balances would increase by approximately €6 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

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

Principal Risks and Uncertainties

Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified, evaluated and appropriate risk management strategies are implemented at each level in the organisation.

The Board in conjunction with senior management identifies major business risks faced by the Group and determines the appropriate course of action to manage these risks.

The Board regularly monitors all of the Group's risks and appropriate actions are taken to mitigate those risks or address their potential adverse consequences. As part of the half year risk assessment, the Board has considered the impact of the COVID-19 pandemic on the principal risks of the Group.

The Group is an integral part of the supply chain for essential and critical supplies and as a result there has been no significant disruption to our business to date. In addition, a number of measures and mitigations have been introduced to ensure the ongoing safety of our employees.

Our assessment has concluded that our principal risks remain unchanged. The Board will continue to monitor the potential impact of the COVID-19 pandemic as the Group progresses through the remaining six months of the year.

The principal risks and uncertainties for the remaining six months of the financial year are summarised below.

- If the current economic climate were to deteriorate as a result of geopolitical uncertainty (including Brexit), trade tensions and/or the current COVID-19 pandemic, it could result in an increased economic slowdown which if sustained over any significant length of time, 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.
- The Group may not be able to attract and retain suitably qualified employees as required for its business.
- Failure to maintain good health and safety practices may have an adverse effect on the Group's 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, similar to other large global companies, is susceptible to cyber-attacks with the threat to the confidentiality, integrity and availability of data in its systems.

The principal risks and uncertainties faced by the Group were outlined in our 2019 Annual Report on pages 32-33. The Annual Report is available on our website; smurfitkappa.com.

Condensed Consolidated Income Statement – Six Months

	6 months to 30-Jun-20 Unaudited			6 months to 30-Jun-19 Unaudited		
	Pre-exceptional 2020	**Exceptional 2020**	**Total 2020**	Pre-exceptional 2019	Exceptional 2019	Total 2019
	€m	**€m**	**€m**	€m	€m	€m
Revenue	**4,203**	**-**	**4,203**	4,622	-	4,622
Cost of sales	**(2,794)**	**-**	**(2,794)**	(3,089)	-	(3,089)
Gross profit	**1,409**	**-**	**1,409**	1,533	-	1,533
Distribution costs	**(357)**	**-**	**(357)**	(363)	-	(363)
Administrative expenses	**(602)**	**-**	**(602)**	(612)	-	(612)
Operating profit	**450**	**-**	**450**	558	-	558
Finance costs	**(85)**	**-**	**(85)**	(107)	(3)	(110)
Finance income	**17**	**-**	**17**	7	-	7
Share of associates' profit (after tax)	**1**	**-**	**1**	1	-	1
Profit before income tax	**383**	**-**	**383**	459	(3)	456
Income tax expense			**(105)**			(118)
Profit for the financial period			**278**			338
Attributable to:						
Owners of the parent			**277**			332
Non-controlling interests			**1**			6
Profit for the financial period			**278**			338
Earnings per share						
Basic earnings per share - cent			**116.9**			140.6
Diluted earnings per share - cent			**116.4**			139.8

Condensed Consolidated Statement of Comprehensive Income – Six Months

	6 months to 30-Jun-20 Unaudited €m	6 months to 30-Jun-19 Unaudited €m
Profit for the financial period	**278**	338
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Foreign currency translation adjustments:		
- Arising in the period	**(181)**	4
- Recycled to Condensed Consolidated Income Statement	**1**	-
Effective portion of changes in fair value of cash flow hedges:		
- Movement out of reserve	**1**	4
- Fair value gain/(loss) on cash flow hedges	**8**	(1)
- Movement in deferred tax	**(1)**	-
Changes in fair value of cost of hedging:		
- New fair value adjustments into reserve	**(1)**	(1)
	(173)	6
Items which will not be subsequently reclassified to profit or loss		
Defined benefit pension plans:		
- Actuarial loss	**(29)**	(78)
- Movement in deferred tax	**9**	9
	(20)	(69)
Total other comprehensive expense	**(193)**	(63)
Total comprehensive income for the financial period	**85**	275
Attributable to:		
Owners of the parent	**87**	268
Non-controlling interests	**(2)**	7
Total comprehensive income for the financial period	**85**	275

Condensed Consolidated Balance Sheet

	30-Jun-20 Unaudited €m	30-Jun-19 Unaudited €m	31-Dec-19 Audited €m
ASSETS			
Non-current assets			
Property, plant and equipment	**3,779**	3,724	3,920
Right-of-use assets	**321**	331	346
Goodwill and intangible assets	**2,572**	2,672	2,616
Other investments	**10**	21	10
Investment in associates	**12**	15	16
Biological assets	**96**	103	106
Other receivables	**29**	36	40
Derivative financial instruments	**-**	4	6
Deferred income tax assets	**220**	149	185
	7,039	7,055	7,245
Current assets			
Inventories	**832**	856	819
Biological assets	**10**	11	11
Trade and other receivables	**1,585**	1,845	1,634
Derivative financial instruments	**29**	11	13
Restricted cash	**7**	13	14
Cash and cash equivalents	**639**	234	189
	3,102	2,970	2,680
Total assets	**10,141**	10,025	9,925
EQUITY			
Capital and reserves attributable to owners of the parent			
Equity share capital	**-**	-	-
Share premium	**1,986**	1,984	1,986
Other reserves	**169**	331	351
Retained earnings	**894**	549	615
Total equity attributable to owners of the parent	**3,049**	2,864	2,952
Non-controlling interests	**14**	38	41
Total equity	**3,063**	2,902	2,993
LIABILITIES			
Non-current liabilities			
Borrowings	**3,729**	3,393	3,501
Employee benefits	**900**	865	899
Derivative financial instruments	**3**	13	9
Deferred income tax liabilities	**212**	164	175
Non-current income tax liabilities	**25**	39	27
Provisions for liabilities	**76**	98	78
Capital grants	**16**	18	18
Other payables	**9**	16	10
	4,970	4,606	4,717
Current liabilities			
Borrowings	**174**	605	185
Trade and other payables	**1,767**	1,832	1,863
Current income tax liabilities	**19**	41	13
Derivative financial instruments	**8**	12	7
Provisions for liabilities	**140**	27	147
	2,108	2,517	2,215
Total liabilities	**7,078**	7,123	6,932
Total equity and liabilities	**10,141**	10,025	9,925

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent						
	Equity share capital €m	Share premium €m	Other reserves €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
Unaudited							
At 1 January 2020	**-**	**1,986**	**351**	**615**	**2,952**	**41**	**2,993**
Profit for the financial period	**-**	**-**	**-**	**277**	**277**	**1**	**278**
Other comprehensive income							
Foreign currency translation adjustments	**-**	**-**	**(177)**	**-**	**(177)**	**(3)**	**(180)**
Defined benefit pension plans	**-**	**-**	**-**	**(20)**	**(20)**	**-**	**(20)**
Effective portion of changes in fair value of cash flow hedges	**-**	**-**	**8**	**-**	**8**	**-**	**8**
Changes in fair value of cost of hedging	**-**	**-**	**(1)**	**-**	**(1)**	**-**	**(1)**
Total comprehensive (expense)/income for the financial period	**-**	**-**	**(170)**	**257**	**87**	**(2)**	**85**
Purchase of non-controlling interests	**-**	**-**	**(7)**	**12**	**5**	**(25)**	**(20)**
Hyperinflation adjustment	**-**	**-**	**-**	**10**	**10**	**-**	**10**
Share-based payment	**-**	**-**	**11**	**-**	**11**	**-**	**11**
Net Shares acquired by SKG Employee Trust	**-**	**-**	**(16)**	**-**	**(16)**	**-**	**(16)**
At 30 June 2020	**-**	**1,986**	**169**	**894**	**3,049**	**14**	**3,063**
Unaudited							
At 1 January 2019	-	1,984	355	399	2,738	131	2,869
Profit for the financial period	-	-	-	332	332	6	338
Other comprehensive income							
Foreign currency translation adjustments	-	-	3	-	3	1	4
Defined benefit pension plans	-	-	-	(69)	(69)	-	(69)
Effective portion of changes in fair value of cash flow hedges	-	-	3	-	3	-	3
Changes in fair value of cost of hedging	-	-	(1)	-	(1)	-	(1)
Total comprehensive income for the financial period	-	-	5	263	268	7	275
Purchase of non-controlling interests	-	-	(29)	45	16	(97)	(81)
Hyperinflation adjustment	-	-	-	14	14	-	14
Dividends paid	-	-	-	(172)	(172)	(3)	(175)
Share-based payment	-	-	25	-	25	-	25
Net Shares acquired by SKG Employee Trust	-	-	(25)	-	(25)	-	(25)
At 30 June 2019	-	1,984	331	549	2,864	38	2,902

An analysis of the movements in Other reserves is provided in Note 13.

Condensed Consolidated Statement of Cash Flows

	6 months to 30-Jun-20 Unaudited €m	6 months to 30-Jun-19 Unaudited €m
Cash flows from operating activities		
Profit before income tax	**383**	456
Net finance costs	**68**	103
Depreciation charge	**251**	238
Amortisation of intangible assets	**22**	21
Amortisation of capital grants	**(2)**	(1)
Equity settled share-based payment expense	**11**	25
Profit on sale of property, plant and equipment	**-**	(2)
Profit on purchase of businesses	**(4)**	-
Share of associates' profit (after tax)	**(1)**	(1)
Net movement in working capital	**(33)**	(169)
Change in biological assets	**1**	5
Change in employee benefits and other provisions	**(26)**	(44)
Other (primarily hyperinflation adjustments)	**3**	3
Cash generated from operations	**673**	634
Interest paid	**(63)**	(98)
Income taxes paid:		
Irish corporation tax (net of tax refunds) paid	**(6)**	(7)
Overseas corporation tax (net of tax refunds) paid	**(92)**	(85)
Net cash inflow from operating activities	**512**	444
Cash flows from investing activities		
Interest received	**1**	2
Additions to property, plant and equipment and biological assets	**(246)**	(282)
Additions to intangible assets	**(9)**	(8)
Receipt of capital grants	**-**	1
Decrease/(increase) in restricted cash	**7**	(3)
Disposal of property, plant and equipment	**1**	4
Purchase of subsidiaries	**(1)**	(99)
Deferred consideration paid	**-**	(14)
Net cash outflow from investing activities	**(247)**	(399)
Cash flows from financing activities		
Proceeds from bond issue	**-**	403
Proceeds from issue of other debt	**-**	417
Purchase of own shares (net)	**(16)**	(25)
Purchase of non-controlling interests	**(20)**	(81)
Repayment of borrowings	**-**	(399)
Increase/(decrease) in other interest-bearing borrowings	**241**	(306)
Repayment of lease liabilities	**(35)**	(39)
Derivative termination receipts	**9**	-
Deferred debt issue costs paid	**(1)**	(13)
Dividends paid to shareholders	**-**	(172)
Dividends paid to non-controlling interests	**-**	(3)
Net cash inflow/(outflow) from financing activities	**178**	(218)
Increase/(decrease) in cash and cash equivalents	**443**	(173)
Reconciliation of opening to closing cash and cash equivalents		
Cash and cash equivalents at 1 January	**172**	390
Currency translation adjustment	**12**	(5)
Increase/(decrease) in cash and cash equivalents	**443**	(173)
Cash and cash equivalents at 30 June	**627**	212

An analysis of the Net movement in working capital is provided in Note 11.

Notes to the Condensed Consolidated Interim Financial Statements

1. General Information

Smurfit Kappa Group plc ('SKG plc' or 'the Company') and its subsidiaries (together 'SKG' or 'the Group') primarily manufacture, distribute and sell containerboard, corrugated containers and other paper-based packaging products. The Company is a public limited company whose shares are publicly traded. It is incorporated and domiciled in Ireland. The address of its registered office is Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, Ireland.

2. Basis of Preparation and Accounting Policies

Basis of preparation and accounting policies
The Condensed Consolidated Interim Financial Statements included in this report have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with IAS 34, *Interim Financial Reporting* as adopted by the European Union. The balance sheet as at 30 June 2019 has been included in this report; this information is supplementary and not required by IAS 34. This report should be read in conjunction with the Consolidated Financial Statements for the financial year ended 31 December 2019 included in the Group's 2019 Annual Report which is available on the Group's website; smurfitkappa.com.

The accounting policies adopted by the Group and the significant accounting judgements, estimates and assumptions made by management in the preparation of the Condensed Consolidated Interim Financial Statements are consistent with those described and applied in the Annual Report for the financial year ended 31 December 2019 with the addition of assessing the impact of the COVID-19 pandemic as set out below. A number of changes to IFRS became effective in 2020, however they did not have a material effect on the Condensed Consolidated Interim Financial Statements included in this report.

Impact of COVID-19
The Group has considered the impact of the COVID-19 pandemic with respect to all judgements and estimates it makes in the application of its accounting policies. This included assessing the recoverability of trade receivables and inventory. The Group's customers primarily operate in the FMCG sector, which has proved resilient during the COVID-19 pandemic to date. There has been no significant deterioration in the aging of trade receivables or extension of debtor days in the period and none is expected given the profile of the Group's customers. As a result of these reviews, there was no material increase in the impairment losses for trade receivables or inventory provisions. The Group also assessed non-financial assets for indicators of impairment. No impairments were identified.

Management reassessed the carrying value of goodwill (€2.4 billion) for indicators of impairment at 30 June 2020. The cash flow forecasts were updated to incorporate future COVID-19 scenarios and discount rates were adjusted to reflect risks associated with each cash generating unit ('CGU'). The testing did not result in an impairment. While the headroom in our Brazil CGU has not decreased from 31 December 2019, it is sensitive to changes in underlying assumptions and we will continue to monitor this CGU due to continuing difficult conditions in the country.

Going concern
The Group is a highly integrated manufacturer of paper-based packaging products with leading market positions, quality assets and broad geographic reach. The financial position of the Group, its cash generation, capital resources and liquidity continue to provide a stable financing platform.

The Directors have assessed the principal risks and uncertainties outlined on page 9, which include the deterioration of the current economic climate due to the COVID-19 pandemic. The Group is an integral part of the supply chain for essential and critical supplies and as a result there has been no significant disruption to our business to date. In addition, a number of measures and mitigations have been introduced to ensure the ongoing safety of our employees. The Group took into consideration the potential impact of the pandemic and the range of outcomes that it could have on the Group's financial position and results of operations. In the scenarios reviewed, the Group continues to have significant headroom in relation to our financial covenants.

The Group's diversified funding base and long dated maturity profile of 5.0 years provide a stable funding outlook. At 30 June 2020, the Group had a very strong liquidity position of over €1.7 billion comprising cash balances of €646 million, undrawn available committed facilities of €931 million under its RCF and €156 million under its securitisation programmes.

Going concern (continued)

Having assessed the principal risks facing the Group, together with the Group's forecasts and significant financial headroom, the Directors believe that the Group is well placed to manage these risks successfully and 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 Condensed Consolidated Interim Financial Statements.

Statutory financial statements and audit opinion
The Group's auditors have not audited or reviewed the Condensed Consolidated Interim Financial Statements contained in this report.

The Condensed Consolidated Interim Financial Statements presented do not constitute full statutory financial statements. Full statutory financial statements for the year ended 31 December 2019 will be filed with the Irish Registrar of Companies in due course. The audit report on those statutory financial statements was unqualified.

3. Segment and Revenue Information

The Group has identified 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 operating segments: 1) Europe and 2) the Americas.

The Europe and the Americas segments are highly integrated. They include a system of mills and plants that primarily produce a full line of containerboard that is converted into corrugated containers within each segment. In addition, the Europe segment also produces other types of paper, such as solidboard, sack kraft paper and graphic paper; and other paper-based packaging, such as solidboard packaging and folding cartons; and bag-in-box packaging. The Americas segment, which includes a number of Latin American countries and the United States, also comprises forestry; other types of paper, such as boxboard, sack paper and graphic paper; and paper-based packaging, such as folding cartons and paper sacks. Inter-segment revenue is not material. No operating segments have been aggregated for disclosure purposes.

Segment profit is measured based on EBITDA.

	6 months to 30-Jun-20			6 months to 30-Jun-19		
	Europe	**The Americas**	**Total**	Europe	The Americas	Total
	€m	**€m**	**€m**	€m	€m	€m
Revenue and results						
Revenue	**3,268**	**935**	**4,203**	3,574	1,048	4,622
EBITDA	**575**	**178**	**753**	688	179	867
Unallocated centre costs			**(18)**			(20)
Share-based payment expense			**(11)**			(25)
Depreciation and depletion (net)			**(252)**			(243)
Amortisation			**(22)**			(21)
Finance costs			**(85)**			(110)
Finance income			**17**			7
Share of associates' profit (after tax)			**1**			1
Profit before income tax			**383**			456
Income tax expense			**(105)**			(118)
Profit for the financial period			**278**			338

3. Segment and Revenue Information (continued)

Revenue information about geographical areas

The Group has a presence in 35 countries worldwide. The following is a geographical analysis presented in accordance with IFRS 8, *Operating Segments*, which requires disclosure of information about country of domicile (Ireland) and countries with material revenue.

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Ireland	**52**	55
Germany	**604**	658
France	**474**	571
Mexico	**418**	451
The Netherlands	**373**	377
Spain	**362**	393
United Kingdom	**355**	388
Rest of the world	**1,565**	1,729
Revenue	**4,203**	4,622

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

Disaggregation of revenue

The Group derives revenue from the following major product lines. The economic factors which affect the nature, amount, timing and uncertainty of revenue and cash flows from the sub categories of both paper and packaging products are similar.

	6 months to 30-Jun-20			6 months to 30-Jun-19		
	Paper €m	**Packaging €m**	**Total €m**	Paper €m	Packaging €m	Total €m
Europe	**499**	**2,769**	**3,268**	600	2,974	3,574
The Americas	**106**	**829**	**935**	146	902	1,048
Revenue by product	**605**	**3,598**	**4,203**	746	3,876	4,622

Packaging revenue is derived mainly from the sale of corrugated products. The remainder of packaging revenue is comprised of bag-in-box and other paper-based packaging products.

4. Exceptional Items

The following items are regarded as exceptional in nature:	**6 months to 30-Jun-20 €m**	6 months to 30-Jun-19 €m
Exceptional finance costs	**-**	3
Total exceptional items	**-**	3

There were no exceptional items charged within operating profit in either year

Exceptional finance costs charged in 2019 amounted to €3 million, representing the accelerated amortisation of the debt issue costs relating to the refinancing of the senior credit facility.

5. Finance Costs and Income

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Finance costs:		
Interest payable on bank loans and overdrafts	**16**	23
Interest payable on leases	**5**	6
Interest payable on other borrowings	**45**	59
Exceptional finance costs associated with debt restructuring	**-**	3
Unwinding of discount element of provisions	**-**	1
Foreign currency translation loss on debt	**10**	6
Fair value loss on derivatives not designated as hedges	**1**	3
Fair value loss on financial assets	**1**	-
Net interest cost on net pension liability	**6**	9
Net monetary loss - hyperinflation	**1**	-
Total finance costs	**85**	110
Finance income:		
Other interest receivable	**(1)**	(2)
Foreign currency translation gain on debt	**(15)**	(3)
Fair value gain on derivatives not designated as hedges	**(1)**	-
Fair value gain on financial assets	**-**	(1)
Net monetary gain - hyperinflation	**-**	(1)
Total finance income	**(17)**	(7)
Net finance costs	**68**	103

6. Income Tax Expense

Income tax expense recognised in the Condensed Consolidated Income Statement

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Current tax:		
Europe	**74**	81
The Americas	**30**	30
	104	111
Deferred tax	**1**	7
Income tax expense	**105**	118
Current tax is analysed as follows:		
Ireland	**8**	4
Foreign	**96**	107
	104	111

Income tax recognised in the Condensed Consolidated Statement of Comprehensive Income

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Arising on defined benefit pension plans	**(9)**	(9)
Arising on derivative cash flow hedges	**1**	-
	(8)	(9)

The income tax expense in 2020 is €13 million lower than in the comparable period in 2019, primarily due to lower profitability.

There is a €7 million decrease in the current tax expense. In Europe, the expense is €7 million lower, mainly due to changes in profitability and timing differences. In the Americas, the current tax expense is in line with 2019.

The deferred tax charge is €6 million lower than in the comparable period in 2019. The decrease is largely due to the reversal of timing differences on which deferred tax was previously recognised.

There is no income tax expense or credit associated with exceptional items in either 2020 or 2019.

7. Employee Benefits – Defined Benefit Plans

The table below sets out the components of the defined benefit cost for the period:

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Current service cost	**17**	14
Actuarial loss arising on other long-term employee benefits	**1**	-
Gain on settlement	**-**	(1)
Net interest cost on net pension liability	**6**	9
Defined benefit cost	**24**	22

Included in cost of sales, distribution costs and administrative expenses is a defined benefit cost of €18 million (2019: €13 million). Net interest cost on net pension liability of €6 million (2019: €9 million) is included in finance costs in the Condensed Consolidated Income Statement.

Analysis of actuarial (losses)/gains recognised in the Condensed Consolidated Statement of Comprehensive Income:

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Return on plan assets (excluding interest income)	**22**	167
Actuarial gain due to experience adjustments	**-**	1
Actuarial loss due to changes in financial assumptions	**(50)**	(253)
Actuarial (loss)/gain due to changes in demographic assumptions	**(1)**	7
Total loss recognised in the Condensed Consolidated Statement of Comprehensive Income	**(29)**	(78)

The amounts recognised in the Condensed Consolidated Balance Sheet were as follows:

	30-Jun-20 €m	31-Dec-19 €m
Present value of funded or partially funded obligations	**(2,443)**	(2,473)
Fair value of plan assets	**2,070**	2,109
Deficit in funded or partially funded plans	**(373)**	(364)
Present value of wholly unfunded obligations	**(526)**	(534)
Amounts not recognised as assets due to asset ceiling	**(1)**	(1)
Net pension liability	**(900)**	(899)

The key assumptions relating to discount and inflation rates were reassessed at 30 June 2020 and updated to reflect market conditions at that date.

8. Earnings per Share ('EPS')

Basic

Basic EPS is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period less own shares.

	6 months to 30-Jun-20	6 months to 30-Jun-19
Profit attributable to owners of the parent (€ million)	**277**	332
Weighted average number of ordinary shares in issue (million)	**237**	236
Basic EPS (cent)	**116.9**	140.6

Diluted

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. These comprise convertible and deferred shares issued under the Group's long-term incentive plans. When the conditions governing exercisability and vesting of these shares have been satisfied as at the end of the reporting period, they are included in the computation of diluted earnings per ordinary share.

	6 months to 30-Jun-20	6 months to 30-Jun-19
Profit attributable to owners of the parent (€ million)	**277**	332
Weighted average number of ordinary shares in issue (million)	**237**	236
Potential dilutive ordinary shares assumed (million)	**1**	1
Diluted weighted average ordinary shares (million)	**238**	237
Diluted EPS (cent)	**116.4**	139.8

Pre-exceptional	**6 months to 30-Jun-20**	6 months to 30-Jun-19
Profit attributable to owners of the parent (€ million)	**277**	332
Exceptional items included in profit before income tax (Note 4) (€ million)	**-**	3
Pre-exceptional profit attributable to owners of the parent (€ million)	**277**	335
Weighted average number of ordinary shares in issue (million)	**237**	236
Pre-exceptional basic EPS (cent)	**116.9**	141.6
Diluted weighted average ordinary shares (million)	**238**	237
Pre-exceptional diluted EPS (cent)	**116.4**	140.8

9. Dividends

The Board has decided to pay an interim dividend of 80.9 cent per share (approximately €193 million). It is proposed to pay this dividend on 11 September 2020 to all ordinary shareholders on the share register at the close of business on 14 August 2020.

10. Property, Plant and Equipment

	Land and buildings €m	Plant and equipment €m	Total €m
Six months ended 30 June 2020			
Opening net book amount	**1,106**	**2,814**	**3,920**
Reclassifications	**18**	**(23)**	**(5)**
Additions	**-**	**190**	**190**
Acquisitions	**2**	**1**	**3**
Depreciation charge	**(28)**	**(180)**	**(208)**
Retirements and disposals	**-**	**(1)**	**(1)**
Hyperinflation adjustment	**1**	**3**	**4**
Foreign currency translation adjustment	**(33)**	**(91)**	**(124)**
At 30 June 2020	**1,066**	**2,713**	**3,779**
Financial year ended 31 December 2019			
Opening net book amount	1,050	2,544	3,594
Reclassifications	57	(58)	(1)
Additions	2	618	620
Acquisitions	42	47	89
Depreciation charge	(54)	(355)	(409)
Impairments	-	(4)	(4)
Retirements and disposals	(1)	(3)	(4)
Hyperinflation adjustment	3	8	11
Foreign currency translation adjustment	7	17	24
At 31 December 2019	1,106	2,814	3,920

11. Net Movement in Working Capital

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Change in inventories	**(37)**	2
Change in trade and other receivables	**2**	(132)
Change in trade and other payables	**2**	(39)
Net movement in working capital	**(33)**	(169)

12. Analysis of Net Debt

	30-Jun-20	31-Dec-19
	€m	€m
Revolving credit facility – interest at relevant interbank rate (interest rate floor of 0%) + 0.9%(1)	**407**	333
US$292.3 million 7.5% senior debentures due 2025 (including accrued interest)	**263**	262
Bank loans and overdrafts	**100**	118
€200 million receivables securitisation variable funding notes due 2022 (including accrued interest)	**114**	29
€230 million receivables securitisation variable funding notes due 2023	**158**	69
€500 million 2.375% senior notes due 2024 (including accrued interest)	**501**	500
€250 million 2.75% senior notes due 2025 (including accrued interest)	**250**	250
€1,000 million 2.875% senior notes due 2026 (including accrued interest)	**1,004**	1,004
€750 million 1.5% senior notes due 2027 (including accrued interest)	**745**	744
Gross debt before leases	**3,542**	3,309
Leases	**361**	377
Gross debt including leases	**3,903**	3,686
Cash and cash equivalents (including restricted cash)	**(646)**	(203)
Net debt including leases	**3,257**	3,483

(1) In January 2020, the Group secured the agreement of all lenders in its RCF of €1,350 million to extend the maturity date by a further year to 28 January 2025.

(a) Revolver loans - €413 million
(b) Drawn under ancillary facilities and facilities supported by letters of credit – nil
(c) Other operational facilities including letters of credit - €6 million

13. Other Reserves

Other reserves included in the Condensed Consolidated Statement of Changes in Equity are comprised of the following:

	Reverse acquisition reserve €m	Cash flow hedging reserve €m	Cost of hedging reserve €m	Foreign currency translation reserve €m	Share-based payment reserve €m	Own shares €m	FVOCI reserve €m	Total €m
At 1 January 2020	**575**	**(2)**	**2**	**(387)**	**215**	**(42)**	**(10)**	**351**
Other comprehensive income								
Foreign currency translation adjustments	**-**	**-**	**-**	**(177)**	**-**	**-**	**-**	**(177)**
Effective portion of changes in fair value of cash flow hedges	**-**	**8**	**-**	**-**	**-**	**-**	**-**	**8**
Changes in fair value of cost of hedging	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Total other comprehensive income/(expense)	**-**	**8**	**(1)**	**(177)**	**-**	**-**	**-**	**(170)**
Purchase of non-controlling interest	**-**	**-**	**-**	**(7)**	**-**	**-**	**-**	**(7)**
Share-based payment	**-**	**-**	**-**	**-**	**11**	**-**	**-**	**11**
Net shares acquired by SKG Employee Trust	**-**	**-**	**-**	**-**	**-**	**(16)**	**-**	**(16)**
Shares distributed by SKG Employee Trust	**-**	**-**	**-**	**-**	**(9)**	**9**	**-**	**-**
At 30 June 2020	**575**	**6**	**1**	**(571)**	**217**	**(49)**	**(10)**	**169**
At 1 January 2019	575	(14)	3	(367)	185	(28)	1	355
Other comprehensive income								
Foreign currency translation adjustments	-	-	-	3	-	-	-	3
Effective portion of changes in fair value of cash flow hedges	-	3	-	-	-	-	-	3
Changes in fair value of cost of hedging	-	-	(1)	-	-	-	-	(1)
Total other comprehensive income/(expense)	-	3	(1)	3	-	-	-	5
Purchase of non-controlling interest	-	-	-	(29)	-	-	-	(29)
Share-based payment	-	-	-	-	25	-	-	25
Net shares acquired by SKG Employee Trust	-	-	-	-	-	(25)	-	(25)
Shares distributed by SKG Employee Trust	-	-	-	-	(9)	9	-	-
At 30 June 2019	575	(11)	2	(393)	201	(44)	1	331

14. Fair Value Hierarchy

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2020:

	Level 1 €m	**Level 2 €m**	**Level 3 €m**	**Total €m**
Other investments:				
Listed	**2**	**-**	**-**	**2**
Unlisted	**-**	**8**	**-**	**8**
Derivative financial instruments:				
Assets at fair value through Condensed Consolidated Income Statement	**-**	**11**	**-**	**11**
Derivatives used for hedging	**-**	**18**	**-**	**18**
Derivative financial instruments:				
Liabilities at fair value through Condensed Consolidated Income Statement	**-**	**(7)**	**-**	**(7)**
Derivatives used for hedging	**-**	**(4)**	**-**	**(4)**
Deferred contingent consideration	**-**	**-**	**(33)**	**(33)**
	2	**26**	**(33)**	**(5)**

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2019:

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Other investments:				
Listed	2	-	-	2
Unlisted	-	8	-	8
Derivative financial instruments:				
Assets at fair value through Condensed Consolidated Income Statement	-	6	-	6
Derivatives used for hedging	-	13	-	13
Derivative financial instruments:				
Liabilities at fair value through Condensed Consolidated Income Statement	-	(3)	-	(3)
Derivatives used for hedging	-	(13)	-	(13)
Deferred contingent consideration	-	-	(33)	(33)
	2	11	(33)	(20)

The fair value of listed investments is determined by reference to their bid price at the reporting date. Unlisted investments are valued using recognised valuation techniques for the underlying security, including discounted cash flows.

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.

Deferred contingent consideration is in relation to the put option on our Serbian acquisition. The valuation model for the deferred contingent consideration, measured in accordance with level 3 of the fair value hierarchy, is based on the present value of the expected payment discounted using a risk adjusted rate. The unobservable input in determining the fair value is the underlying profitability of the business unit to which the consideration relates. A reasonable change to the unobservable inputs would have an immaterial impact on the fair value of the deferred contingent consideration.

There were no changes to the fair values of the level 3 instruments during the period.

There were no reclassifications or transfers between the levels of the fair value hierarchy during the period.

15. 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 to the Consolidated Financial Statements of the Group's 2019 Annual Report.

	30-Jun-20		31-Dec-19	
	Carrying value €m	**Fair value €m**	Carrying value €m	Fair value €m
Trade and other receivables [1]	**1,483**	**1,483**	1,559	1,559
Listed and unlisted debt instruments[2]	**10**	**10**	10	10
Cash and cash equivalents [3]	**639**	**639**	189	189
Derivative assets [4]	**29**	**29**	19	19
Restricted cash[3]	**7**	**7**	14	14
	2,168	**2,168**	1,791	1,791
Trade and other payables[1]	**1,354**	**1,354**	1,465	1,465
Revolving credit facility[5]	**407**	**407**	333	333
2022 receivables securitisation[3]	**114**	**114**	29	29
2023 receivables securitisation[3]	**158**	**158**	69	69
Bank overdrafts[3]	**100**	**100**	118	118
2025 debentures[6]	**263**	**309**	262	328
2024 notes[6]	**501**	**516**	500	540
2025 notes[6]	**250**	**260**	250	277
2026 notes[6]	**1,004**	**1,046**	1,004	1,110
2027 notes [6]	**745**	**719**	744	759
	4,896	**4,983**	4,774	5,028
Derivative liabilities[4]	**11**	**11**	16	16
Deferred consideration[7]	**12**	**12**	12	12
Deferred contingent consideration[8]	**33**	**33**	33	33
	4,952	**5,039**	4,835	5,089
Total net position	**(2,784)**	**(2,871)**	(3,044)	(3,298)

(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 financial assets is determined by reference to their bid price at the reporting date. Unlisted financial assets are valued using recognised valuation techniques for the underlying security including discounted cash flows.

(3) The carrying amount reported in the Condensed 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 (level 2) of the RCF 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) Fair value (level 2) is based on broker prices at the balance sheet date.

(7) The fair value of deferred consideration is based on the present value of the expected payment, discounted using a risk-adjusted discount rate.

(8) The fair value of deferred contingent consideration is based on the present value of the expected payment, discounted using a risk-adjusted discount rate.

16. Related Party Transactions

Details of related party transactions in respect of the year ended 31 December 2019 are contained in Note 31 to the Consolidated Financial Statements of the Group's 2019 Annual Report. The Group continued to enter into transactions in the normal course of business with its associates and other related parties during the period. There were no transactions with related parties in the first half of 2020 or changes to transactions with related parties disclosed in the 2019 Consolidated Financial Statements that had a material effect on the financial position or the performance of the Group.

17. Board Approval

This interim report was approved by the Board of Directors on 28 July 2020.

18. Distribution of the Interim Report

This 2020 interim report is available on the Group's website; smurfitkappa.com.

Responsibility Statement in Respect of the Six Months Ended 30 June 2020

The Directors, whose names and functions are listed on pages 54 to 56 in the Group's 2019 Annual Report, are responsible for preparing this interim management report and the Condensed Consolidated Interim Financial Statements in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with IAS 34, *Interim Financial Reporting* as adopted by the European Union.

The Directors confirm that, to the best of their knowledge:

- the Condensed Consolidated Interim Financial Statements for the half year ended 30 June 2020 have been prepared in accordance with the international accounting standard applicable to interim financial reporting, IAS 34, adopted pursuant to the procedure provided for under Article 6 of the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

- the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the Condensed Consolidated Interim Financial Statements for the half year ended 30 June 2020, and a description of the principal risks and uncertainties for the remaining six months;

- the interim management report includes a fair review of related party transactions that have occurred during the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period, and any changes in the related party transactions described in the last Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

Signed on behalf of the Board

A. Smurfit, Director and Chief Executive Officer
K. Bowles, Director and Chief Financial Officer

28 July 2020.

Supplementary Financial Information

Alternative Performance Measures

The Group uses certain financial measures as set out below in order to evaluate the Group's financial performance. These Alternative Performance Measures ('APMs') are not defined under IFRS and are presented because we believe that they, and similar measures, provide both SKG management and users of the Condensed Consolidated Financial Statements with useful additional financial information when evaluating the Group's operating and financial performance.

These measures may not be comparable to other similarly titled measures used by other companies, and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered in isolation or as substitutes for the information contained in our Condensed Consolidated Financial Statements.

The principal APMs used by the Group, together with reconciliations where the non-IFRS measures are not readily identifiable from the Condensed Consolidated Financial Statements, are as follows:

EBITDA

Definition

EBITDA is earnings before exceptional items, share-based payment expense, share of associates' profit (after tax), net finance costs, income tax expense, depreciation and depletion (net) and intangible assets amortisation. It is an appropriate and useful measure used to compare recurring financial performance between periods. A reconciliation of profit to EBITDA is included below:

Reconciliation of profit to EBITDA

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Profit for the financial period	**278**	338
Income tax expense (after exceptional items)	**105**	118
Net finance costs (after exceptional items)	**68**	103
Share of associates' profit (after tax)	**(1)**	(1)
Share-based payment expense	**11**	25
Depreciation, depletion (net) and amortisation	**274**	264
EBITDA	**735**	847

EBITDA margin

Definition

EBITDA margin is a measure of profitability by taking our EBITDA divided by revenue.

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
EBITDA	**735**	847
Revenue	**4,203**	4,622
EBITDA margin	**17.5%**	18.3%

Operating profit before exceptional items

Definition

Operating profit before exceptional items represents operating profit as reported in the Condensed Consolidated Income Statement before exceptional items. Exceptional items are excluded in order to assess the underlying financial performance of our operations.

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Operating profit	**450**	558
Exceptional items	**-**	-
Operating profit before exceptional items	**450**	558

Pre-exceptional basic earnings per share

Definition

Pre-exceptional basic EPS serves as an effective indicator of our profitability as it excludes exceptional one-off items and, in conjunction with other metrics such as ROCE, is a measure of our financial strength.
Pre-exceptional basic EPS is calculated by dividing profit attributable to owners of the parent, adjusted for exceptional items included in profit before income tax and income tax on exceptional items, by the weighted average number of ordinary shares in issue. The calculation of pre-exceptional basic EPS is shown in Note 8.

Free cash flow ('FCF')

Definition

FCF 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 FCF to assess and understand the total operating performance of the business and to identify underlying trends.

The summary cash flow is prepared on a different basis to the Condensed Consolidated Statement of Cash Flows under IFRS ('IFRS cash flow') and as such the reconciling items between EBITDA and (increase)/decrease in net debt may differ from amounts presented in the IFRS cash flow. 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) FCF 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 property, plant and equipment.
(c) The IFRS cash flow has different sub-headings to those used in the summary cash flow.
  - Current provisions in the summary cash flow are included within 'change in employee benefits and other provisions' in the IFRS cash flow.
  - The total of capital expenditure and change in capital creditors in the summary cash flow includes additions to intangible assets which are shown separately in the IFRS cash flow. It also includes right-of-use assets which are excluded from additions to property, plant and equipment and biological assets in the IFRS cash flow.
  - 'Other' in the summary cash flow includes changes in employee benefits and other provisions (excluding current provisions), amortisation of capital grants, receipt of capital grants and dividends received from associates which are shown separately in the IFRS cash flow.

Reconciliation of Free Cash Flow to Cash Generated from Operations

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Free cash flow	**238**	159
Reconciling items:		
Cash interest	**61**	82
Capital expenditure (net of change in capital creditors)	**281**	306
Tax payments	**98**	92
Sale of property, plant and equipment	**(1)**	(2)
Lease terminations/modifications (in ‘Other’ in summary cash flow)	**(3)**	-
Profit on sale of property, plant and equipment – non-exceptional	**-**	(2)
Receipt of capital grants (in ‘Other’ in summary cash flow)	**-**	(1)
Non-cash financing activities	**(1)**	-
Cash generated from operations	**673**	634

Return on capital employed (‘ROCE’)

Definition

ROCE measures profit from capital employed. It is calculated as operating profit before exceptional items plus share of associates’ profit (after tax) for the last twelve months (‘LTM’) divided by the average capital employed (where average capital employed is the average of total equity and net debt at the beginning and end of the LTM).

	30-Jun-20 €m	30-Jun-19 €m
Operating profit before exceptional items plus share of associates’ profit (after tax) LTM	**957**	1,134
Total equity – current period end	**3,063**	2,902
Net debt – current period end	**3,257**	3,751
Capital employed – current period end	**6,320**	6,653
Total equity – prior period end	**2,902**	2,628
Net debt – prior period end	**3,751**	2,871
Capital employed – prior period end	**6,653**	5,499
Average capital employed	**6,486**	6,076
Return on capital employed	**14.8%**	18.7%

Net debt

Definition

Net debt comprises borrowings net of cash and cash equivalents and restricted cash. We believe that this measure highlights the overall movement resulting from our operating and financial performance.

	30-Jun-20 €m	30-Jun-19 €m	31-Dec-19 €m
Borrowings (see Note 12)	**3,903**	3,998	3,686
Less:			
Restricted cash	**(7)**	(13)	(14)
Cash and cash equivalents	**(639)**	(234)	(189)
Net debt	**3,257**	3,751	3,483

Net debt to EBITDA

Definition

Leverage (ratio of net debt to EBITDA) is an important measure of our overall financial position.

	30-Jun-20 €m	30-Jun-19 €m	31-Dec-19 €m
Net debt	**3,257**	3,751	3,483
EBITDA LTM	**1,538**	1,668	1,650
Net debt to EBITDA (times)	**2.1**	2.2	2.1

Cash interest expense

Definition

Cash interest is interest paid net of interest received, movements in accrued interest and outflows which are not due to normal operating activities.

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Interest paid per IFRS cash flow	**63**	98
Interest received per IFRS cash flow	**(1)**	(2)
Move in accrued interest	**(1)**	4
Initial cost of bonds repaid	**-**	(18)
Cash interest expense	**61**	82

Capital expenditure

Definition

Capital expenditure comprises additions to property, plant and equipment, right-of-use assets, biological assets and intangible assets.

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Property, plant and equipment	**190**	243
Right-of-use assets	**26**	16
Biological assets	**5**	5
Intangible assets	**9**	8
Total capital expenditure	**230**	272

Capital expenditure (continued)

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Capital expenditure as above	**230**	272
Change in capital creditors	**51**	34
Less additions to right-of-use assets	**(26)**	(16)
Per IFRS cash flow	**255**	290

Capital expenditure as a percentage of depreciation

Definition

Capital expenditure as defined above as a percentage of total depreciation. Total depreciation includes depreciation of property, plant and equipment, right-of-use assets, change in biological assets and amortisation of intangible assets.

	6 months to 30-Jun-20 €m	6 months to 30-Jun-19 €m
Capital expenditure	**230**	272
Depreciation	**274**	264
Capital expenditure as a percentage of depreciation	**84%**	103%

Working capital

Definition

Working capital represents total inventories, trade and other receivables and trade and other payables.

	30-Jun-20 €m	30-Jun-19 €m
Inventories	**832**	856
Trade and other receivables (current and non-current)	**1,614**	1,881
Trade and other payables	**(1,767)**	(1,832)
Working capital	**679**	905

Working capital as a percentage of sales

Definition

Working capital as a percentage of sales represents working capital as defined above shown as a percentage of annualised quarterly revenue.

	30-Jun-20 €m	30-Jun-19 €m
Working capital	**679**	905
Annualised revenue	**8,038**	9,224
Working capital as a percentage of sales	**8.4%**	9.8%

Underlying EBITDA and revenue

Definition

Underlying EBITDA and revenue are arrived at by excluding the incremental EBITDA and revenue contributions from current and prior year acquisitions and disposals and the impact of currency translation, hyperinflation and any non-recurring items.

The Group uses underlying EBITDA and underlying revenue as additional performance indicators to assess performance on a like-for-like basis each year.

	Europe 30-Jun-20	**The Americas 30-Jun-20**	**Total 30-Jun-20**	Europe 30-Jun-19	The Americas 30-Jun-19	Total 30-Jun-19
EBITDA						
Currency	**-**	**(6%)**	**(1%)**	(1%)	-	-
Hyperinflation	**-**	**-**	**-**	-	(2%)	(1%)
Acquisitions/disposals	**-**	**-**	**-**	6%	(3%)	4%
IFRS 16	**-**	**-**	**-**	5%	10%	6%
Underlying EBITDA change	**(16%)**	**5%**	**(12%)**	7%	9%	8%
Reported EBITDA change	**(16%)**	**(1%)**	**(13%)**	17%	14%	17%
Revenue						
Currency	**-**	**(8%)**	**(2%)**	-	-	-
Acquisitions/disposals	**-**	**-**	**-**	4%	(7%)	-
Underlying revenue change	**(9%)**	**(3%)**	**(7%)**	1%	9%	4%
Reported revenue change	**(9%)**	**(11%)**	**(9%)**	5%	2%	4%