INNOVATIVE PACKAGING THAT DELIVERS RESULTS.

Annual Report 2018

INNOVATION IT'S IN OUR DNA

WHO WE ARE

Smurfit Kappa ('SKG'), a FTSE 100 company, is one of the leading providers of paper-based packaging solutions in the world, operating across 35 countries with around 46,000 employees in over 350 production sites and revenue of €8.9 billion in 2018.

Our purpose is to meet the needs of our customers, to generate superior returns for our shareholders, and to invest in our people, the communities in which we operate and the environment.

Find out more on page 4

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SIGNIFICANT IMPROVEMENT

Significant year-on-year improvement against all our key performance measures in 2018.

Revenue (million)

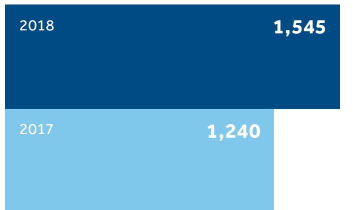
€8,946

↑ 4%

EBITDA* (million)

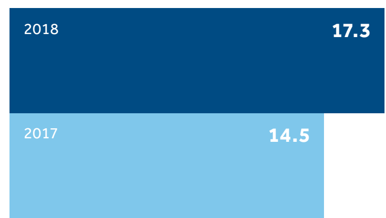
€1,545

↑ 25%



EBITDA Margin to Revenue* (%)

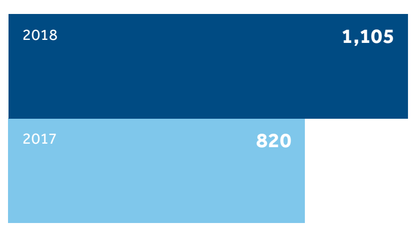
17.3



Pre-exceptional Operating Profit (million)

€1,105

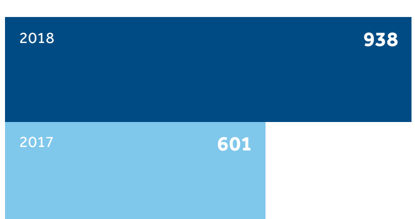
↑ 35%



Pre-exceptional Profit Before Income Tax (million)

€938

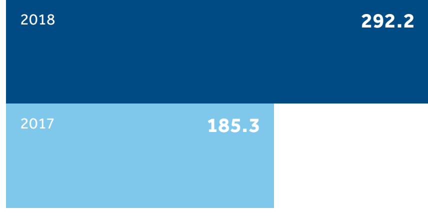
↑ 56%



Pre-exceptional Basic Earnings Per Share* (cent)

292.2

↑ 58%

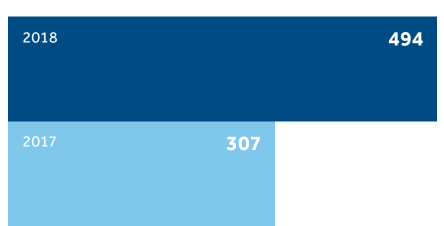


* These financial key performance indicators are not defined under International Financial Reporting Standards ('IFRS'). Further information in relation to these Alternative Performance Measures ('APMs') are included in the Supplementary Information section on pages 162 to 164.

Free Cash Flow* (million)

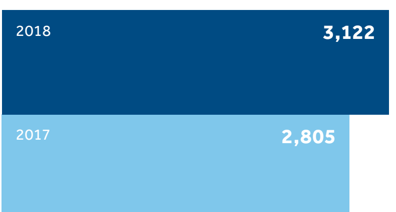
€494

↑ 61%



Net Debt* (million)

↑ 11%



Return On Capital Employed* (%)

19.3

Net Debt to EBITDA* (ratio)

2.0x

OUR CIRCULAR APPROACH WITH INNOVATIVE RESULTS

We design, manufacture and supply innovative packaging solutions to promote and protect our customers' products.

WHAT DIFFERENTIATES US

OUR INTEGRATED MODEL

Our vertical integration is key to enabling us to drive efficiencies across the whole supply chain with technological advances, paper machine optimisation and logistics management, which in turn means we can offer optimal paper design, quality and logistics. We have lower exposure to volatility in containerboard prices and our integrated structure ensures that we provide a stable outlet for material through the uncertainty of market falls and rises.

TECHNOLOGY BEHIND THE DESIGN

We employ a range of 'Innotools', unique to Smurfit Kappa, enabling us to create the optimal fit-for-purpose packaging solutions for our customers. The Innotools feed information to our customer value-added services: SupplySmart, ShelfSmart and eSmart in the areas of supply chain optimisation, brand growth and eCommerce.

OUR PRODUCTS ARE 100% RENEWABLE AND PRODUCED SUSTAINABLY WHICH IMPROVES THE ENVIRONMENTAL FOOTPRINT OF OUR CUSTOMERS

Annually, our mills consume in excess of 6 million tonnes of recovered fibre, which comprises primarily old corrugated cases. In a truly circular process, we rely on our own product as our key raw material. We are committed to 100% sustainably sourced new fibre from forests where biodiversity and human rights are assured to the highest globally recognised standards.

PROACTIVE TEAM WITH EXTENSIVE EXPERIENCE AND EXPERTISE

Our people are highly motivated, well trained and have unrivalled industry experience which provides the foundation for our innovation. We have a continued focus on recruiting, developing and retaining skilled employees dedicated to working as a team to support and service our diverse customer base.

DATA AND INSIGHTS

Our unique approach to innovation for business success is based on combining science, experience, geographic diversity, big data and creativity on a scale and with a depth not seen elsewhere in the industry.

Insights are collected and developed within an innovation network of thousands of bright innovators. These bright minds are connected via a set of unique applications across 35 countries and over 350 locations. This collective innovation system is managed and made accessible to all internal and external stakeholders through our 26 experience centres.

OUR PRODUCT OFFERING

We have an unrivalled portfolio of paper-packaging solutions which is constantly updated with our market leading innovations. This is enhanced through the benefits of our integrated supply chain model, with optimal paper design, logistics, timeliness of service and our sustainable sourcing of raw materials.

WE ARE INVOLVED AT ALL STAGES OF THE SUPPLY CHAIN

We believe that an integrated model from the sources of fibre to end products is the most efficient way to provide innovative packaging, logistics solutions and high quality service to our customers.

Responsible and efficient manufacturing

We manufacture a range of papers mainly used for packaging purposes. Our recycling, wood procurement and forestry operations provide raw material to our mills, which is processed into paper primarily for our corrugated converting plants. Our integrated system of mills and plants also produce a full line of containerboard which is converted into corrugated containers.

We currently produce 5.9 million tonnes (11.0 billion m²) of corrugated packaging using most of the 6.4 million tonnes of containerboard produced within our own mill system.

See more in our Operating Review, page 36

Product design and development

We are a highly innovative, design-led company. Our approach to innovation is data-driven and focused on solving our customers' challenges, whether through product development, process improvement or optimising supply chain efficiency. We have a supporting network of laboratories, facilities and applications to help us create fit-for-purpose, sustainable packaging solutions.

With over 1,000 designers across our business and over 7,500 packaging concepts, we use cutting edge technology to provide innovative designs in packaging and display for our customers.

See more on page 8

Manufacturing
Corrugated & Converting Plants
Paper Reels
Paper Mills

Product design and development
Product Process Service Innovation
Customers
Logistics to Sales Channels

Distribution
Product Sales
Consumers

Material sourcing
Recovered Paper Facilities
Recovered/ Virgin Fibres

Our circular business model, from replacing natural resources to reusing materials and optimising processes, gives us a competitive advantage.

Sustainable sourcing of virgin and recycled fibres

We balance the use of virgin and recovered fibres to maintain a positive and sustainable balance of renewable raw materials. We provide recycling services to ensure both our customers' corrugated packaging and paper is recycled responsibly, efficiently and reliably, and that we have access to quality raw material. We have embedded certified Chains of Custody throughout our fibre sourcing and operations. This means, close to 100% of our raw material comes from sustainable and/or certified sources regardless of whether it is virgin or recycled.

Our circular business model, from replacing natural resources to reusing materials and optimising processes, gives us a competitive advantage.

See more in our Sustainability section, page 44

Distribution

Our end customers are primarily in the corrugated packaging market. Demand for consumer staples, and by extension demand for our products, is resilient especially during periods of economic downturn.

Between 60-70% of our corrugated customers are in the fast moving consumer goods ('FMCG') sector which includes food, beverages and household consumables.

See more in our How We Add Value section, pages 8 to 19

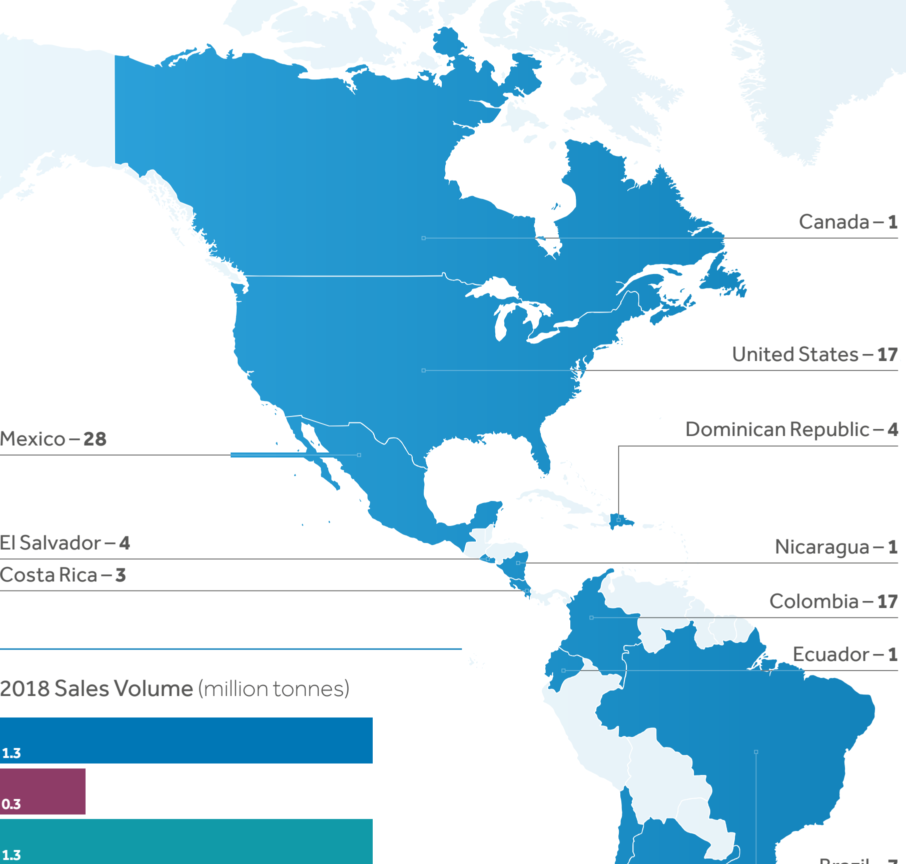
A WORLD LEADER WITH OPERATIONS IN 35 COUNTRIES

We are one of the largest integrated manufacturers of paper-based packaging solutions in the world. We are located in 23 countries in Europe and 12 in the Americas. In Europe, we are the leader in production volume in corrugated packaging and containerboard and we are the only large-scale pan-regional player in Latin America.

WHAT SETS US APART

OUR SCALE AND GEOGRAPHIC DIVERSITY

Our large manufacturing footprint provides us with a clear point of differentiation because the corrugated packaging market is a localised market, therefore, box plants need to be close to customers (within 300kms). Our unique global footprint makes us well placed to reliably deliver on customer requirements.



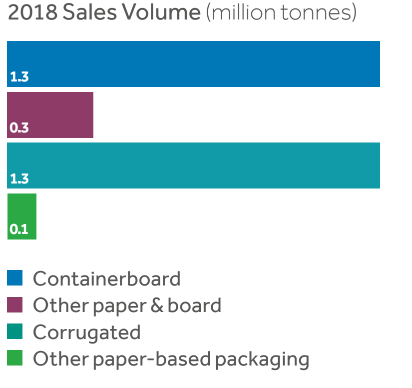
The Americas

€2 BILLION REVENUE (23%)

We are the only pan-American producer of containerboard and corrugated packaging. The Group's operations in the Americas consist of 12 paper mills in five countries (Argentina, Brazil, Colombia, Mexico and the United States) producing containerboard, boxboard and sack paper with a combined production of 1.6 million tonnes in 2018.

Find our more on page 38

2018 Sales Volume (million tonnes)



67k
Forestry plantations (hectares)

40
Fibre sourcing

34
Mills

245
Converting plants

33
Other production facilities

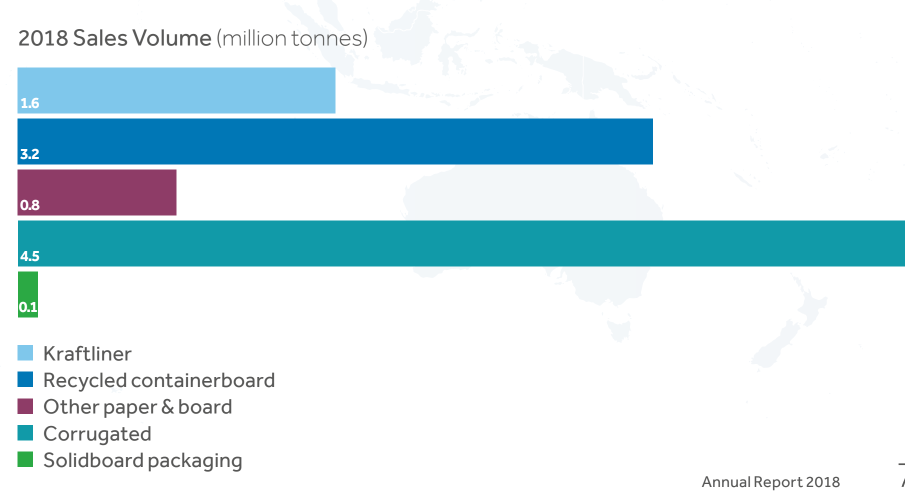
Country – **number of locations**

United Kingdom – **38**
Ireland – **9**
The Netherlands – **19**
Belgium – **8**
Germany – **35**
Switzerland – **1**
France – **55**
Portugal – **2**
Sweden – **12**
Norway – **1**
Denmark – **6**
Russia – **4**
Latvia – **1**
Lithuania – **1**
Poland – **5**
Czech Republic – **6**
Slovakia – **1**
Austria – **3**
Bulgaria – **1**
Greece – **2**
Spain – **21**
Italy – **25**
Serbia – **2**

Europe

€6.9 BILLION REVENUE (77%)
We are the European leader in the production of corrugated packaging, containerboard and bag-in-box. The Europe segment includes mills and plants that primarily produce a full line of containerboard that is converted into corrugated containers. In addition, we produce other types of paper, such as solidboard and sack kraft paper; paper-based packaging, such as solidboard packaging and folding cartons; and bag-in-box packaging.

Find our more on page 37



OUR INNOVATIVE MINDSET

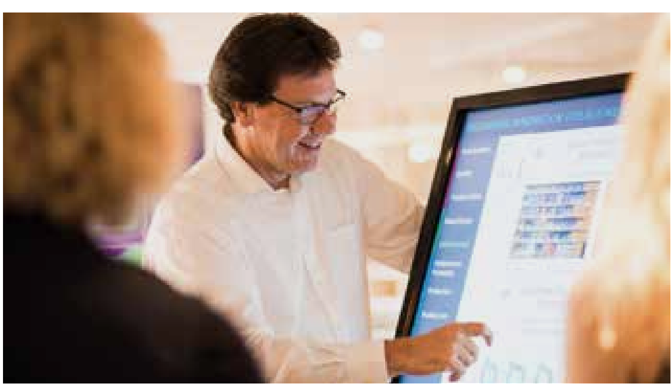
Our approach to innovation demonstrates how we help our customers save more, sell more, optimise their packaging solutions and improve the consumer experience.

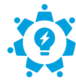
KNOWLEDGE, EXPERIENCE AND PASSION

Our primary goal is to support our customers through the dedication and creativity of our people. Our people are highly motivated, well trained and have unrivalled packaging expertise which provides the foundation for our innovation.

UNDERSTANDING OUR CUSTOMERS' MARKETS

Innovation challenges the status quo and is a fundamental part of our strategy. Our approach to innovation is market driven and focused on solving our customers' challenges, whether through customer insights, product development, process improvement or optimising supply-chain efficiency.





THE SCIENCE OF INNOVATION

At Smurfit Kappa, innovation is data driven. We have a supporting network of laboratories, facilities and applications to help us create fit-for-purpose, cost-effective and sustainable packaging solutions.

A CUSTOMER FOCUS

We look past our products and go one step further to provide our customers with the best data and analysis to make better business decisions with minimal risk.

RESULTS-DRIVEN PRODUCT INNOVATIONS

The stories over the next 10 pages are examples of how our approach to innovation has led to success for our customers and a more sustainable world for everyone.

PACKAGING FOR A SUSTAINABLE WORLD

As leaders in sustainable packaging, we feel the responsibility to pick up the challenge to develop more sustainable packaging solutions.

Packaging protects ten times more resources (material, water, energy) than it uses so packaging creates sustainable supply chains.

Packaging holds a valuable, sustainable role in guarding against waste and through our initiative we will use our strength in design and industry-leading expertise to develop new products, we will drive innovation in our design and leverage our recycling capability to address the challenges of waste and litter caused by packaging and we will collaborate with new and existing partners to inspire new ideas and create change.

The Smurfit Kappa Better Planet Packaging Initiative will enable us to explore and re-imagine the packaging we need for a sustainable world.

Developing more sustainable packaging is a journey. Let's start together.

SHELF-READY PACK

Stoats have a lively brand and good primary packaging. However, their porridge bars were not always visible on shelf in their secondary pack. The need for visual engagement is critical for Stoats as they have recognised that when a customer buys into their brand, they are loyal and will repurchase.

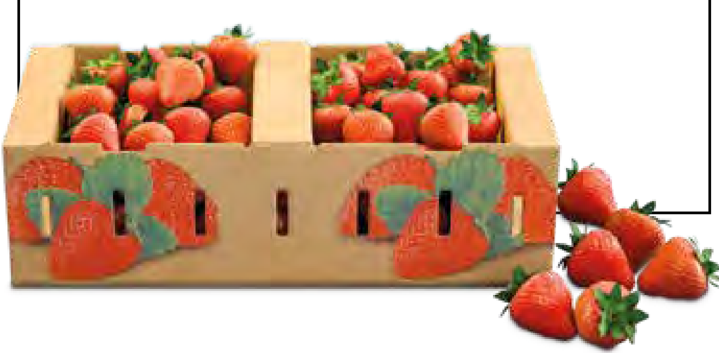
We recommended a revolutionary shelf-ready pack called Shelf Facer. It improves brand presentation by preventing primary packs falling over by pushing them to the front of the pack giving maximum visibility on shelf. The innovative solution was perfected by Smurfit Kappa by developing a new, elastic material providing unprecedented performance.

Stoats conducted a successful trial of the new Shelf Facer pack using a large retailer in the south of the United Kingdom. This led to a 13.8% uplift in sales and improved on-shelf visibility.

13.8%
Sales uplift

SUSTAINABLE STRAWBERRY SOLUTIONS

Smurfit Kappa was tasked with designing a sustainable solution and in doing so developed the SofruPak and SofruBox, which has provided excellent logistic performance and created maximum impact in store.



Segafredo Zanetti were packing their coffee bags in simple white corrugated trays with plastic shrink film. SKG worked closely with the Segafredo Zanetti team to develop a new paper-based packaging solution, eliminating the necessity for shrink wrap. The new solution, which is 100% recyclable and biodegradable, has been extremely well received by customers. The design has reduced transport and warehouse costs and optimised the speed of the customers' packing line, giving total annual savings of €165,000.

NO SHRINK WRAP

ONE OF THE WORLD'S LEADING ONLINE RETAILERS

Smurfit Kappa were given the opportunity to bring eBay's packaging in line with their rebrand. eBay have 187 million buyers globally and we were asked to bring their brand to life by creating a packaging print design that was aligned with the new branding. eBay wanted to develop bespoke optimum stock keeping units ('SKUs') to meet the cost, quality and quantity needs of the hundreds of thousands of UK small business sellers who sell on eBay and to give eBay buyers a consistent delivery and unboxing experience.

Smurfit Kappa identified the optimum box sizes and material grades tailored to the requirements of eBay sellers. All packs were printed with FSC credentials to emphasise the sustainability and recyclability of the packaging. Full eBay branding was printed on all boxes to gain consumer trust during the 'moment of truth' of unboxing. We partnered with an eFulfillment company who stock and serve small packaging quantities to thousands of active eBay sellers and created a dedicated Packaging Shop on eBay for the purchase of branded boxes.

The new eBay boxes:

- Have received thousands of positive customer reviews since launch.
- Have enabled us to create 14 bespoke box SKUs, tailored to requirements of eBay's active sellers.
- Led to sales of 177k eBay branded packaging items being sold in the first 24 hours of launch.

14

bespoke box SKUs, created, tailored to requirements of eBay's active sellers

177k

eBay branded packaging items sold in first 24 hours of launch

ebay

COMBINING SUSTAINABILITY AND INNOVATION TO CREATE REVOLUTIONARY AGROPAPER™

5.8% INCREASED BRAND PENETRATION FOR UK'S BIGGEST SAUSAGE BRAND

Smurfit Kappa created new packaging for Kerry Foods' brand, Richmond, the UK's biggest sausage brand. The existing packaging did not support the Richmond brand or give the desired shopper experience, and they were getting damaged in transit and were difficult to open. A new design that would give a premium feel and perform better on shelf was needed, but the new pack would need to stay the same size to work on their existing production lines.

Smurfit Kappa worked with Kerry Foods key stakeholders at a ShelfSmart workshop, creating a virtual environment to test the solution. The results showed how the existing pack was not fit-for-purpose. We redesigned the artwork to improve visibility on shelf. In addition, we upgraded the board grade from a testliner to kraftliner to improve the opening experience and increased the strength for stacking and palletisation – it passed all stringent trials for both the machine and hand erect cases.

The result was a 5.8% increase in brand penetration and sales growth driven by retailers.

We have developed a revolutionary new paper, AgroPaper™, to replace Polythene, the plastic material that farmers currently use for mulching.

Made from long pine fibres from sustainably managed forests in Northern Spain, AgroPaper™ enables efficient and eco-friendly mulching. It prevents weed growth but does not need to be removed after harvest as it is fully compostable and can be laid with existing machinery, thereby reducing handling costs.

BOHEMIA APPLES

The new stackable trays are 100% suitable for challenging supply chain conditions as they are solid, durable and fully functional.

HOW WE REINVENTED A COMMONLY USED PRODUCT

Corrugated pallets are a lightweight but highly durable alternative to wooden pallets.

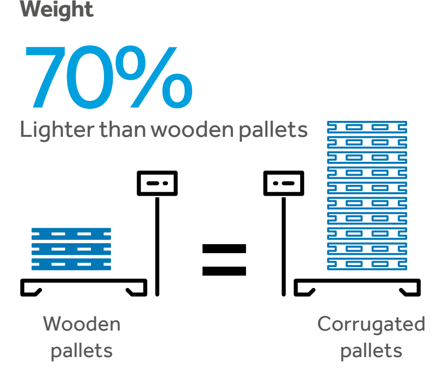
Made from heavy-duty corrugated cardboard, they are designed to withstand the demands of the entire supply chain. They are 100% recyclable and can be made from 100% recycled cardboard, meaning they produce zero landfill. As they weigh less, they can be easily handled and are ergonomically efficient.

- Reduction in carbon emissions due to lighter weight.
- Reduction in shipping costs due to lighter weight.
- Safer than wooden pallets – no nails, splinters or broken boards that could cause damage.
- Cleaner than wooden pallets – free from insects or mould.
- Compliant with ISPM 15 regulations, restricting the use of timber in international trade.
- Eliminates any secondary costs incurred by using wooden pallets.

Weight

70%

Lighter than wooden pallets



MAKING IT LIGHTER, SAFER, CLEANER

Our worldwide Experience Centres are a way for us to share knowledge with customers and help them gain real business value from hands-on experience.

There are 26 Smurfit Kappa Experience Centres around the world. Customers come to explore how paper and packaging can meet their business needs, learn from leading behavioural insights, analyse supply chain trends and observe our advanced paper and packaging design tools. As an example, each Experience Centre is complete with our ShelfViewer tool, an interactive touchscreen database of nearly 120,000 images from a variety of real retail shelves around the globe.

Visitors can use our Innotools and interactive touchscreen units to explore and analyse trends, view case studies and browse information on everything from supply chain logistics to store display designs.

Our store visualiser allows visitors to view their packaging prototypes in a fully simulated store environment, so that they can assess their on-shelf impact. In a world where shoppers are on average choosing products in just 12 seconds, getting a pack design right is absolutely vital.

Our experience centres provide an opportunity for our customers to evaluate their own packaging in our Inspiration and Brainstorm Rooms, and we can help them discover how subtle changes to things like packaging design, material composition or palletisation could deliver a significant business impact.

SHARING KNOWLEDGE AND OUR EXPERIENCE

PRODUCING BOXES — AND
FOR ALL LIGHT WEIGHT STRUCTURES
BENDING REDUCTION IS KEY

YEAR IN REVIEW

Our 2018 performance demonstrates the Group's transformation of recent years, which is delivering progressively superior returns. We reported full year EBITDA up 25% to €1,545 million, and ROCE of 19.3%, which were new records for the Group.

We also saw improvement in the EBITDA margin, moving to 17.3%. These results reflect the benefits of our integrated model consistently providing strong returns to our shareholders, our value enhancing customer focus, tangible delivery from product and process innovation, and our unique culture which is focused on people and performance.

As always, the huge commitment shown by our employees across the Company on a daily basis is fundamental to the delivery of what is another record result for the Group. On behalf of the Board, I thank our entire Smurfit Kappa team for their continued professionalism and dedication.

STRATEGY AND MEDIUM-TERM OUTLOOK
A key strategic objective for the Group is to deliver an increasingly strong return on capital with a medium-term target of 17%. Our strategy to meet this objective is set out on pages 26 and 27. The Medium-Term Outlook and new medium-term target metrics were presented to the market in February 2018 and the presentation is available on the Group's website. The Group has made significant progress on its Medium-Term Plan with targeted investments across its existing facilities, together with acquisitions totalling €500 million. The acquisition of the Reparenco mill in the Netherlands for €466 million has secured the Group's medium-term European recycled containerboard requirements years in advance of plan through the acquisition of an independently owned mill system which complements and enhances our existing capabilities, the benefits of which we are already seeing.

GOVERNANCE AND BOARD
The Board and management of SKG are committed to supporting the highest standards of corporate governance and ethical business conduct. We believe that corporate governance is not just a matter for the Board but that a culture of high standards of governance must be promoted from the top and fostered throughout

the whole organisation. We believe that effective governance is about ensuring that: 1) we have the right strategy to deliver for our shareholders and other stakeholders; 2) the executive team is leading and managing effectively to reach our strategic goals and, in doing so, they are held accountable and at the same time are fairly remunerated; and 3) the risks to the Group are managed and mitigated and appropriate controls are in place at all levels of the organisation. The key principles and practices designed to achieve these standards are set out in the Corporate Governance Statement.

We welcomed the publication by the FRC of its new UK Corporate Governance Code in July 2018 and its focus on the themes of corporate and Board culture, stakeholder engagement and sustainability, which as this report highlights are critical for SKG if we are to build a sustainable business. We will continue to evolve our governance framework to ensure that we remain compliant with the UK Corporate Governance Code and meet best practice requirements.

CHAIR RETIREMENT AND CHAIR DESIGNATE

In October 2018, I informed the Board that I would retire from the Board at the conclusion of the SKG AGM on 3 May 2019. Following a comprehensive selection process led by the Group's Senior Independent Director, Roberto Newell we announced the appointment of Irial Finan as Chair Designate. I am delighted to hand over to Irial, who has a strong knowledge of the Group having been a Director since 2012 and Chair of the Compensation Committee since 2015. He brings a considerable breadth and depth of international business experience, and the expertise to lead the Smurfit Kappa Board in the years ahead.

It has been a great privilege for me to have been a Board member and Chair of Smurfit Kappa, and I have been fortunate to work alongside an outstanding group of professionals, both on the Board and throughout the business. I would like to thank all the Directors and the senior management teams who have served this Company and supported me as Chair over the years.

DIRECTORS

We were pleased to announce that Anne Anderson was appointed to the Board in January 2019. Ms Anderson has had a very distinguished career at the highest levels in the Irish Diplomatic Service, having been inter alia Ambassador to France, the United States, the European Union and the United Nations. She brings an extensive range of skills and experience to the Board and will be a valuable contributor to the future success of SKG. Ms Anderson has joined our Audit and Nomination committees.

OPERATIONAL VISITS

The Board has an ongoing programme of making at least one visit annually to a region in which we have operations, visiting our plants and meeting our people. These visits are extremely valuable in giving the members of the Board a deeper first-hand understanding of the strength and extent of our local businesses, their strategic positioning and the enterprise of our teams at all levels throughout the organisation. During 2018, the Board travelled to Mexico City where they visited our Cerro Gordo, Atlas and Los Reyes plants comprising mills, corrugated plants, folding carton, preprint and displays. The Board also visited a company funded community centre in our Cerro Gordo complex which is run for the benefit of the local community and provides a safe and supervised environment for the local children to study and play. The Board was also pleased to meet and review our current performance with the local and senior management teams from the Americas. The Board also visited our Piteå mill in Sweden which is our biggest mill worldwide. During 2018, I made additional visits to various facilities in Europe and in the Americas, covering mills, corrugated plants and other operations. As always, I came away extremely impressed by the competence and commitment of our people right across our operations.

SUSTAINABILITY

Environmental responsibility, corporate social responsibility (including our most important responsibility – safety) and circular business models that use resources efficiently are all becoming ever more essential to global business operations. All three of these are at the heart of our sustainable business model and both Board and management have adopted them as core values at SKG. We welcome and embrace the challenge to make our products, operations, raw materials and supply chain more environmentally sustainable, more circular and more socially robust year-on-year and, in doing so, to make a contribution to tackling climate change. As well as the challenges and business opportunities it provides, we see sustainability as a key platform for differentiation in a competitive market and I am particularly pleased to acknowledge the third-party recognition of our work in this area, especially the awards we have received from key customers and industry groups.

This will be covered in greater detail in our annual Sustainable Development Report, a summary of which is set out on pages 44 to 51 of this Annual Report.

CAPITAL STRUCTURE

The Group has a stable financing base with a long-term and well-spread maturity profile which has been enhanced through the recent Bond financing and the new Revolving Credit Facility ('RCF') which are covered in the Finance Review. The Group's credit rating of Ba1/BB+/BB+ contributes to a lower cost of capital and access to the widest range of financing options available. These positions were achieved as a result of the Group's continuing consistent ability to generate strong free cash flows together with active management of its debt portfolio. The strength of the Group's capital base together with consistent delivery of strong free cash flows provides a solid and cost effective support to the Group's growth agenda over the medium-term.

DIVIDENDS

Reflecting the Board's continued confidence in the strength and capabilities of the business, we are proposing a 12% increase in the final dividend from 64.5 cent to 72.2 cent per share. Combined with an interim dividend of 25.4 cent per share paid in October 2018, this will bring the total dividend to 97.6 cent, an 11% increase year-on-year. This is the seventh consecutive year of significant dividend increase, reflecting the fact that our dividend is a core component of our commitment to driving value for shareholders.

A TRANSFORMED COMPANY

I became a Director of SKG on its return to the stock market by way of Initial Public Offering ('IPO') in March 2007 and became Chair in December 2008. While the first few years through 2009 were extremely challenging and corresponded to the global downturn, since then the Group has prospered and evolved with EBITDA increasing every year.

SKG today is a transformed company compared to SKG after its IPO in March 2007. Our absolute EBITDA is up approximately €500 million, ROCE is up 800 basis points to 19.3% and our leverage at 2.0 times compares to 3.2 times post the IPO. This reflects our increased geographic reach through acquisition, the optimisation of our integrated model through investment and acquisition, our performance culture, our customer centric focus to drive innovation and reduce cost, our sustainability leadership, our disciplined approach to capital allocation and most importantly our people. It was my pleasure to have met so many of you on my visits to plants worldwide and I want to thank you all for your dedication, hard work and professionalism which has contributed to our ongoing success.

Our continuous evolution has delivered a transformed business, has transformed results and has transformed our prospects.

OUTLOOK

While we are always conscious of macro-economic risk, SKG today is very well positioned to capitalise on industry opportunities and to deliver a consistently excellent performance for all stakeholders. The current year has started positively, and together with the continued development of sustainable packaging, eCommerce and other demand drivers, SKG has an exciting future.

Liam O'Mahony

Liam O'Mahony
Chair

A TRANSFORMED COMPANY

Our results for 2018 represented a record performance across key measures with EBITDA of €1,545 million, 25% up on the then record of €1,240 million reported in 2017.

Our 2018 performance demonstrates the Group's transformation of recent years, which is delivering progressively superior returns. This creates the platform for success in 2019 and beyond. The Group delivered on or exceeded its key measures. This reflects our market-leading positions, our innovation capability and investment decisions. Above all else, it reflects an unrelenting focus on delivering value to our customer base, a performance-led culture and the quality of our people. EBITDA of €1,545 million is materially better than 2017, representing a 25% increase, with a corresponding EBITDA margin of 17.3%.

The Group's transformation is based on five key pillars:

- Optimising the integrated model
- Customer-focused innovation
- A performance culture
- Disciplined capital allocation
- Sustainability leadership

The European business delivered an underlying [1] increase in revenue of 7% in 2018, driven by volume growth and continued input cost recovery. Together with the benefits of our capital spend programme, this delivered a full year EBITDA of €1,267 million, a year-on-year increase of 33%. The EBITDA margin for the year was 18.3% compared to 14.9% in 2017.

Box volumes grew by 2% in the year with notable performances in France, Portugal, Russia, Scandinavia, Spain and Eastern Europe. The Group also prioritised input cost recovery during the year which impacted corrugated demand

1 Underlying in relation to financial measures throughout this report excludes acquisitions, disposals, currency and hyperinflation movements where applicable.

in certain countries. Input cost recovery in corrugated pricing continued into the second half of 2018 and was at the upper end of our expectations as we finished the year.

In 2018, the price of recovered fibre in our European business was down 27% year-on-year, broadly returning to long-term average price levels. The situation was very different in 2017 when average recovered fibre input prices were 14% higher for the full year. The Group expects recovered fibre prices in the region to remain stable in the short-term and to trend upwards in the longer term.

The European pricing for both testliner and kraftliner was relatively stable through 2018. With market increases for both grades in the first quarter, prices for recycled containerboard reduced in the fourth quarter ending the year flat compared to the start of the year with kraftliner pricing up.

During 2018, the Group made a number of acquisitions. In July, the Group acquired Reparenco in the Netherlands, securing the Group's medium-term European recycled containerboard requirements through the acquisition of an independently owned mill system. In the fourth quarter, the Group announced its entry into Serbia with the acquisition of the FHB containerboard mill and the Avala Ada corrugated plant, which was completed in January 2019. This acquisition builds on our Greek acquisition in 2017, which is located in the North East of Greece and services the Balkan region. In the fourth quarter, the Group completed the acquisitions of two corrugated businesses in France, further strengthening the Group's market presence in the North West of the country. In early March 2019, the Group further strengthened its geographic footprint in the Balkan region with the acquisition of a corrugated plant in Bulgaria.

In the latter part of the year, the Group commenced a cost reduction programme across its operations. These actions will help reduce our fixed labour costs, the benefits of which are in addition to those outlined in our Medium-Term Plan.

The Americas region had underlying revenue growth of 8% and our business continued to improve as the year progressed with particularly strong performances in our major markets of Mexico and Colombia. Across the region, we have seen progress in input cost recovery, demand growth and, as with our European business, the benefits of our investment plans.

Our business in the Americas reported a year-on-year increase in EBITDA of 2% to €317 million. The EBITDA margin in the Americas continues to recover and increased to 15.7% from 14.4% in 2017. The underlying revenue growth for the year was driven by volume growth of 2% and price recovery initiatives following on from the significant containerboard price increases incurred through 2017 and 2018.

After almost 65 years of successfully operating in Venezuela, due to the continuing actions and interference of the government of Venezuela, the Group deconsolidated its Venezuelan operations in August 2018. The Group has initiated international arbitration proceedings to protect the interests of its stakeholders and seek compensation from the government of Venezuela for its unlawful actions.

CAPITAL STRUCTURE

Net debt was €3,122 million at the end of December, resulting in a net debt to EBITDA ratio of 2.0x compared to 2.3x at the end of 2017. 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.

In line with the Group's ongoing credit strategy of further extending maturity profiles, diversifying funding sources and increasing liquidity, the Group has undertaken a number of actions in 2018 and January 2019. In June 2018, SKG issued a €600 million bond at a rate of 2.875%, and in January 2019, the Group successfully priced a €400 million add-on offering to the June 2018 issue at a price of 100.75 giving a yield of 2.756%. Also in January 2019, the Group signed and completed a new 5-year €1,350 million RCF with 21 of its existing relationship banks. The new RCF refinances the Group's existing senior credit facility which was due to mature in March 2020.

At 31 December 2018 (proforma for our January 2019 financing activity), the Group's average interest rate was 3.7% compared to 4.1% at 31 December 2017. The Group's diversified funding base and long dated maturity profile of 4.6 years (proforma for our new revolver and €400 million note issuance) provide a stable funding outlook. In terms of liquidity, the Group held cash balances of €417 million at the end of the year, which was further supplemented by available commitments under its new RCF of approximately €930 million.

MEDIUM-TERM OUTLOOK

The Group has made significant progress on its Medium-Term Plan since its announcement in February 2018, together with continued expansion of its geographic reach, including acquisitions in France and the Netherlands during 2018 and Serbia and Bulgaria in early 2019. These acquisitions are well positioned in their respective markets and offer great opportunities for future growth, adding three paper machines and five converting sites to the Group's operational footprint.

As noted in our 2017 Annual Report, this plan assumes increased demand not solely reliant on market/GDP growth but also as a result of SKG's innovation led growth as we develop customer relationships both existing and prospective using our unique business applications coupled with our value selling process to grow profitably in the marketplace.

The investment plan is both ambitious and flexible in terms of achieving progress by internal investment or by acquisitions, should the right opportunity present itself. The acquisition of Reparenco in the Netherlands in July 2018 represented an early and significant achievement in our plan.

COMMERCIAL OFFERING AND INNOVATION

What defines us in Smurfit Kappa is our customer centric focus. We have developed the best applications and tools for our customers to reduce cost and drive innovation. In four years, we have opened 26 innovation centres across our operations in Europe and the Americas. We continue to invest in, and acquire, high quality assets in existing or adjacent markets which are highly complementary to our existing businesses.

We are also excited about the continuing development of our machine systems business which links corrugated supply to our customers on a long-term commitment basis. We have transformed our mill system by having a more efficient footprint and capability to meet the needs of the modern world with lightweight paper.

We transformed corrugated packaging from a transportation brown box to an added-value product capable of supporting the top line growth of our customers and helping them optimise their supply chains while improving efficiency, reducing costs and especially minimising risks. Thanks to this transformation, we are now much more than a paper-based packaging producer: we are the added value partner.

The Group's unrivalled market offering is supported by our ongoing capital expenditure programmes and by the leading sustainable business practices across all our operations. In the third quarter of 2018, the Group launched 'Better Planet Packaging' a multi-faceted initiative comprising innovative product design, extensive research and development and collaboration with existing and new partners. 'Better Planet Packaging' builds on the Group's industry leading sustainability credentials and business applications to help our customers, both existing and prospective, with their challenge of finding more sustainable packaging and merchandising solutions. Brand owners and retailers have made their plans and goals clear, and this is to move away from unsustainable packaging materials. 'Better Planet Packaging' positions Smurfit Kappa to lead in this mega-trend.

During 2018, the Group was recognised with over 50 national or international awards for packaging innovation, sustainability, design and print. The awards stretched across 11 countries and two continents including Argentina, Colombia, the Czech Republic, France, Germany, Ireland, the Netherlands, Poland, Russia, Switzerland and the United Kingdom.

I would like to thank all our customers worldwide for the ongoing confidence and trust they place in us and we look forward to continuing to work with them to enhance their success in their marketplaces.

CORPORATE SOCIAL RESPONSIBILITY

The Group continues to feature at the top of independent sustainability accreditations with an 'A' rating from MSCI, a Gold rating with EcoVadis and the highest score in the sector (out of 31 corporates) with Sustainalytics. The Company continues to be part of the 'FTSE4GOOD', 'Ethibel' and 'STOXX Global ESG leader' sustainability indices.

In May 2018, the Group launched its annual Sustainable Development Report in which it noted the significant progress made in its sustainability goals, reaching targets in many cases well ahead of the deadline. Building on these achievements, the Group rolled out an ambitious new set of goals in October covering its five strategic sustainability priorities of forest, climate change, water, waste and people. While our paper-based packaging is renewable, recyclable and biodegradable, the paper production process is resource-intensive and we are committed to making real and measurable progress in our efforts to contribute to a more sustainable society.

We also highlighted the Group's continued progress and commitment to social and environmental best practices. The Group is proud to support and develop the many Corporate Social Responsibility initiatives in the countries in which we operate. Such initiatives are consistent with our long-term commitment to support and develop programmes that benefit our communities, and form an integral part of our corporate values. The year also marked a significant shift in consumer awareness as to the benefits of renewable, recyclable and biodegradable paper-based packaging as against less environmentally friendly materials. As the leader in our field, we launched our 'Better Planet Packaging' initiative, which will progressively promote our products and allow us to leverage our unique applications to capitalise on this opportunity and help us deliver a more sustainable world.

OUR PEOPLE

A key competitive advantage and point of differentiation is our people, both as individuals and as members of cohesive teams. Our continued focus is on recruiting, developing, motivating and retaining skilled employees dedicated to working as a team to support and service our diverse customer base.

In November 2018, the European Round Table of Industrialists ('ERT'), of which I am privileged to be a member, signed up to a commitment to promote inclusion and diversity in the workplace. This pledge highlights the support of the ERT for 'inclusive growth'. Tapping the full measure of talent from across society is seen by the ERT as critical for the long-term success of people, companies and society and the ERT affirms the value that a diverse workforce can offer. Within the Group, our own 'Inclusion & Diversity' ('I&D') plan will be deployed across the organisation in 2019.

This commitment to enriching the Group is reflected in our People Strategy as we strive to be a great place to work for all our employees and a company of choice for targeted talent. To convey our employee value proposition to targeted talent, we have used material from our global employer branding campaign focusing on 'Where will You take us'.

The safety of every member of the workforce remains a key consideration for the Group. Having achieved a significant improvement in our Health and Safety metrics in 2017, we moved to a more sophisticated metric in 2018, the Total Recordable Injury Rate ('TRIR'). Overall, we have seen a year-on-year reduction in the TRIR of 14.4% during 2018. Our Health and Safety campaign 'Safety for Life' was launched in 2018 with the aim of eliminating the more serious injuries from our workplace. I am also very happy to report that we had no fatalities in 2018.

I would like to acknowledge the effort and commitment of our approximately 46,000 employees in the 35 countries in which we operate for their significant contribution to the results achieved in 2018. We look forward to the challenges and opportunities of 2019, to delivering on our medium-term targets and to continuing our efforts to make SKG the safest and most customer-focused company in which to work in our industry.

Tony Smurfit
Group Chief Executive Officer

PM1 2016

DELIVERING AN INCREASINGLY STRONG RETURN ON CAPITAL

Our vision is to be a globally admired business, dynamically delivering secure and superior returns for all stakeholders.

STRATEGIC OBJECTIVE

The Group's objective is to develop long-term customer relationships by providing customers with differentiated packaging solutions that enhance the customers' prospects of success in their end markets.

OUR AMBITION IS TO MAINTAIN OUR PREMIER POSITION BY DELIVERING:

- Superior customer satisfaction;
- The most sustainable, biodegradable solution for our customers and their end customers;
- Cost and operating efficiencies;
- Proactive environmental awareness; and
- Continuous improvement in the areas of health and safety and corporate social responsibility.

MARKET POSITION

Expand our market positions in Europe and the Americas through selective focused growth.

- Organic growth from increased market share through consolidating, and where appropriate, extending our leadership position; and
- Pursuit of accretive acquisitions in higher growth markets such as Eastern Europe and Latin America.

PARTNER OF CHOICE

Become the supplier/partner of choice.

- Deepening our understanding of our customers' world and developing proactive initiatives to improve their offering;
- Constantly innovating our products, service, quality and delivery in order to develop and/or maintain preferred supplier status; and
- Pursuing superior performance measured against clearly defined metrics in all aspects of our business and at all levels in our organisation.

OPERATIONAL EXCELLENCE

Enhance our operational excellence through the continuous upgrade of our customer offering.

- Improving the output from our high quality asset base through judicious capital investment, continuous improvement programmes, transfer of best practice, industrial engineering and other progressive initiatives;
- Increasing the proportion of differentiated ideas, products and services on offer to our customers through the use of the Group's development and technology centres and our innovation tools and delivering the results to customers; and
- Ensuring that the driving force behind all our operations is one of customer satisfaction and excellence in the marketplace.

INVESTMENT IN PEOPLE

Recruit, retain, develop and motivate the best people.

- High quality graduate and other recruitment initiatives, progressive goal setting, and performance appraisal programmes;
- Focused job training and coaching;
- Cross divisional in-house development programmes; and
- Selective executive development programmes.

CAPITAL ALLOCATION

Maintain a disciplined approach to capital allocation and maintain the focus on cash generation.

- Preserving our credit rating and our position as a strong crossover credit;
- Capital spending to optimise our asset base and enhance operating efficiency;
- Acquiring strategically attractive and accretive assets; and
- Progressive dividend supported by strong free cash flow.

MEASURING OUR PROGRESS

The Group has a range of Key Performance Indicators ('KPIs') which we use to monitor our performance and measure progress.

Financial KPIs

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.

PERFORMANCE

EBITDA for the full year was €1,545 million, 25% ahead of 2017, with higher earnings in Europe and the Americas partly offset by higher Group centre costs. The underlying move in EBITDA was an increase of €335 million, driven primarily by earnings growth in Europe. This reflected increased volumes, continuing input cost recovery and the benefits of our capital investment programme.

Box volumes in Europe grew by 2% year-on-year with notable performances in France, Portugal, Russia, Scandinavia, Spain and Eastern Europe. Input cost recovery was prioritised during the year, which impacted corrugated demand in certain countries.

In the Americas, 85% of the region's EBITDA was delivered by Colombia, Mexico and the United States as the countries grew corrugated volumes, recovered input costs and progressed mill investments in Colombia and Mexico.

EBITDA (million)

€1,545

2017: €1,240

EBITDA Margin to Revenue

DEFINITION

EBITDA margin is a measure of profitability by taking our EBITDA divided by revenue.

PERFORMANCE

EBITDA margin was 17.3% in 2018 compared to 14.5% in 2017 with improvement in both Europe and the Americas. In Europe, our overall margin strengthened from 14.9% in 2017 to 18.3% in 2018, reflecting the benefits of volume growth, input cost recovery and previous years' capital investments. In the Americas, our margin improved from 14.4% in 2017 to 15.7% in 2018. The increase in the Americas was driven by Colombia, Mexico and the United States with the combined EBITDA margin for these three countries up approximately 230 basis points year-on-year.

EBITDA Margin to Revenue (%)

17.3

2017: 14.5

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 a company's operating and financial performance.

PERFORMANCE

Net debt amounted to €3,122 million at December 2018 compared to €2,805 million at December 2017. The year-on-year increase of €317 million reflected free cash flow of €494 million for the year, more than offset by net investment and financing outflows of €753 million, net negative translation adjustments, net debt acquired and the amortisation of deferred debt issue costs.

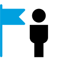
Net Debt (million)

€3,122

2017: €2,805

Key

Market position


Partner of choice

Operational excellence

Investment in people

Capital allocation

Financial KPI calculations are set out on pages 162 to 164 of the Supplementary Information section.

Financial KPIs

Net Debt to EBITDA

DEFINITION

Leverage (ratio of net debt to EBITDA) is an important measure of our overall financial position.

PERFORMANCE

With strong EBITDA growth offsetting the increase in net debt, our leverage was 2.0 times at December 2018 compared to 2.3 times at December 2017, well within our stated leverage range of 1.75x – 2.5x through the cycle.

Net Debt to EBITDA (ratio)

2.0x

2017: 2.3x

Free Cash Flow ('FCF')

DEFINITION

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

PERFORMANCE

Free cash flow of €494 million in 2018 was €187 million higher than the €307 million reported in 2017. The year-on-year increase reflected higher EBITDA, partly offset by an increase in capital outflows and higher tax payments. The outflow relating to exceptional items was also higher in 2018 while the working capital outflow and the net outflow for other (mainly retirement benefits and hyperinflationary adjustments) were both lower.

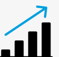
Link to Remuneration:
See Remuneration Report for Annual Bonus and Deferred Annual Bonus Plan ('DABP') metrics.

Free Cash Flow (million)

€494

2017: €307

Return on Capital Employed ('ROCE')



DEFINITION

ROCE is an effective measure of ensuring that we are generating profit from the capital employed. It is calculated as pre-exceptional operating profit plus share of associates' profit (after tax) 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 year).

PERFORMANCE

At 19.3% for 2018 our ROCE was ahead of our medium-term target of 17%. With a higher level of operating profit combined with a higher level of average capital employed, our ROCE increased from 15.0% at December 2017.

Link to Remuneration:
See Remuneration Report for Annual Bonus, DABP and Performance Share Plan ('PSP') metrics.

Return on Capital Employed (%)

19.3

2017: 15.0

Key

Market position

Partner of choice

Operational excellence

Investment in people

Capital allocation

Financial KPIs

Earnings per Share ('EPS')

DEFINITION

Pre-exceptional EPS serves as an effective indicator of a company's profitability as it excludes exceptional one-off items and, in conjunction with other metrics such as ROCE, is a measure of the company's financial strength. Given the fundamental repositioning of the Group through debt pay down and interest savings and, consequently, earnings growth and lower leverage, pre-exceptional EPS is an important measure for the Group. Pre-exceptional 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 EPS is shown in Note 9 to the Consolidated Financial Statements.

PERFORMANCE

Pre-exceptional EPS was 292.2 cent for 2018, 58% higher than the 185.3 cent in 2017, reflecting the strong growth in earnings. Driven by the significant exceptional costs of €1,342 million, primarily in respect of the deconsolidation of our Venezuelan operations, our basic EPS for 2018 was a negative 273.7 cent in 2018 compared to a positive 177.2 cent in 2017.

Link to Remuneration:
See Remuneration Report for PSP metrics.

EPS (cent)

292.2

2017: 185.3

Non-Financial KPIs

Health and Safety

DEFINITION

A safe and healthy workplace is a fundamental right for every person at Smurfit Kappa, and is a business imperative. We are committed to maintaining a productive and safe workplace in every part of our Company by minimising the risk of accidents, injury and exposure to health hazards for every employee and all sub-contractors.

PERFORMANCE

In 2018 we introduced a new target to better measure the progress in our Health and Safety efforts: an annual reduction of 5% in our Total Recordable Injury Rate. The 2018 outcome sets the baseline with TRIR being 1.01.

Link to Remuneration:
See Remuneration Report for Annual Bonus metrics.

TRIR

1.01

Chain of Custody

DEFINITION

Our industry is a significant user of wood fibre. It is our basic raw material, and we take responsibility to ensure its origin is sustainable. The recyclability of paper fibres is another important factor in the sustainability of our products, and we apply a balanced approach to the use of both virgin and recycled fibres.

Independent third-party certification is the most reliable means to promote sustainable forest management and combat deforestation. We manage our forest holdings based on three sustainable development principles: to promote economic growth, responsibly use natural resources and foster social equity wherever our plantations and forests are located. We have certified all our plantations and forest holdings to FSC® and/or PEFC™ where practical.

To extend our approach to our customers, we have committed to selling our packaging solutions as Chain of Custody certified. This transparent approach makes our and our customers' commitment visible to the end consumer.

PERFORMANCE

We have committed to selling over 90% of our products as Chain of Custody certified to our customers. We reached this target level in 2016 and our ambition is to maintain and improve this. Our result for the full year 2018 was 88.4%. However, we reached a level of 90.5% for the last quarter of 2018.

Chain of Custody (%)

88.4

2017: 89.0

CO_2 Emissions

DEFINITION

Although our industry is energy intensive, it is also one of the most energy efficient. At the same time, we are among the most significant users of renewable energy. Climate change drives change in society, and in our case it stimulates product design improvements to lower customer carbon footprints, encourages production efficiency and informs how we invest for the long-term.

We are reducing the carbon intensity of our energy mix by reducing the use of fossil fuels and promoting renewable sources where economically viable. We are also saving energy by closing loops in our production process. We make a significant impact in the value chain through smart packaging solutions that can significantly lower customer emissions. We help them optimise their packaging to avoid product waste, minimise over-specified packaging and increase recycling.

PERFORMANCE

We have committed to a 40% reduction in scope 1 and 2 fossil fuel based CO_2 emissions in our mill system compared to 2005 levels by 2030 (goal updated in 2018). In 2018, we reached a reduction of 29%.

CO_2 Emissions Reduction (%)

29.0

2017: 26.1

RISK IDENTIFICATION, ASSESSMENT AND MANAGEMENT

The Board determines the nature and extent of the principal risks it is willing to accept to achieve its strategic objectives. Risks are identified and evaluated and appropriate risk management strategies are implemented at each level in the organisation.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Group's system of risk management and internal control and for monitoring and reviewing its effectiveness, in order to safeguard shareholders' investments and the Group's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Board carries out a review of the effectiveness of the Group's risk management and internal control systems at least annually.

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

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

RISK MANAGEMENT FRAMEWORK

The Group's risk management framework is embedded within our organisational structure. Risk management is owned by management at each reporting level and is evaluated and reviewed on a continuous basis.

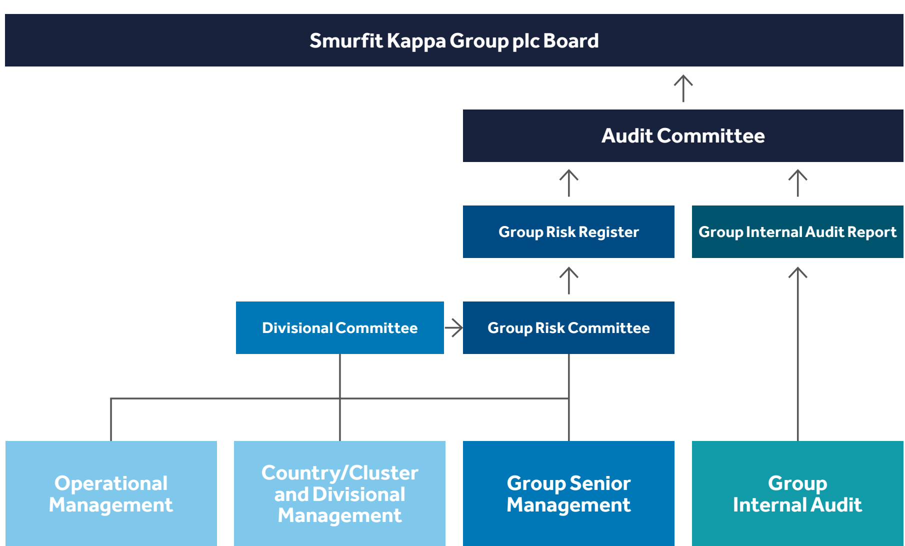
Our risk management framework comprises: operational management, who have responsibility for identifying, managing and mitigating risk within their local operations on a day-to-day basis; Country/Cluster and Divisional management who are responsible for oversight and monitoring; and Group senior management who are responsible for oversight together with the identification, management and mitigation of Group level risks. Group Internal Audit acts as an independent assurance provider.

RISK REGISTER PROCESS

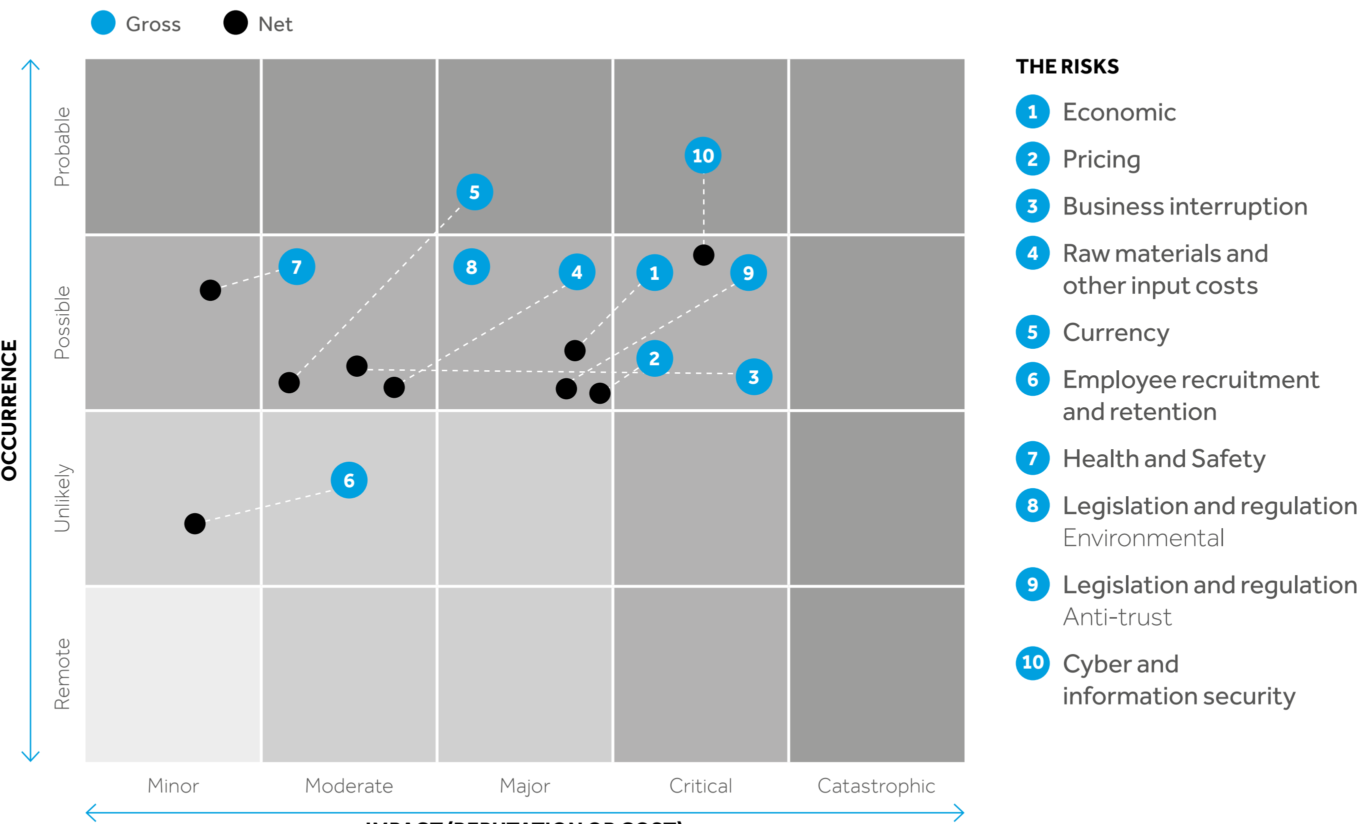
The Group's risk register process is based upon a Group standardised approach to risk identification, assessment and review with a clear focus on mitigating factors and assignment of responsibility to risk owners,

The risk registers incorporate risk profiling against Group defined risk categories which include; strategic, operational, environmental, legal, economic/political/market, technological and financial risks. Each individual risk identified is assessed based upon potential impact and likelihood of occurrence criteria. New or emerging risks are added to the risk registers as they are identified and assessed accordingly.

Risk Management Framework



Risk heat map



Gross Risk – absence of any mitigation.
Net Risk – after mitigation is taken into consideration.

Divisional management is responsible for reviewing the Country/Cluster risk registers and updating the Divisional risk registers accordingly, which are reviewed and approved by the Divisional risk committees before being submitted to Group management.

The Group risk register is updated to reflect any significant changes in the Divisional registers or Group level risks following consultation with the Group's subject matter experts. The Group Risk Committee reviews and assesses the Group Risk Register and identifies the principal risks. The Group Risk Register is then reviewed by the Audit Committee and the Board. Formal risk reporting timetables and structures are in place across the Group and are adhered to by Country/Cluster, Divisional and Group senior management.

VIABILITY STATEMENT

The Directors have assessed the prospects of the Group over a three-year period. The Directors consider this period to be appropriate as the Group's strategic business plan is devised and assessed over a three-year period in line with the cyclical nature of the business in which the Group operates. A three-year consolidated financial model was built using a bottom-up approach reflecting the Group's current position and including management's estimates of future profitability and assumptions for the Income Statement, Cash Flows and Balance Sheet. The model incorporates and considers the important indicators of performance of the operations of the Group; EBITDA, EBITDA margin, Free Cash Flow, Net Debt to EBITDA, Return on Capital Employed and Earnings per Share.

The Directors have undertaken a robust assessment of the principal risks facing the Group, as detailed in this section, which would threaten the Group's business model, future performance, solvency or liquidity. Using the principal risks identified, stress test scenario analysis has been applied to the Group's consolidated financial model to assess the effect on the Group's key indicators of underlying performance.

Based on the results of this analysis, the Directors confirm 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 three-year period of their assessment.

GOING CONCERN

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

KEY TO STRATEGIC OBJECTIVES

Market Position
Partner of Choice
Operational Excellence
Investment in People
Capital Allocation

KEY TO RISK TRENDS

Increased
Reduced
No change

Risk description	Mitigation	Trends

Economic

If the current economic climate were to deteriorate, especially as a result of Brexit or changes in free trade agreements, and result in an increased economic slowdown which was sustained over any significant length of time, or the sovereign debt crisis (including its impact on the euro) were to re-emerge or exacerbate as a result of Brexit or changes in free trade agreements, it could adversely affect the Group's financial position and results of operations.

- The Group supplies 60%–70% of its packaging to FMCG customers whose consumption volumes remain relatively stable through market downturns.
- The Group's customer base is spread across Europe and the Americas spanning 35 countries across multiple industries.
- The Group could significantly curtail capital expenditure and take additional cost cutting measures within a relatively short period as required.
- Stress testing for the viability statement indicates we will continue to have significant headroom on our covenants even in a sustained downturn.

Pricing

The cyclical nature of the packaging industry could result in overcapacity and consequently threaten the Group's pricing structure.

- As a highly integrated player, we are better able to cope with the effects of cyclicality and capacity additions than a pure paper or corrugated producer.
- Our differentiation programmes ensure we are at the forefront of the industry in developing cost-efficient solutions for our customers through performance packaging, quality management, supply chain optimisation and strong sustainability credentials. This service offering distinguishes the Group from pure commodity suppliers, providing a support for more stable pricing.
- Our continuous investment programmes in our operations ensure we remain competitive and have low cost mill systems. In an environment of overcapacity, our well invested, low cost mill system will enable the Group to continue economic production through a period of lower prices while higher cost mills will be forced to shut.

Business interruption

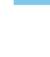
If operations at any of the Group's facilities (in particular its key mills) were interrupted for any significant length of time, it could adversely affect the Group's financial position and results of operations.

- The Group ensures that all facilities have adequate insurance to mitigate the impact of significant interruption.
- Operational contingency plans are in place for all mills and plants in the event of a shutdown, which have been demonstrated to work during shorter interruptions in the past.
- In Europe, the Group has a network of operations which can facilitate the transfer of significant volume to other mills in the event of a shutdown. Furthermore, our European Paper Sourcing operation centrally coordinates all external paper purchases for the European operations.
- There is continuous investment in a rigorous programme of preventative maintenance for all key mills and other plants.

Raw materials and other input costs

Price fluctuations in raw materials and energy costs could adversely affect the Group's manufacturing costs.

- The Group maintains a dedicated purchasing function which has responsibility for all input costs and ongoing cost reduction programmes.
- The Group maintains a strong supply arrangement for approximately 76% of its recovered fibre requirements which provides it with security of supply for its primary raw material while maintaining an optimum level of flexibility with respect to pricing.
- In line with the usual time lag, the Group would expect implemented containerboard price increases to support corrugated price recovery of increased input cost.
- A proactive policy of forward pricing is in place which is designed to minimise where possible material short-term volatility in energy price risk within approved parameters.
- The Group continually invests in a range of cost reduction projects, primarily in the areas of energy and raw material efficiency that can deliver demonstrable economic returns.



Currency

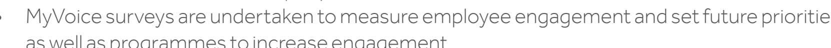
The Group is exposed to currency exchange rate fluctuations.

- The Group ensures that short-term trading exposures are hedged and where practical local operations are financed as much as possible in local currency.
- The Group continually monitors and manages its foreign currency exposures for all countries and constantly seeks opportunities to reduce these exposures. The Group Treasury Policy sets out rules and guidance for managing this area.

Risk description | **Mitigation** | **Trends**

Employee recruitment and retention

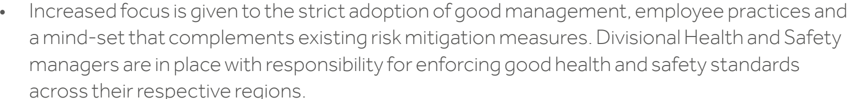
The Group may not be able to attract and retain suitably qualified employees as required for its business.



- Continuous development by our HR department of a People Strategy to attract, engage, train, motivate and retain our people.
- MyVoice surveys are undertaken to measure employee engagement and set future priorities as well as programmes to increase engagement.
- Processes in place to identify and develop our high potential people together with a continuous focus on leadership training and succession planning.
- Development of our existing competitive remuneration packages and review processes.
- Reinforcement of our talent recruitment strategy (universities, graduate programmes, etc.), to attract highly talented people with the potential to become the future leaders of the Group.

Health and Safety

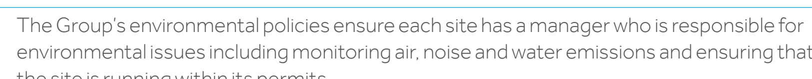
Failure to maintain good health and safety practices may have an adverse effect on the Group's business.



- Health and Safety is a core consideration in all management reviews. The protection of the health and safety of the workforce is a continual focus in an industry with a broad profile of hazards.
- Increased focus is given to the strict adoption of good management, employee practices and a mind-set that complements existing risk mitigation measures. Divisional Health and Safety managers are in place with responsibility for enforcing good health and safety standards across their respective regions.
- The Group has an established formal practice of investigating accidents and preparing safety bulletins which are shared across divisions.

Legislation and regulation – Environmental

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.



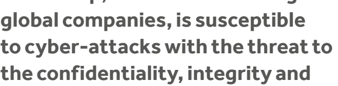
- The Group's environmental policies ensure each site has a manager who is responsible for environmental issues including monitoring air, noise and water emissions and ensuring that the site is running within its permits.
- The Group's environmental management is in contact with appropriate local authorities and environmental upgrades are made in consultation with them.
- All our paper and board mills are operated under an EMS (Environmental Management System) (ISO 14001).
- We continuously invest in our operations, to ensure compliance with environmental legislation.
- The Group has an IT reporting system in over 300 sites ensuring environmental data is reported on a regular basis.
- The Group has a centralised co-ordination of all environmental activity providing a key interface to the EU, supported by a committee of senior executives who meet regularly to review such issues, and report directly to the CEO.

Legislation and regulation – Anti-trust

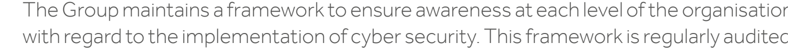
The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates.

- Group Competition Law Compliance Policy is in place and communicated to all employees. All senior management and market-facing employees are required to formally confirm adherence to the policy by signing a Competition Law Compliance Certificate on an annual basis.
- Group General Counsel advises and supports employees and management in this area.
- Regular communication and promotion of Competition Law Compliance and other similar legislation to staff and local management.
- Continuous process to ensure understanding of issues and implications of regulatory and legislative amendments.

Cyber and information security



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.



- Formally documented policies in relation to information security including cyber security are in place.
- The Group maintains a framework to ensure awareness at each level of the organisation with regard to the implementation of cyber security. This framework is regularly audited.
- Specific controls are in place to prevent and detect security issues relating to business critical systems.
- Defined business continuity and IT disaster recovery plans are in place and are frequently tested.
- The Group is committed to ongoing capital expenditure as appropriate to continually enhance the IT infrastructure.

STRONG PERFORMANCE WITH CONTINUED EXPANSION

The significant uplift in both our absolute EBITDA and EBITDA margin reflects paper and corrugated as an integrated system, delivering consistency and stability of earnings, our customer focus, our innovation and our unique culture. We continue to make smart investments and to deploy capital effectively, hence our ROCE has grown to over 19%. Equally we have reduced our leverage multiple to 2.0 times reflecting our financial discipline.

€574m
Amount invested in our business in 2018

€500m
Average capital spend over the last three years

€8,946m
Revenue 2018

€1,545m
EBITDA 2018

261
Operations in Europe

Revenue for 2018 was €8,946 million compared to €8,562 million in 2017. The year-on-year increase of €384 million equated to 4% and reflected higher reported revenue in Europe, partly offset by lower revenue in the Americas as the result of negative currency movements and the deconsolidation of our Venezuelan operations in August 2018. Group revenue was reduced by net negative currency movements, primarily in the Americas, and the Venezuelan deconsolidation and disposals. It was increased by a positive hyperinflationary adjustment and the contribution from acquisitions, principally Reparenco. The resulting underlying move was an increase of €618 million or over 7%, with growth in both regions.

EBITDA for 2018 was €1,545 million compared to €1,240 million in 2017. The year-on-year increase of €305 million equated to 25%, with earnings growth in both Europe and the Americas, partly offset by higher Group Centre costs. The underlying move in EBITDA was an increase of €335 million, equating to 27%, with higher earnings in both Europe and the Americas.

EUROPE

The Europe segment is the larger of the Group's two segments, accounting for 77% of its revenue and 82% of its EBITDA in 2018. It comprises primarily our integrated containerboard mills and corrugated operations as well as the bag-in-box and solidboard businesses.

Following the closure of our only operation, a corrugated sheet plant, in Finland in 2018 and the acquisition in early 2019 of the FHB containerboard mill and the Avala Ada corrugated plant in Serbia and a corrugated plant in Bulgaria, the Group currently has facilities in 23 countries in Europe. These comprise 22 mills (of which 17 produce containerboard), 193 converting plants (the majority of which produce corrugated packaging products) and 28 other production facilities carrying out related activities. The mills are supported by 16 recovered fibre collection facilities and two wood procurement operations.

The Group's European containerboard mill system consists of three kraftliner mills in Sweden, France and Austria, which between them produced approximately 1.6 million tonnes of brown and white kraftliner in 2018 and, including the FHB mill, 14 recycled containerboard mills. In 2018, our then 13 recycled containerboard mills produced over 3.2 million tonnes of paper, including over 160,000 tonnes at the Parenco mill, which we acquired in July 2018. The Parenco mill also produced 120,000 tonnes of graphic paper in 2018.

We also have two virgin fibre based mills in Spain, which in 2018 produced approximately 150,000 tonnes of sack kraft paper and 80,000 tonnes of machine glazed ('MG') paper. In 2018, our then four other recycled mills in Germany together produced approximately 410,000 tonnes of solidboard and boxboard (including over 60,000 tonnes at the Baden Karton mill prior to its sale in June 2018) and 80,000 tonnes of graphicboard in 2018.

On the conversion side, the operations comprise 52 sheet plants and 109 corrugated plants which produced approximately 8.6 billion square metres (4.5 million tonnes) in 2018. In addition, we have 32 plants which produce high-end differentiated packaging products such as litho-laminated corrugated products, display units and solidboard-based packaging, all of which extend the range of the packaging solutions in our portfolio. Our converting operations are supported by a number of other small plants producing pre-print packaging, fulfilment activities and other packaging related products. Our European-managed bag-in-box operations comprise eight plants located in Europe, Argentina, Canada and Mexico.

Revenue for the Europe segment was €6,922 million in 2018 compared to €6,404 million in 2017, with underlying growth of €450 million, equating to 7%, and the contribution from acquisitions, partly offset by the impact of disposals and negative currency movements, principally in respect of the Swedish Krona, the Russian Rouble and Sterling.

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Operations in the Americas

Volume growth and continued input cost recovery together with the benefits of our capital spend programme delivered growth of €312 million, equating to 33%, bringing our European EBITDA to €1,267 million in 2018 compared to €955 million in 2017. The underlying year-on-year increase in EBITDA was €285 million. With a relatively larger increase in EBITDA than in revenue, the EBITDA margin was 18.3% in 2018 compared to 14.9% in 2017.

Our European box volumes grew by 2% year-on-year, with France, Portugal, Russia, Scandinavia, Spain and Eastern Europe offsetting a softer performance in the Benelux, Germany, Italy and the United Kingdom. The Group also prioritised input cost recovery during the year which impacted corrugated demand in certain countries.

Reversing a significant headwind in 2017, the price of recovered fibre in our European business was down 27% year-on-year in 2018, broadly returning to long-term average price levels. The Group expects recovered fibre prices in the region to remain stable in the short-term and to trend upwards in the longer term.

The European pricing for both testliner and kraftliner were relatively stable through 2018. With market increases for both grades in the first quarter, prices for recycled containerboard reduced in the fourth quarter ending the year flat with kraftliner up for the same period.

Input cost recovery in corrugated pricing continued into the second half of 2018 and was at the upper end of our expectations as we finished the year.

In the latter part of 2018, the Group commenced a cost reduction programme across its operations. These actions will help reduce our fixed labour costs, the benefits of which are in addition to those outlined in our Medium-Term Plan.

THE AMERICAS

Following the deconsolidation of our Venezuelan operations, the Group's operations in the Americas consist of 12 paper mills in five countries (Argentina, Brazil, Colombia, Mexico and the United States) producing containerboard, boxboard and sack paper with a combined production of 1.6 million tonnes in 2018. The mills are supported by 22 recovered fibre facilities in seven countries and forestry operations in Colombia. We have 40 corrugated plants in nine countries with a 2018 production of approximately 2.3 billion square metres (1.3 million tonnes). We also have 12 other converting plants in six countries producing mainly paper sacks or folding cartons, a preprint facility and three foam packaging plants in Mexico, and a flexible packaging plant in El Salvador. Prior to their deconsolidation, our Venezuelan operations produced approximately 50,000 tonnes of paper and board and 20 million square metres of corrugated in 2018.

The Group's Americas business continues to provide geographic diversification and growth opportunities. Revenue of €2,024 million in 2018 was €134 million lower than in 2017, with underlying growth more than offset by net negative currency and hyperinflationary movements and the impact of the deconsolidation of Venezuela. On the other hand, underlying year-on-year growth of €63 million drove the increase in EBITDA from €311 million in 2017 to €317 million in 2018, a year-on-year increase of 2%.

The EBITDA margin in the Americas continues to recover and increased to 15.7% in 2018 from 14.4% in 2017. Underlying revenue growth for the year was 8%, driven by volume growth of 2% and price recovery initiatives following on from the significant containerboard price increases incurred through 2017 and 2018.

The overall performance was driven by Colombia, Mexico and the United States, which together accounted for 85% of the region's earnings in 2018. The combined EBITDA margin for these three countries was up approximately 230 basis points year-on-year as they grew corrugated volumes, recovered input costs and progressed mill investments.

In Colombia, earnings benefited from a 7% year-on-year increase in corrugated volumes together with corrugated price recovery. Strong performances in the FMCG and flower sectors drove the growth while we saw acceleration in agriculture related volumes through the latter part of the year. The country also benefited from the continued ramp-up of the Papelsa Mill expansion project where we expect continued improvement in 2019.

In Mexico, we saw significant improvement on both an absolute EBITDA and EBITDA margin basis. The Group saw positive volume growth for the country with a strong performance in the legacy business through the year and a strong fourth quarter for the border region. The region has benefited from the continued ramp-up of the Los Reyes Mill investment, which on top of providing incremental containerboard for integration, also provides lightweight containerboard capacity to enhance the delivery of performance packaging to our customers.

In the United States, our margins and profitability improved as we progressed through 2018 with a step up in the second half both year-on-year and sequentially. Further corrugated price recovery coupled with the exceptional performance of our Texas mill were the chief contributors to this improvement. Box volumes were lower due to some rationalisation projects in our operations in California, but showed some good growth in the second half of the year.

Our Brazilian business continues to perform in line with expectations with good volume growth in the second half of the year. The Group's Argentinean business had a strong year from a volume growth perspective, despite the country being impacted by inflationary pressures.

THE GROUP'S BALANCE SHEET CONTINUES TO PROVIDE CONSIDERABLE FINANCIAL STRATEGIC FLEXIBILITY

Net debt/EBITDA at 2.0 times (well within our stated leverage range of 1.75x to 2.5x through the cycle), was down from 2.3 times at the end of 2017. The progress on leverage was achieved in a year where we invested almost €1 billion in the business through acquisitions and internal projects.

Revenue for 2018 was €8,946 million, up 4% on 2017, or 7% on an underlying basis. Revenue in Europe was up 8%, driven by volume growth along with progressive input cost recovery. On an underlying basis, revenue in Europe was up 7%. Reported revenue in the Americas was down 6%, predominantly due to currency and the deconsolidation of the Venezuelan operations. However, on an underlying basis, revenue in the Americas was 8% higher for the year.

European revenue rose by €518 million to €6,922 million in 2018, with underlying growth of €450 million and the contribution of €161 million from acquisitions, partly offset by disposals and negative currency movements, principally in respect of the Swedish Krona, Russian Rouble and Sterling. The increase in underlying revenue of 7% reflected box volume growth of 2% and continued input cost recovery in corrugated pricing.

Revenue in the Americas decreased by €134 million in 2018 to €2,024 million, with underlying growth of €168 million, equating to 8%, more than offset by net negative currency and hyperinflationary movements and the deconsolidation of Venezuela. The underlying increase was driven by volume growth of 2% and price recovery initiatives following on from the significant containerboard price increases implemented through 2017 and 2018.

EBITDA for 2018 was €1,545 million, €305 million or 25% ahead of 2017, with higher earnings in Europe and the Americas partly offset by higher Group centre costs.

At €1,267 million, EBITDA in Europe was €312 million higher than in 2017. This was driven by volume growth and continued input cost recovery, together with the benefits of our capital investment programme. With a contribution of €36 million from net acquisitions partly offset by a negative currency movement of €9 million, underlying earnings were €285 million (equating to 30%) higher than in 2017.

At €317 million, reported EBITDA in the Americas was €6 million higher than in 2017 with increased earnings across the region. For the year, 85% of the region's earnings was delivered by Colombia, Mexico and the United States as the countries grew corrugated volumes, recovered input costs and progressed mill investments in Colombia and Mexico. Allowing for negative currency and hyperinflationary movements of €37 million and the impact of the deconsolidation of Venezuela, the underlying year-on-year move in earnings was an increase of €63 million (equating to 20%).

Allowing for currency movements, hyperinflation, net acquisitions and the deconsolidation of Venezuela, the underlying year-on-year increase in EBITDA for the Group was €335 million, equating to 27%.

The reported year-on-year growth of €305 million in EBITDA was partly offset by an increase of €20 million in the overall charge for depreciation, depletion and amortisation. As a result, the Group's pre-exceptional operating profit increased by €285 million from €820 million in 2017 to €1,105 million in 2018.

Net pre-exceptional finance costs at €167 million were €52 million lower than in 2017, primarily as a result of a decrease in non-cash costs, with a positive swing of €35 million from a net currency translation loss on debt of €13 million in 2017 to a net gain of €22 million in 2018 as well as a decrease of €12 million in the hyperinflation related net monetary loss. Cash interest at €149 million, excluding the exceptional finance costs of €6 million, was €9 million lower than in 2017 reflecting the benefits of prior-year refinancing.

With the combination of a €285 million increase in pre-exceptional operating profit and the €52 million decrease in net finance costs, the pre-exceptional profit before income tax of €938 million was €337 million higher than in 2017. The higher exceptional items, specifically the €1,270 million charge relating to the deconsolidation of Venezuela (including €1,196 million for currency recycling), resulted in a loss before income tax of €404 million in 2018 compared to a profit of €576 million in 2017. The non-cash exceptional charge related to currency recycling in the Consolidated Income Statement has a corresponding credit of €1,196 million to the Consolidated Statement of Comprehensive Income and in turn has no impact on the net assets or total equity of the Group.

The income tax expense was €235 million compared to €153 million in 2017, with the increase of €82 million in the expense largely reflecting moves in profitability and non-recurring tax credits.

The resulting loss for the financial year was €639 million compared to a profit of €423 million in 2017. Excluding the exceptional items (and the related tax charges/credits), the after tax profit for 2018 would be €696 million.

EXCEPTIONAL ITEMS

Exceptional items charged within operating profit in 2018 amounted to €66 million. These 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, an adjustment of €9 million in the United Kingdom, following the UK High Court ruling on equalisation of Guaranteed Minimum Pension and restructuring costs in Europe of €28 million. In 2017, exceptional items amounting to €23 million comprised impairment losses of €11 million relating to property, plant and equipment in one of our European mills and a corrugated plant in the Americas. The remaining €12 million related to reorganisation and restructuring costs in the Americas.

Exceptional finance costs of €6 million represented €4 million in respect of the fee payable to bondholders to secure their consent to the Group's move from quarterly to semi-annual reporting and €2 million representing 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. Exceptional finance costs of €2 million in 2017 represented the accelerated amortisation of the issue costs relating to the debt within our senior credit facility which was paid down with the proceeds of January's €500 million bond issue.

Exceptional costs of €1,270 million in relation to the deconsolidation of Venezuela were charged to the Consolidated Income Statement in 2018 as described further in Note 5 to the Consolidated Financial Statements.

PROFIT BEFORE INCOME TAX

After exceptional items, the Group's total loss before income tax amounted to €404 million in 2018, comprising the pre-exceptional profit of €938 million and a net exceptional charge of €1,342 million. In 2017, the total profit before income tax was €576 million, comprising the pre-exceptional profit of €601 million and a net exceptional charge of €25 million.

The year-on-year decrease of €980 million reflected the increase of €337 million in the pre-exceptional profit more than offset by a higher net charge for exceptional items, specifically the €1,270 million charge relating to the deconsolidation of Venezuela.

INCOME TAX EXPENSE

The income tax expense in 2018 was €235 million (comprising a current tax charge of €199 million and a deferred tax charge of €36 million) compared to €153 million (comprising a current tax charge of €191 million and a deferred tax credit of €38 million) in 2017.

The current tax expense was €8 million higher than in 2017, with an increase of €2 million in Europe and an increase of €6 million in the Americas. The increases arise primarily from higher profitability, offset by other timing items which are recorded in the deferred tax expense.

The movement in deferred tax from a credit of €38 million in 2017 to a charge of €36 million in 2018 includes the effects of the reversal of timing differences on which deferred tax liabilities were previously recognised, the use and recognition of tax losses and credits and a positive impact from tax rate reductions.

The income tax expense includes a €7 million credit in respect of exceptional items compared to a €6 million credit in 2017.

EARNINGS PER SHARE

The basic earnings per share amounted to a negative 273.7 cent in 2018 compared to a positive 177.2 cent in 2017. On a diluted basis, our earnings per share in 2018 amounted to a negative 273.7 cent compared to a positive 175.8 cent in 2017.

The year-on-year decrease in the Group's basic earnings per share reflected the lower profit before income tax, driven mainly by the impact of a higher charge for exceptional items primarily related to the deconsolidation of Venezuela. On a pre-exceptional basis, our earnings per share in 2018 increased by 58% from 185.3 cent in 2017 to 292.2 cent.

The earnings per share figures are calculated on the basis of the weighted average number of shares in issue during the year, which was 236,008,000 in 2018 compared to 235,369,000 in 2017.

Summary Cash Flow	2018 €m	2017 €m
EBITDA	**1,545**	1,240
Exceptional items	**(29)**	(12)
Cash interest expense	**(155)**	(158)
Working capital change	**(94)**	(112)
Current provisions	**(1)**	(2)
Capital expenditure	**(574)**	(430)
Change in capital creditors	**13**	(28)
Tax paid	**(193)**	(154)
Sale of property, plant and equipment	**4**	5
Other	**(22)**	(42)
Free cash flow	**494**	**307**
Share issues	**–**	1
Purchase of own shares (net)	**(10)**	(10)
Sale of businesses and investments	**(8)**	5
Deconsolidation of Venezuela	**(17)**	–
Purchase of businesses and investments	**(516)**	(63)
Dividends	**(219)**	(195)
Derivative termination receipts/(payments)	**17**	(6)
Net cash (outflow)/inflow	**(259)**	**39**
Net debt acquired	**(3)**	(6)
Deferred debt issue costs amortised	**(10)**	(12)
Currency translation adjustments	**(45)**	115
(Increase)/decrease in net debt	**(317)**	**136**

CASH GENERATION

Free cash flow in 2018 was €494 million compared to €307 million in 2017, an increase of €187 million. The increase in EBITDA was partly offset by an increase of €103 million in capital outflows (capital expenditure and the change in capital creditors) and by higher tax payments. The outflow relating to exceptional items was also higher in 2018 while the working capital outflow and the net outflow for other (mainly retirement benefits and hyperinflationary adjustments) were both lower.

Exceptional items resulted in an outflow of €29 million in 2018 compared to €12 million in 2017. The outflow in 2018 related to the cost of countering the unsolicited approach from International Paper, and the payment of part of the costs of the European restructuring programme. In 2017, the outflow related to severance and reorganisation costs in the Americas.

Cash interest of €155 million in 2018 included the exceptional finance costs of €6 million. Excluding these amounts, our cash interest amounted to €149 million in 2018 compared to €158 million in 2017. The year-on-year decrease reflects mainly lower average interest rates, partly as a result of the paydown in mid-June of the relatively higher cost 2018 senior notes.

The working capital outflow in 2018 was €94 million compared to €112 million in 2017. The outflow in 2018 was the combination of an increase in debtors and stocks, partly offset by an increase in creditors. These increases reflect the combination of volume growth, higher European selling prices and lower OCC costs. Working capital amounted to €683 million at December 2018, representing 7.5% of annualised revenue compared to 7.3% at December 2017.

Capital expenditure in 2018 amounted to €574 million, equating to 138% of depreciation, compared to €430 million or 109% of depreciation in 2017. The higher level of expenditure was in line with the Medium-Term Plan, with 2018 being the first year of our accelerated investment programme.

Tax payments of €193 million in 2018 were €39 million higher than in 2017, predominantly due to higher profitability.

The 'other' net outflow of €22 million in 2018 comprised mainly an outflow in respect of employee retirement benefits and an offsetting hyperinflationary adjustment related inflow. In 2017, the outflow in respect of employee retirement benefits was partly offset by a considerably lower hyperinflationary adjustment related inflow.

Investment and financing cash flows in 2018 amounted to €753 million compared to €268 million in 2017. The year-on-year increase was driven mainly by the acquisition of Reparenco and dividend payments of €219 million (including €213 million to Group shareholders). Other outflows in 2018 comprised €10 million in respect of share purchases under the Deferred Annual Bonus Plan ('DABP') and €8 million in respect of the disposal of the Baden operations in Germany (including associated costs). The deconsolidation of Venezuela resulted in an outflow of €17 million while the termination of US dollar/euro cross currency swaps resulted in an inflow of €17 million, representing the foreign currency gain.

The outflow of €516 million for the purchase of businesses and investments related mainly to Reparenco, Papcart and Caradec with additional amounts for the buy-out of the Beacon and Fustelpack minorities and some deferred consideration for previous acquisitions. The outflow of €63 million in 2017 related mainly to the acquisitions of Soyuz and Chatziioannou, the initial payment for the buy-out of the Fustelpack minority and the purchase of the assets of Litbag.

With our Free Cash Flow of €494 million in 2018 more than offset by the net investment and financing outflows of €753 million, the result was a net outflow of €259 million compared to an inflow of €39 million in 2017. After the amortisation of deferred debt issue costs, net negative currency translation adjustments of €45 million and net debt acquired of €3 million, net debt increased by €317 million to €3,122 million at December 2018 from €2,805 million at December 2017.

The net negative currency translation adjustments of €45 million in 2018 related mainly to the US dollar. The dollar strengthened from US$1.20/euro at December 2017 to US$1.15 at December 2018, resulting in a negative currency translation adjustment of €32 million. The net positive currency translation adjustments of €115 million in 2017 also related mainly to the US dollar, with its relative weakening against the euro reducing the value of our dollar denominated debt. The dollar weakened from US$1.05/euro at December 2016 to US$1.20 at December 2017, resulting in a positive currency translation adjustment of €99 million.

With net debt of €3,122 million and EBITDA of €1,545 million, our leverage ratio was 2.0 times at December 2018 compared to 2.3 times at December 2017. The improvement in our leverage was driven primarily by the increase in EBITDA, offsetting the increase in net debt.

CAPITAL RESOURCES AND LIQUIDITY

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,499 million (2017: €4,385 million) of which €3,466 million (2017: €3,230 million) was utilised at 31 December 2018. The weighted average period until maturity of undrawn committed facilities is 1.6 years (2017: 2.4 years).

Net debt/EBITDA at 2.0 times was down on the 2.3 times at the end of 2017. After adjusting for acquisitions, the pro-forma leverage was 1.93 times. The progress on leverage has to be placed in the context of a year with almost €1 billion invested in the business through acquisitions and internal projects.

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.

In line with the Group's ongoing credit strategy of further extending maturity profiles, diversifying funding sources and increasing liquidity, the Group has undertaken a number of actions in 2018 and January 2019.

In March 2018, the Group repaid €82 million of amortising Term A Facility borrowings under the terms of the senior credit facility. In June 2018, the Group amended its €240 million receivables securitisation programme, which utilises the Group's receivables in France, Germany and the United Kingdom, reducing the facility to €230 million, extending the maturity from 2019 to 2023 and reducing the variable funding notes margin from 1.4% to 1.2%. Also in June 2018, the Group completed the redemption of its €200 million 5.125% senior notes due 2018 and US$300 million 4.875% senior notes due 2018. The Group funded the redemption by drawing on its revolving credit and securitisation facilities. In November 2018, the Group increased its €175 million receivables securitisation programme, which utilises the Group's receivables in Austria, Belgium, Italy and the Netherlands, to €200 million.

In June 2018, the Group issued €600 million of 7.5 year euro denominated senior notes at a coupon of 2.875%. The net proceeds of the offering were used in July 2018 to fund the Reparenco acquisition and reduce borrowings under the Revolving Credit Facility ('RCF'). In January 2019, the Group successfully priced a €400 million add-on offering to this bond issue at a price of 100.75 giving a yield of 2.756%. Also in January 2019, the Group completed a new 5-year €1,350 million RCF with 21 of its existing relationship banks. The new RCF refinances the Group's existing senior credit facility which was due to mature in March 2020.

At 31 December 2018 (pro-forma for our January 2019 financing activity), the Group's average interest rate was 3.7% compared to 4.1% at 31 December 2017. The Group's diversified funding base and long dated maturity profile of 4.6 years (pro-forma for our new RCF and €400 million note issuance) provide a stable funding outlook. In terms of liquidity, the Group held cash balances of €417 million at the end of the year, which was further supplemented by available commitments under its new RCF of approximately €930 million.

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.

MARKET RISK AND RISK MANAGEMENT POLICIES

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

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. As at 31 December 2018, the Group had fixed an average of 79% (86% pro-forma for our refinancing transactions undertaken in January 2019) of its interest cost on borrowings over the following twelve months.

At 31 December 2018, fixed rate debt comprised €400 million 4.125% senior notes due 2020, €500 million 3.25% senior notes due 2021, €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 and €600 million 2.875% senior notes due 2026. In addition, the Group had €224 million in interest rate swaps converting variable rate borrowings to fixed rate with maturity dates ranging from January 2019 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 €6 million over the following twelve months. Interest income on the Group's cash balances would increase by approximately €4 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

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

CONCLUSION

The Group made significant progress in its Medium-Term Plan during the year with over €450 million of projects approved. The acquisition of Reparenco in the Netherlands in July represented an early and significant achievement in our plan, which is in addition to the capital expenditure progress. The balance sheet, as it is today, is well positioned to support the plans we have in place as part of the Medium-Term Plan.

Ken Bowles
Group Chief Financial Officer

SUSTAINABILITY IN EVERY FIBRE

Sustainability is a central part of SKG's business strategy. As a customer-oriented, market-led company, the satisfaction of customers, personal development of employees and respect for local communities and the environment are all inseparable from our goal of creating value for the shareholders.

In their daily lives, people need food, clothing and household goods. Robust, paper-based packaging will protect these from damage and waste, while delivering them in an efficient and sustainable way. Estimated global population growth, from seven billion today to nine billion in 2050, will offer significant business opportunities and challenges to companies such as SKG. In response to rising global wealth and wellbeing, commerce will change and worldwide demand for packaging goods and services will continue to grow.

Since its foundation over 80 years ago, the circular economy has been at the core of the Group's business, and we intend to maintain our leading role as it becomes the industry standard. Climate change, limited natural resources, a growing population and an uneven distribution of wealth, are pressing global challenges that will require a response from industry. At SKG, these factors are the foundation of our circular model: sustainably sourcing our key raw materials, minimising our operational impact, and lowering the environmental footprint of our customers and consumers.

Working towards global sustainability gives business new opportunities, while requiring us all to set common targets. The UN Sustainable Development Goals ('SDGs') offer both, and SKG will play its part in making them a reality. In our materiality assessment, we compared the SDGs against our business strategy and policies, as well as against stakeholder expectations. This allows us to strategically build on opportunities and minimise risks within the sustainability context. The SKG approach to SDGs has been introduced in our Sustainable Development Report.

The cornerstone of our sustainability strategy, as with all our work, is our Code of Business Conduct. Our starting point is that all of our sites operate within their permits. This we actively monitor through our environmental data collection, including information on permits, incidents and fines. We continuously invest in our sites to keep them state-of-the-art and proactively follow environmental legislative developments to ensure compliance. We focus our sustainability efforts on five strategic priorities, identified through a robust materiality assessment process. A deeper look into these in the context of the Non-Financial Reporting Directive is set out overleaf.

Our Sustainability Priorities

	FOREST	CLIMATE CHANGE	WATER
PRIORITIES	Promoting sustainable forest management involves managing supplies of sustainable, renewable fibre, while protecting ecosystems and creating employment in rural areas. Virgin wood fibres will always be needed for paper production to maintain quality. Fibre can be recycled around eight times when producing our paper-based packaging products. It is why using renewable wood fibre, paper recovery and fibre recycling is at the core of our circular economy approach. Furthermore, as our stakeholders, customers and investors expect, we communicate our impact in a transparent way.	Climate change presents a global risk to society and business. To counter rising global temperatures, carbon neutrality by mid-century is considered vital. Paper making with current available technology is still energy intensive. We are achieving CO_2 emission reductions by improving our energy efficiency, as well as by changing from fossil fuels to bio-based energy wherever possible.	Clean fresh water is an increasingly scarce commodity, and often cited by our stakeholders as an important sustainability issue. We need large volumes of fresh water to produce our products, and even though we release over 90% of the water we use back to the environment, availability of fresh water is still essential to us.
RISKS AND OPPORTUNITIES	As growing consumption increases pressure on resources, society places increased value on sustainable consumption and production, integrity of origin, recycling, and avoiding litter. Fit-for-purpose packaging has never been more important. We are implementing forest certification and Chain of Custody certification to guarantee origin traceability. Using both recycled and virgin fibres in production, we intend to use this opportunity to deliver fit-for-purpose packaging with the best overall environmental footprint for each product.	Climate change poses different risks and opportunities within the value chain. Risks vary from extreme weather affecting our sites, to pressure on availability of raw materials. The circular economy is also an opportunity for our business, as we seek to use resources efficiently. We are also investing in technology to reduce our energy demands. Finally, we are improving resource efficiency when producing paper products and optimising the use of raw material residual streams, such as black liquor, in bioenergy production.	Our global assessment shows that only 13% of our paper production takes place in areas of water scarcity, representing 5% of our water intake. The discharge of our water before or after treatment can be a valuable input for some of our neighbours' processes. To help ensure that our water use is correctly understood, we became a signatory to the CEO Water Mandate, and strive to understand local water related risks and needs so we can address them as and if they arise.
OUR COMMITMENT	At Smurfit Kappa we have committed to promoting sustainable forest management at our sites and throughout our value chain. This means producing and sourcing our fibres, virgin or recycled, as Chain of Custody Certified. We have committed ourselves to delivering over 90% of our packaging solutions as Chain of Custody certified. We reached this target level in 2016 and our ambition is to maintain and improve this. Our result for the full year 2018 was 88.4%. However, we reached a level of 90.5% for the last quarter of 2018.	Our approach to the challenges of climate change and energy efficiency sets out to achieve more energy efficient production at our sites, lower energy use in manufacturing, and a switch from fossil fuels to biofuels wherever feasible. Our success is measured by our reduction in CO_2 emissions – we have committed to a 40% reduction in scope 1 and 2 fossil fuels based on CO_2 emissions in our mill system compared to 2005 levels by 2030. In 2018, we reached a 29% reduction in the specific CO_2 emissions per tonne of paper produced compared to 2005.	Our focus is on the long-term improvement of the quality of water we discharge, and understanding the risks associated with water availability and its use in the areas where we operate. To increase our global and local impact, we will continue to invest in water treatment facilities and require the same standards from all our paper mills, regardless of their location.

WASTE

Increasing scarcity of resources demands responsible production and consumption. Avoidance of waste is a key issue for our stakeholders and customers. Our products are specifically designed to prevent loss and damage to the goods they protect.

Our process itself is circular by nature. The fibres our products are made from are renewable, recyclable and biodegradable. 75% of our raw material is derived from recycled fibre and the remainder is from sustainable sources. Our production process itself generates almost no waste.

Avoiding packaging waste by simply focusing on packaging weight might be seen as a quick way to decrease landfill. This, however, can lead to more waste resulting from greater damage to goods or poor material choices. We see an opportunity to create fit-for-purpose, sustainable packaging with mono-material solutions designed for optimal performance and recyclability. We are also working with the recycling and paper producing industries to keep our raw materials in the recycling loop.

We have a strong focus on innovation. Our Better Planet Packaging initiative drives new efficiency solutions for our raw materials while keeping them in the recycling loop.

We also work towards the increased recovery of any waste delivered to us when recycling recycled fibre, ultimately to avoid landfill.

PEOPLE

EMPLOYEE STRATEGY

Smurfit Kappa unites some 46,000 people around the globe, our people are at the heart of all our operations. This includes those for whom we directly and indirectly create jobs, as well as those whose lives we impact. We can only achieve sustainable long-term success by relying on our people's talent, expertise and innovation.

A key challenge is attracting the right talent to ensure succession planning and leadership continuity, particularly for sites in rural locations, where the education needed may not be provided. Obstacles include low awareness of our business-to-business brand. This makes it even more important to gain recognition for our efforts in all aspects of sustainability: environmental responsibility, human rights, equal opportunities and fair pay – all important elements in the opportunity of being seen as a responsible, attractive employer for the best talent.

We want to empower all employees to reach our business objectives. We therefore:

- offer employees at all levels the chance to broaden their skillsets and knowledge, fulfil their potential and improve their career prospects;
- stimulate and encourage employee engagement through regular, company-wide surveys and follow-up;
- compensate fairly, review performance regularly and offer gender neutral career opportunities and pay; and
- maintain a good faith 'Whistleblower Code' for reporting any unethical or illegal conduct.

HEALTH AND SAFETY

Our stakeholders expect us to provide a safe and healthy working environment and promote a healthy and safe lifestyle. We are committed to maintaining a safe and productive workplace in every part of our Company by minimising the risk of accidents, injury and exposure to health hazards for everyone on our sites.

As an industrial business operating in 35 countries, we are responsible for the health and safety of a large number of people. Our size creates a challenge to maintain the same standards for all. At Smurfit Kappa we believe that health and safety extends from work to home, creating an opportunity to be acknowledged as a responsible employer. We engage our employees with policies and procedures to deliver, innovate and produce in a safe environment.

We are committed to maintaining a productive and safe workplace by minimising the risk of accidents, injury and exposure to health hazards for every employee and all sub-contractors. To measure our success, we committed to reducing our TRIR by 5% annually. 2018 was the first year for this target and sets the baseline, which is 1.01.

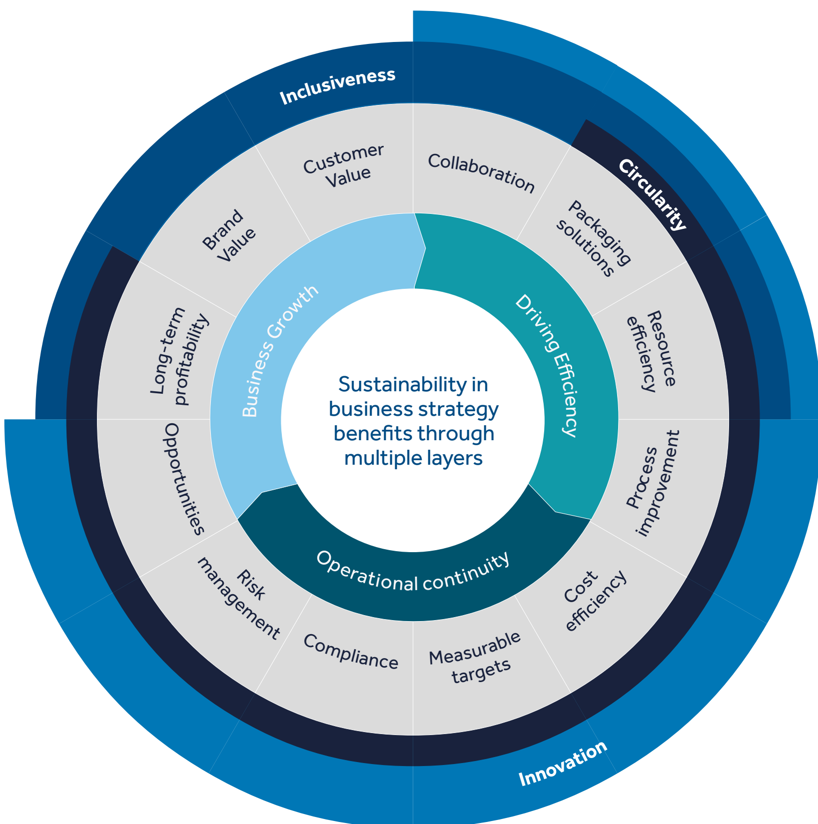
COMMUNITIES

Our impact is not only on the people we work with. Our responsibilities extend beyond, to supporting local economies and livelihoods, especially in areas with limited opportunities for work and where we are significant employers.

We see ourselves as a 'corporate citizen' in the communities in which we're privileged to operate. All around the world we actively support positive and lasting changes. If we were not concerned about our locations, we would risk damaging our license to operate. By supporting local education, income generation, collaboration and participation, we can strengthen communities and keep them attractive to our future workforce. The opportunity is to participate in communities, making it attractive for the best talent to join us.

Across Smurfit Kappa we are committed to the communities in which we operate, and our Foundations empower people to improve their lives. Where the cycle of poverty and dependence is an issue, we aim to help end this, strengthening communities around the world.

As a responsible business, we support global human rights and labour standards, and check that our suppliers do too. We are committed to ethical business standards; we work against corruption in all its forms, including extortion and bribery (see Code of Business Conduct on the Group's website).



SKG reports annually on its sustainability performance – the 2018 Sustainable Development Report will be published in May 2019. SKG published its eleventh Sustainable Development Report in May 2018, and it can be found at our website: smurfitkappa.com. All previous Sustainable Development Reports are also available. The Group's Sustainable Development Reports provides an overview of SKG's performance against its long-term sustainability commitments and sustainability strategy.

SKG is committed to the principles of the UN Global Compact and reports in line with the Global Reporting Initiative ('GRI') G4 comprehensive criteria, against which our sustainability data and reporting has been assured for nine years (the 2018 report will be the 10th assured report). This provides transparency in SKG's operational reporting and guarantees our credibility to stakeholders, especially customers, investors and the communities in which we operate.

CIRCULAR APPROACH BASED ON EVIDENCE

For many years our operations and products have been based on a circular model inspired by our raw materials. Forests are a closed loop, from which we can positively benefit when they are used sustainably. Within our industry, SKG has pioneered full Chain of Custody, enabling us to sell over 90% of our products as FSC®, PEFC™ or SFI™ certified, driving a sustainable loop for our raw materials.

Having integrated paper recycling operations into our business, we can efficiently manage our raw material sourcing, ensuring good quality in each region. We take our producer responsibility seriously, using 100% renewable and recyclable fibre, and 90% of our final products are recovered and brought back into the recycling loop. Sustainably sourcing our fibres benefits us and our stakeholders: with 100% Chain of Custody certified raw material sourcing and production. We have traceability systems that comply with regulations, and with customer and investor requirements.

Unsustainable forests and fibrous raw material are the main risks to our stakeholders. We enhance our customers' brand value by guaranteeing risk-management through Forest Certification, and related Chain of Custody Certification. This leads to operational continuity and business growth for SKG.

SKG has led from the front on sustainability for the past decade. As part of that commitment to sustainable business practices, we have rigorously collected sustainability data on our operations for over ten years. We use this information to continually improve our process-efficiency and meet our sustainability targets, such as reducing CO_2 emissions. In our paper mills we are resource-efficient, using raw materials and their by-products to their fullest. Our Piteå mill in Sweden, our Facture mill in France, our Parenco mill in the Netherlands and our three Brazilian paper mills Bento, Pirapetinga and Uberaba, run almost entirely on biofuels derived from the wood-pulping process. In many mills, biogases from waste water treatment are fuel for heat and power production, and our Roermond mill has been internationally recognised for finding circular economy synergies with its neighbours.

Product development and innovation at SKG is data driven, with a proven scientific approach informing good business decisions. Data collected from our operations is combined with ongoing research and analysis of customer challenges and specific markets. We employ a range of tools, 'InnoTools', uniquely exclusive to SKG, enabling us to create the optimal fit-for-purpose packaging solutions for our customers, thereby adding value to their businesses. Furthermore, the InnoTools feed information to our customer value-added services: SupplySmart; ShelfSmart; and eSmart in the area of supply chain optimisation, brand growth and eCommerce.

We are proud of the transparency we offer our stakeholders, and the credibility that third-party assured data delivers. This strategy is integral to delivering business growth, operational continuity and efficiency. We deliver this by engaging and involving our employees in the processes.

CORPORATE CITIZENSHIP POLICIES

SKG has specific policies on key areas of sustainability which are integral to improving future performance. These cover Environment, Sustainable Forestry, Social Citizenship, and Health and Safety. These policies complement

other policies in place, covering: Good Faith Reporting, Code of Business Conduct, Code of Ethics for Senior Financial Officers, Group Financial Reporting Guide, Group Treasury Policy, Financial Monitoring Policy, Treasury Compliance Programme, and Competition Compliance Programme.

A report on Corporate Governance is detailed on pages 63 to 67 of this Report.

SOCIAL CITIZENSHIP

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

SKG applies the principles of respect for human rights, freedom of association, fair compensation, and diversity regardless of age, gender, sexual orientation, ethnic origin, disability or nationality. Merit is the key determinant in recruitment and promotion. SKG values open, constructive, regular and timely dialogue with its employees and their representatives, particularly in all matters affecting the business including safety, working conditions, profitability, business outlook, investment decisions or the terms and conditions of employment.

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

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

ANTI-BRIBERY AND ANTI-CORRUPTION

Our Group maintains a zero-tolerance policy regarding acts of bribery and corruption. We comply with all anti-bribery and anti-corruption laws in the countries where we conduct business, not only because it is our legal duty to do so, but also because it supports the commitment we make to conducting business ethically and honestly.

MODERN SLAVERY ACT

SKG is subject to the provisions of the UK Modern Slavery Act. In keeping with the United Nations Guiding Principles on Business and Human Rights and the Fundamental principles and Rights at Work developed by the International Labour Organisation, we are committed to the principles of respect, diversity, working fairly, fair pay, compensation and benefits and acquisition practices. They are maintained in every country in which we have a presence and are set out in our Code of Business Conduct, our Social Citizenship Policy Statement and our Sustainability Report. SKG has thousands of suppliers globally and we believe that our suppliers are an integral part of the value chain of our business. We are committed to working with our suppliers in accordance with our sustainability principles and objectives which highlight our requirements in the areas of compliance, performance risk management, social responsibility and governance. Maintaining transparent and long-term relationships with suppliers is essential for our business. This partnership approach ensures we can audit suppliers on their compliance and our sustainable supply chain standards and, where they fall short, work with them to improve sustainability in their business.

In recognition of the nature and concern about modern slavery, we are currently updating our principles and policies with respect to our employees and our suppliers to ensure compliance with the Modern Slavery Act. We will issue our updated statement under Section 54 of the UK Modern Slavery Act in June 2019.

HEALTH AND SAFETY

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

The SKG Health and Safety Policy statement states that:

"At Smurfit Kappa, we promote a health and safety culture founded on understanding, responsibility and accountability. Our vision is to operate with Health and Safety as a core value, not just a priority. We aim to continually improve our performance by adopting a structured systematic approach to the management of health and safety aspects supported by continual improvement of our systems".

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

The commitments within the revised Group health and safety policies are consistent with those of the internationally recognised OHSAS 18001 occupational health and safety system specification. Every facility in SKG adopts a suite of good health and safety management systems designed to protect employees, visitors to its sites, contractors and the public at large from injury and ill-health.

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

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

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

The safety of every member of the workforce is a key consideration for the Group and we devote considerable time and effort to the management of health and safety aspects so that the employees and subcontracted workers

are aware of and follow the appropriate protective procedures.

The Group health and safety performance improved again in 2018 with a further reduction in the number of Lost Time Accidents compared to previous years due to a number of health and safety measures and initiatives implemented across the Group. The Group introduced the TRIR as a key performance indicator to further improve the measurement of the success of its health and safety efforts.

For details on this KPI see page 30.

SKG is committed to making continuous advances in its health and safety management processes. We regularly perform a comprehensive health and safety verification and audit process tailored specifically to our global operations. Based on its internal health and safety standards, this audit process verified the presence of the appropriate protective measures.

COMMUNITIES

We engage in the communities in which we are located, and strive to be seen as a good corporate citizen. We are transparent about our activities, and our operations have an open-door policy for different stakeholder groups.

SKG invests significantly in its host communities, contributing to economic and social development. Internally and externally, we adhere to high ethical and professional standards, making the well-being and safety of people a priority within and outside our organisation.

Community involvement builds trust and improves communication. This plays a positive part in our development, and mitigates risks related to operational continuity. In our charitable work, we focus on self-help initiatives, education and health programmes for the less advantaged and especially for young people.

FOCUS ON CULTURE SUPPORTING OUR STRATEGY

SKG has grown, to a significant extent, through the acquisition of strategically compatible companies and operations around the world. We have a strong record of integrating people and assets and we ensure that local entrepreneurship and performance is maintained by encouraging local decision making with strong central disciplines covering strategic, people, financial and capital allocation.

Local management's performance is assessed against a range of key financial, operational and strategic performance measures and they are incentivised accordingly. We have an experienced and proven senior management team comprising 11 nationalities with over 23 years of experience managing through several industry cycles. Underpinning all this is the SKG culture which has evolved and adapted over the years.

At SKG we recognise that culture plays a fundamental role in the delivery of our strategy and the Board is ultimately responsible for ensuring that our activities reflect the culture we wish to instil in our colleagues and other stakeholders to drive appropriate behaviours. Our focus on culture is continuous, which helps us to adapt to a changing environment and ensure our culture supports our business model. The Board is committed to promoting a strong and positive culture that is aligned with strategy and strives to meet the following guiding principles:

- Safety
- Loyalty
- Integrity
- Respect
- Teamwork
- Entrepreneurship
- Inclusion and Diversity
- Recognition
- Performance
- Accountability

At the Board, there is a clear emphasis on setting the tone from the top and leading by example. The Board recognise that it is equally important that our culture is shared and understood by all our people and our external stakeholders.

STAKEHOLDER ENGAGEMENT

One of our goals is to build a culture in which we fully understand our stakeholders – customers, colleagues, suppliers, shareholders and the communities in which we operate – and what matters to them, and then act by changing and innovating to meet their needs. We are proactive

in ensuring that such dialogue takes place and that the feedback forms part of the Board's decision-making process.

By promoting a more inclusive approach to stakeholder engagement and encouraging a willingness to listen to different voices and influences, we support openness and accountability in delivering the long-term sustainable success of the Company. We do not consider stakeholder engagement a burden but an opportunity to get an 'outside-in' view of SKG which plays a key role in developing our strategy to meet the shifting expectations of our stakeholders and society as a whole while investing in our people and generating returns for all stakeholders where possible. Each year we publish a Sustainable Development Report which highlights our progress in this area.

OUR PEOPLE

The Board has ultimate responsibility for ensuring that workforce policies and practices are in line with the Company's purpose and values, and support the desired culture (see our People report on pages 54 to 59). SKG has a Code of Business Conduct that is promoted worldwide and applies to the Board and all employees. The Board receives reports throughout the year on stakeholder issues and concerns, including details of our Group-wide employee engagement surveys. We have always placed our people at the forefront of our decision-making and welcome the latest revisions to the UK Corporate Governance Code, which shine a greater focus on the importance of employees and their views to the successful operation of business.

As detailed on pages 54 to 59, we have developed a People strategy to attract, engage, develop and retain the highest calibre individuals. While this strategy is a fundamental aspect of our culture, the Board also makes considerable effort to remain appraised of all key developments in human capital management.

A company with a strong culture and an engaged workforce generates higher productivity and growth, as well as being able to innovate at a greater pace to satisfy customers.

One of the key aspects of our employee engagement is our My Voice survey, which provides employees with an opportunity to voice opinions on their own work, the work of others, the environment in which they operate, areas in which we excel and, most importantly, areas in which we can improve. The feedback from this engagement survey provides the Board with a picture of how we are doing as an organisation. However, it is not the only insight we provide to senior management and the Board. Among other areas, the Group monitors:

- turnover and absenteeism rates;
- training information;
- recruitment, reward and promotion decisions;
- good faith reporting and grievance cases;
- board interaction with senior management and workforce;
- health and safety data;
- promptness of payments to suppliers;
- attitudes to regulators, internal audit and employees; and
- exit interviews.

There is, however, no substitute for direct interaction with employees to ensure we understand our culture. Every year, the Board visits a number of operations and the Chair also makes a number of visits to operations around the world, with employees encouraged to engage with Board members and the Chair during the visits.

Drawing insight from multiple quantitative and qualitative sources helps guard against forming views based on incomplete or limited information and our people remain the most insightful source of information into the culture of the Company.

GOOD FAITH REPORTING

Having policies in place that encourage individuals to raise concerns is a core part of an ethical and supportive business culture. Such policies are designed for circumstances when attempts to resolve issues internally have not been seen to work. We have robust processes in place that offer effective protection from retaliation. We also have policies that support anti-bribery and corruption legislation.

SHAREHOLDERS

Openness, engagement and transparency are at the heart of our culture, and the Board is committed to ongoing dialogue with shareholders to enable clear communication of our objectives and to foster a mutual understanding of what is important to the Board and our shareholders. On an annual basis, we engage with institutional shareholders outside of the normal investor relations process, with discussions primarily focused on strategy, corporate governance and sustainability.

In addition, we engage with our shareholders through the regular calendar of events including results, investor roadshows and general meetings. The Board is continually appraised of shareholder interaction by the Investor Relations team.

In assessing and monitoring culture, the Board draws on existing capabilities within the organisation. Human resources, sustainability, internal audit, risk and compliance each play a role in the Board's monitoring of our culture, and an understanding of how behaviours drive superior performance. These steps allow the Board to continually capture relevant information about the evolution of our culture and, if necessary, to take steps to enhance and protect it for the benefit of all our stakeholders.

A GREAT PLACE TO WORK

We are committed to being a company recognised as a 'Great place to work' by our current employees and as an 'Employer of choice' by potential candidates. We are achieving this through a progressive journey involving all people, processes and activities and closely aligning this with the overall mission and strategy of the organisation.

We have developed a People Strategy which is a key facilitator for achieving SKG's short and long-term business targets, and is based on six main pillars and a number of foundations.

Each of the pillars and the specific actions related to these during 2018 are described in detail in this section:

"Encouraging and boosting the talent of our entire workforce is at the heart of our HR strategy. We are committed to offering all of our employees the opportunity to broaden their skill set, develop and reach their full potential no matter what role they have within the organisation. In order to facilitate this, we have built, over a number of years, a solid platform of best-in-class programmes in many key areas of human resources which are contributing to the continuous development of our people.

Inclusion & Diversity is a major topic on our agenda and we have defined a clear action plan to make visible improvements over the years to come. We continue to implement actions to foster meritocracy, equality and respect while focusing at all times on the safety of each and every person working at Smurfit Kappa."

Gianluca Castellini
Group VP Human Resources

TALENT ATTRACTION

SKG aims at all times to match the right person to the right role. The underlying process is two-fold: ensuring that our existing talent is properly developed and that we are attracting new talent with the correct skill set and attributes.

The Group offers graduate programmes in a number of countries in which we operate. These programmes typically last two years and offer a number of challenging assignments and opportunities. The aim is to attract top talent in various disciplines and offer the candidates the prospect of a successful career at SKG.

We have recently launched a global Employer Brand 'Where will You take us', in order to convey the Company's employee value proposition to targeted talent, showing the unique opportunities that the Group offers in a unified manner.

During 2018, this employer branding campaign has been successfully used in various countries and locations for attraction activities (e.g. graduate/trainee programmes, university visits, job fairs) to invite talent to join SKG and shape the future of the Group. The campaign message is supported by a number of communications with the aim of promoting the enrichment and depth of diversity within SKG.

Graduate workshop – 2018 participants, Global Experience Centre, Amsterdam.

EMPLOYEE ENGAGEMENT

We believe that a company with engaged employees generates higher growth, faster innovation, greater customer satisfaction and improved results, and that employees thrive in a better working environment.

Employee Engagement is, for us, a continuous journey, with the consistent and lasting improvement of engagement levels being a long-term strategic priority. Our objective is to achieve consistent progression in the level of engagement across the Group. In the period since MyVoice 2014, the first global employee engagement survey, the Group has implemented over 1,000 actions across our operations based on local results.

The second MyVoice survey took place at the end of 2017 with the results disseminated in early 2018. The level of engagement in all regions improved. The majority of employees are committed to Smurfit Kappa, they are proud to be part of the Company and would not hesitate to recommend it as an employer. Safety continued to be the highest scoring engagement driver. Almost all our drivers showed improvements, particularly the focus areas of Leadership, Career Opportunities and Reward & Recognition, which were identified in 2014.

With a higher participation rate (> 80%), the MyVoice survey is constantly considered by our employees as a trusted tool for continuous improvement, helping to make Smurfit Kappa an even greater place to work.

3 PEOPLE DEVELOPMENT

As a company, our responsibility is to identify the individual talents of our people and offer them the opportunity to develop. Training and Development of our employees is a key objective for the Group.

We encourage our employees to embrace learning and to reach their potential through continuous training and personal development. We support several learning and development programmes at all levels in the organisation and promote opportunities for individual progression and learning activities.

Within our Smurfit Kappa Academy we have developed a range of programmes that have been built to support career progression for our talented employees:

- Graduate Workshop
- Advanced Management Development Programme ('AMD')
- Global Manager Programme ('GMP')
- Open Leadership Programme @ INSEAD business school
- Business Economics Training
- Management for Continuous Improvement
- English Immersion Programme.

Every year we assess the satisfaction level of the participants on our Group programmes in order to ensure that they are well structured to meet their expectations and needs. These programmes follow the employee lifecycle in the Company, from graduates who have recently joined the organisation, to high potential employees and those moving into management roles.

Overall in 2018, a total of 374 people attended group training events. Since 2000, 429 high-potential talents across the Group have successfully completed the AMD Programme and since its inception in 2012, 139 managers have completed the GMP. Also our Graduate Workshop is now run both in Europe and the Americas and to date 194 employees have attended.

In addition, at local level, both teams and individual employees are being trained according to local needs and local development strategies. The Group believes that learning never stops and we seek to ensure that our employees receive appropriate training and development.

AMD 2018 participants, Group HQ, Ireland.

OPEN LEADERSHIP PROGRAMME

The Smurfit Kappa Open Leadership programme is a three module leadership development programme which was rolled out in 2016 for the first time. Smurfit Kappa has partnered with INSEAD, one of the world's leading business schools, to design this fully customised programme based on the Smurfit Kappa Open Leadership model.

The Open Leadership model was created with input from Smurfit Kappa leaders at all levels in the organisation and identifies nine key capabilities that are considered vital in Smurfit Kappa to achieve sustained growth and long-term success. The model is organised under the following headings: Leading Self, Leading People, Leading the Organisation, Leading the Market.

Since its launch, 340 managers have participated in this programme. In 2018, 241 participants attended the programme over 7 events. Our plan is to continue this very successful initiative in the coming years. It is important that this programme has an impact on the organisation and that participants implement their learnings into their everyday lives and the business. In 2018, we launched our Open Leadership Programme impact survey to those who completed all three modules of the programme in 2016/2017. This survey will continue to evaluate the impact of the programme over the coming years.

We are confident that this programme will help align our leadership development practice to the highest international standards and that we will meet and exceed the development needs of our diverse SKG leaders.

Insead 2017, Participants, Fontainebleau (France)

INCLUSION & DIVERSITY

In Smurfit Kappa, we promote all forms of diversity at all levels of the organisation. We know that diversity is the only thing that we have in common. We take a bottom-up approach to inclusion and diversity and listen closely to our employees.

In 2018 a series of focus groups with a diverse cross-section of people were held to help us understand what makes a truly inclusive work environment.

Thousands of people's voices and opinions led us to creating our EveryOne inclusion and diversity programme. EveryOne means all of us; every single person who makes up Smurfit Kappa has something unique to give and hidden talents to unfold. EveryOne aims to make sure that each of us feels supported, accepted and respected in our daily work.

We believe in celebrating our diversity, our diverse cultures, diverse backgrounds and diverse ways of seeing the world. EveryOne asks that we all respect, support and accept each other and that we challenge our assumptions and keep our minds open every day. We have defined six key behaviours to promote inclusion in our day-to-day interactions with colleagues.

Tony Smurfit, Group CEO, and approximately 500 managers pledged their support for a master plan of actions designed to promote an inclusive, respectful and supportive workplace at the 2018 Smurfit Kappa Management Conferences in Berlin and Miami.

Our focus remains on the following three main areas in relation to inclusion and diversity:

- Attracting and retaining people who enrich diversity within the Group
- Ensuring the Group's culture and management systems are aligned with, and promote, the achievement of diversity
- Monitoring, reviewing and reporting on the achievement of diversity within the Group, with a specific focus on gender diversity.

European Management Conference, Berlin 2018.

PERFORMANCE MANAGEMENT

SKG is committed to the continuous personal and professional development of all its people. To deliver on this commitment, a continuous dialogue between employees and their managers is conducted focusing on the skills, capabilities, strengths and areas of improvement of each employee.

This appraisal practice is a key element of the SKG performance management process and its main objective is to enable every employee not only to reach their own individual performance potential, but also to contribute to their team and the Group's overall objectives. We aim to continuously increase the number of employees engaging in performance dialogue on an annual basis so the understanding of our strategy and values is shared throughout the organisation.

Our Performance Appraisal process, known as 'Performance Dialogue' focuses on the two-way nature of communication between managers and employees. However, being aware of the recent evolution in this area and to meet with employee and business needs, a refreshed process will be proposed for 2020. We believe that generating more effective conversations can create a greater impact for employees and for the business. It will also enable the identification of development needs at an earlier stage and we hope that it will contribute to an increased number of employees engaging in performance dialogue on an annual basis which is our ultimate goal.

We also offer the opportunity to participants in our leadership training programme and GMP to be part of a 360-degree feedback exercise where the assessment of leadership styles and the identification of areas for improvement come not just from their managers, but also from their colleagues and peers.

6 COMPENSATION

Compensation is a core part of our employee management strategy in SKG. We provide competitive rates of pay and ensure fair and equal compensation practices across all our locations.

Where applicable we engage with unions, works councils and employee representatives to ensure fair and sustainable Collective Labour Wage Agreements. Employees are rewarded in line with their individual and business performance. In setting remuneration levels, SKG takes into consideration the employees' performance, external benchmark data for their role in companies of a similar size and scope, while also ensuring reasonable internal equity within the Group.

Our key objectives for our Compensation policy are to:

- create a framework to enable the Group to attract and retain talented employees;
- motivate employees at every level of the organisation to achieve the Group's objectives both short and long-term in order to create sustainable value; and
- align with the Group's values of supporting a performance culture.

We are increasingly looking at total compensation when benchmarking our salaries. The overall employee benefit package is tailored to help meet a variety of short and long-term needs. The key elements of the package may include salary, performance related annual bonus, a long-term incentive plan and pension benefits, all of which play a key role in driving performance throughout the organisation. From May 2018, we implemented a new long-term incentive plan (PSP) for our senior managers.

SAFETY AND WELLBEING

At SKG, we promote a Health and Safety ('H&S') culture founded on understanding, responsibility and accountability. Our vision is to operate with Health and Safety as a core value, not just a priority. We believe that operating safely is non-negotiable and no task is so important that it can't be done safely.

TRIR is now our official H&S performance measure and has been implemented in both Europe and the Americas. Both relative safety frequency and severity rates have reduced driven by continuous improvement in every division across the Group.

For details on this KPI see page 30.

We recognise that continuous improvement requires persistence and a relentless focus in all that we do. In 2018, we launched a new global campaign known as 'Safety for Life' which has been very well received across all of our sites. This campaign focuses on six high-risk areas within Smurfit Kappa which we believe will make a real difference in ensuring we all return home safely each day.

Board of Directors

Liam O'Mahony
Non-executive Chair

Age: 72 | Nationality: Irish

Liam O'Mahony joined the Board upon the Company being admitted to trading on the Euronext Dublin (formerly the Irish Stock Exchange) and the London Stock Exchange in March 2007. He was appointed Chair in December 2008. He was the Chief Executive Officer of CRH plc from January 2000 until his retirement in December 2008, prior to which in a 37 year executive career within the CRH Group he held a number of senior management positions including Chief Executive of its US operations and Managing Director, Republic of Ireland and UK companies. Having been a Director since 1992,he retired from the Board of CRH plc in 2011. He was previously Chairman of IDA Ireland. Mr O'Mahony will retire from the Board following the conclusion of the Annual General Meeting on 3 May 2019 and therefore will not seek re-election.

Anthony Smurfit
Group Chief Executive Officer

Age: 55 | Nationality: Irish

Anthony Smurfit has worked in various parts of the Smurfit Kappa Group both in Europe and the United States since he joined the Group. He was appointed Group Chief Executive Officer in September 2015, prior to which he was the Group Chief Operations Officer from November 2002. He was also Chief Executive of Smurfit Europe from October 1999 to 2002 prior to which he was Deputy Chief Executive of Smurfit Europe and previously Chief Executive Officer of Smurfit France. He is a board member of both Ibec (the Irish Business and Employers' Confederation) and CEPI (Confederation of European Paper Industries), and is also a member of the European Round Table of Industrialists.

Ken Bowles
Group Chief Financial Officer

Age: 47 | Nationality: Irish

Ken Bowles joined the Group in 1994 and has occupied a number of finance roles in various parts of the Group. In 2004 he was appointed as the Group's first Head of Compliance, in 2007 he became the Group's Head of Tax and in 2010 he was appointed Group Financial Controller. Mr Bowles is an associate member of the Institute of Chartered Management Accountants and holds a first class MBA from the UCD Graduate School of Business.

Term of office

Liam O'Mahony	Anthony Smurfit	Ken Bowles
Liam O'Mahony joined the Board in March 2007. He was appointed Chair December 2008.	Anthony Smurfit has served as a Director of the Group since 1989* and was appointed Group Chief Executive Officer in September 2015.	Ken Bowles was appointed Group Chief Financial Officer in April 2016 and was appointed a Director in December 2016.

Independent

Liam O'Mahony	Anthony Smurfit	Ken Bowles
Yes**	No	No

Committee membership

* For Smurfit Kappa Group plc or its predecessor companies, SKG returned to the ISE and LSE on IPO in March 2007.
** On his appointment as Chair in December 2008 Liam O'Mahony was independent.

Board Committees

Audit | Compensation | Nomination | C Chair

Anne Anderson
Non-executive Director

Age: 66 | Nationality: Irish

Anne Anderson is an experienced international diplomat who most recently served as the Ambassador of Ireland to the United States from 2013 to 2017. Ms Anderson joined the Department of Foreign Affairs in 1972 and was appointed Assistant Secretary General in 1991 serving in this post until 1995. She was then appointed Ireland's Permanent Representative to the United Nations in Geneva after which she became Permanent Representative of Ireland to the European Union in 2001. Following this Ms Anderson was appointed Ambassador of Ireland to France in 2005, where she served until 2009. In 2009 she became Permanent Representative of Ireland to the United Nations in New York. Ms Anderson is a member of the Advisory Board for the Peacebuilding Fund at the United Nations. She is also a Board member of the Druid Theatre Galway.

Frits Beurskens
Non-executive Director

Age: 71 | Nationality: Dutch

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

Christel Bories
Non-executive Director

Age: 54 | Nationality: French

Christel Bories joined Eramet SA in February 2017 and was appointed Group Chairman and Chief Executive Officer in May 2017. Ms Bories was previously Deputy Chief Executive Officer of Ipsen SA from March 2013 to March 2016. She was President and Chief Executive Officer of Constellium (formerly Engineered products, Rio Tinto) from 2007 to the end of 2011 prior to which she was a senior executive in both Pechiney and Alcan for fourteen years of which eight years was as the General Manager of the Packaging business. Ms Bories spent seven years in strategic consulting prior to her industrial experience. She is a non-executive Director of Legrand SA.

Carol Fairweather
Non-executive Director

Age: 57 | Nationality: British

Carol Fairweather was Chief Financial Officer and an executive Director of Burberry Group plc from July 2013 to January 2017. She joined Burberry in June 2006 and prior to her appointment as CFO, she held the position of Senior Vice President, Group Finance. Prior to joining Burberry, Ms Fairweather was Director of Finance at News International Limited from 1997 to 2005 and UK Regional Controller at Shandwick plc from 1991 to 1997. Ms Fairweather currently serves as a non-executive Director of Segro plc. Ms Fairweather is an Associate of the Institute of Chartered Accountants.

Irial Finan
Non-executive Director, Chair Designate

Age: 61 | Nationality: Irish

Irial Finan has been appointed Chair Designate and subject to his re-election as a Director of the Group, will replace Liam O'Mahony following the conclusion of the Annual General Meeting on 3 May 2019. He was Executive Vice President of The Coca-Cola Company and President of the Bottling Investments Group from 2004 until he stepped down from the role in December 2017 and retired in March 2018. Prior to this Mr Finan served as Chief Executive Officer of Coca-Cola Hellenic Bottling Company SA. He joined the Coca-Cola System in 1981. Mr Finan is responsible for the stewardship of The Coca-Cola Company's Equity Investments. He also serves on the Boards of Coca-Cola European Partners plc, Coca-Cola Bottlers Japan Holdings Inc. and Fortune Brands Home & Security, Inc. Mr Finan is a Fellow of the Institute of Chartered Management Accountants.

	Anne Anderson	Frits Beurskens	Christel Bories	Carol Fairweather	Irial Finan
Term of office	Anne Anderson joined the Board in January 2019.	Frits Beurskens has served as a Director of the Group since December 2005.*	Christel Bories joined the Board in November 2012.	Carol Fairweather joined the Board in January 2018.	Irial Finan joined the Board in February 2012.
Independent	Yes	No	Yes	Yes	Yes
Committee membership					

Board of Directors continued

Board Committees

Audit Compensation Nomination Chair

James Lawrence
Non-executive Director

Age: 66 | Nationality: American

James Lawrence is currently Chairman of Great North Star LLC, an investment and advisory firm. He served as Chairman of Rothschild North America from 2012 to 2015 and previously served as Chief Executive Officer of Rothschild North America from 2010 to 2012. Prior to this, Mr Lawrence served as Chief Financial Officer and an executive Director of Unilever plc. Mr Lawrence joined Unilever from General Mills where he was Vice-Chairman and Chief Financial Officer. He previously also held senior positions with Northwest Airlines and Pepsico Inc. He is a non-executive Director of Avnet, Inc. and Aercap Holdings N.V.

John Moloney
Non-executive Director

Age: 64 | Nationality: Irish

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

Roberto Newell
Senior Independent Non-executive Director

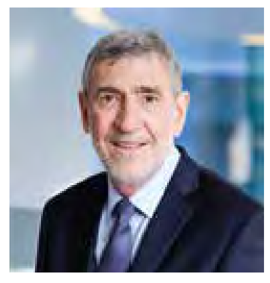
Age:71 | Nationality: Mexican

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

Jørgen Buhl Rasmussen
Non-executive Director

Age: 63 | Nationality: Danish

Jørgen Buhl Rasmussen is the former Chief Executive Officer of Carlsberg AS. He served as the Chief Executive Officer of Carlsberg AS from 2007 until he retired from this position in 2015 having joined the company in 2006. He previously held senior positions in several global FMCG companies, including Gillette Group, Duracell, Mars and Unilever over the previous 28 years. He is Chairman of Novozymes AS and Chairman of Unhrenholt AS and an Advisory Board member of Blazar Capital.



Gonzalo Restrepo
Non-executive Director

Age: 68 | Nationality: Colombian

Gonzalo Restrepo is the former Chief Executive Officer of Almacenes Exito SA, a leading retail company in Latin America and a subsidiary of the French company, Casino Group. He served as the Chief Executive Officer of Almacenes Exito from 1990 until he retired from this position in 2013. He is a non-executive Director of Cardif Colombia Seguros Generales SA. He is a member of the Entrepreneurs Council of Proantioquia in Colombia.

	James Lawrence	John Moloney	Roberto Newell	Jørgen Buhl Rasmussen	Gonzalo Restrepo
Term of office	James Lawrence joined the Board in October 2015.	John Moloney joined the Board in December 2013.	Roberto Newell joined the Board in June 2010.	Jørgen Buhl Rasmussen joined the Board in March 2017.	Gonzalo Restrepo joined the Board in June 2015.
Independent	Yes	Yes	Yes	Yes	Yes
Committee membership	Audit, Nomination	Audit, Compensation	Audit, Nomination (C)	Audit, Compensation	Audit, Compensation

* For Smurfit Kappa Group plc or its predecessor companies, SKG returned to the ISE and LSE on IPO in March 2017.

Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance. This Corporate Governance Statement describes how throughout the financial year ended 31 December 2018 Smurfit Kappa Group plc applied the principles of the 2016 UK Corporate Governance Code ('the Code') published by the Financial Reporting Council ('FRC'). The Directors believe that the Group has complied with the provisions of the Code throughout the year under review.

The Directors welcomed the publication by the FRC of its new UK Corporate Governance Code in July 2018 and its focus on the themes of corporate and Board culture, stakeholder engagement and sustainability, which as this report highlights are critical for SKG if we are to build a sustainable business. We will continue to evolve our governance framework to ensure that we remain compliant with the UK Corporate Governance Code and meet best practice requirements.

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

BOARD OF DIRECTORS

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

- Approval of the Group's strategy which is set out on pages 26 and 27
- Board appointments including those of the Chair and Group Chief Executive Officer
- Agreement of terms of appointment of the Chair, Group Chief Executive Officer and other executive Directors
- Agreement of any fundamental changes to the Group management and control structure
- Approval of the annual financial budgets
- Approval of capital expenditure above fixed limits
- Approval of material acquisitions and disposals of businesses
- Approval of the Trading Statements, the Interim Report, the Preliminary Results Release and the Annual Report
- Establishment and review of corporate governance policy and practice
- Monitoring of the Group's risk management and internal control systems
- Confirming that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance of the Group, its business model and strategy.

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

MEMBERSHIP, BOARD SIZE AND INDEPENDENCE

Following the appointment of Ms Anne Anderson, there are thirteen Directors on the Board, comprising: a non-executive Chair, two executive Directors and ten non-executive Directors. The Board of Directors and their biographical details are set out on pages 60 to 62. The Board considers that the Board comprising thirteen Directors is not so large as to be unwieldy and that the Directors with a broad spread of nationalities, backgrounds and expertise bring the breadth and depth of skills, knowledge and experience that are required to effectively lead the Group.

The Group has in place an effective Board which provides the highest standards of governance to an internationally diverse business with interests spanning three continents and 35 individual countries. Each of the Group's non-executive Directors has broad-based international business expertise and many have gained significant and relevant industry specific expertise over a number of years. The composition of the Board reflects the need, as outlined by the Code, for an effective Board to maintain a balance of 'skills, knowledge and experience'. The experience of each Director is set out in their biographies which are detailed on pages 60 to 62.

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

In particular, a central aspect of maintaining Board effectiveness is an ongoing programme of Board refreshment, which fosters the sharing of diverse perspectives in the boardroom and the generation of new ideas and business ideas. The Board's ongoing refreshment has continued, with the appointment of Ms Anderson to the Board. The Board continues to include an appropriate balance of longer serving and more recently appointed Directors.

Following these reviews, the Board is satisfied that the Board and its Committees are performing effectively and that the balance of skill, experience, diversity, independence and knowledge of the Group are sufficient to enable the Directors to discharge their respective duties and responsibilities effectively and believe the Board has a sufficient balance of diversity. The culture of the Board is open, transparent and collegiate. The Chair demonstrates leadership and encourages an open and transparent style around the Board table.

The Code recommends that, apart from the Chair, at least half of the Board of Directors of a listed company should comprise non-executive Directors determined by the Board to be independent. During the year under review the Company complied with the Code recommendation on Board independence. The Chair was independent on appointment.

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

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

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

While Mr Beurskens was previously an employee of the Group and receives fees from a Group subsidiary, the Board does not believe these facts compromise his independence of judgement, his contribution to the Board or the quality of his oversight.

EXECUTIVE AND NON-EXECUTIVE DIRECTORS – EXPERIENCE AND SKILLS

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

APPOINTMENTS, RETIREMENT AND RE-ELECTION TO THE BOARD

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first Annual General Meeting ('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 accordance with the Code, the Directors individually retire at each AGM and submit themselves for re-election if appropriate.

The procedures governing the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with Irish company law.

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

Each of the Directors, other than Mr O'Mahony, are offering themselves for re-election at the 2019 AGM.

EXTERNAL DIRECTORSHIPS

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

REMUNERATION

Details of remuneration paid to Directors (executive and non-executive) are set out in the Remuneration Report on pages 74 to 85. Non-executive Directors are paid fees for their services and none of their remuneration is performance related. They are not eligible to participate in the Group's annual bonus scheme or long-term incentive plans ('LTIP'). Non-executive Directors' fees are not pensionable. The Remuneration Report will be presented to shareholders for the purposes of a non-binding advisory vote at the AGM on 3 May 2019.

CHAIR

Mr Liam O'Mahony, who joined the Board upon the Company being admitted to trading on Euronext Dublin (formerly the Irish Stock Exchange) and the LSE in March 2007, was appointed Chair in December 2008. As recommended by the Code, the Chair was independent at his time of appointment. The Chair is responsible for the leadership of the Board and the efficient and effective working of the Board. He sets and manages the Board agenda in order that at appropriate times it addresses all matters reserved to the Board and ensures that adequate time is available for discussion on strategy and the strategic issues facing the Group. He ensures that the Directors receive accurate, timely and clear information, and that the Directors are updated periodically on the views or concerns of the major investors. He also ensures that a culture of openness and debate is fostered to facilitate the effective contribution of the non-executive Directors to the Board. Mr O'Mahony will retire from the Board at the conclusion of the 2019 AGM on 3 May 2019 and will be succeeded by Mr Irial Finan (subject to his re-election as a Director) who was appointed Chair Designate on 31 October 2018, following a comprehensive selection process led by the Group's Senior Independent Director in conjunction with the Nominations Committee.

SENIOR INDEPENDENT DIRECTOR

Mr Roberto Newell was appointed the Group's Senior Independent Director in May 2017. His duties include being available to shareholders if they have concerns which cannot be resolved through the Chair or Group Chief Executive Officer or where contact with either of them is inappropriate. He is available to serve as an intermediary for other Directors where necessary. The Senior Independent Director also conducts an annual evaluation of corporate governance compliance, the operation and performance of the Board, the Directors, its Committees and the Chair's performance in conjunction with the other non-executive Directors on an annual basis except in the year when an external evaluation takes place.

GROUP SECRETARY

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

BOARD MEETINGS

The Board meets at least five times each year with additional meetings as required. The Board met seven times in 2018. Details of the meetings held during the period are contained in the schedule below, which also includes information on individual attendance. The Board holds at least one of its meetings each year at a Group operation to give the Directors an opportunity to meet with a wider range of management and to see and remain familiar with the Group's operating activities. In 2018, the July Board meeting was held in Mexico City where the Board visited all of the plants in the metropolitan area. The Board is supplied on a timely basis in advance of Board meetings with a Board Report comprising strategic updates, operational, financial, health and safety, and investor relations information together with Board papers on key issues in a form and of a quality to enable it to discharge its duties effectively. The Board papers also include the minutes of all Board Committee meetings and at each Board meeting the Chair of each Committee gives a report on major agenda items discussed at Committee meetings held since the last Board meeting.

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

ATTENDANCE AT BOARD MEETINGS DURING THE YEAR TO 31 DECEMBER 2018

	A*	B*
L. O'Mahony	7	7
A. Anderson**	0	0
F. Beurskens	7	7
C. Bories	7	6
C. Fairweather	7	7
I. Finan	7	7
J. Lawrence	7	7
J. Moloney	7	7
R. Newell	7	7
J. Buhl Rasmussen	7	7
G. Restrepo	7	7
R. Thorne***	4	3
A. Smurfit	7	7
K. Bowles	7	7

* Column A indicates the number of meetings held during the period the Director was a member of the Board and was eligible to attend and Column B indicates the number of meetings attended.
** Ms Anderson joined the Board in January 2019.
*** Ms Thorne retired from the Board in May 2018.

Smurfit Kappa Group plc has a secondary listing on Euronext Dublin. For this reason, Smurfit Kappa Group plc is not subject to the same ongoing listing requirements as those which would apply to an Irish company with a primary listing on Euronext Dublin including the requirement that certain transactions require the approval of shareholders. For further information, shareholders should consult their own financial adviser.

INDUCTION AND DEVELOPMENT

On appointment, all non-executive Directors receive comprehensive briefing documents on the Group, its operations and their duties as a Director. They are also given presentations by the senior management team and are given the opportunity to visit sites and meet with the local management. During the year, Directors meet with senior management at Board meetings, on individual site visits and at the annual visit by the Board to a Group operation. As noted above, the July Board meeting was held in Mexico City where the Board visited all of the plants in the metropolitan area. In addition, in May 2018, the Board visited our mill in Piteå, Sweden. Directors also receive regular briefings and presentations on a wide range of the Group's activities together with all significant analyst and rating reports. All Directors are encouraged to go for training to ensure they are kept up to date on relevant legal developments or changes in best practice.

SUCCESSION PLANNING AND DIVERSITY

The Board believes that appointing the best people to the Group's Board is critical to the success of the Company and as a result all appointments are made purely on merit regardless of gender, race, religion, age or disability. The Board recognises that diversity is an essential cornerstone for building long-term business success and ensures different perspectives are introduced into Board discussion. The Board considers gender, tenure and a wide geographical experience base to be essential aspects of diversity for a company with businesses in 35 countries worldwide, with eight nationalities represented on the Board. This policy plays a key role in the Group's succession planning when considering new appointments to the Board, such as Ms Anderson's appointment in January 2019. Suitable candidates are selected on the basis of their relevant experience, employment background, skills, knowledge and insight, having due regard to the benefits of diversity to the Board.

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

EXTERNAL BOARD EVALUATION

An independent external Board evaluation was carried out in 2016 by ICSA Board Evaluation ('ICSA'), a division of the Institute of Chartered Secretaries and Administrators.

The overall outcome was positive and indicated that the Board was operating effectively and cohesively with performance being rated 'very good' and in the upper quartile of a six point scale ranging from poor to excellent. ICSA was part of an organisation that supplied some IT services to the Group, however, the annual value of the contract was not material to either party.

The next independent external Board evaluation will be conducted during 2019.

INTERNAL BOARD EVALUATION

The Senior Independent Director co-ordinates an annual evaluation of corporate governance compliance, the operation and performance of the Board, the Directors, its Committees and the performance of the Chair except in years when an external evaluation is carried out. This is achieved through the completion of a detailed questionnaire by each Director and separate discussions with each Director. An evaluation was carried out during the fourth quarter of 2018 and indicated that a robust consensus exists that the Board is functioning effectively, both as a Board and at Committee level. The Chair conducts an annual evaluation of the performance of the Directors. The Committees undertake an annual evaluation of their performance and report back to the Board. At least once a year the Chair meets with the non-executive Directors without the executive Directors to review the Board's performance. The Board discusses the results of its evaluations in order to identify and address areas in which the effectiveness of the Board might be improved.

SHARE OWNERSHIP AND DEALING

Details of Directors' shareholdings are set out on pages 82 and 84. The Group has a policy on dealing in shares that applies to restricted persons comprising all Directors, senior management and certain other employees. Under the policy, restricted persons are required to obtain clearance from prescribed persons before dealing. Restricted persons are prohibited from dealing in SKG securities during designated closed periods and at any other time when the individual is in possession of Inside Information (as defined by the Market Abuse Regulation (EU 596/2014)).

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

The current membership of each Committee, details of attendance and each member's tenure are set out in the individual Committee reports on pages 71 to 86.

STOCK EXCHANGE LISTINGS
SKG, which is incorporated in Ireland and subject to Irish company law, has a premium listing on the London Stock Exchange and a secondary listing on Euronext Dublin (formerly the Irish Stock Exchange).

COMMUNICATION WITH SHAREHOLDERS
The Board gives a high priority to effective communications with shareholders and recognises the benefits of shareholder engagement in order to foster mutual understanding of the Company's strategy and the views of major investors. On a day-to-day basis, contact with institutional shareholders is the responsibility of the Group Chief Executive Officer, the Group Chief Financial Officer and the Head of Investor Relations.

There is regular dialogue with individual shareholders, as well as general presentations, plant visits, attendance at relevant conferences and conference calls and presentations at the time of the release of the Annual Report, preliminary and interim reports and trading statements. Investors and analysts also attend the Group's Innovation and Sustainability Awards exhibition which is held every two years. The Chair, Group Chief Executive Officer, Group Chief Financial Officer, Chief Executive Officer Europe and the Chief Executive Officer the Americas also participate in these events. The Chair, Senior Independent Director and any other member of the Board are available to meet major investors if required. The Chair also had a number of meetings with major shareholders during the year.

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

The Group issues its Annual Report, preliminary and interim reports and trading statements promptly to shareholders and also publishes them on the Group's website: smurfitkappa.com. The Group operates an investor relations section on the website, which in addition to the above reports and statements, contains investor presentations and all press releases immediately after their release to the Stock Exchanges.

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

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

SHAREHOLDER MEETINGS AND SHAREHOLDER RIGHTS
Shareholders' meetings are governed by the Articles of Association of the Company and the Companies Act 2014 (as amended) (the 'Companies Act').

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

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

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

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

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

CODE OF BUSINESS CONDUCT
The Smurfit Kappa Code of Business Conduct includes principles of best practice in this area which apply to the Group's Board of Directors, officers and employees worldwide. We also require individuals, entities, agents or anyone acting on the Group's behalf to comply with its Code. The Code is available on the Group's website: smurfitkappa.com and is translated into 17 languages.

SUSTAINABILITY
Sustainability is concerned with ensuring that the human and natural environment remains intact both today and into the future as we continue to use natural resources. SKG manages its business in a way which recognises its key responsibilities in all aspects of its corporate social responsibility especially in the areas of Environment, Sustainable Forestry, Social Citizenship and Health and Safety. The Group's principles are summarised on pages 44 to 51 and are described in detail in the Sustainable Development Report for 2017 which is available on the Group's website. The Sustainable Development Report for 2018 will be published in the second quarter of 2019.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Group's system of risk management and internal control and for monitoring and reviewing its effectiveness, in order to safeguard shareholders' investments and the Group's assets. Details in relation to Risk Management and Internal Control are included in the Risk Report on page 32 to 35.

The Directors confirm there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group which is in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. This process has been in place throughout the accounting period and up to the date of approval of the Annual Report and Consolidated Financial Statements and is subject to regular review by the Board.

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group's business model, future performance, solvency and liquidity. The Directors also confirm they have conducted an annual review of the effectiveness of the Group's risk management and system of internal control up to and including the date of approval of the Annual Report and Consolidated Financial Statements. This had regard to the principal risks that could affect the Group's business (as outlined on pages 32 to 35), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

FINANCIAL REPORTING

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

DIRECTORS' REPORT

The Change of Control, Capital Structure and Purchase of Own Shares information are set out on page 69 of the Directors' Report and form part of this Corporate Governance Statement.

Directors' Report

REPORT OF THE DIRECTORS
The Directors submit their Report and Audited Financial Statements for the financial year ended 31 December 2018.

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, Operations Review, Finance Review (including financial risk management policies), Sustainability Strategy and People Strategy on pages 20 to 51 and 54 to 59 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 93.

Financial key performance indicators are set out on pages 28 to 30. The Consolidated Financial Statements for the financial year ended 31 December 2018 are set out in detail on pages 93 to 161.

DIVIDENDS
In October 2018, an interim dividend of 25.4 cent per share was paid to holders of ordinary shares. The Board is recommending a final dividend of 72.2 cent per share for 2018. Subject to shareholders' approval at the AGM on 3 May 2019, it is proposed to pay the final dividend on 10 May 2019 to all holders of ordinary shares on the share register at the close of business on 12 April 2019.

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 €7 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 60 to 62 together with a short biographical note on each Director. Ms Carol Fairweather was appointed to the Board as a non-executive Director on 1 January 2018. Ms Rosemary Thorne acted as non-executive Director of the Company until the conclusion of the 2018 AGM (4 May 2018). Ms Anne Anderson was appointed to the Board as a non-executive Director effective 1 January 2019.

On 31 October 2018, Irial Finan was appointed Chair Designate and, subject to his re-election as a Director, will succeed Liam O'Mahony who will retire from the Board following the conclusion of the 2019 AGM on 3 May 2019.

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 2019 AGM and other than Mr O'Mahony will offer themselves for re-election.

To enable shareholders to make an informed decision, reference should be made to pages 60 to 62 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 63 to 67 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 82 and 84 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 34 and 35, 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 63 to 67 and forms part of this report. The Audit Committee Report, the Remuneration Report and the Nomination Report are set out on pages 71 to 86.

SUBSIDIARY AND ASSOCIATED UNDERTAKINGS
A list of the Group's principal subsidiaries and associates as at 31 December 2018 is set out in Note 34 to the Consolidated Financial Statements.

AUDIT COMMITTEE
The Group has established an Audit Committee. The responsibilities of the Audit Committee are outlined on page 71.

	31 December 2018		**15 March 2019**	
Substantial Holdings	Number of shares	% of issued ordinary share capital	**Number of shares**	**% of issued ordinary share capital**
BlackRock, Inc	16,644,748	7.02%	**16,611,850**	**6.99%**
Norges Bank	16,726,372	7.05%	**16,460,550**	**6.93%**
GIC Private Limited	7,478,221	3.15%	**7,478,221**	**3.15%**

The table above shows all notified shareholdings in excess of 3% of the issued ordinary share capital of the Company as at 31 December 2018 and 15 March 2019.

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. Below we have set out the location 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	44 to 51
Social Matters	Social Citizenship Policy	Sustainability	44 to 51
Employee Matters	Code of Conduct, Health and Safety Policy, Social Citizenship Policy	Sustainability, Culture, People	44 to 59
Human Rights	Code of Conduct, Social Citizenship Policy	Sustainability	44 to 51
Anti-Corruption and Bribery	Code of Conduct	Sustainability	44 to 51
Business Model		What we do – Our Business Model	4 to 19
Principal Risks		Risk Report	32 to 35
Non-Financial KPIs		Key Performance Indicators	30 to 31

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 2018 Sustainable Development Report will be published on our website in May 2019.

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 2020 or 2 August 2020.

A similar authority was granted at the AGM in 2018, which is due to expire on the earlier of the date of the AGM in 2019 or 3 August 2019. Information on the acquisition and disposal of own shares is set out in Note 22 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 22 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 25 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 2018, 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 28 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

As noted in the 2017 Annual Report, a formal external audit tender process was completed by the Audit Committee on behalf of the Board and KPMG were selected by the Board as the new External Auditor in respect of the financial year ending 31 December 2018. The appointment of KPMG was subsequently approved by shareholders at the 2018 AGM on 4 May 2018.

PricewaterhouseCoopers ('PwC') resigned as External Auditors on 28 March 2018 having concluded the 2017 External Audit, and confirmed, in accordance with Section 400(3) of the Companies Act, that there were no circumstances connected with their resignation which should be brought to the attention of members or creditors of the Company.

The External Auditors, KPMG, will continue in office and a resolution authorising the Directors to fix their remuneration will be submitted to the 2019 AGM.

A. Smurfit
Director

K. Bowles
Director

15 March 2019

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;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

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 provision 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 60 to 62 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 2018 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

15 March 2019

Audit Committee Report

"Dear Shareholder

I am pleased to present the Audit Committee report for the 2018 financial year. The purpose of this report is to provide an overview of how we have carried out our responsibilities during the year."

Carol Fairweather
Chair of Audit Committee
15 March 2019

COMMITTEE MEMBERS

C. Fairweather (Chair)
A. Anderson
C. Bories
J. Lawrence
J. Moloney
R. Newell
J. Buhl Rasmussen
G. Restrepo

ROLE OF THE AUDIT COMMITTEE

The Committee is responsible for providing oversight and assurance to the Board regarding:

- the integrity of the published financial information and the significant financial reporting judgements;
- risk management and internal control processes;
- the Internal Audit function;
- the External Audit arrangements;
- the governance framework; and
- whether the Annual Report 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.

The Terms of Reference of the Committee, which were updated in December 2018, to reflect the revised Code which became effective on 1 January 2019, are available on smurfitkappa.com.

MEMBERSHIP OF THE COMMITTEE

This year saw a change in Committee Chair. Rosemary Thorne who had been Chair of the Audit Committee since May 2008 retired from the Board at the conclusion of the AGM in May 2018. I was appointed Chair on 4 May 2018 and on behalf of the Committee I would like to thank Rosemary for her contribution over the previous years as well as ensuring a smooth transfer of knowledge to myself.

The Board has reviewed the composition of the Committee during the year and is satisfied that the mix of business and financial experience enables the Committee to effectively fulfil its responsibilities. The biographical details of each member are set out on pages 61 and 62. The Committee is currently comprised of eight independent non-executive Directors. Of these, Mr James Lawrence and I, the Committee Chair, have recent and relevant financial experience. The Committee met five times during the year under review. Details of the Committee members and meetings attended are provided in the table below. The Group Chief Financial Officer, the Group Internal Auditor, the Group Compliance Manager, and senior members of the Group finance team normally attend meetings of the Committee. The Group Chief Executive Officer periodically attends meetings of the Committee. The External Auditor also attends all meetings and together with the Group Internal Auditor have direct access to the Committee Chair at all times. In advance of every meeting, the Committee Chair meets individually with the Group finance team, the Group Compliance Manager, the Group Internal Auditor and the External Auditor.

Attendance record	A*	B*	Appointment date
C. Fairweather (Chair)	5	5	2018
R. Thorne**	2	2	2008
A. Anderson***	0	0	2019
C. Bories	5	4	2012
I. Finan***	5	5	2012
J. Lawrence	5	4	2015
J. Moloney	5	5	2014
R. Newell	5	5	2010
J. Buhl Rasmussen	5	5	2017
G. Restrepo	5	5	2015

* Column A indicates the number of meetings held during the period the Director was a member of the Board and was eligible to attend and Column B indicates the number of meetings attended.
** Ms Thorne retired from the Board in May 2018.
*** Ms Anderson was appointed to the Committee and Mr Finan retired from the Committee in February 2019.

HOW THE COMMITTEE HAS DISCHARGED ITS RESPONSIBILITIES
Over the course of the year, we continued to focus on our usual work in relation to financial and risk related matters as set out below. In addition we also specifically focused on the following matters:

- the audit transition from PwC to KPMG and the Committee was satisfied that there has been an effective and smooth transition;
- the impact of developments in Venezuela up to the date of deconsolidation; and
- the preparation for the implementation of IFRS 16, *Leases*. See Note 2 to the Consolidated Financial Statements for further information.

FINANCIAL REPORTING AND SIGNIFICANT MATTERS RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS
The Group's Consolidated Financial Statements are prepared by finance personnel with the appropriate level of qualifications and expertise. The Committee reviewed all published financial information including the annual, preliminary and interim reports and trading statements. The Committee reported its views to the Board to assist in the Board's approval of the results announcements and the Annual Report.

The Committee assessed whether suitable accounting policies had been adopted and whether management has made appropriate estimates and judgements. The Committee reviewed accounting papers prepared by management which provided details on the main financial reporting judgements.

The Committee also reviewed reports by the External Auditor on the hard-close and year-end audit procedures which highlighted any matters identified from the work undertaken on the external audit.

The significant matters that the Committee considered in relation to the Consolidated Financial Statements are detailed on the next page.

FAIR, BALANCED AND UNDERSTANDABLE
The Committee reviewed the Annual Report and were able to confirm to the Board that, in its view, taken as a whole, it was fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

INTERNAL AUDIT
The Group operates an internally resourced Internal Audit function which reports directly to the Committee. The Committee reviewed and approved the annual internal audit plan and related resourcing requirements to deliver the plan.

The Committee reviewed the quarterly reports from the Internal Auditor summarising audit findings, agreed actions and recommendations and reviewed progress on addressing the actions and recommendations.

The Committee reviewed the effectiveness of the Internal Audit function and confirmed its satisfaction.

The Committee met privately with the Internal Auditor during the year.

RISK MANAGEMENT AND INTERNAL CONTROL
The Group's internal control and risk management framework is embedded within the organisation structure.

The Committee is responsible for reviewing the adequacy and effectiveness of the internal control system and risk management on behalf of the Board.

During the year, the Committee reviewed in depth the process followed by the Group to identify and manage risk and to determine the principal risks faced by the Group. The Committee was satisfied that the risk management process is robust.

The Committee reviewed all reports presented by the Group Compliance Manager including an Internal Control Effectiveness Report, the Internal Control Questionnaire, and quarterly reports both on cyber security and whistleblowing matters.

Having completed its review of the effectiveness of the Group's system of internal controls, including risk management, the Committee confirms that it has not been advised of, or identified, any significant failings or weaknesses.

For further details on the Group's Risk Management and Internal Control please see the Risk Report on page 32 to 35.

WHISTLEBLOWING
In line with best practice, the Group has an independent and confidential whistleblowing procedure which allows all employees through anonymous submissions to raise concerns regarding accounting or auditing matters or questionable business practice. The Committee ensures through the Group Compliance Manager that arrangements are in place for a proportionate, independent investigation and appropriate follow up of such matters. It receives a quarterly report from the Group Compliance Manager on the follow up to all whistleblowing concerns received by the Company.

EXTERNAL AUDITOR
The Committee is responsible for overseeing the relationship and performance of the External Auditor. This includes making a recommendation on the appointment, reappointment and removal of the External Auditor, assessing their independence, involvement in fee negotiations and assessing their performance.

As noted in last year's Annual Report, a formal external audit tender process was completed by the Committee on behalf of the Board in 2017 and KPMG were selected by the Board as the new External Auditor in respect of the financial year ending 31 December 2018. The appointment of KPMG was subsequently approved by shareholders at the 2018 AGM on 4 May 2018. PwC resigned as External Auditor on 28 March 2018 having concluded the 2017 External Audit, and confirmed, in accordance with Section 400(3) of the Companies Act, that there were no circumstances connected with their resignation which should have been brought to the attention of members or creditors of the Company.

During the year, the Committee approved the External Auditor's plan for 2018 which included the scope of the audit, the key risks, the proposed audit fee and the terms of engagement. The Committee also considered the effectiveness and independence of the External Auditor and confirmed its satisfaction on both. The Committee has recommended to the Board that KPMG be proposed for reappointment at the forthcoming AGM.

KPMG attended all the Audit Committee meetings during the year and had a private meeting with the Committee at each meeting.

EXTERNAL AUDITOR NON-AUDIT SERVICES
The Committee recognises that the independence of the External Auditor is an essential part of the audit framework and the assurance that it provides. The Committee has adopted a policy which sets out the types of permitted and non-permitted non-audit services and those which require explicit prior approval.

Non-audit services provided by the External Auditor must be considered by the Committee to be necessary in the interests of the business and, by their nature, these services could not easily be provided by another professional auditing firm.

The provision of tax advisory services and due diligence/transaction services may be permitted with the Committee's prior approval. The provision of internal audit services, valuation work and any other activity that may give rise to any possibility of self-review are not permitted under any circumstance.

All contracts for non-audit services in excess of €50,000 must be notified to and preapproved by the Chair of the Committee. Details of the amounts paid to the External Auditor during the year for audit and other services are set out in Note 5 on page 115. The value of non-audit services provided by KPMG in 2018 amounted to €1 million and total 12% of the fees paid for the statutory audit (2017: PwC 5%).

During the year, there were no circumstances where KPMG was engaged to provide services which might have led to a conflict of interests.

GOING CONCERN AND VIABILITY STATEMENT

The Committee reviewed the paper prepared by management that supports the going concern assumption and the viability statement. The Committee was comfortable with the process that had been followed and with the stress testing scenarios that had been applied based on the Group's principal risks. These statements are included in the Risk Report on page 32 to 35.

SIGNIFICANT MATTERS RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS

Significant Matter	Action Taken/Conclusions
Assessment of the Carrying Value of Goodwill The Group has goodwill of €2,361 million at 31 December 2018. The Group performs an impairment review at least annually and at any time an impairment is considered to exist.	The Committee considered management's assessment of the carrying value of goodwill relating to groups of cash-generating units ('CGUs'). The Committee considered the methodology applied and the key assumptions (including future profitability and terminal growth and discount rates) used in the assessment. The Committee also considered a number of different scenarios to test the sensitivity of the model to changes in its key drivers and to understand the level of headroom available at a CGU level. The Committee noted that headroom in Brazil had been tight during its initial years of operations but had improved in 2018. It will continue to remain on watch and be monitored throughout 2019. The Committee was satisfied that the judgements made by management are reasonable and that goodwill is not impaired and the disclosures in Note 12 to the Consolidated Financial Statements are appropriate.
Venezuela Management determined that the Group lost control over its Venezuelan business and operations during 2018. As a consequence, the Group deconsolidated its Venezuelan operations from August 2018 and recorded an exceptional charge of €1,270 million.	The Committee considered management's assessment of loss of control of its operations in Venezuela and the appropriateness of deconsolidating its Venezuelan operations and the level of provisions made. The Committee was satisfied with the assessment of loss of control and with the exceptional charge of €1,270 million and associated disclosures.
Deferred Tax Assets The Group has deferred tax assets of €153 million at 31 December 2018.	The Committee considered the appropriateness of the key assumptions (including future profitability and regulatory changes) management used relating to the recognition of deferred tax assets. The Committee was satisfied that the deferred tax assets are appropriately recognised.
Valuation of Defined Benefit Obligations The Group has defined benefit obligations totalling €804 million at 31 December 2018.	The Committee considered the key assumptions management used in determining the defined benefit liabilities (which included a full actuarial valuation of the unfunded liabilities undertaken by independent experts) and was satisfied that they were reasonable, appropriate and consistent with market practice.
Exceptional Items The Group has recognised exceptional charges totalling €1,342 million in 2018.	The Committee considered management's proposed treatment of each of the items included within exceptional charges which totalled €1,342 million. The Committee was satisfied that the size and nature of the items included within the exceptional charge were consistent with the Group's accounting policy and were appropriately disclosed.
Business Combinations During 2018, the Group completed a number of acquisitions for a total consideration of €498 million. Business combinations are accounted for using the acquisition method which requires that assets and liabilities assumed are recorded at their respective fair values at the date of acquisition.	The Committee considered the assumptions made (which included using an external expert's valuation report) in determining the fair value of acquired assets and liabilities. The Committee discussed the fair value adjustments and in particular the useful lives attributed to customer relationships and was satisfied with the fair value of acquired assets and liabilities and that the resulting levels of goodwill were appropriate.

COMMITTEE EVALUATION

An internal evaluation of the Committee was undertaken during 2018. There were some minor recommendations to improve the processes and activities of the Committee which are being addressed but overall the Committee was considered to be operating effectively and efficiently.

COMING YEAR

During the coming year, we will continue with our reviews of the financial reporting process and internal controls and risk management processes. In addition we will also focus on the integration of the recently acquired businesses.

"Dear Shareholder

Having served as Chair of SKG's Compensation Committee through 2018, I am pleased to present our Directors' Remuneration Report for the financial year ended 31 December 2018."

Irial Finan
Chair of Compensation Committee
15 March 2019

COMMITTEE MEMBERS
I. Finan (Chair)
L. O'Mahony
C. Bories
C. Fairweather
J. Moloney
J. Buhl Rasmussen
G. Restrepo

Although the Group is listed on the London Stock Exchange, given that the Group is incorporated in Ireland, it is not subject to the UK remuneration reporting regulations (The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) which apply to UK incorporated companies. Nevertheless, the Committee recognises the importance of effective corporate governance and is therefore voluntarily adopting a number of the requirements of these reporting regulations. As in previous years we are again putting our Remuneration Report to an advisory shareholder vote at the AGM on 3 May 2019.

REMUNERATION POLICY REVIEW

As reported in my statement last year, during 2017 the Committee undertook a full review of the Remuneration Policy in place for executive Directors and other senior management to ensure that it continued to both support the Group's strategic priorities and align with external views on executive compensation. At last year's AGM, a revised Remuneration Policy was put to shareholders and I, along with the rest of the Committee, was pleased that it was supported by over 97% of shareholders.

The Committee considers that the Remuneration Policy remains fit-for-purpose.

2018 PERFORMANCE AND INCENTIVE OUT-TURNS

For 2018, the Group reported its strongest ever result with a record performance across all its key measures. EBITDA of €1,545 million was 25% greater than 2017, Free Cash Flow was 61% greater than 2017 and ROCE of 19.3% compared to 15% in 2017.

In this context, the Committee reviewed performance against the metrics under the annual bonus plan for 2018 and the Deferred Annual Bonus Plan ('DABP') for the three years to 31 December 2018 and approved annual bonus awards of 97.3% of maximum and DABP awards vesting at 51.6% of maximum. In determining out-turns, the Committee took into consideration the impact of the deconsolidation of the Venezuelan business. No adjustment was considered appropriate for the annual bonus as the main impact on the Consolidated Income Statement was the non-cash recycling of currency on deconsolidation as required under IAS 21, *The Effects of Changes in Foreign Exchange Rates* (see Note 5 to the Consolidated Financial Statements). DABP awards were adjusted at the outset of the performance period, with the maximum matching awards reduced from 3x to 2.25x.

Further details on performance against the targets are set out on pages 78 and 79.

CORPORATE GOVERNANCE CODE

The Committee is mindful of the updated UK Corporate Governance Code that was published in July 2018. Whilst the policy approved at the 2018 AGM is broadly aligned with the provisions of the Code, in line with the updated Code, the Committee has made the following two changes to the approach to remuneration for executive Directors at SKG:

- Increased the time horizons for long-term incentive awards, such that no part of the award (except to cover taxes due) will be released before the fifth anniversary of grant; and
- Made a commitment that pension provisions for any recruits will be no higher than the pension contributions offered to other employees within the Group. The pension arrangements for current executive Directors will remain in line with existing contractual entitlements.

During the course of 2019, in light of evolving market practice, the Committee will give due consideration to other provisions of the Corporate Governance Code (e.g. post-cessation shareholding requirements) and consider the appropriate approach for SKG.

The Committee is also mindful of the new UK legislation requiring companies to disclose the CEO pay ratio data. Although this legislation does not apply to SKG, the Committee will consider to what extent this information can be provided in next year's Annual Report.

CONCLUSION

Following my appointment as Group Chair, I will be stepping down as Chair of the Compensation Committee at the AGM and John Moloney will be taking over as Chair of the Committee. John has served on the Committee since 2015 and I wish him the best of luck as Chair of the Committee going forward.

Finally, on behalf of the Committee, I thank you for your continued support and we trust that you find the report informative. As always, I welcome any comments you have.

HOW WE WILL IMPLEMENT OUR POLICY IN 2019

The following tables set out a summary of how our Remuneration Policy will be implemented in 2019 in respect of executive Directors and non-executive Directors. The Remuneration Policy approved by shareholders at the 2018 AGM can be found on pages 86 to 90 within our 2017 Annual Report and is available from our website at https://www.smurfitkappa.com/investors/reports-and-presentations.

EXECUTIVE DIRECTORS

<table>
<tr><th rowspan="2">Component</th><th colspan="2">Implementation in 2019</th></tr>
<tr><th>Chief Executive Officer</th><th>Chief Financial Officer</th></tr>
<tr><td rowspan="2">Basic salary</td><td colspan="2">Salaries increased effective 1 January 2019 by 0.6% for the CEO and 3.5% for the CFO. The salary increase for the CFO is broadly aligned with the average increases for executives in SKG's main geographies and the increase for the wider workforce.</td></tr>
<tr><td>A. Smurfit=€1,112,133 p.a.</td><td>K. Bowles=€624,105 p.a.</td></tr>
<tr><td>Benefits</td><td colspan="2">Market competitive benefits provided in line with Remuneration Policy.</td></tr>
<tr><td>Pension</td><td>A. Smurfit=20.5% of salary (cash allowance)</td><td>K. Bowles=17% of salary (cash allowance)</td></tr>
<tr><td rowspan="3">Annual bonus</td><td colspan="2">Performance will be measured over one year against the following key financial, operational/strategic and individual performance metrics:
<table>
<tr><th>Measure</th><th>Weighting</th></tr>
<tr><td>Earnings Before Interest and Tax</td><td>23%</td></tr>
<tr><td>ROCE</td><td>24%</td></tr>
<tr><td>Free Cash Flow</td><td>23%</td></tr>
<tr><td>Health and Safety</td><td>10%</td></tr>
<tr><td>Personal/strategic goals</td><td>20%</td></tr>
</table></td></tr>
<tr><td colspan="2">Actual targets have not been disclosed prospectively due to commercial sensitivity.
50% will be delivered in cash and 50% will be deferred into Company shares for three years.</td></tr>
<tr><td>A. Smurfit (maximum)=150% of salary</td><td>K. Bowles (maximum)=150% of salary</td></tr>
<tr><td rowspan="2">Performance Share Plan</td><td colspan="2">Performance measured over three years against three equally weighted measures. Awards are subject to a post-vesting holding period such that they are released following the fifth anniversary of the grant date.
<table>
<tr><th>Measure</th><th>Threshold vesting (25% of maximum)</th><th>Maximum vesting (100% of maximum)</th></tr>
<tr><td>EPS (pre-exceptional items – cumulative over three-years)</td><td>770c</td><td>940c</td></tr>
<tr><td>ROCE (three-year average)</td><td>15.3%</td><td>18.7%</td></tr>
<tr><td>Relative Total Shareholder Return *</td><td>Median Performance</td><td>Upper Quartile</td></tr>
<tr><td></td><td colspan="2">Straight line vesting between points</td></tr>
</table>
*Measured against the following peers: Billerud Korsnas, Cascades, DS Smith, Empresas Cmpc, Graphic Packaging, International Paper, Klabin, Mayr-Melnhof, Metsa Board, Mondi, Packaging Corporation of America, Stora Enso, UPM-Kymmene and WestRock.</td></tr>
<tr><td>A. Smurfit (maximum)=225% of salary</td><td>K. Bowles (maximum)=180% of salary</td></tr>
<tr><td>Share ownership requirements</td><td>A. Smurfit is required to build a shareholding equivalent to 300% of basic salary.</td><td>K. Bowles is required to build a shareholding equivalent to 200% of basic salary.</td></tr>
</table>

RECRUITMENT POLICY

In determining the recruitment package for a new executive Director, the Committee would have regard to the following principles:

- The package should be market competitive to facilitate the recruitment of individuals of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent.
- So far as practical, the Committee would seek to align the remuneration package for any incoming executive Director with the approved Remuneration Policy.
  - In terms of fixed pay (including basic salary, benefits and pension), these would be set in line with the policy and at a suitable level to recruit individuals with the required calibre, skills and experience to deliver the Company's strategy.
  - In terms of variable pay (including short and long-term incentives), the maximum level of variable remuneration which may be awarded (excluding 'buy-outs') in the first year of appointment is 450% of salary (which is made up of the maximum annual bonus opportunity (150%) and maximum PSP opportunity in the plan rules (300%)).
- Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate taking into account all relevant factors including the form of awards, expected value and vesting timeframe of the forfeited opportunities. When determining such a 'buy-out' the guiding principle would be that awards would be on a 'like for like' basis to those forfeited, unless this was not considered appropriate in the particular circumstances.
- To facilitate the awards outlined above, the Committee may make awards under Company incentive plans, or other available structures as appropriate, for the purpose of making 'buy-out' awards.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND LOSS OF OFFICE PAYMENT POLICY

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

	Effective date of contract	Notice period	Termination payments
A. Smurfit	9 March 2007 (amended 1 September 2015)	12 months notice	Annual salary, the highest annual bonus for the most recent three years, the regular pension contribution in respect of the annual salary and the cash value of any benefits.
K. Bowles	1 April 2016	12 months notice	Annual salary, the regular pension contribution in respect of the annual salary and the cash value of any benefits.
Policy going forward	n/a	12 months notice	For any new executive Director, any payment in lieu of notice would solely include salary, pension and other benefits.

TREATMENT OF INCENTIVES ON CESSATION

In the event of an executive Director's departure from the Group, any outstanding share awards will be treated in accordance with the relevant plan rules. The following table sets out the treatment of annual bonus, deferred share awards and PSP awards for good and bad leavers, for awards made in respect of 2018 onwards. A Good Leaver is an executive Director who ceases to be an employee of the Group by reason of:

- Death;
- Ill health, injury or disability;
- Redundancy;
- Retirement with the agreement of the Committee;
- The sale of the individual's employing business or company out of the Group; or
- Other circumstances at the discretion of the Committee.

Awards	Bad leavers	Good leavers
Annual bonus	Not eligible to receive a bonus, except where a contractual entitlement exists.	If the termination date falls during the performance year, eligible for a bonus pro-rated for time and performance as appropriate.
Deferred bonus awards	Awards lapse in full on cessation of employment.	Outstanding awards will be retained by participants and would vest in full at the normal time. The Committee retains discretion to accelerate vesting where it is considered appropriate (e.g. on death).
PSP awards	For leavers during the performance period, awards lapse in full on cessation of employment.	During the performance period, outstanding awards will be retained and would vest at the normal time taking into account the extent to which the performance conditions have been achieved (measured at the normal time) and time in employment as a proportion of the performance period. For any leavers during the holding period, outstanding awards will be released at the normal time, except where a participant is summarily dismissed, in which case awards lapse in full on cessation of employment. The Committee retains discretion to accelerate the vesting or release of awards where it is considered appropriate (e.g. on death).

In the event of a change of control, awards will be treated in line with the respective plan rules.

Awards under the Group's legacy deferred annual bonus plan will be treated in line with the plan rules.

NON-EXECUTIVE DIRECTORS

The table below sets out a summary of non-executive Director fees. No changes were made to fees for 2019.

	Annual fee
Chair	**€350,000**
Non-executive Director base fee	**€70,000**
Additional fees:	
Senior Independent Director fee	**€60,000**
Audit Committee Chair fee	**€60,000**
Remuneration Committee Chair fee	**€60,000**
Committee membership fee	**€20,000**

TOTAL EXECUTIVE DIRECTORS' REMUNERATION IN 2018

The following table shows a single figure of total remuneration for each executive Director for the years 2018 and 2017. The individual remuneration in the tables below is also set out on page 84.

					LTIP			
	Basic salary €'000	Pension €'000	Benefits[1] €'000	Total annual bonus[2] €'000	Deferred matching shares[3] €'000	Share price appreciation element[4] €'000	Total LTIP €'000	Total €'000
Directors								
2018								
A. Smurfit	**1,106**	**226**	**28**	**1,614**	**352**	**46**	**398**	**3,372**
K. Bowles	**603**	**103**	**28**	**880**	**94**	**12**	**106**	**1,720**
2017								
A. Smurfit	1,100	226	24	684	378	65	443	2,477
K. Bowles	600	102	32	372	73	13	86	1,192

1 Benefits include the use of a company car, club subscriptions or cash equivalent.
2 Includes the total bonus paid in respect of 2018 and 2017, including deferred amounts.
3 Deferred matching shares – for 2018 this represents the matching shares that vested in February 2019 at the grant price in 2016. They vested at 51.6% of maximum as a result of the achievement of the relevant performance targets for the three-year period ended 31 December 2018 (see page 79 for further details). For 2017 this represents the matching shares that vested in February 2018 at the grant price in 2015. They vested at 45% of maximum as a result of the achievement of the relevant performance targets for the three-year period ended 31 December 2017.
4 Share price appreciation element – the estimated additional value generated through share price growth over the grant price in 2016 and 2015. For the 2016 grants the share price used is €25.81 compared to the grant price of €22.84 per share. For the 2015 grants the share price used is €28.19 compared to the grant price of €24.05 per share.

PENSIONS

Mr Smurfit and Mr Bowles participated in a Group contributory defined benefit pension plan based on an accrual rate of 1/60th of pensionable salary for each year of pensionable service and was designed to provide two thirds of salary at retirement for full service. The defined benefit plan which Mr Smurfit and Mr Bowles are members of closed to future accrual with effect from 30 June 2016 and was replaced by a defined contribution plan. All pension benefits are determined solely in relation to basic salary.

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

Mr Smurfit (in 2018 and 2017) chose an alternative arrangement which involved capping his individual pension in line with the provisions of the Finance Act and receiving a supplementary taxable non-pensionable cash allowance, in lieu of prospective pension foregone. This was calculated based on actuarial advice as the equivalent of the reduction in SKG's liability to the individual and spread over the term to retirement as annual compensation allowances and was fixed at 30 June 2016 on the closure of the defined benefit plan to future accrual. For 2018, the non-pensionable cash allowance for Mr Smurfit represented 20.5% of salary. For Mr Bowles the total contribution in the year was 17% of salary (partly paid into the defined contribution plan until his individual cap was met and the remainder as a cash allowance).

ANNUAL BONUS

Executive Directors participate in an annual bonus scheme which was based on the achievement of clearly defined stretching annual financial targets, together with targets for Health and Safety and personal/strategic goals for each of the executive Directors.

2018 ANNUAL BONUS

The key target areas as well as their weightings and the specific targets for the 2018 annual bonus plan are set out in the table below:

Performance metrics	Threshold	Target**	Maximum	Resultant payout (% of max.)
EBIT (25%)*	€688m	€885m	€1,082m (actual: €1,076)	24.8% (99%)
ROCE (25%)*	12.5%	16.1%	19.7% (actual: 19.9%)	25% (100%)
Free Cash Flow (20%)*	€235m	€319m	€402m (actual: €461m)	20% (100%)
Health and Safety (10%)	The Group TRIR rate was 1.01. 75% payout range between 1.4 and 0.7.			7.5% (75%)
Personal/Strategic Goals – Mr Smurfit (20%)	Strong progress against personal/strategic goals. Further detail set out below.			20% (100%)
Personal/Strategic Goals – Mr Bowles (20%)	Strong progress against personal/strategic goals. Further detail set out below.			20% (100%)

* Due to the distortionary effect of hyperinflation in Venezuela it is excluded from both targets and actual results.

** Given the stretch in the business planning process for 2018 and the subsequent targets, 70% of the maximum bonus is payable for 'targets' performance. No bonus is payable for threshold performance. Going forward, in line with best practice, 50% of the bonus will be payable for target performance.

PERSONAL/STRATEGIC GOALS

The following table sets out the executive Directors' achievements against their personal/strategic objectives for 2018:

Executive	Achievement against personal/strategic objectives
Mr Smurfit	**Innovation** • 52 innovation/design awards won in 2018 (up from 43 in 2017). • 5 new experience centres built in 2018 taking the total number to 26 around the world. **Sustainability** – strong progress made against Sustainability metrics, including: • Further reduction in CO_2 emissions. • 88% of all deliveries to customers are certified Chain of Custody. **People** • Maintained focus, motivation and retained key personnel. • Effective implementation of succession planning for senior leadership with key positions having clearly defined plans. **Acquisitions/disposals** • Successfully completed three strategic acquisitions: - Reparenco in July 2018; - Papcart and Caradec, corrugated conversion plants, in France, in December 2018; and - FHB paper mill and Avala Ada corrugated plant in Belgrade announced in October 2018 and completed in January 2019. **Stakeholder engagement** • Medium-term Plan successfully launched to investors during the year.

Executive	Achievement against personal/strategic objectives
Mr Bowles	**Finance** • Successfully issued €600 million senior notes in June 2018. • Successfully renegotiated the RCF, announced in January 2019. **People** • Maintained focus, motivation and retained key personnel. • Effective implementation of succession planning for senior leadership. • Implemented positive changes at Group headquarters to reflect feedback from employees. **Internal audit** • 2018 internal audit processes completed with 97% achieving a positive assessment. **Acquisitions/disposals** • Successfully completed three strategic acquisitions: - Reparenco in July 2018; - Papcart and Caradec, corrugated conversion plants, in France, in December 2018; and - FHB paper mill and Avala Ada corrugated plant in Belgrade announced in October 2018 and completed in January 2019. **Stakeholder engagement** • Medium-term Plan successfully launched to investors during the year.

Following consideration of performance against the targets, and in the context of the wider performance of the Group, the Committee approved the following annual bonuses for 2018:

	2018				
		Bonus payable	Annual cash bonus	Deferred shares	Total bonus
Executive Directors	(% maximum)	(% salary)	€'000	€'000	€'000
A. Smurfit	**97.3**	**146**	**807**	**807**	**1,614**
K. Bowles	**97.3**	**146**	**440**	**440**	**880**

In line with the Remuneration Policy, half of the bonuses shown above were paid in cash and half were deferred into Company shares which vest after three years subject to the continuity of employment of the executive or in certain circumstances based on normal good leaver provisions.

DEFERRED ANNUAL BONUS PLAN

AWARDS VESTING IN RESPECT OF PERFORMANCE TO 31 DECEMBER 2018

In 2016, Mr Smurfit and Mr Bowles were granted Matching Share Awards which vested based on the achievement of performance targets for the three-year period ending on 31 December 2018. The maximum matching award was set at 2.25 times the deferred share award at grant by the Committee. This was reduced from a maximum of three times at grant to reflect Venezuela-related devaluations and cash effects at the time. The targets for the three-year period ending on 31 December 2018 which were set in 2016, were as follows:

Targets and Match Matrix			Three-year performance period 2016 – 2018			
					ROCE	
				46%	49.9%	54%
		Level of performance attained over three-year period	Below Threshold	Threshold	Target	Stretch
		Below Threshold	0	0	0	0.5
FCF (€m)	1,111	Threshold	0	1	1.125	1.5
	1,293	Target	0	1.125	1.6875	1.875
	1,454	Stretch	0.5	1.5	1.875	2.25

ROCE and FCF for the three-year period to December 2018 amounted to 50.3% and €1,112 million respectively and as a result a 1.162 times match from a maximum of 2.25 times was approved by the Committee in February 2019. Adjustments were made to exclude the effect of acquisitions and disposals and the hyperinflationary effects of Venezuela which happened during the three-year period to 31 December 2018.

SHARE AWARDS GRANTED DURING THE YEAR

During the year, executive Directors were granted Deferred Share Awards in respect of the 2017 annual bonus. They were also granted Performance Share Plan Awards that may vest based on the achievement of performance targets for the three-year period ending on 31 December 2020. Performance Share Plan Awards are subject to a holding period such that they are released in three equal tranches following the third, fourth and fifth anniversaries of the grant date.

Details of the executive Directors' awards are set out below. Further detail on the executive Directors' outstanding shares are set out on pages 82 and 83.

	Type of interest	Face value €'000	Basis on which award made	% vesting at threshold	Performance period
Deferred bonus[1]					
A. Smurfit	Deferred shares	342	Deferred bonus	n/a	n/a
K. Bowles	Deferred shares	186	Deferred bonus	n/a	n/a
Performance shares[2]					
A. Smurfit	Performance shares	2,487	225% of salary	25%	01/01/2018-31/12/2020
K. Bowles	Performance shares	1,085	180% of salary	25%	01/01/2018-31/12/2020

1 Share price of deferred shares granted in June 2018 was €30.09. Awards will vest based on continued employment to February 2021 (subject to leaver provisions within the plan rules).
2 Share price of Performance shares granted in June 2018 was €33.32. Awards are subject to three equally weighted performance conditions: EPS (pre-exceptional); Return on Capital Employed; and Total Shareholder Return against a bespoke peer group. Details of the underlying targets are set out on page 91 of the 2017 Annual Report.

PERCENTAGE CHANGE IN GROUP CHIEF EXECUTIVE OFFICER REMUNERATION IN RELATION TO ALL EMPLOYEES

Details of the percentage change in the salary, annual bonus and benefits from 2017 to 2018 for the Group Chief Executive Officer and all employees are set out below:

		Basic salary	Total bonus	Benefits
Group Chief Executive Officer	% change	0.6%	136%	16%
All employees	% change	1.6%	73%	n/a*

* Due to data availability, it is not possible to calculate the percentage change in benefits for all employees for the purpose of this table.

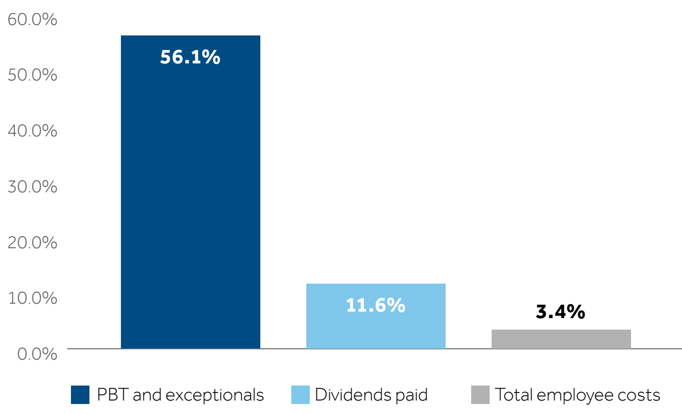
RELATIVE IMPORTANCE OF SPEND ON PAY

The following tables set out the amounts and percentage change in profit, dividends and total employee costs for the financial year ended 31 December 2018 against 2017.

	2018 €m	2017 €m
Profit before income tax and exceptional items	**938**	601
Dividends paid to shareholders	**213**	191
Total employee costs[1]	**2,145**	2,075

1 Total employee costs for continuing operations, includes wages and salaries, social insurance costs, share-based payment expense, pension costs and redundancy costs for all employees, including Directors. The average full time equivalent number of employees, including Directors and part-time employees in continuing operations was 46,025 (2017: 46,350).

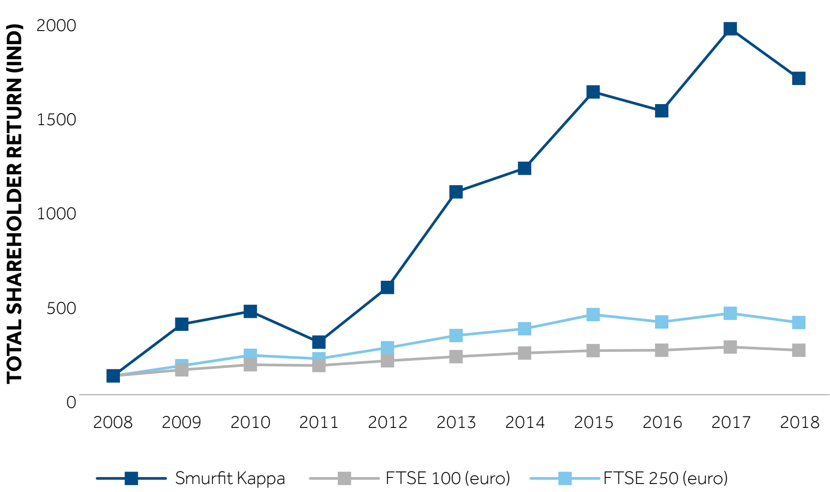
PERCENTAGE CHANGE OF SPEND ON PAY 2018 VS 2017



TOTAL SHAREHOLDER RETURN ('TSR') PERFORMANCE

The performance graph below shows the Group TSR performance from 31 December 2008 to 31 December 2018 against the performance of the FTSE 100 and FTSE 250 over the same period. Both the FTSE 100 and FTSE 250 have been chosen, as during the relevant period these are the two broad equity market indices of which the Group has been a member.

TOTAL RETURN INDICES – SMURFIT KAPPA VS FTSE 100 AND FTSE 250



GROUP CHIEF EXECUTIVE OFFICER REMUNERATION

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

		Single figure of total remuneration €'000	Annual bonus award against maximum opportunity	LTIP award against maximum opportunity
	Group Chief Executive Officer			
2018	A. Smurfit	3,372	97.3%*	51.6 %[1]
2017	A. Smurfit	2,477	41%*	45%[1]
2016	A. Smurfit	2,407	35%*	45%[1]
2015	A. Smurfit (appointed 1 September)	1,180	42%*	67%[1]
2015	G. McGann (retired 31 August)	3,837	42%*	67%[1]
2014	G. McGann	7,203	55%*	75%[1]
2013	G. McGann	5,278	54%*	93%[1]
2012	G. McGann	3,169	60%*	30%[2]
2011	G. McGann	3,358	65%*	100%[3]
2010	G. McGann	2,641	55%	–[4]
2009	G. McGann	2,231	23%	–[4]

1 The Matching and Conditional Matching Awards granted in 2016, 2015, 2014, 2013, 2012 and 2011 vested in February 2019, 2018, 2017, 2016, 2015 and 2014 respectively based on the achievement of the relevant performance targets for the three-year periods ending on 31 December 2018, 2017, 2016, 2015, 2014 and 2013.
2 The awards under the 2007 Share Incentive Plan ('SIP') vested 30% in February 2013 with the TSR condition being at the median.
3 The SIP awards vested 100% in February 2012 with the TSR condition being in the upper quartile of the peer group.
4 The SIP awards lapsed in March 2010 and March 2011 respectively, having failed to meet the required performance conditions.
* The annual bonus award for 2018, 2017, 2016, 2015, 2014, 2013, 2012 and 2011 was paid 50% in cash and 50% in Deferred Share Awards.

The information below forms an integral part of the audited Consolidated Financial Statements as described in the Basis of Preparation on page 101.

PENSION ENTITLEMENTS – DEFINED BENEFIT

	Increase/ (decrease) in accrued pension during year €'000	Transfer value of increase/ (decrease) in accrued pension €'000	**2018 Total accrued pension[1] €'000**
Executive Directors			
A. Smurfit	–	–	**273**
K. Bowles	–	–	**78**

1 Accrued pension benefit is that which would be paid annually on normal retirement date.

ADDITIONAL INFORMATION

PAYMENTS TO FORMER DIRECTORS

In line with the treatment disclosed in previous annual reports, Mr Curley, the previous CFO, retained unvested incentive awards which vested on a pro-rated basis, to reflect the portion of the vesting period during which he served as an employee of the Company and performance delivered at the end of the performance period. In respect of his 2015 DABP awards, in line with the performance achieved over the performance period to December 2017, 45% of the pro-rated matching shares awarded vested on the normal vesting date in February 2018. There are no other unvested long-term incentive awards due to Mr Curley.

No other payments were made to past Directors in the year.

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office made in the year.

EXECUTIVE DIRECTORS' INTERESTS IN SHARE CAPITAL AT 31 DECEMBER 2018

Name	Owned at 31 December 2017	**Owned at 31 December 2018**	Shareholding (% of salary)	Shareholding guideline* (% of salary)	Shareholding guideline met?
A. Smurfit	1,158,153	**1,198,331**	3,441%	300%	Yes
K. Bowles	24,000	**30,947**	163%	200%	Progress being made*

* During 2018, the shareholding guidelines were increased from 150% to 300% for the CEO and from 100% to 200% for other executive Directors.

The changes in the executive Directors' Interests between 31 December 2018 and 15 March 2019 were as follows: Mr Smurfit and Mr Bowles increased their holdings by 28,679 and 3,679 shares respectively in February 2019, following the vesting of Deferred and Matching Share Awards.

DEFERRED ANNUAL BONUS PLAN AWARDS

DEFERRED SHARE AWARDS AND MATCHING SHARE AWARDS

Deferred Share Awards were granted to eligible employees in 2018 in respect of the financial year ended 31 December 2017.

	31 December 2017		**Granted (Lapsed) in year 2018**		**Shares distributed on vesting**		**31 December 2018**		Market price on award date	Performance period
	Deferred	Matching	**Deferred**	**Matching**	**Deferred**	**Matching**	**Deferred**	**Matching**		
Directors										
A. Smurfit										
	15,450	15,450			**(15,450)[1]**	**(15,728)[1]**			24.05	01/01/2015 – 31/12/2017
	13,265	13,265					**13,265[2]**	**13,265[2]**	22.84	01/01/2016 – 31/12/2018
	11,093	11,093					**11,093**	**11,093**	25.71	01/01/2017 – 31/12/2019
			11,362	**–**			**11,362**	**–**	30.09	01/01/2018 – 31/12/2020*
K. Bowles										
	4,464	2,976			**(4,464)[1]**	**(3,030)[1]**			24.05	01/01/2015 – 31/12/2017
	3,559	3,559					**3,559[2]**	**3,559[2]**	22.84	01/01/2016 – 31/12/2018
	5,128	5,128					**5,128**	**5,128**	25.71	01/01/2017 – 31/12/2019
			6,198	**–**			**6,198**	**–**	30.09	01/01/2018 – 31/12/2020*
Secretary										
M. O'Riordan										
	5,364	5,364			**(5,364)[1]**	**(5,461)[1]**			24.05	01/01/2015 – 31/12/2017
	4,277	4,277					**4,277[2]**	**4,277[2]**	22.84	01/01/2016 – 31/12/2018
	4,012	4,012					**4,012**	**4,012**	25.71	01/01/2017 – 31/12/2019
			3,615	**–**			**3,615**	**–**	30.09	01/01/2018 – 31/12/2020*

1 The deferred shares vested in February 2018 and were distributed in June 2018. The market price at date of distribution was €33.40.
Based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2017, the matching shares vested in February 2018 with a match of 1.018 times the level of the Matching Share Award and were distributed in June 2018. The market price at the date of distribution was €33.40.

2 The deferred shares vested in February 2019 and were distributed.
Based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2018, the matching shares vested in February 2019 with a match of 1.162 times the level of the Matching Share Award. The market price at the date of distribution was €25.81.

* Deferred awards are subject to holding period.

The market price of the Company's shares at 31 December 2018 was €23.26 and the range during 2018 was €21.26 to €36.64.

PERFORMANCE SHARE PLAN AWARDS

Performance Share Plan Awards were granted to eligible employees in 2018. Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2020.

	31 December 2017	Granted (Lapsed) in year 2018**	Shares distributed on vesting	31 December 2018	Market price on award date	Performance period*
Directors						
A. Smurfit	–	74,651*	–	74,651	33.32	01/01/2018 – 31/12/2020
K. Bowles	–	32,575*	–	32,575	33.32	01/01/2018 – 31/12/2020
Secretary						
M. O'Riordan	–	19,002*	–	19,002	33.32	01/01/2018 – 31/12/2020

* Awards are subject to a holding period such that they are released in three equal tranches following the third, fourth and fifth anniversaries of the grant date.

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

DIRECTORS' REMUNERATION

	2018 €'000	2017 €'000
Executive Directors		
Basic salary	1,709	1,700
Annual cash bonus	1,247	528
Pension	329	328
Benefits	56	56
Executive Directors' remuneration	3,341	2,612
Average number of executive Directors	2	2
Non-executive Directors		
Fees	1,357	1,360
Non-executive Directors' remuneration	1,357	1,360
Average number of non-executive Directors	10	11
Directors' remuneration	4,698	3,972

INDIVIDUAL REMUNERATION FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Basic salary and fees €'000	Annual cash bonus €'000	Pension[1] €'000	Benefits €'000	**Total 2018 €'000**	Total 2017 €'000
Executive Directors						
A. Smurfit	1,106	807	226	28	**2,167**	1,692
K. Bowles	603	440	103	28	**1,174**	920
	1,709	1,247	329	56	**3,341**	2,612
Non-executive Directors						
L. O'Mahony	350				**350**	350
F. Beurskens[2]	135				**135**	120
C. Bories	90				**90**	90
T. Brodin[4]	–				**–**	48
C. Fairweather[3]	117				**117**	–
J. Buhl Rasmussen[3]	90				**90**	75
I. Finan	130				**130**	130
J. Lawrence	90				**90**	90
G. McGann[4]	–				**–**	30
J. Moloney	90				**90**	90
R. Newell	130				**130**	117
G. Restrepo	90				**90**	90
R. Thorne[4]	45				**45**	130
	1,357				**1,357**	1,360

1 Pension: The Irish Finance Act 2006 effectively established a cap on pension provision by introducing a penalty tax charge on pension assets in excess of the higher of €5 million or the value of individual prospective pension entitlements as at 7 December 2005. As a result of these legislative changes, the Compensation Committee of SKG in 2007 decided that Irish based executive Directors should have the option, once they reached the cap, of continuing to accrue pension benefits as previously, or of choosing an alternative arrangement with a similar overall cost to the Group. Mr Smurfit in 2018 and 2017 and Mr Bowles in 2018 chose the alternative arrangement and received a supplementary taxable non-pensionable cash allowance in lieu of contributions to a pension fund in the amount of €226,600 (2017: €225,500) and €34,170 respectively.
The aggregate amount of contributions paid to defined contribution schemes in respect of Directors was €68,340 (2017: €102,000).

2 Mr Beurskens' fees include additional fees of €45,000 (2017: €30,000) for services as a Director of a Group subsidiary and advisory services, effective from July 2018, to include the integration of the Parenco mill.

3 Ms Fairweather and Mr Buhl Rasmussen joined the Board in January 2018 and March 2017 respectively.

4 Ms Thorne retired from the Board in May 2018 and Mr Brodin and Mr Mc Gann retired in May 2017.

SHARE-BASED PAYMENT

The executive Directors receive Deferred Share Awards and Performance Share Awards, details of which are outlined on pages 82 and 83 of this report. The share-based payment expense recognised in the Consolidated Income Statement for the executive Directors in the year totalled €1,810,275 (2017: €1,077,296).

NON-EXECUTIVE DIRECTORS' INTERESTS IN SHARE CAPITAL AT 31 DECEMBER 2018

The interests of the non-executive Directors and Secretary in the shares of the Company as at 31 December 2018 which are beneficial unless otherwise indicated are shown below. The Directors and Secretary have no beneficial interests in any of the Group's subsidiary or associated undertakings.

	31 December 2018**	31 December 2017*
Ordinary Shares		
Directors		
L. O'Mahony	**29,830**	19,830
A. Anderson	**–**	–
F. Beurskens	**2,500**	2,500
C. Bories	**1,800**	1,800
C. Fairweather*	**3,000**	–
I. Finan	**17,650**	8,650
J. Lawrence	**335,000**	335,000
J. Moloney	**8,000**	8,000
R. Newell	**8,925**	4,965
J. Buhl Rasmussen	**2,469**	2,469
G. Restrepo	**–**	–
R. Thorne**	**10,000**	10,000
Secretary		
M. O'Riordan	**120,213**	115,018

* Or at date of appointment if later.
** Or at date of departure if earlier.

The changes in the Secretary's Interests between 31 December 2018 and 15 March 2019 were as follows: Mr O' Riordan increased his holdings by 4,438 shares in February 2019, following the vesting of Deferred and Matching Share Awards.

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

THE COMPENSATION COMMITTEE

The Compensation Committee chaired by Mr Irial Finan currently comprises seven non-executive Directors. The Directors' biographical details on pages 60 to 62 demonstrate that the members of the Committee bring to it a wide range of experience in the area of senior executive remuneration in comparable companies.

The Committee receives advice from independent remuneration consultants, as appropriate, to supplement their own knowledge and to keep the Committee updated on current trends and practices. In 2018, the Committee received independent data from its independent advisors, Deloitte LLP, on the approach to executive remuneration in the Group going forward, and received advice from Hay Group on the salaries of the executive Directors and the senior management team. The Committee considers that the advice provided by Deloitte LLP and Hay Group, who do not have any other affiliation with the Group, is objective and independent. The total fees paid to Deloitte LLP in relation to Remuneration Committee work during 2018 were £48,760 (excluding VAT). Deloitte LLP are signatories to the Remuneration Consultants' Group code of conduct in relation to executive remuneration consulting in the UK.

The role and responsibilities of the Committee are set out in its Terms of Reference which are available on the Group's website: smurfitkappa.com. The Terms of Reference and the performance of the Committee was reviewed and the Committee is considered to be operating effectively and efficiently. The Terms of Reference are reviewed each year by the Committee.

The Committee met five times during the year. Details of Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer normally attends the meetings and the Group V.P. Human Resources attends when appropriate (neither are involved in discussions concerning their own remuneration).

Attendance record	Number of meetings eligible to attend	Number of meetings attended	Appointment date
I. Finan (Chair)	5	5	2012
C. Bories	5	4	2012
C. Fairweather	4	4	2018
J. Buhl Rasmussen	5	5	2017
J. Moloney	5	5	2015
L. O'Mahony	5	5	2007
G. Restrepo	5	5	2015

STATEMENT ON SHAREHOLDER VOTING

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

The following tables show the voting outcome at the 4 May 2018 AGM for the 2017 Directors' Remuneration Report and the Remuneration Policy.

Item	Votes for and discretionary	% votes cast	Votes against	% votes cast	Total votes cast	Vote withheld
Directors' Remuneration Report	127,770,145	88.2%	17,065,010	11.8%	144,835,155	1,981,598
Directors' Remuneration Policy	139,293,606	97.4%	3,765,320	2.6%	143,058,926	3,757,828

Nomination Report

"As Chair of the Nomination Committee I am pleased to present the report of the Committee in relation to the financial year ended 31 December 2018."

Roberto Newell
Chair of Nomination Committee
15 March 2019

COMMITTEE MEMBERS
R. Newell (Chair)
A. Anderson
F. Beurskens
J. Lawrence
L. O'Mahony

ROLE OF THE NOMINATION COMMITTEE
The role of the Committee is to:

- lead the process for appointments to the Board and make recommendations to the Board;
- evaluate the balance of skills, knowledge, experience and diversity, both gender and geographical, on the Board to ensure the Board continues to operate effectively;
- prepare descriptions of the role and requirements for new appointees; and
- give full consideration to succession planning for Directors.

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

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

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

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

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

Attendance record	A*	B*	Appointment date
R. Newell (Chair)	3	3	2017
A. Anderson**	0	0	2019
F. Beurskens	3	3	2013
J. Lawrence	3	3	2015
L. O'Mahony	3	3	2007
R. Thorne***	0	0	2008

* Column A indicates the number of meetings held during the period the Director was a member of the Committee and was eligible to attend and Column B indicates the number of meetings attended.
** Ms Anderson joined the Committee in February 2019.
*** Ms Thorne retired from the Board in May 2018.

MAIN ACTIVITIES DURING THE YEAR
During the year, the Committee evaluated the composition of the Board with respect to the balance of skills, knowledge, experience and diversity, including geographical and gender diversity on the Board and updated a policy document on Board succession.

The Chair of the Nomination Committee who is also the Senior Independent Director led the process for the selection of the Chair designate. Following the development of a profile of the Chair role, Mr Newell carried out a comprehensive selection process which he reported on to the Committee. The Committee recommended to the Board that Mr Irial Finan be appointed the Chair Designate.

The Committee instigated a search for a new non-executive Director in 2018 as part of the ongoing Board renewal process, using the services of an external advisor, KORN/FERRY Whitehead Mann, who do not have any other affiliation with the Group. Ms Anne Anderson was identified through a rigorous search and selection process. Following interviews with KORN/FERRY Whitehead Mann and a number of the Committee members, the Committee recommended Ms Anderson for co-option to the Board. The appointment of Ms Anderson, with effect from 1 January 2019, was confirmed by the Board in December 2018. Ms Anderson's significant international experience, including her most recent role as Irish Ambassador to the United States from 2013-2017 further enhances the expertise and skill base of our Board. Ms Anderson's biography is set out on page 61.

The Terms of Reference and the performance of the Committee was reviewed and the Committee is considered to be operating effectively and efficiently.

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

1. OPINION: OUR OPINION IS UNMODIFIED

We have audited the Financial Statements of Smurfit Kappa Group plc ('the Company') for the year ended 31 December 2018 which comprise the Consolidated and Company Balance Sheet, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Cash Flows, Consolidated and Company Statement of Changes in Equity and the related notes, including the accounting policies 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 Group Financial Statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2018 and of its result for the year then ended;
- the Company Balance Sheet gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018;
- the Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Company Financial Statements have been properly prepared in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 2014; and
- the Group Financial Statements 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 one year, ended 31 December 2018. 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 listed Public Interest Entities. No non-audit services prohibited by that standard were provided.

2. 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 €2,361 MILLION (2017 – €2,284 MILLION)

Refer to Note 2 (accounting policy) and Note 12 (financial disclosures)

The key audit matter	How the matter was addressed in our audit
The Group has significant goodwill arising from acquisitions amounting to €2,361 million at 31 December 2018. 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 2018. The goodwill is allocated to 15 groups of cash-generating units (CGUs) – 3 of which individually account for between 10%-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 those CGUs which have had limited headroom in the past, being France and Brazil. 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; • assessing and challenging the reasonableness of the long-term economic growth rate applied for each CGU; • comparing the Group's assumptions, where possible, to externally derived data as well as our own assumptions and performing sensitivity analysis on the impact of changes in these 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 appropriate.

VENEZUELA – DECONSOLIDATION €1,270 MILLION EXCEPTIONAL COST

Refer to Note 2 (accounting policy) and Note 5 (financial disclosures)

The key audit matter	How the matter was addressed in our audit
Management has determined that the Group has lost control over its operations in Venezuela. The Group has recorded a loss arising on the deconsolidation of the Venezuelan operations. We focused on this area because of the impact of the deconsolidation on the Group Financial Statements.	We obtained and documented our understanding of the judgements associated with the deconsolidation of operations and tested the design and implementation of the relevant controls. We performed procedures on the calculation of the Group's loss on deconsolidation of Venezuela. We assessed whether appropriate disclosures have been included in the Financial Statements in relation to the Group's deconsolidation of Venezuela. We found management's judgements regarding the deconsolidation of the Venezuelan operations and the related disclosures to be appropriate.

TAXATION – VALUATION OF DEFERRED TAX ASSETS €153 MILLION (2017 – €200 MILLION) AND PROVISION FOR UNCERTAIN TAX POSITIONS

Refer to Note 2 (accounting policy) and Note 16 (financial disclosures)

The key audit matter	How the matter was addressed in our audit
The accounting for deferred tax under IFRS and the recognition of deferred tax assets is complex and requires judgement. The Group has exposure to local corporation tax across all of the locations in which it operates. Judgement is required in evaluating certain tax positions across the Group. We focus on these areas due to the inherent judgement involved in assessing the recognition of certain deferred tax assets and uncertain tax positions. In particular, we focused on the valuation and recognition of deferred tax assets in France.	We obtained and documented our understanding of the process surrounding the recognition of deferred tax assets and the identification of uncertain tax positions. We tested the design and implementation of the relevant controls. We tested and challenged the level of deferred tax assets recognised across the Group. We considered the appropriateness of significant assumptions which form the basis for the recognition of deferred tax assets including future profit forecasts and the period over which those forecasts are made. We inspected the Group's exposures to uncertain tax positions and tax risks. We considered the appropriateness of the assumptions and methodology used by management to compute the relevant provisions. We discussed and challenged all significant assumptions at both the component and Group level. We found the Group's recognition of deferred tax assets and the disclosures to be appropriate. We found that the uncertain tax provision held is reasonable.

ACQUISITION ACCOUNTING €498 MILLION (2017 – €55 MILLION)

Refer to Note 2 (accounting policy) and Note 31 (financial disclosures)

The key audit matter	How the matter was addressed in our audit
The Group completed a number of acquisitions in the year, as set out in Note 31, the most significant of which is Reparenco. At the date of initial recognition, the Group is required to quantify the fair value of the identifiable net assets acquired, the fair value of the consideration transferred and the amounts allocated to intangibles and goodwill. The identification of intangible assets and the measurement of fair values involves a significant degree of judgement and estimation. We focus on this area due to the inherent judgement and estimation involved in the identification, recognition and valuation of intangible and other assets acquired.	We obtained and documented our understanding of the process surrounding the accounting for business combinations and tested the design and implementation of the relevant controls therein. Our audit procedures, among others, in this area included: • inspecting the underlying acquisition agreements of each acquisition to ensure the appropriateness of the acquisition accounting applied including the date at which control is deemed to have passed; • challenging the Group's critical assumptions in relation to the identification and valuation of intangible assets and other assets by assessing whether intangible assets have been appropriately identified, whether the useful lives determined are appropriate and by ensuring the mathematical accuracy of the calculations underpinning the values; • considering the appropriateness of the methodology used to value the intangible and other assets by comparing the key assumptions used to external data where available; and • evaluating the work done by experts used by management. We also considered and evaluated the completeness of the disclosures in respect of new acquisitions to ensure that they are in compliance with IFRS 3. We found the judgements made by the Group in the application of the acquisition accounting to be reasonable. We found the disclosures to be appropriate.

DEFINED BENEFIT PENSION LIABILITY – VALUATION OF LIABILITIES €804 MILLION (2017 – €848 MILLION)

Refer to Note 2 (accounting policy) and Note 24 (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 judgement involved and the volatility of the pension liabilities to changes in assumptions applied.	We obtained and documented our understanding of the process surrounding 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. We challenged the key assumptions applied to this data to determine the Group's gross obligation, being the discount rate, inflation rate and mortality/life expectancy. 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 done by 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.

COMPANY KEY AUDIT MATTER

INVESTMENT IN SUBSIDIARIES – CARRYING VALUE €2,078 MILLION (2017 – €2,067 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 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: • 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 the carrying value of the investment in subsidiary undertakings to be appropriate.

3. 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 €35 million. This has been calculated based on the Group EBITDA of €1,545 million of which it represents approximately 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 €35 million to be reasonable.

We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit with a value in excess of €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 determined with reference to a benchmark of the Company's total assets of which it represents 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. The reporting units identified amounted to 92% of the Group's EBITDA, 80% of the Group's revenue, and 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 €1.4 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.

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, the findings reported to the Group audit team by the component auditor were discussed in detail.

4. 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 33 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
- if the related statement under the Listing Rules set out on page 33 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT
The Directors are responsible for 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 review:
- 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 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 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 63 to 67, 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 2016 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, other information required by the Act is contained in the Corporate Governance Statement.

6. 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.

7. 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 2018 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 (formerly the Irish Stock Exchange) and UK Listing Authority require us to review:
- the Directors' statement, set out on page 33, in relation to going concern and longer-term viability;
- the part of the Corporate Governance Statement on pages 63 to 67 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 Board of Directors' Remuneration Committee.

8. RESPECTIVE RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 70, 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, 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

9. 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

15 March 2019

Consolidated Income Statement

For the financial year ended 31 December 2018

	Note	2018			2017		
		Pre-exceptional €m	**Exceptional €m**	**Total €m**	Pre-exceptional €m	Exceptional €m	Total €m
Revenue	4	**8,946**	**–**	**8,946**	8,562	–	8,562
Cost of sales	5	**(5,989)**	**–**	**(5,989)**	(5,997)	(11)	(6,008)
Gross profit		**2,957**	**–**	**2,957**	2,565	(11)	2,554
Distribution costs	5	**(705)**	**–**	**(705)**	(667)	–	(667)
Administrative expenses	5	**(1,147)**	**–**	**(1,147)**	(1,078)	–	(1,078)
Other operating expenses	5	**–**	**(66)**	**(66)**	–	(12)	(12)
Operating profit		**1,105**	**(66)**	**1,039**	820	(23)	797
Finance costs	7	**(214)**	**(6)**	**(220)**	(248)	(2)	(250)
Finance income	7	**47**	**–**	**47**	29	–	29
Deconsolidation of Venezuela	5	**–**	**(1,270)**	**(1,270)**	–	–	–
(Loss)/profit before income tax		**938**	**(1,342)**	**(404)**	601	(25)	576
Income tax expense	8			**(235)**			(153)
(Loss)/profit for the financial year				**(639)**			423
Attributable to:							
Owners of the parent				**(646)**			417
Non-controlling interests				**7**			6
(Loss)/profit for the financial year				**(639)**			423
Earnings per share							
Basic earnings per share – cent	9			**(273.7)**			177.2
Diluted earnings per share – cent	9			**(273.7)**			175.8

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2018

	Note	2018 €m	2017 €m
(Loss)/profit for the financial year		**(639)**	423
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Foreign currency translation adjustments:			
– Arising in the financial year		**(201)**	(215)
– 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		**11**	8
– New fair value adjustments into reserve		**(6)**	(3)
Changes in fair value of cost of hedging:			
– Movement out of reserve		**(1)**	–
– New fair value adjustments into reserve		**2**	–
		1,001	(210)
Items which will not be subsequently reclassified to profit or loss			
Defined benefit pension plans:			
– Actuarial loss	24	**(6)**	(9)
– Movement in deferred tax	8	**–**	1
		(6)	(8)
Total other comprehensive income/(expense)		**995**	(218)
Total comprehensive income for the financial year		**356**	205
Attributable to:			
Owners of the parent		**370**	225
Non-controlling interests		**(14)**	(20)
Total comprehensive income for the financial year		**356**	205

Consolidated Balance Sheet

At 31 December 2018

	Note	2018 €m	2017 €m
ASSETS			
Non-current assets			
Property, plant and equipment	11	**3,613**	3,242
Goodwill and intangible assets	12	**2,590**	2,427
Other investments	13	**20**	21
Investment in associates	14	**14**	13
Biological assets	15	**100**	110
Other receivables	18	**40**	27
Derivative financial instruments	28	**8**	3
Deferred income tax assets	16	**153**	200
		6,538	6,043
Current assets			
Inventories	17	**847**	838
Biological assets	15	**11**	11
Trade and other receivables	18	**1,667**	1,558
Derivative financial instruments	28	**13**	16
Restricted cash	21	**10**	9
Cash and cash equivalents	21	**407**	530
		2,955	2,962
Total assets		**9,493**	9,005
EQUITY			
Capital and reserves attributable to owners of the parent			
Equity share capital	22	**–**	–
Share premium	22	**1,984**	1,984
Other reserves	22	**355**	(678)
Retained earnings		**420**	1,202
Total equity attributable to owners of the parent		**2,759**	2,508
Non-controlling interests	34	**131**	151
Total equity		**2,890**	2,659
LIABILITIES			
Non-current liabilities			
Borrowings	23	**3,372**	2,671
Employee benefits	24	**804**	848
Derivative financial instruments	28	**17**	26
Deferred income tax liabilities	16	**173**	148
Non-current income tax liabilities		**36**	33
Provisions for liabilities	26	**47**	62
Capital grants		**18**	19
Other payables	27	**14**	17
		4,481	3,824
Current liabilities			
Borrowings	23	**167**	673
Trade and other payables	27	**1,871**	1,779
Current income tax liabilities		**24**	37
Derivative financial instruments	28	**10**	10
Provisions for liabilities	26	**50**	23
		2,122	2,522
Total liabilities		**6,603**	6,346
Total equity and liabilities		**9,493**	9,005

A. Smurfit
Director

K. Bowles
Director

Company Balance Sheet

At 31 December 2018

	Note	2018 €m	2017 €m
ASSETS			
Non-current assets			
Financial assets	13	**2,078**	2,067
		2,078	2,067
Current assets			
Amounts receivable from Group companies	18	**220**	197
		220	197
Total assets		**2,298**	2,264
EQUITY			
Capital and reserves attributable to owners of the parent			
Equity share capital	22	**–**	–
Share premium	22	**1,984**	1,984
Share-based payment reserve		**132**	121
Retained earnings		**177**	155
Total equity		**2,293**	2,260
LIABILITIES			
Current liabilities			
Amounts payable to Group companies	27	**5**	4
Total liabilities		**5**	4
Total equity and liabilities		**2,298**	2,264

A. Smurfit
Director

K. Bowles
Director

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2018

	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 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**
At 1 January 2017	–	1,983	(507)	853	2,329	174	2,503
Profit for the financial year	–	–	–	417	417	6	423
Other comprehensive income							
Foreign currency translation adjustments	–	–	(189)	–	(189)	(26)	(215)
Defined benefit pension plans	–	–	–	(8)	(8)	–	(8)
Effective portion of changes in fair value of cash flow hedges	–	–	5	–	5	–	5
Total comprehensive (expense)/income for the financial year	–	–	(184)	409	225	(20)	205
Shares issued	–	1	–	–	1	–	1
Purchase of non-controlling interests	–	–	–	–	–	(15)	(15)
Hyperinflation adjustment	–	–	–	131	131	16	147
Dividends paid	–	–	–	(191)	(191)	(4)	(195)
Share-based payment	–	–	23	–	23	–	23
Net shares acquired by SKG Employee Trust	–	–	(10)	–	(10)	–	(10)
At 31 December 2017	–	1,984	(678)	1,202	2,508	151	2,659

1 An analysis of Other reserves is provided in Note 22.

Company Statement of Changes in Equity

For the financial year ended 31 December 2018

	Equity share capital €m	Share premium €m	Share-based payment reserve €m	Retained earnings €m	Total equity €m
At 1 January 2018	**–**	**1,984**	**121**	**155**	**2,260**
Profit for the financial year	**–**	**–**	**–**	**235**	**235**
Dividends paid to shareholders	**–**	**–**	**–**	**(213)**	**(213)**
Share-based payment	**–**	**–**	**11**	**–**	**11**
At 31 December 2018	**–**	**1,984**	**132**	**177**	**2,293**
At 1 January 2017	–	1,983	109	124	2,216
Profit for the financial year	–	–	–	222	222
Dividends paid to shareholders	–	–	–	(191)	(191)
Shares issued	–	1	–	–	1
Share-based payment	–	–	12	–	12
At 31 December 2017	–	1,984	121	155	2,260

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2018

	Note	2018 €m	2017 €m
Cash flows from operating activities			
(Loss)/profit before income tax		**(404)**	576
Adjustment for:			
Net finance costs	7	**173**	221
Depreciation charge	11	**379**	360
Impairment of assets	11	**–**	11
Amortisation of intangible assets	12	**40**	40
Amortisation of capital grants		**(2)**	(2)
Equity settled share-based payment expense	25	**22**	23
Profit on sale of property, plant and equipment		**(3)**	(9)
Loss on disposal of businesses		**11**	–
Deconsolidation of Venezuela – exceptional items		**1,270**	–
Net movement in working capital	19	**(93)**	(110)
Change in biological assets		**(3)**	(4)
Change in employee benefits and other provisions		**(26)**	(54)
Other (primarily hyperinflation adjustments)		**29**	6
Cash generated from operations		**1,393**	1,058
Interest paid		**(167)**	(161)
Income taxes paid:			
Irish corporation tax paid		**(10)**	(14)
Overseas corporation tax (net of tax refunds) paid		**(183)**	(140)
Net cash inflow from operating activities		**1,033**	743
Cash flows from investing activities			
Interest received		**4**	3
Business disposals		**(8)**	4
Deconsolidation of Venezuela		**(17)**	–
Additions to property, plant and equipment and biological assets		**(528)**	(442)
Additions to intangible assets	12	**(25)**	(16)
Receipt of capital grants		**2**	4
Increase in restricted cash		**(1)**	(2)
Disposal of property, plant and equipment		**7**	14
Disposal of associates		**–**	1
Dividends received from associates	14	**–**	1
Purchase of subsidiaries	31	**(482)**	(49)
Deferred consideration paid		**(1)**	(3)
Net cash outflow from investing activities		**(1,049)**	(485)
Cash flows from financing activities			
Proceeds from issue of new ordinary shares		**–**	1
Proceeds from bond issue		**600**	500
Purchase of own shares (net)	22	**(10)**	(10)
Purchase of non-controlling interests		**(16)**	(7)
Increase/(decrease) in other interest-bearing borrowings		**94**	(78)
Repayment of finance leases	20	**(2)**	(2)
Repayment of borrowings		**(525)**	(366)
Derivative termination receipts/(payments)	20	**17**	(6)
Deferred debt issue costs paid		**(9)**	(10)
Dividends paid to shareholders		**(213)**	(191)
Dividends paid to non-controlling interests		**(6)**	(4)
Net cash outflow from financing activities		**(70)**	(173)
(Decrease)/increase in cash and cash equivalents	20	**(86)**	85
Reconciliation of opening to closing cash and cash equivalents			
Cash and cash equivalents at 1 January	20	**503**	402
Currency translation adjustment	20	**(27)**	16
(Decrease)/increase in cash and cash equivalents	20	**(86)**	85
Cash and cash equivalents at 31 December	20, 21	**390**	503

Company Statement of Cash Flows

For the financial year ended 31 December 2018

	Note	2018 €m	2017 €m
Cash flows from operating activities			
Profit before income tax	33	**235**	222
Adjustment for:			
Group creditor movements		**1**	(1)
Net cash inflow from operating activities		**236**	221
Cash flows from financing activities			
Group loan movements		**(23)**	(31)
Proceeds from issue of new ordinary shares		**–**	1
Dividends paid to shareholders		**(213)**	(191)
Net cash outflow from financing activities		**(236)**	(221)
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 2018

1. GENERAL INFORMATION
Smurfit Kappa Group plc ('SKG plc' or 'the Company') and its subsidiaries (together 'SKG' or 'the Group') manufacture, distribute and sell containerboard, corrugated containers and other paper-based packaging products such as solidboard, graphicboard and bag-in-box. 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 2018 were authorised for issue in accordance with a resolution of the Directors on 15 March 2019.

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 2018*' below in relation to IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*.

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 (which was regarded as a hyperinflationary economy for accounting purposes in 2018) and Venezuela (which was deconsolidated in August 2018).

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 2018
The Group has applied the following standards, interpretations and amendments with effect from 1 January 2018:
- IFRS 9, *Financial Instruments*;
- IFRS 15, *Revenue from Contracts with Customers*;
- Amendments to IFRS 2, *Classification and Measurement of Shared-based Payment Transactions*;
- *Annual Improvements 2014-2016 cycle*;
- Amendments to IAS 40, *Transfers to Investment Property*; and
- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*.

The effect of applying IFRS 9 and IFRS 15 is described in further detail below. The other changes listed above did not result in material changes to the Group's Consolidated Financial Statements.

Financial instruments
IFRS 9, *Financial Instruments*, is the standard which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The Standard addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has adopted IFRS 9 from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 have not been restated.

The impact of adopting IFRS 9 on our Consolidated Financial Statements was not material for the Group and there was no adjustment to retained earnings on application at 1 January 2018.

Classification and measurement
IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost, or fair value through other comprehensive income ('FVOCI'), or fair value through profit or loss ('FVPL'). The classification is based on the business model for managing the financial assets and the contractual terms of the cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

NEW AND AMENDED STANDARDS AND INTERPRETATIONS EFFECTIVE DURING 2018 CONTINUED

The table below details the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 €m	New carrying amount under IFRS 9 €m
Financial assets				
Equity instruments	Available-for-sale	FVOCI	10	10
Listed and unlisted debt instruments	Available-for-sale	FVPL	11	11
Derivative financial instruments – non-qualifying hedges	FVPL	FVPL	5	5
Derivative financial instruments – qualifying hedges	Derivatives used for hedging	Derivatives used for hedging	14	14
Trade and other receivables	Loans and receivables	Amortised cost	1,474	1,474
Cash and cash equivalents	Loans and receivables	Amortised cost	530	530
Restricted cash	Loans and receivables	Amortised cost	9	9
Financial liabilities				
Borrowings	Other financial liabilities	Other financial liabilities	3,344	3,344
Derivative financial instruments – non-qualifying hedges	FVPL	FVPL	2	2
Derivative financial instruments – qualifying hedges	Derivatives used for hedging	Derivatives used for hedging	34	34
Trade and other payables	Other financial liabilities	Other financial liabilities	1,432	1,432

The financial assets held by the Group include equity and debt instruments which were previously classified as available-for-sale. Under IFRS 9, the Group will continue to measure all equity instruments at FVOCI. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead will be reclassified within equity from the FVOCI reserve to retained earnings. €1 million was reclassified from the available-for-sale reserve to the FVOCI reserve on 1 January 2018. Listed and unlisted debt instruments which were previously classified as available-for-sale are now classified as FVPL as the cash flows do not represent solely payments of principal and interest.

Refinancing

IFRS 9 requires that when a financial liability measured at amortised cost is modified without being derecognised, a gain or loss should be recognised in the income statement. This change in accounting policy did not have a material impact on the Group's financial results.

Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. The new hedge accounting rules align the accounting for hedging instruments more closely with the Group's risk management practices and provides greater scope to apply hedge accounting. The Group's hedge documentation has been reworked in line with the new standard and all current hedge relationships qualify as continuing hedges upon the adoption of IFRS 9. Under IFRS 9 when designating a foreign exchange derivative contract as a hedging instrument, the currency basis spread can be excluded and accounted for separately through other comprehensive income as a cost of hedging, being recognised in the income statement at the same time as the hedged item affects profit or loss. Accounting for foreign currency basis spreads as a cost of hedging has been applied prospectively, without restating comparatives. Costs of hedging pertaining to our foreign currency derivatives at the date of transition of €2 million were reclassified to the cost of hedging reserve on 1 January 2018.

Impairment of financial assets

IFRS 9 has introduced a new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as was the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15, *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. For trade receivables, the Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance. The change in impairment methodology as a result of implementing IFRS 9 did not have a material impact on the Group's financial results.

Revenue recognition

IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 18, *Revenue* and IAS 11, *Construction Contracts* and related interpretations. IFRS 15 establishes a five-step model for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 specifies how and when revenue should be recognised as well as requiring enhanced disclosures. The core principle of the standard requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer. Revenue is recognised when an identified performance obligation has been met and the customer can direct the use of and obtain substantially all the remaining benefits from a good or service as a result of obtaining control of that good or service. The Group has adopted IFRS 15 from 1 January 2018, using the modified retrospective approach and has not restated comparatives for 2017.

The Group used the five-step model to develop an impact assessment framework to assess the impact of IFRS 15 on the Group's revenue transactions. The results of our IFRS 15 assessment framework and contract reviews indicated that the impact of applying IFRS 15 on our Consolidated Financial Statements was not material for the Group and there was no adjustment to retained earnings on application of the new rules at 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

NEW AND AMENDED STANDARDS AND INTERPRETATIONS EFFECTIVE DURING 2018 CONTINUED

The adoption of IFRS 15 has had no material impact on the principles applied by the Group for reporting the nature, amount and timing of revenue recognition. Contracts with customers can be readily identified throughout the Group and include a single performance obligation to sell containerboard, corrugated containers and other paper-based packaging products. Revenue is recognised when control of the goods is transferred to the customer, which for the Group is at a point in time when delivery to the customer has taken place according to the terms of sale.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE OR EARLY ADOPTED

Leases

IFRS 16, *Leases* issued in January 2016 by the IASB 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. It also includes an election which permits a lessee not to separate non-lease components (e.g. maintenance) from lease components and instead capitalise both the lease cost and associated non-lease cost. For lessors, IFRS 16 substantially carried forward the accounting requirement in IAS 17.

Impact – leases in which the Group is a lessee

The standard will primarily affect the accounting for the Group's operating leases. The application of IFRS 16 will result in the recognition of additional assets and liabilities in the Consolidated Balance Sheet and in the Consolidated Income Statement it will replace the straight-line operating lease expense with a depreciation charge for the right-of-use asset and an interest expense on the lease liabilities. In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous, instead the Group will perform impairment testing on the right-of-use asset.

The Group's non-cancellable operating lease commitments on an undiscounted basis at 31 December 2018 are detailed in the *Lease obligations* note and provide an indication of the scale of leases held by the Group. The actual impact of applying IFRS 16 on the Consolidated Financial Statements will depend on the discount rate at 1 January 2019, the expected lease term, including renewal options, exemptions for short-term and low-value leases and the extent to which the Group chooses to use practical expedients.

The Group has entered into operating leases for a range of assets, including property, plant and equipment and vehicles. The Group has elected to apply the recognition exemption for both short-term and low-value leases.

The Group's assessment of the impact of adopting IFRS 16 is in the process of being finalised. Based on the information currently available for those operating leases that will be recognised in the Consolidated Balance Sheet at 1 January 2019 the estimated impact on the Group's key measures at 1 January 2019 is as follows:

• Property, plant and equipment	increase	8%-9%
• Net debt[1]	increase	11%-12%
• EBITDA[1]	increase	approximately 5%
• Profit before tax	decrease	marginal
• Net debt to EBITDA[1]	increase	marginal
• Return on capital employed[1]	decrease	approximately 1%

Transition

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group will apply IFRS 16 from its effective date using the modified retrospective approach. Therefore the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group will apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and related interpretations. On transition the Group has also elected to measure the right-of-use assets for certain property leases as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption.

Other standards

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

BASIS OF CONSOLIDATION

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

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.

1 Additional information in relation to these Alternative Performance Measures ('APMs') is set out in Supplementary Information on pages 162 to 164.

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 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 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 a point of 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.

Accounting policy applied before 1 January 2018

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

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*' below). 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

FOREIGN CURRENCY CONTINUED

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.

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.

Venezuela became hyperinflationary during 2009 when its cumulative inflation rate for the past three years exceeded 100%. As a result, the Group applied the hyperinflationary accounting requirements to its Venezuelan operations at 31 December 2009 and for all subsequent accounting periods until the deconsolidation of its Venezuelan operations in August 2018. In 2018 and 2017, in the absence of published indices, management engaged an independent expert to determine an estimate of the annual inflation rate. The estimated level of inflation to June 2018 was 2,213% (December 2017: 971%).

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.

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, other than freehold land, on a straight-line basis at the following annual rates:

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

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.

Accounting policy applied before 1 January 2018

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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 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.

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.

Accounting policy applied before 1 January 2018

Available-for-sale financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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.

Accounting policy applied before 1 January 2018

The policy for hedge accounting applied in the comparative information presented for 2017 is similar to that applied for 2018. However in 2017 when designating a foreign exchange derivative as a hedging instrument the currency basis spread was not excluded and accounted for separately.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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, net interest cost on net pension liability, net monetary loss arising in hyperinflationary economies, the interest element of finance 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.

Finance income comprises interest income on funds invested, certain foreign currency translation gains related to financing, fair value gain on financial assets, 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

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

Arrangements in which substantially all of the risks and rewards of ownership of an asset are not transferred to the Group by the lessor are classified as operating leases. Operating lease rentals, net of incentives received from the lessor, are expensed in the Consolidated Income Statement on a straight-line basis over the lease term.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

EXCEPTIONAL ITEMS

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. The Group believes this format is useful as it highlights one-off items, where significant, such as reorganisation and restructuring costs, profit or loss on disposal of operations, foreign exchange losses on currency devaluations, profit or loss on early extinguishment of debt, profit or loss on disposal of assets and impairment of assets. Judgement is used by the Group in assessing the particular items, which by virtue of their size and nature, are disclosed as exceptional items.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Venezuela

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 has deconsolidated its Venezuelan operations in accordance with the requirements of IFRS 10, *Consolidated Financial Statements*, with effect from August 2018.

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

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

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.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

Business combinations

Business combinations are accounted for using the acquisition method which requires that the assets and liabilities assumed are recorded at their respective fair values at the date of acquisition. The application of this method requires certain estimates and assumptions relating, in particular, to the determination of the fair values of the acquired assets and liabilities assumed as at the date of acquisition. For intangible assets acquired, the Group bases valuations on expected future cash flows. This method employs a discounted cash flow analysis using the present value of the estimated cash flows expected to be generated from these intangible assets using appropriate discount rates and revenue forecasts. The period of expected cash flows is based on the expected useful life of the intangible asset acquired.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS CONTINUED

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. 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 segment is highly integrated. It includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. In addition, the Europe segment also produces other types of paper, such as solidboard and sack kraft paper, and paper-based packaging, such as solidboard packaging and folding cartons. The Americas segment comprises all forestry, paper, corrugated and folding carton activities in a number of Latin American countries and the United States. 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. Segment assets consist primarily of property, plant and equipment, biological assets, goodwill and intangible assets, inventories, trade and other receivables, deferred income tax assets and cash and cash equivalents. Group centre assets are comprised primarily of 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.

Capital expenditure comprises additions to property, plant and equipment (Note 11), goodwill and intangible assets (Note 12) and biological assets (Note 15), including additions resulting from acquisitions through business combinations (Note 31).

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.

4. SEGMENT AND REVENUE INFORMATION CONTINUED

Revenue and results	Europe 2018 €m	The Americas 2018 €m	Total 2018 €m	Europe 2017 €m	The Americas 2017 €m	Total 2017 €m
Revenue	**6,922**	**2,024**	**8,946**	6,404	2,158	8,562
EBITDA	**1,267**	**317**	**1,584**	955	311	1,266
Segment exceptional items	**(48)**	**(1,270)**	**(1,318)**	–	(12)	(12)
EBITDA after exceptional items	**1,219**	**(953)**	**266**	955	299	1,254
Unallocated centre costs			**(39)**			(26)
Share-based payment expense			**(24)**			(24)
Depreciation and depletion (net)[1]			**(376)**			(356)
Amortisation			**(40)**			(40)
Exceptional items			**(18)**			–
Impairment of assets			**–**			(11)
Finance costs			**(220)**			(250)
Finance income			**47**			29
(Loss)/profit before income tax			**(404)**			576
Income tax expense			**(235)**			(153)
(Loss)/profit for the financial year			**(639)**			423
Assets						
Segment assets	**7,101**	**1,973**	**9,074**	6,348	2,142	8,490
Investment in associates	**1**	**13**	**14**	1	12	13
Group centre assets			**405**			502
Total assets			**9,493**			9,005
Liabilities						
Segment liabilities	**2,549**	**442**	**2,991**	2,444	467	2,911
Group centre liabilities			**3,612**			3,435
Total liabilities			**6,603**			6,346
Other segmental disclosures						
Capital expenditure, including additions to goodwill, intangible assets and biological assets:						
Segment expenditure	**1,000**	**88**	**1,088**	358	133	491
Group centre expenditure			**–**			1
Total expenditure			**1,088**			492
Depreciation and depletion (net):						
Segment depreciation and depletion (net)	**291**	**84**	**375**	270	85	355
Group centre depreciation and depletion (net)			**1**			1
Total depreciation and depletion (net)			**376**			356
Amortisation:						
Segment amortisation	**19**	**20**	**39**	14	25	39
Group centre amortisation			**1**			1
Total amortisation			**40**			40
Other significant non-cash charges:						
Impairment of assets included in cost of sales	**–**	**–**	**–**	7	4	11
Total other significant non-cash charges			**–**			11

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

4. 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 2018 €m	Revenue 2017 €m	**Non-current assets 2018 €m**	Non-current assets 2017 €m
Ireland	**119**	116	**51**	53
Germany	**1,325**	1,292	**391**	398
France	**1,053**	985	**446**	387
United Kingdom	**797**	723	**363**	342
Mexico	**794**	769	**184**	163
The Netherlands	**696**	560	**650**	230
Rest of world	**4,162**	4,117	**1,871**	1,935
	8,946	8,562	**3,956**	3,508

Revenue is derived almost entirely from the sale of goods and is disclosed based on the location of production. No one customer represents greater than 10% of Group revenues. Non-current assets include marketing and customer-related intangible assets, software, investment in associates, biological assets and property, plant and equipment and are disclosed based on their location. The non-current assets in the Netherlands increased from €230 million to €650 million in 2018 primarily following the acquisition of Reparenco. Further information is detailed in the *Business combinations* note.

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% (2017: less than 3%) of the total goodwill of the Group of €2,361 million (2017: €2,284 million).

DISAGGREGATION OF REVENUE

The Group derives revenue from the following major product lines and sells both in each of its operating segments.

	2018 €m	2017 €m
Revenue by product:		
Paper	**1,510**	1,402
Packaging	**7,436**	7,160
	8,946	8,562

5. COST AND INCOME ANALYSIS

	2018 €m	2017 €m
Expenses by function:		
Cost of sales	**5,989**	6,008
Distribution costs	**705**	667
Administrative expenses	**1,147**	1,078
Other operating expenses	**66**	12
	7,907	7,765
Exceptional items included in operating profit:		
International Paper defence costs	**18**	–
Loss on disposal of Baden operations	**11**	–
Impairment of assets	**–**	11
GMP equalisation pension adjustment	**9**	–
Reorganisation and restructuring costs	**28**	12
	66	23

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.

5. COST AND INCOME ANALYSIS CONTINUED

Exceptional items charged within operating profit in 2017 amounted to €23 million. These related to impairment losses of €11 million for property, plant and equipment in one of our European mills and a corrugated plant in the Americas. The remaining €12 million related to reorganisation and restructuring costs in the Americas.

	2018 €m	2017 €m
Deconsolidation of Venezuela:		
Currency recycling	**1,196**	–
Write-off net assets	**61**	–
Legal and reorganisation costs	**13**	–
	1,270	–

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 has 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 are 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 is recycled on deconsolidation. This results 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 has no impact on the net assets or total equity of the Group. It represents 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.

	2018 €m	2017 €m
Expenses by nature:		
Raw materials and consumables	**3,127**	3,162
Employee benefit expense[1]	**2,091**	2,034
Energy	**449**	413
Maintenance and repairs	**410**	427
Transportation and storage costs	**700**	661
Depreciation, amortisation and depletion	**416**	396
Impairment of assets	**–**	11
Reorganisation and restructuring costs	**30**	24
Operating lease rentals	**107**	107
Loss on disposal of business	**11**	–
Foreign exchange gains and losses	**(4)**	(9)
Other expenses	**570**	539
Total	**7,907**	7,765

1 This excludes reorganisation and restructuring costs of €2 million and includes €9 million due to GMP equalisation.

Included within the expenses by nature above are research and development expenses of €7 million (2017: €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 30.

AUDITORS' REMUNERATION

	KPMG Ireland 2018 €m	Other KPMG network firms 2018 €m	Total 2018 €m	PwC Ireland 2017 €m	Other PwC network firms 2017 €m	Total 2017 €m
Audit of entity financial statements	**2.6**	**6.0**	**8.6**	2.5	6.3	8.8
Other assurance services	**0.3**	**0.2**	**0.5**	0.2	0.2	0.4
Tax advisory services	**–**	**–**	**–**	0.2	–	0.2
Other non-audit services	**1.0**	**–**	**1.0**	–	0.2	0.2
	3.9	**6.2**	**10.1**	2.9	6.7	9.6

The audit fee for the Parent Company was €50,000 which is payable to KPMG, the Statutory Auditors (2017: €50,000 PwC).

6. EMPLOYEE BENEFIT EXPENSE

	2018 Number	2017 Number
Average number of persons employed by the Group by geographical area (full time equivalents):		
Europe	**29,095**	28,441
The Americas	**16,930**	17,909
	46,025	46,350

	Note	2018 €m	2017 €m
The employee benefit expense comprises:			
Wages and salaries		**1,647**	1,596
Social insurance costs		**324**	329
Share-based payment expense		**24**	24
Defined benefit expense		**28**	30
Defined contribution plan expense		**59**	55
Reorganisation and restructuring costs[1]		**2**	12
Charged to operating profit – pre-exceptional		**2,084**	2,046
Exceptional – reorganisation and restructuring costs		**34**	5
Exceptional – GMP equalisation		**9**	–
Finance costs	24	**18**	24
Actuarial loss on pension schemes recognised in other comprehensive income	24	**6**	9
Total employee benefit expense		**2,151**	2,084

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

7. FINANCE COSTS AND INCOME

	Note	2018 €m	2017 €m
Finance costs:			
Interest payable on bank loans and overdrafts		**47**	52
Interest payable on finance leases		**1**	1
Interest payable on other borrowings		**115**	119
Exceptional finance costs associated with debt restructuring		**–**	2
Exceptional consent fee – reporting waiver		**4**	–
Exceptional interest on early termination of cross currency swaps		**2**	–
Unwinding discount element of provisions	26	**1**	1
Foreign currency translation loss on debt		**19**	27
Fair value loss on financial assets		**1**	–
Net interest cost on net pension liability	24	**18**	24
Net monetary loss – hyperinflation		**12**	24
Total finance costs		**220**	250
Finance income:			
Other interest receivable		**(4)**	(3)
Foreign currency translation gain on debt		**(41)**	(14)
Fair value gain on derivatives not designated as hedges		**(2)**	(12)
Total finance income		**(47)**	(29)
Net finance costs		**173**	221

7. FINANCE COSTS AND INCOME CONTINUED

Exceptional finance costs of €6 million represent €4 million in respect of the fee payable to the bondholders to secure their consent to the Group's move from quarterly to semi-annual reporting and €2 million representing 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.

Exceptional finance costs of €2 million in 2017 represented the accelerated amortisation of the issue costs relating to the debt within our senior credit facility which was paid down with the proceeds of January's €500 million bond issue.

8. INCOME TAX EXPENSE

Income tax expense recognised in the Consolidated Income Statement

	2018 €m	2017 €m
Current tax:		
Europe	**145**	143
The Americas	**54**	48
	199	191
Deferred tax	**36**	(38)
Income tax expense	**235**	153
Current tax is analysed as follows:		
Ireland	**18**	20
Foreign	**181**	171
	199	191

The income tax expense in 2018 is €82 million higher than in 2017.

The current tax expense has increased by €8 million compared to the prior period. The current tax expense is €2 million higher in Europe and €6 million higher in the Americas. The increases arise primarily from higher profitability, offset by other timing items which are recorded in the deferred tax expense.

There is a deferred tax charge of €36 million in 2018 compared to a deferred tax credit of €38 million in 2017. The movement in deferred tax includes the effects of the use and recognition of tax losses and credits. There was a net €10 million positive impact from tax rate reductions in 2018 compared to a €2 million negative impact in 2017. In 2017, the deferred tax credit includes a non-recurring benefit from the reversal of a timing difference on which a deferred tax liability was previously recognised.

The income tax expense includes a €7 million tax credit in respect of exceptional items compared to a €6 million credit in 2017.

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:

	2018 €m	2017 €m
(Loss)/profit before income tax	**(404)**	576
(Loss)/profit before income tax multiplied by the standard rate of tax of 12.5% (2017: 12.5%)	**(50)**	72
Effects of:		
Income subject to different rates of tax	**113**	78
Other items	**20**	4
Adjustment to prior period tax	**4**	1
Effect of previously unrecognised losses	**(11)**	(2)
Deconsolidation of Venezuela	**159**	–
	235	153

INCOME TAX RECOGNISED WITHIN EQUITY

	2018 €m	2017 €m
Recognised in the Consolidated Statement of Comprehensive Income:		
Arising on defined benefit pension plans	**–**	(1)
Total recognised in the Consolidated Statement of Comprehensive Income	**–**	(1)
Arising on hyperinflation	**18**	14
Total recognised within equity	**18**	13

8. INCOME TAX EXPENSE CONTINUED

FACTORS THAT MAY AFFECT THE FUTURE TAX EXPENSE AND OTHER DISCLOSURE REQUIREMENTS

Unremitted earnings in subsidiaries and associates

The Group has not made a provision for deferred tax in relation to temporary differences applicable to investments in subsidiaries on the basis that the Group can control 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 exemption or sufficient tax credits (actual or deemed) to ensure there is no additional tax due. The aggregate amount of this temporary timing difference is approximately €782 million (2017: €574 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.

9. EARNINGS PER SHARE

BASIC

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

	2018	2017
(Loss)/profit attributable to owners of the parent (€ million)	**(646)**	417
Weighted average number of ordinary shares in issue (million)	**236**	235
Basic earnings per share (cent)	**(273.7)**	177.2

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. These comprise convertible shares issued under the Share Incentive Plan, which were based on performance and the passage of time, deferred shares held in trust, which are based on the passage of time, and matching shares, which are performance-based in addition to the passage of time. Both deferred shares held in trust and matching shares are issued under the Deferred Annual Bonus Plan. 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.

	2018	2017
(Loss)/profit attributable to owners of the parent (€ million)	**(646)**	417
Weighted average number of ordinary shares in issue (million)	**236**	235
Potential dilutive ordinary shares assumed (million)	**–**	2
Diluted weighted average ordinary shares (million)	**236**	237
Diluted earnings per share (cent)	**(273.7)**	175.8

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

9. EARNINGS PER SHARE CONTINUED

PRE-EXCEPTIONAL

	2018	2017
(Loss)/profit attributable to owners of the parent (€ million)	**(646)**	417
Exceptional items included in profit before income tax (€ million)	**1,342**	25
Income tax on exceptional items (€ million)	**(7)**	(6)
Pre-exceptional profit attributable to owners of the parent (€ million)	**689**	436
Weighted average number of ordinary shares in issue (million)	**236**	235
Pre-exceptional basic earnings per share (cent)	**292.2**	185.3
Weighted average number of ordinary shares in issue (million)	**236**	235
Diluted potential ordinary shares assumed (million)	**2**	2
Diluted weighted average ordinary shares (million)	**238**	237
Pre-exceptional diluted earnings per share (cent)	**290.2**	183.8

10. DIVIDENDS

During the year, the final dividend for 2017 of 64.5 cent per share was paid to the holders of ordinary shares. In October, an interim dividend for 2018 of 25.4 cent per share was paid to the holders of ordinary shares.

The Board is recommending a final dividend of approximately 72.2 cent per share for 2018 subject to the approval of the shareholders at the AGM. It is proposed to pay the final dividend on 10 May 2019 to all ordinary shareholders on the share register at the close of business on 12 April 2019. The final dividend and interim dividends are paid in May and October in each year.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings €m	Plant and equipment €m	Total €m
Financial year ended 31 December 2017			
Opening net book amount	1,004	2,257	3,261
Reclassifications	56	(57)	(1)
Additions	1	401	402
Acquisitions	23	15	38
Depreciation charge	(49)	(311)	(360)
Impairments	–	(11)	(11)
Retirements and disposals	(3)	(1)	(4)
Hyperinflation adjustment	42	34	76
Foreign currency translation adjustment	(51)	(108)	(159)
At 31 December 2017	1,023	2,219	3,242
At 31 December 2017			
Cost or deemed cost	1,617	5,235	6,852
Accumulated depreciation and impairment losses	(594)	(3,016)	(3,610)
Net book amount	1,023	2,219	3,242
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**

LAND AND BUILDINGS
Included in land and buildings is an amount for land of €353 million (2017: €356 million).

CONSTRUCTION IN PROGRESS
Included in land and buildings and plant and equipment are amounts of €21 million (2017: €21 million) and €286 million (2017: €195 million) respectively, for construction in progress.

ASSETS PLEDGED AS SECURITY
Assets with a carrying value of €18 million (2017: €26 million) are pledged as security for loans held by the Group.

CAPITALISED LEASED ASSETS
Included in the net book amount of property, plant and equipment is an amount for capitalised leased assets of €19 million (2017: €13 million). The depreciation charge for capitalised leased assets was €2 million (2017: €2 million) and the related finance charges amounted to €1 million (2017: €1 million). The net carrying amount by class of assets at each balance sheet date is as follows:

	Note	2018 €m	2017 €m
Cogeneration facilities	29	**8**	–
Other plant and equipment		**2**	3
Plant and equipment		**10**	3
Buildings		**9**	10
		19	13

11. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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:

	2018 €m	2017 €m
Contracted for	**332**	206
Not contracted for	**261**	324
	593	530

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 2018, the Group recorded an impairment charge of nil (2017: €11 million).

CAPITALISED BORROWING COSTS

In 2018, the Group capitalised borrowing costs of €2 million (2017: €3 million) on qualifying assets. Borrowing costs were capitalised at an average rate of 3.8% (2017: 4.2%).

12. GOODWILL AND INTANGIBLE ASSETS

		Intangible assets			
	Goodwill €m	Marketing related €m	Customer related €m	Software assets €m	Total €m
Financial year ended 31 December 2017					
Opening net book amount	2,298	12	132	36	2,478
Additions	–	–	3	13	16
Acquisitions	22	–	2	–	24
Amortisation charge	–	(2)	(25)	(13)	(40)
Hyperinflation adjustment	42	–	–	–	42
Foreign currency translation adjustment	(78)	(1)	(13)	(1)	(93)
At 31 December 2017	2,284	9	99	35	2,427
At 31 December 2017					
Cost or deemed cost	2,473	16	180	171	2,840
Accumulated amortisation and impairment losses	(189)	(7)	(81)	(136)	(413)
Net book amount	2,284	9	99	35	2,427
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**

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.

12. GOODWILL AND INTANGIBLE ASSETS CONTINUED

In 2018, goodwill of €109 million and customer related intangible assets of €95 million arose on the acquisition of Reparenco, a paper and recycling business in the Netherlands. €56 million of the €95 million customer related intangible assets acquired relates to 'PM2', a material asset used in the production of recycled containerboard. The amortisation period of this asset is twenty years. In 2017, goodwill of €22 million arose on the acquisition of Soyuz in Russia and Chatziioannou in Greece.

IMPAIRMENT TESTING OF GOODWILL

Goodwill arising as part of a business combination is allocated to groups of cash-generating units ('CGUs') for the purpose of impairment testing based on the Group's existing business segments or, where appropriate, recognition of a new CGU. The CGU groups represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, *Operating Segments*. A total of 15 groups (2017: 16) of CGUs have been identified and these are analysed between the two operating segments as follows:

	2018 Number	2017 Number
Eurozone	**6**	6
Eastern Europe	**1**	1
Scandinavia	**1**	1
United Kingdom	**1**	1
Europe	**9**	9
The Americas	**6**	7
	15	16

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

	2018 €m	2017 €m
Europe	**2,000**	1,898
The Americas	**361**	386
	2,361	2,284

No impairment arose in 2018 as the recoverable amount of the groups of CGUs, based on value-in-use and estimated using the methodology outlined below, exceeded the carrying amount.

IMPAIRMENT TESTING METHODOLOGY AND RESULTS

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

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

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

Of the goodwill allocated to each of the 15 groups of CGUs, three units individually account for between 10% and 20% of the total carrying amount of €2,361 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	
	2018	2017	2018	2017	2018	2017
Carrying amount of goodwill (€ million)	**303**	276	**408**	364	**427**	395
Basis of recoverable amount	**Value-in-use**	Value-in-use	**Value-in-use**	Value-in-use	**Value-in-use**	Value-in-use
Discount rate applied (pre-tax)	**11.2%**	10.1%	**11.2%**	10.1%	**11.2%**	10.1%
Earnings multiple used for terminal value	**7.1**	7.1	**7.1**	7.1	**7.1**	7.1
Excess of value-in-use (€ million)	**308**	556	**345**	388	**695**	1,091

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.

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.

12. GOODWILL AND INTANGIBLE ASSETS CONTINUED

IMPAIRMENT TESTING METHODOLOGY AND RESULTS CONTINUED

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	
	2018	2017	**2018**	2017	**2018**	2017
Increase in pre-tax discount rate (percentage points)	**6.2**	12.1	**6.2**	9.2	**9.8**	16.1
Reduction in terminal value multiple	**3.6**	6.0	**3.7**	5.0	**5.2**	7.2
Reduction in EBITDA	**23%**	38%	**23%**	32%	**32%**	45%

The recoverable amount of the Brazil CGU is estimated to exceed the carrying amount of the CGU at 31 December 2018 by €91 million (2017: €22 million). The goodwill relating to our operations in Brazil represents 3% of the Group's total goodwill. Brazil was acquired in late 2015 and headroom had been tight during its initial years of operations. The performance of Brazil improved during 2018, however it will continue to be monitored throughout 2019.

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

13. FINANCIAL ASSETS

The effect of initially applying IFRS 9 in the Group's financial instruments is described in the *Summary of significant accounting policies* note. Due to the transition method chosen in applying IFRS 9, comparative information has not been restated to reflect the new requirements.

OTHER INVESTMENTS – GROUP

	2018 €m	2017 €m
Equity instruments – available-for-sale	**–**	10
Equity instruments – FVOCI	**10**	–
Listed[1] and unlisted debt instruments – available-for-sale	**–**	11
Listed[1] and unlisted debt instruments – FVPL	**10**	–
At 31 December 2018	**20**	21

1 Listed on a recognised stock exchange.

Equity instruments designated as at FVOCI

At 1 January 2018, the Group designated equity instruments at FVOCI because these represent investments that the Group intends to hold for the long-term for strategic purposes. In 2017, these investments were classified as available-for-sale.

Listed and Unlisted debt instruments

At 1 January 2018, listed and unlisted debt instruments which were previously classified as available-for-sale are now classified as FVPL as the cash flows do not represent solely payments of principal and interest. In 2018 fair value losses on debt instruments of €1 million were recognised in finance costs.

INVESTMENT IN SUBSIDIARIES – COMPANY

	2018 €m	2017 €m
At 1 January	**2,067**	2,055
Capital contribution	**11**	12
At 31 December	**2,078**	2,067

14. INVESTMENT IN ASSOCIATES

	2018 €m	2017 €m
At 1 January	**13**	17
Dividends received from associates	**–**	(1)
Disposals	**–**	(1)
Foreign currency translation adjustment	**1**	(2)
At 31 December	**14**	13

15. BIOLOGICAL ASSETS

	2018 €m	2017 €m
At 1 January	**121**	124
Increases due to new plantations	**11**	12
Harvested timber transferred to inventories	**(12)**	(12)
Change in fair value less estimated costs to sell	**15**	19
Deconsolidation of Venezuela	**(6)**	–
Foreign currency translation adjustment	**(18)**	(22)
At 31 December	**111**	121
Current	**11**	11
Non-current	**100**	110
At 31 December	**111**	121
Approximate harvest by volume (tonnes '000)	**779**	1,105

At 31 December 2018, the Group's biological assets consist of 67,000 (2017: 103,000) hectares of forest plantations which are held for the production of paper and packaging products or sale to third parties. The number of plantations has decreased due to the deconsolidation of the Group's Venezuelan operations in August 2018. These plantations provide the Group's mills in Colombia and Venezuela (prior to deconsolidation) with a significant proportion of their total wood fibre needs.

The Group's biological assets at 31 December 2018 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 ensuring 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.

16. 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:

	2018 €m	2017 €m
Deferred tax assets	**356**	460
Deferred tax assets/liabilities available for offset	**(203)**	(260)
	153	200
Deferred tax liabilities	**376**	408
Deferred tax assets/liabilities available for offset	**(203)**	(260)
	173	148

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	2018 €m	2017 €m
At 1 January		**52**	7
Movement recognised in the Consolidated Income Statement	8	**(36)**	38
Movement recognised in the Consolidated Statement of Comprehensive Income	8	**–**	1
Acquisitions and disposals		**(48)**	(5)
Transfer between current and deferred tax		**(1)**	–
Hyperinflation adjustment – recognised in equity	8	**(18)**	(14)
Deconsolidation of Venezuela		**6**	–
Foreign currency translation adjustment		**25**	25
At 31 December		**(20)**	52

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 2017	116	148	2	150	416
Recognised in the Consolidated Income Statement	(10)	(15)	–	87	62
Recognised in the Consolidated Statement of Comprehensive Income	1	–	–	–	1
Foreign currency translation adjustment	(2)	(2)	–	(15)	(19)
At 31 December 2017	**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**

16. 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 2017	319	23	5	62	409
Recognised in the Consolidated Income Statement	(44)	(11)	(1)	80	24
Recognised in equity	–	–	–	14	14
Acquisitions and disposals	5	–	–	–	5
Foreign currency translation adjustment	–	–	–	(44)	(44)
At 31 December 2017	**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**

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

	2018 €m	2017 €m
Tax losses	**13**	13
Deferred interest	**7**	30
	20	43
Derivative financial instruments	**–**	3
	20	46

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 €50 million (2017: €49 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 2018 €m
1 January 2022 to 31 December 2022	**2**
Greater than 4 years	**1**
Indefinite	**47**
	50

17. INVENTORIES

	2018 €m	2017 €m
Raw materials	**229**	216
Work in progress	**43**	59
Finished goods	**378**	360
Consumables and spare parts	**197**	203
	847	838

18. TRADE AND OTHER RECEIVABLES

	Group 2018 €m	Group 2017 €m	Company 2018 €m	Company 2017 €m
Amounts falling due within one financial year:				
Trade receivables	**1,475**	1,398	**–**	–
Less: loss allowance	**(35)**	(34)	**–**	–
Trade receivables – net	**1,440**	1,364	**–**	–
Amounts receivable from associates	**3**	3	**–**	–
Other receivables	**156**	128	**–**	–
Prepayments	**68**	63	**–**	–
Amounts due from Group companies	**–**	–	**220**	197
	1,667	1,558	**220**	197
Amounts falling due after more than one financial year:				
Other receivables	**40**	27	**–**	–
	1,707	1,585	**220**	197

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

The Group has securitised €643 million (2017: €585 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. Comparative amounts for 2017 were determined under IAS 39.

	2018 €m	2017 €m
At 1 January	**34**	34
Net remeasurement of loss allowance	**3**	5
Trade receivables written off as uncollectable	**(4)**	(4)
Acquisitions and disposals	**3**	1
Foreign currency translation adjustment	**(1)**	(2)
At 31 December	**35**	34

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 as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

At 31 December 2018	Current €m	1 to 90 days past due €m	More than 90 days past due €m	Total €m
Gross carrying amount	**1,211**	**231**	**33**	**1,475**
Loss allowance	**1**	**1**	**33**	**35**

At 1 January 2018	Current €m	1 to 90 days past due €m	More than 90 days past due €m	Total €m
Gross carrying amount	1,154	212	32	1,398
Loss allowance	1	3	30	34

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 €1 million written off during the period are still subject to enforcement activity.

18. TRADE AND OTHER RECEIVABLES CONTINUED

PREVIOUS ACCOUNTING POLICY FOR IMPAIRMENT LOSSES

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Receivable balances were continuously monitored and reviewed for indicators of impairment at each reporting date. Examples of the factors considered included evidence of financial difficulty of the customer, payment default, major concessions being sought by the customer or breach of contract. Significant balances were reviewed individually while smaller balances were grouped and assessed collectively. Trade receivables that were less than three months past due were generally not considered impaired unless specific evidence of impairment was identified.

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

COMPARATIVE INFORMATION UNDER IAS 39

At 31 December 2017, trade receivables of €217 million were past due but not impaired. These related to customers for which there was no recent history of default. The aged analysis of these receivables was as follows:

	2017 €m
Past due 0 – 30 days	171
Past due 30 – 60 days	32
Past due 60 – 90 days	9
Past due 90+ days	5
	217

At 31 December 2017, specifically identified trade receivable balances of €29 million were considered impaired and provided for. The ageing of this provision was as follows:

	2017 €m
Not past due	1
Past due 0 – 30 days	–
Past due 30 – 60 days	–
Past due 60 – 90 days	1
Past due 90+ days	27
	29

In addition to the specific provision above, a portfolio provision of €5 million was held at 31 December 2017 which was calculated based on historical data.

19. NET MOVEMENT IN WORKING CAPITAL

	2018 €m	2017 €m
Change in inventories	**(84)**	(112)
Change in trade and other receivables	**(99)**	(136)
Change in trade and other payables	**90**	138
Net movement in working capital	**(93)**	(110)

20. MOVEMENTS OF LIABILITIES WITHIN CASH FLOWS ARISING FROM FINANCING ACTIVITIES AND NET DEBT RECONCILIATION

	Liabilities from financing activities				Changes in liabilities arising from financing activities	Adjustments			
	Short-term borrowings €m	Long & medium-term borrowings €m	Lease liabilities €m	Derivatives held to hedge long-term borrowings €m	€m	Derivatives held to hedge long-term borrowings €m	Cash and cash equivalents €m	Restricted cash €m	Net debt €m
At 1 January 2017	(101)	(3,235)	(14)	6	(3,344)	(6)	402	7	(2,941)
Cash Flows	(10)	(33)	2	6	(35)	(6)	85	2	46
Acquired	–	(9)	–	–	(9)	–	–	–	(9)
Currency translation adjustment	12	87	–	(37)	62	37	16	–	115
Other non-cash movements	(546)	530	–	3	(13)	(3)	–	–	(16)
As at 31 December 2017	**(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)**
As at 31 December 2018	**(148)**	**(3,355)**	**(19)**	**(12)**	**(3,534)**	**12**	**390**	**10**	**(3,122)**

21. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

CASH AND CASH EQUIVALENTS

	2018 €m	2017 €m
Cash and current accounts	**147**	196
Short-term deposits	**260**	334
Cash and cash equivalents	**407**	530
Cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows		
Cash and cash equivalents	**407**	530
Bank overdrafts and demand loans used for cash management purposes	**(17)**	(27)
Cash and cash equivalents in the Consolidated Statement of Cash Flows	**390**	503
Restricted cash	**10**	9

At 31 December 2018, cash of €1 million (2017: €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 €9 million (2017: €8 million) of restricted cash was held in other Group subsidiaries and by a trust which facilitates the operation of the Deferred Annual Bonus Plan.

22. 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.

22. CAPITAL AND RESERVES CONTINUED

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.

	2018 €m	2017 €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

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 2017	2,089,514	2,089,514	1,433,306	5,612,334	236,346,118	241,958,452	–
Class D shares converted to ordinary shares	–	–	(148,666)	(148,666)	148,666	–	–
Issue of Deferred Annual Bonus Plan Matching Shares	–	–	–	–	356,109	356,109	–
At 31 December 2017	2,089,514	2,089,514	1,284,640	5,463,668	236,850,893	242,314,561	–
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 31 December 2018 ordinary shares represented 97.8% and convertible shares represented 2.2% of issued share capital (2017: 97.7% and 2.3% respectively). The called up, issued and fully paid share capital of the Company at 31 December 2018 was €242,635 (2017: €242,315).

SHARE PREMIUM

Share premium of €1,984 million (2017: €1,984 million) relates to the share premium arising on share issues.

22. CAPITAL AND RESERVES CONTINUED

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	Available -for-sale reserve €m	Total €m
At 31 December 2017	**575**	**(17)**	**–**	**(1,382)**	**176**	**(31)**	**–**	**1**	**(678)**
Adjustment on initial application of IFRS 9 (net of tax)	**–**	**(2)**	**2**	**–**	**–**	**–**	**1**	**(1)**	**–**
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 expense	**–**	**–**	**–**	**–**	**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**

	Reverse acquisition reserve €m	Cash flow hedging reserve €m	Foreign currency translation reserve €m	Share-based payment reserve €m	Own shares €m	Available -for-sale reserve €m	Total €m
At 1 January 2017	575	(22)	(1,193)	165	(33)	1	(507)
Other comprehensive income							
Foreign currency translation adjustments	–	–	(189)	–	–	–	(189)
Effective portion of changes in fair value of cash flow hedges	–	5	–	–	–	–	5
Total other comprehensive income/(expense)	–	5	(189)	–	–	–	(184)
Share-based payment expense	–	–	–	23	–	–	23
Net shares acquired by SKG Employee Trust	–	–	–	–	(10)	–	(10)
Shares distributed by SKG Employee Trust	–	–	–	(12)	12	–	–
At 31 December 2017	575	(17)	(1,382)	176	(31)	1	(678)

REVERSE ACQUISITION RESERVE

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

CASH FLOW HEDGING RESERVE

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.

22. CAPITAL AND RESERVES CONTINUED

OWN SHARES

This represents ordinary shares acquired and disposed of by the SKG Employee Trust under the terms of the Deferred Annual Bonus Plan.

	2018 €m	2017 €m
At 1 January	**31**	33
Shares acquired/disposed by SKG Employee Trust	**10**	10
Shares distributed by SKG Employee Trust	**(13)**	(12)
At 31 December	**28**	31

As at 31 December 2018, the number of own shares held was 1,071,816 (2017: 1,252,961); their nominal value was €1,072 (2017: €1,253). In 2018, own shares were purchased at an average price of €30.09 (2017: €25.71) per share. The number of own shares held represents 0.4% (2017: 0.5%) of the total called up share capital of the Company. During the year, the movement in SKG own shares consisted of 366,208 shares acquired by the SKG Employee Trust (2017: 410,358), 547,353 shares distributed as part of the Deferred Annual Bonus Plan (2017: 559,071) and no shares were sold by the SKG Employee Trust (2017: 99,172). 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.

AVAILABLE-FOR-SALE RESERVE – UNTIL 31 DECEMBER 2017

This reserve included the cumulative gains and losses arising on changes in the fair value of available-for-sale financial assets recognised in other comprehensive income. Net gains or losses were reclassified to the Consolidated Income Statement when the related assets were derecognised.

23. BORROWINGS

ANALYSIS OF TOTAL BORROWINGS

	2018 €m	2017 €m
Senior credit facility		
– Revolving credit facility[1] – interest at relevant interbank rate +1.1%[7,9]	**4**	2
– Facility A term loan[2] – interest at relevant interbank rate +1.35%[7,9]	**407**	485
US$292.3 million 7.50% senior debentures due 2025 (including accrued interest)[9]	**257**	245
Bank loans and overdrafts	**119**	154
2022 receivables securitisation variable funding notes (including accrued interest)[3,8]	**49**	4
2023 receivables securitisation variable funding notes[4,8]	**179**	88
2018 senior notes (including accrued interest)[5,9]	**–**	455
€400 million 4.125% senior notes due 2020 (including accrued interest)[9]	**406**	405
€250 million senior floating rate notes due 2020 (including accrued interest)[6,9]	**251**	250
€500 million 3.25% senior notes due 2021 (including accrued interest)[9]	**498**	497
€500 million 2.375% senior notes due 2024 (including accrued interest)[9]	**499**	498
€250 million 2.75% senior notes due 2025 (including accrued interest)[9]	**250**	249
€600 million 2.875% senior notes due 2026 (including accrued interest)[9]	**601**	–
Finance leases	**19**	12
Total borrowings	**3,539**	3,344
Analysed as follows:		
Current	**167**	673
Non-current	**3,372**	2,671
	3,539	3,344

1 Revolving credit facility ('RCF') of €845 million (available under the senior credit facility) due to be repaid in 2020.
   (a) Revolver loans – €6 million
   (b) drawn under ancillary facilities and facilities supported by letters of credit – nil
   (c) other operational facilities including letters of credit €6 million
2 Facility A term loan ('Facility A') repayable in certain instalments from 2018 to 2020. In March 2018, the Group repaid €82 million of drawings under the term loan facility.
3 €200 million 2022 receivables securitisation programme. In November 2018, the €175 million receivables securitisation programme was increased by €25 million.
4 In June 2018, the €240 million receivables securitisation programme was amended and restated, reducing the facility to €230 million, extending the maturity to 2023 and reducing the variable funding notes margin from 1.4% to 1.2%. The amendment and restatement of the programme did not result in a material modification gain or loss.
5 €200 million 5.125% senior notes due 2018 and US$300 million 4.875% senior notes due 2018 redeemed in full in June 2018.
6 Interest at EURIBOR + 3.5%.
7 Following a reduction in leverage in December 2017, the margins on the RCF and Facility A were reduced by 0.25% to 1.10% and 1.35% respectively, effective February 2018.
8 Secured loans and long-term obligations.
9 Unsecured loans and long-term obligations.

23. BORROWINGS CONTINUED

ANALYSIS OF TOTAL BORROWINGS CONTINUED

The margins applicable under the senior credit facility are determined as follows:

Net debt/EBITDA ratio	RCF	Term Loan Facility
Greater than 3.0 : 1	1.85%	2.10%
3.0 : 1 or less but more than 2.5 : 1	1.35%	1.60%
2.5 : 1 or less but more than 2.0 : 1	1.10%	1.35%
2.0 : 1 or less	0.85%	1.10%

Included within the carrying value of borrowings are deferred debt issue costs of €27 million (2017: €28 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 €4,499 million (2017: €4,385 million) of which €3,466 million (2017: €3,230 million) was utilised at 31 December 2018. The weighted average period until maturity of undrawn committed facilities is 1.6 years (2017: 2.4 years).

MATURITY OF UNDRAWN COMMITTED FACILITIES

	2018 €m	2017 €m
Within 1 year	–	–
Between 1 and 2 years	833	151
More than 2 years	200	1,004
	1,033	1,155

Proforma for the refinancing of the senior credit facility in January 2019 with a new five year RCF, undrawn committed facilities are €1,130 million with a weighted average maturity of 4.8 years.

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

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 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 2018 and as defined in the senior credit facility, net borrowings to EBITDA was 2.0 times (2017: 2.3 times) and EBITDA to net interest was 10.1 times (2017: 7.6 times).

In May 2017, the Group completed a five-year trade receivables securitisation programme of up to €175 million, which was increased to €200 million in November 2018. The programme, which has a margin of 1.375% and a February 2022 maturity, amended, restated and extended the €175 million securitisation programme which had a margin of 1.7% and an April 2018 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 Landesbank Hessen-Thüringen Girozentrale (trading as Helaba Bank) provides €46 million of the funding.

In June 2018, the Group completed a five-year trade receivables securitisation programme of up to €230 million. The new programme, which has a margin of 1.2% and a June 2023 maturity, amended, restated and extended the €240 million securitisation programme which had a margin of 1.4% and a June 2019 maturity. Receivables generated by certain of its operating companies in the United Kingdom, Germany and France are sold to special purpose subsidiaries and entities to support the funding provided by Lloyds Banking Group.

The sale of the securitised receivables 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 2018 was €357 million (2017: €322 million). The gross amount of receivables collateralising the 2022 receivables securitisation at 31 December 2018 was €286 million (2017: €263 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 28. In accordance with the contractual terms, the counterparty only has recourse to the securitised debtors. Given the short-term nature of the securitised debtors and the variable floating notes, the carrying amount of the securitised debtors and the associated liabilities reported on the Consolidated Balance Sheet is estimated to approximate to fair value. At 31 December 2018, cash of €1 million (2017: €1 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

Certain subsidiaries are party to a senior credit facility, the details of which are set out in this note.

23. BORROWINGS CONTINUED

ANALYSIS OF TOTAL BORROWINGS CONTINUED

The following table sets out the average interest rates at 31 December 2018 and 2017 for each of the drawings under the senior credit facility.

	Currency	2018 Interest rate	2017 Interest rate
Facility A	EUR	**1.01%**	1.26%
Facility A	US$	**3.87%**	3.17%
Facility A	GBP	**2.08%**	2.09%
RCF	EUR	**0.73%**	0.98%

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

In March 2018, the Group repaid €82 million of amortising Term A Facility borrowings under the terms of the senior credit facility.

In June 2018, the Group completed the redemption of its €200 million 5.125% and US$300 million senior notes due 2018. The Group funded the redemption by drawing on its revolving credit and securitisation facilities.

In June 2018, the Group issued €600 million of 7.5 year euro denominated senior notes at a coupon of 2.875%. The net proceeds of the offering were used in July 2018 to fund the Reparenco acquisition and reduce borrowings under the RCF.

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

24. EMPLOYEE BENEFITS

The Group operates 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 2016
Netherlands	31 December 2018
United Kingdom	31 March 2017

The expense for defined contribution pension plans for the financial year ended 31 December 2018 was €59 million (2017: €55 million).

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

	2018 €m	2017 €m
Present value of funded or partially funded obligations	**(2,145)**	(2,282)
Fair value of plan assets	**1,831**	1,953
Deficit in funded or partially funded plans	**(314)**	(329)
Present value of wholly unfunded obligations	**(489)**	(517)
Amounts not recognised as assets due to asset ceiling	**(1)**	(2)
Net pension liability	**(804)**	(848)

In determining the defined benefit costs and obligations, all valuations are performed by independent actuaries using the projected unit credit method.

24. EMPLOYEE BENEFITS CONTINUED

FINANCIAL ASSUMPTIONS

The main actuarial assumptions used to calculate liabilities under IAS 19, *Employee Benefits* at 31 December 2018 and 31 December 2017 are as follows:

	Eurozone		Rest of Europe		The Americas	
	2018 %	2017 %	**2018 %**	2017 %	**2018 %**	2017 %
Rate of increase in salaries	**1.70 – 2.70**	1.60 – 2.60	**3.00**	2.90	**1.50 – 5.50**	1.50 – 5.98
Rate of increase to pensions in payment	**Nil – 1.70**	Nil – 1.60	**Nil – 2.54**	Nil – 2.54	**Nil – 1.49**	Nil – 4.00
Discount rate for plan liabilities	**1.90**	1.70	**2.20 – 2.85**	2.35 – 2.55	**3.83 – 9.45**	3.60 – 8.20
Inflation	**1.70**	1.60	**2.00 – 3.40**	1.90 – 3.30	**0.99 – 4.00**	1.50 – 4.00

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, 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 Ireland, the assumptions used were adapted versions of the tables used for the 2016 actuarial valuation. In Germany, the mortality table, which has been updated in 2018, is that laid down by statutory authorities. Note that in all cases, the mortality tables used allow for future improvements in life expectancy.

The current life expectancies underlying the valuation of the plan liabilities for the significant plans are as follows:

	Ireland		United Kingdom		Netherlands		Germany	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Longevity at age 65 for current pensioners (years)								
Male	**21.5**	21.4	**20.1**	20.6	**20.9**	20.9	**20.5**	19.8
Female	**24.0**	23.9	**22.1**	22.4	**23.5**	23.8	**24.1**	23.8
Longevity at age 65 for current member aged 45 (years)								
Male	**23.9**	23.8	**21.2**	21.7	**23.2**	23.3	**23.3**	22.4
Female	**26.0**	25.9	**23.3**	23.7	**25.7**	26.2	**26.3**	26.3

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	**2018 €m**	2017 €m
Increase discount rate by 0.25%	**(104)**	(115)
Decrease discount rate by 0.25%	**111**	123
Increase inflation rate by 0.25%	**42**	47
Decrease inflation rate by 0.25%	**(40)**	(46)
Increase in life expectancy by one year	**103**	106

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

24. EMPLOYEE BENEFITS CONTINUED

ANALYSIS OF PLAN ASSETS AND LIABILITIES

Plan assets are comprised as follows:

	2018			2017		
	Quoted €m	Unquoted €m	Total €m	Quoted €m	Unquoted €m	Total €m
Equities	484	–	484	505	–	505
Corporate bonds	180	–	180	268	–	268
Government bonds	355	–	355	287	–	287
Property	64	1	65	34	1	35
Cash	109	–	109	105	–	105
Insurance contracts	111	38	149	125	37	162
Liability driven investment	244	–	244	325	1	326
Other	245	–	245	265	–	265
	1,792	39	1,831	1,914	39	1,953

Included in plan assets at 31 December 2018 under Property is an amount of €1.2 million (2017: €1.2 million) relating to the Gosport plant in the United Kingdom. This is the only self-investment in the Group by the defined benefit plans.

The actual return on plan assets for the year ended 31 December 2018 was a loss of €65 million (2017: a gain of €120 million).

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

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)

31 December 2017	Eurozone €m	Rest of Europe €m	The Americas €m	Total €m
Equities	329	155	21	505
Corporate bonds	175	66	27	268
Government bonds	252	28	7	287
Property	14	20	1	35
Cash	48	43	14	105
Insurance contracts	157	5	–	162
Liability driven investment	64	261	1	326
Other	47	218	–	265
Fair value of plan assets	1,086	796	71	1,953
Present value of plan liabilities	(1,683)	(1,014)	(102)	(2,799)
Amounts not recognised as assets due to asset ceiling	–	(2)	–	(2)
Net pension liability	(597)	(220)	(31)	(848)

24. 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:

	2018 €m	2017 €m
Current service cost	25	24
Administrative expenses	4	4
Past service cost – GMP equalisation[1]	9	–
Past service cost – Other	(2)	–
Actuarial loss arising on other long-term employee benefits	1	1
Charged to operating profit[2]	37	29
Net interest cost on net pension liability[3]	16	18
	53	47

1 There was a High Court ruling in October 2018 in the United Kingdom requiring pension schemes to equalise benefits for the effect of GMP, which has resulted in a past service cost for the Group of €9 million.

2 The amount charged to operating profit for current service cost excludes the hyperinflation adjustment which is nil in 2018 (2017: €1 million).

3 Net interest cost on net pension liability excludes the hyperinflation adjustment of €2 million (2017: €6 million).

The defined benefit cost for 2018 includes a loss of €4 million (2017: a loss of €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:

	2018 €m	2017 €m
Cost of sales	14	15
Distribution costs and administrative expenses	14	14
Exceptional – GMP equalisation	9	–
Net interest on net pension liability	16	18
	53	47

Analysis of actuarial (losses)/gains recognised in the Consolidated Statement of Comprehensive Income	2018 €m	2017 €m
Return on plan assets (excluding interest income)	(107)	76
Actuarial loss due to experience adjustments	(2)	(1)
Actuarial gain/(loss) due to changes in financial assumptions	81	(90)
Actuarial gain due to changes in demographic assumptions	22	6
Total loss recognised in the Consolidated Statement of Comprehensive Income	(6)	(9)

Movement in present value of defined benefit obligation	2018 €m	2017 €m
At 1 January	(2,799)	(2,837)
Current service cost	(25)	(24)
Contributions by plan participants	(5)	(5)
Interest cost	(58)	(62)
Actuarial gains and losses	100	(86)
Benefits paid by plans	125	158
Past service cost	(7)	–
Disposals	27	–
Acquisitions	(2)	–
Reclassification	–	3
Foreign currency translation adjustment	10	54
At 31 December	(2,634)	(2,799)

24. EMPLOYEE BENEFITS CONTINUED

Movement in fair value of plan assets	2018 €m	2017 €m
At 1 January	**1,953**	1,954
Interest income on plan assets	**42**	44
Return on plan assets (excluding interest income)	**(107)**	76
Administrative expenses	**(4)**	(4)
Contributions by employer	**69**	75
Contributions by plan participants	**5**	5
Benefits paid by plans	**(125)**	(158)
Disposals	**(1)**	–
Reclassification	**1**	–
Foreign currency translation adjustment	**(2)**	(39)
At 31 December	**1,831**	1,953

Movement in asset ceiling	2018 €m	2017 €m
At 1 January	**(2)**	(1)
Variations of the effect of the asset ceiling limit	**1**	(1)
At 31 December	**(1)**	(2)

EMPLOYEE BENEFIT PLAN RISKS

The employee benefit plans expose the Group to a number of risks, the most significant of which are:

Asset volatility	The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to equities is monitored to ensure it remains appropriate given the plans' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
Inflation risk	The plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the plans' obligations are to provide benefits based on the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In the case of the funded plans, the Group ensures that the investment positions are managed with an asset-liability matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency.

MATURITY ANALYSIS

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

Expected benefit payments:	Projected amounts €m
Financial year 2019	**104**
Financial year 2020	**106**
Financial years 2021-2023	**333**
Financial years 2024-2028	**609**

The weighted average duration of the defined benefit obligation at 31 December 2018 is 16.50 years (2017: 17.03 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 2019 for the funded schemes are €5 million and €47 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2019 are €26 million and the expected benefit payments made directly by the employer in respect of funded plans for the year ending 31 December 2019 are €1 million.

25. SHARE-BASED PAYMENT

SHARE-BASED PAYMENT EXPENSE RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

	2018 €m	2017 €m
Charge arising from the Deferred Annual Bonus Plan	**15**	23
Charge arising from 2018 Performance Share Plan	**7**	–
	22	23

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.

DEFERRED ANNUAL BONUS PLAN

In May 2011, the SKG plc Annual General Meeting approved the adoption of the 2011 Deferred Annual Bonus Plan ('DABP') which replaced the existing long-term incentive plan, the 2007 Share Incentive Plan.

The size of the awards to each eligible employee under the DABP is subject to the level of annual bonus earned by the employee in any year. The maximum annual potential bonus for eligible employees in the DABP is 150% of salary. The actual bonus earned in any financial year is based on the achievement of clearly defined stretching annual financial targets for some of the Group's Key Performance Indicators ('KPIs'). For 2018 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.

At the same time as the grant of a Deferred Share Award, a Matching Share Award was 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 3 times the level of the Deferred Share Award. The maximum match was reduced to 2.25 times by the Compensation Committee for the awards for the 2015-2017 performance period and the 2016-2018 performance period. Matching Share Awards will vest provided that the Compensation Committee considers the Group's ROCE and Total Shareholder Return ('TSR') to be competitive when compared to the constituents of a peer group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Share Awards is dependent on the performance conditions of the Group's FCF[1] and ROCE targets measured over the same three-year performance period on an inter-conditional basis and the multiplier will be calculated by interpolation.

In 2018, the Group introduced the Performance Share Plan ('PSP') which replaced the Matching Share Award for subsequent performance periods (see detail on the next page).

The total DABP charge for the year comprises two elements; a) a charge in respect of the Deferred Share Awards granted in respect of 2015, 2016, 2017 and to be granted in respect of 2018 and b) a charge in respect of the Matching Share Awards granted in respect of 2015 and 2016.

The actual performance targets assigned to the Matching Share Awards were set by the Compensation 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 2017 to 31 December 2018 is presented below:

	Number outstanding	
	Deferred Share Award	Matching Share Award
At 1 January 2017	1,455,257	937,912
Granted in the year	393,651	237,337
Forfeited in the year	(36,876)	(45,711)
Additional match on vesting	–	6,991
Distributed in the year	(559,071)	(356,109)
At 31 December 2017	**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**

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

25. SHARE-BASED PAYMENT CONTINUED

DEFERRED ANNUAL BONUS PLAN CONTINUED

The fair value of the deferred share awards granted in 2018 was €30.09 (2017: €25.71) which was the market value on the date of the grant.

Deferred Share Awards were granted in 2018 to eligible employees in respect of the financial year ended 31 December 2017.

The Deferred Share Awards and Matching Share Awards which were granted in 2015 in respect of the financial year ended 31 December 2014 vested in February 2018 and were distributed to relevant employees. The market price at the date of vesting was €29.72.

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. Details of the performance targets and results for the three-year period to 31 December 2018 are set out in the Remuneration Report.

PERFORMANCE SHARE PLAN

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

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 Compensation 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 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 value assigned to the EPS and ROCE components of the 2018 award, for the three-year performance period was €33.32, the price on award of the PSP.

The fair value assigned to the portion of the award for the TSR element was €21.57. The Monte Carlo simulation approach was used to calculate the fair value of the TSR component of the PSP award at the 2018 grant date. The expected volatility rate applied to the 2018 award was 23.5% and was based upon both the historical and implied share price volatility levels of the Group. The risk-free interest rate used was (0.024%).

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

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

			Number of Shares	
	Share price at date of award	Period to earliest release date	Initial Award[1]	Net Outstanding at 31 December 2018[2]
Granted in 2018	**€33.32**	**3 years**	**1,382,116**	**1,325,792**

1 Awards are eligible to accrue dividend equivalents during the performance period.
2 56,324 shares were forfeited during the year.

25. SHARE-BASED PAYMENT CONTINUED

2007 SHARE INCENTIVE PLAN

This scheme has expired for the purpose of issuing invitations to subscribe for convertible shares. However a number of convertible shares issued under this plan have not yet been converted to ordinary shares. Further details are provided below.

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

The performance conditions for the new class B and new class C convertible shares awarded under the 2007 SIP during and from 2009 were subject to a performance condition based on the Group's total shareholder return over the three-year period relative to the total shareholder return of a peer group of companies ('TSR condition'). Under that condition, 30% of the new class B and new class C convertible shares would convert into D convertible shares if the Group's total shareholder return was at the median performance level and 100% convert if the Group's total shareholder return was at or greater than the upper quartile of the peer group. A sliding scale has been applied for performance between the median and upper quartiles.

However, notwithstanding that the TSR condition applicable to any such award may have been satisfied, the Compensation Committee retained an overriding discretion to disallow the vesting of the award, in full or in part, if, in its opinion the Group's underlying financial performance or total shareholder return (or both) had been unsatisfactory during the performance period.

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

The Monte Carlo simulation approach was used to calculate the value of new class B convertible shares awarded from 2009 and all new class C convertible shares at grant date. The expected volatility rates applied were based upon the weighted average historical volatility of the Group's business sector for a period equivalent to the expected life of the grants. The risk-free interest rates used were based upon euro-denominated government bonds with similar lives. The fair value of the convertible shares at the valuation dates was determined based upon the market price at that date.

The awards made in 2009 vested 100% in February 2012 with the TSR condition being in the upper quartile of the peer group. The awards made in 2010 vested 30% in February 2013 with the TSR condition being at the median. The Compensation Committee was of the opinion that the Group's underlying financial performance and total shareholder return had been satisfactory during the performance period and therefore confirmed the vesting.

A summary of the activity under the 2007 SIP, as amended, for the period from 1 January 2017 to 31 December 2018 is presented below:

	2018		2017	
	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	**532,098**	**4.95**	680,764	4.92
Exercised in the year	**(41,916)**	**5.08**	(148,666)	4.84
Outstanding at the end of the year	**490,182**	**4.93**	532,098	4.95
Exercisable at the end of the year	**490,182**	**4.93**	532,098	4.95

The weighted average market price on the dates the convertible shares were exercised in the financial year ended 31 December 2018 was €34.01 (2017: €25.28).

	2018	2017
2007 SIP, as amended, convertible shares outstanding at the end of the year (number)	**490,182**	532,098
Weighted average exercise price (€ per share)	**4.93**	4.95
Weighted average remaining contractual life (years)	**0.9**	1.9

26. PROVISIONS FOR LIABILITIES

	2018 €m	2017 €m
Current	**50**	23
Non-current	**47**	62
	97	85

	Deferred consideration €m	Restructuring €m	Environmental €m	Legal €m	Other €m	Total €m
At 1 January 2018	**23**	**6**	**4**	**2**	**50**	**85**
Made during the financial year	**–**	**28**	**–**	**3**	**40**	**71**
Released during the financial year	**–**	**–**	**–**	**(1)**	**(7)**	**(8)**
Utilised during the financial year	**(9)**	**(15)**	**–**	**(1)**	**(27)**	**(52)**
Reclassifications	**–**	**3**	**–**	**–**	**(2)**	**1**
Unwinding of discount	**1**	**–**	**–**	**–**	**–**	**1**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2018	**15**	**22**	**4**	**3**	**53**	**97**

DEFERRED CONSIDERATION
Deferred consideration represents the deferred element of acquisition consideration payable. The balance at 31 December 2018 relates to the acquisition of the following:
- Chatziioannou, Greece (2017) – payable in 2020;
- Sound Packaging, United States (2016) – payable in 2019;
- Corrugated Professionals, United States (2016) – payable in 2019;
- INPA, Brazil (2015) – payable in 2019; and
- Cartonera Rierba S.A., Dominican Republic (2014) – payable in 2019.

RESTRUCTURING
These provisions relate to irrevocable commitments in respect of restructuring programmes throughout the Group. The provision made in 2018 relates to restructuring and reorganisation undertaken in Europe. The current year utilisation of the provision related largely to the restructuring and reorganisation undertaken in Europe and the closure of the City of Industry plant in the United States. The Group expects that the majority of the provision balance remaining at 31 December 2018 will be utilised during 2019.

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

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

OTHER
Other comprises a number of provisions including: liabilities arising from onerous contracts and dilapidations, mainly relating to leased properties amounting to €10 million (2017: €18 million); employee compensation in certain countries in which we operate amounting to €21 million (2017: €16 million); Venezuelan reorganisation costs following the deconsolidation of our Venezuelan operations amounting to €13 million (2017: nil) and numerous other items which are not individually material and are not readily grouped together. The property leases have remaining lives ranging from one to twelve years.

27. TRADE AND OTHER PAYABLES

	Group 2018 €m	Group 2017 €m	Company 2018 €m	Company 2017 €m
Amounts falling due within one financial year:				
Trade payables	**1,065**	1,061	**–**	–
Payroll taxes	**37**	38	**–**	–
Value added tax	**65**	73	**–**	–
Social insurance	**56**	55	**–**	–
Accruals	**508**	452	**–**	–
Capital payables	**115**	79	**–**	–
Other payables	**25**	21	**–**	–
Amounts payable to Group companies	**–**	–	**5**	4
	1,871	1,779	**5**	4
Amounts falling due after more than one financial year:				
Other payables	**14**	17	**–**	–
	1,885	1,796	**5**	4

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.

28. FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS BY CATEGORY

The effect of initially applying IFRS 9 on the Group's financial instruments is described in Note 2. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements, except for certain hedging requirements.

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

31 December 2018	Financial assets at amortised cost €m	Assets at fair value through Consolidated Income Statement €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	**1,612**	**–**	**–**	**–**	**1,612**
Cash and cash equivalents	**407**	**–**	**–**	**–**	**407**
Restricted cash	**10**	**–**	**–**	**–**	**10**
	2,029	**22**	**9**	**10**	**2,070**

The financial assets of the Company of €220 million consist of loans and receivables.

31 December 2018	Liabilities at fair value through Consolidated Income Statement €m	Derivatives used for hedging €m	Other financial liabilities €m	Total €m
Liabilities per Consolidated Balance Sheet:				
Borrowings	**–**	**–**	**3,539**	**3,539**
Derivative financial instruments	**3**	**24**	**–**	**27**
Trade and other payables	**–**	**–**	**1,483**	**1,483**
	3	**24**	**5,022**	**5,049**

The financial liabilities of the Company of €5 million consist of other financial liabilities.

28. FINANCIAL INSTRUMENTS CONTINUED

FINANCIAL INSTRUMENTS BY CATEGORY CONTINUED

31 December 2017	Loans and receivables €m	Assets at fair value through Consolidated Income Statement €m	Derivatives used for hedging €m	Available-for-sale €m	Total €m
Assets per Consolidated Balance Sheet:					
Available-for-sale financial assets	–	–	–	21	21
Derivative financial instruments	–	5	14	–	19
Trade and other receivables	1,474	–	–	–	1,474
Cash and cash equivalents	530	–	–	–	530
Restricted cash	9	–	–	–	9
	2,013	5	14	21	2,053

The financial assets of the Company of €197 million consist of loans and receivables.

31 December 2017	Liabilities at fair value through Consolidated Income Statement €m	Derivatives used for hedging €m	Other financial liabilities €m	Total €m
Liabilities per Consolidated Balance Sheet:				
Borrowings	–	–	3,344	3,344
Derivative financial instruments	2	34	–	36
Trade and other payables	–	–	1,432	1,432
	2	34	4,776	4,812

The financial liabilities of the Company of €4 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. The impact of any such swaps on the Group's financial instruments has been set out in the tables on pages 152 and 153.

The Group manages its balance sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges currency exposure through the use of currency swaps, options and forward contracts. The impact of these derivatives on the currency profile of the Group's financial instruments has been set out in the tables on page 155.

28. 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[1]. The senior credit facility is variable rate debt, as are the Group's securitisation facilities and the €250 million senior floating rate notes due 2020. Interest rate changes therefore generally do not affect the market value of such debt but do impact the amount of the Group's interest payments and, therefore, its future earnings and cash flows, assuming other factors are held constant. At 31 December 2018, the Group had fixed an average of 79% (2017: 79%) of its interest cost on borrowings over the following 12 months. Proforma for treasury refinancing transactions undertaken in January 2019, this percentage increases to 86%. Holding all other variables constant, including levels of indebtedness, at 31 December 2018 a one percentage point increase in variable interest rates would have an estimated impact on pre-tax interest expense of approximately €6 million (including the effect of interest rate swaps) over the following 12 months. Interest income on our cash balances would increase by approximately €4 million, assuming a one percent increase in interest rates earned on such balances over the following twelve months.

The Group has entered into one or more interest rate protection agreements (principally interest rate swaps and cross currency interest rate swaps), which establish a fixed interest rate with respect to certain of its borrowings. In 2012 the Group entered into a cross currency interest rate swap to swap fixed rate debt into variable rate debt, which terminated in 2018. A table setting out the fixed and variable rate debt together with the impact of the related interest and cross currency swaps has been set out on pages 152 and 153.

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, Venezuelan Bolivar Fuerte (prior to the deconsolidation of Venezuela) and Brazilian Real), US Dollar and Eastern Europe (comprising mainly the Polish Zloty, the Czech Koruna and the Russian Rouble). At the end of 2018, approximately 99% (2017: 99%) of its non euro denominated net assets consisted of the Swedish Krona 26% (2017: 29%), Sterling 9% (2017: 4%), Latin American currencies 53% (2017: 54%), US Dollar 1% (2017: 1%) and Eastern European currencies 10% (2017: 11%). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2018 rate would reduce shareholders' equity by approximately €16 million (2017: €17 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 2018 and 2017, 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 2018 and 2017, 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 €20.62 per megawatt-hour, decreased to €18.55 in April 2018, peaked at €27.89 per megawatt-hour in October 2018 and decreased to €24.82 per megawatt-hour in December 2018, giving an average price of €21.95 for 2018. 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 2018, leading to increased electricity market prices and overall energy costs. The Group's overall energy costs increased by approximately 9% when compared to 2017 due to a combination of price increases and acquisitions.

1 European Interbank Offered Rate.

28. FINANCIAL INSTRUMENTS CONTINUED

KEY FINANCIAL RISKS AND FINANCIAL RISK MANAGEMENT RESULTING FROM THE USE OF FINANCIAL INSTRUMENTS AND RELATED SENSITIVITY ANALYSIS CONTINUED

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

Liquidity risk

The Group is exposed to liquidity risk which arises primarily from the maturing of short-term and long-term debt obligations and derivative transactions. The Group's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facilities, to ensure all obligations can be met as they fall due. To achieve this objective, the Group:

- maintains cash balances and liquid investments with highly rated counterparties;
- limits the maturity of cash balances; 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 23 and within certain tables set out below. At each year-end, the Group's rolling liquidity reserve (which comprises cash and undrawn committed facilities and which represents the amount of available cash headroom in the Group's funding structure) was as follows:

	2018 €m	2017 €m
Cash and cash equivalents	**407**	530
Committed undrawn facilities	**1,033**	1,155
Liquidity reserve	**1,440**	1,685
Borrowings due within one year	**(264)**	(782)
Net position	**1,176**	903

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 €1,033 million at 31 December 2018; and the Group has cash and cash equivalents of €407 million at 31 December 2018. Proforma for the refinancing of the senior credit facility in January 2019 with a new five year RCF, undrawn committed facilities are €1,130 million.

The maturity dates of the Group's main borrowing facilities as set out in Note 23, together with the liquidity analysis as set out in this note, more fully describes the Group's longer term financing risks.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

In managing its capital structure, the primary focus of the Group is the ratio of 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 2018 the net debt to EBITDA ratio of the Group was 2.0 times (net debt of €3,122 million) which compares to 2.3 times (net debt of €2,805 million) at the end of 2017. This gives the Group continuing headroom compared to the actual covenant level at 31 December 2018 of 3.75 times.

On the basis of pre-exceptional operating profit, the Group's return on capital employed was 19.3% compared to 15.0% in 2017. 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 beginning and end of the year). Capital employed at 31 December 2018 was €6,012 million, (2017: €5,464 million). The post-exceptional return on capital employed was 18.1% in 2018 (2017: 14.6%).

The capital employed of the Company at 31 December 2018 was €2,078 million (2017: €2,067 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 18.

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 2018 of €417 million, 43% was with financial institutions in the A rating category of Standard & Poor's or Moody's and 46% was with financial institutions in the AA/Aa or higher rating category.

28. FINANCIAL INSTRUMENTS CONTINUED

KEY FINANCIAL RISKS AND FINANCIAL RISK MANAGEMENT RESULTING FROM THE USE OF FINANCIAL INSTRUMENTS AND RELATED SENSITIVITY ANALYSIS CONTINUED

The remaining 11% was represented mainly by cash held with banks in Ireland and Latin America which fell outside the A or higher ratings categories. At 31 December 2018 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 4.

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 and which has a similar underlying risk profile to the general operational risks encountered by the Group in this market. 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.

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 13.

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:

	2018 €m	2017 €m
Non-current derivative assets		
Cash flow hedges:		
Foreign currency forwards	–	1
Cross currency swaps	8	2
Total non-current derivative assets	8	3
Current derivative assets		
Cash flow hedges:		
Foreign currency forwards	1	2
Cross currency swaps	–	7
Fair value hedges:		
Cross currency swaps	–	2
Not designated as hedges:		
Foreign currency forwards	–	1
Cross currency swaps	6	3
Energy hedging contracts	6	1
Total current derivative assets	13	16
Total derivative assets	21	19
Non-current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	(3)	(5)
Cross currency swaps	(14)	(21)
Total non-current derivative liabilities	(17)	(26)
Current derivative liabilities		
Cash flow hedges:		
Interest rate swaps	(3)	(5)
Foreign currency forwards	(3)	(2)
Cross currency swaps	(1)	(1)
Not designated as hedges:		
Foreign currency forwards	(1)	–
Cross currency swaps	–	(2)
Energy hedging contracts	(2)	–
Total current derivative liabilities	(10)	(10)
Total derivative liabilities	(27)	(36)
Net liability on derivative financial instruments	(6)	(17)

28. FINANCIAL INSTRUMENTS CONTINUED

FAIR VALUE HIERARCHY

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 Consolidated Income Statement	**–**	**12**	**–**	**12**
Derivatives used for hedging	**–**	**9**	**–**	**9**
Derivative financial instruments:				
Liabilities at fair value through Consolidated Income Statement	**–**	**(3)**	**–**	**(3)**
Derivatives used for hedging	**–**	**(24)**	**–**	**(24)**
	1	**1**	**12**	**14**

Fair value measurement at 31 December 2017	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets:				
Listed	1	–	–	1
Unlisted	–	8	12	20
Derivative financial instruments:				
Assets at fair value through Consolidated Income Statement	–	5	–	5
Derivatives used for hedging	–	14	–	14
Derivative financial instruments:				
Liabilities at fair value through Consolidated Income Statement	–	(2)	–	(2)
Derivatives used for hedging	–	(34)	–	(34)
	1	(9)	12	4

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.

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 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. A 5% movement in the adjusted market multiple would increase/decrease the fair value of the listed investments by approximately €3 million. Further details of the listed and unlisted investments are set out in Note 13.

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 match exactly with 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 2018 and 2017. 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 2019 to 2023, in line with the underlying debt being hedged.

28. FINANCIAL INSTRUMENTS CONTINUED

CASH FLOW HEDGING CONTINUED

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 and cross currency 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 over the period from 2019 to 2020.

The Group's hedging reserves disclosed in Note 22 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 31 December 2017	–	(9)	(8)	–	(17)
Adjustment on initial application of IFRS 9 (net of tax)	2	–	(2)	–	–
At 1 January 2018	2	(9)	(10)	–	(17)
Add: Costs of hedging deferred and recognised in OCI	2	–	–	–	2
Add: Change in fair value of hedging instrument recognised in OCI	–	(1)	(2)	(3)	(6)
Less: Reclassified from OCI to profit or loss – included in finance costs	(1)	5	6	–	10
At 31 December 2018	**3**	**(5)**	**(6)**	**(3)**	**(11)**

	Cost of hedging reserve €m	Interest rate swaps €m	Cross currency swaps €m	Foreign currency forwards €m	Total hedge reserves €m
At 1 January 2017	–	(14)	(8)	–	(22)
Add: Change in fair value of hedging instrument recognised in OCI	–	–	(4)	–	(4)
Less: Reclassified from OCI to profit or loss – included in finance costs	–	5	4	–	9
At 31 December 2017	–	(9)	(8)	–	(17)

FAIR VALUE HEDGING

In 2012 the Group entered into a cross currency interest rate swap to swap fixed rate debt into variable rate debt. This swap was terminated in 2018, with the redemption of the underlying debt.

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 Consolidated Income Statement 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 Consolidated Income Statement 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 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

28. FINANCIAL INSTRUMENTS CONTINUED

INTEREST RATE RISK MANAGEMENT CONTINUED

Outstanding interest rate swap agreements at 31 December 2017 are summarised as follows:

Currency	Notional principal (million)	Termination dates	% Fixed payable	% Variable receivable
EUR	125	2018	1.051-1.080	Euribor
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:

	2018 €m	2017 €m
Carrying amount – liability	**6**	10
Notional amount	**224**	349
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 2019 – January 2021**	October 2018 – 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	**1.3%**	1.2%

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 2018 the Group had entered into €309 million (2017: €401 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2018 the Group had also entered into further short-term currency swaps of €538 million equivalent (2017: €545 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:

	2018 €m	2017 €m
Foreign currency forwards – sales:		
Carrying amount – asset	**1**	3
Carrying amount – liability	**3**	2
Notional amount	**159**	281
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 2019 – December 2019**	January 2018 – December 2019
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instrument recognised in OCI	**(3)**	–
Change in fair value of hedged item used to determine hedge effectiveness	**3**	–
Weighted average EUR:SEK forward contract rate	**10.11**	9.86
Weighted average GBP:SEK forward contract rate	**11.28**	11.20
Foreign currency forwards – inventory purchases:		
Carrying amount – asset	**–**	–
Carrying amount – liability	**–**	–
Notional amount	**19**	54
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 2019 – January 2020**	January 2018 – November 2018
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	**4.32**	4.26

28. FINANCIAL INSTRUMENTS CONTINUED

FOREIGN EXCHANGE RISK MANAGEMENT CONTINUED

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 2018 are summarised as follows:

Currency swapped (million)	Currency received (million)	Maturity date	Interest rate paid	Interest rate received
EUR 22	**BRL 87**	**2020**	**127.3% CDI**	**Euribor +2.25**
EUR 38	**BRL 150**	**2021**	**129.2% CDI**	**Euribor +2.50**
US$ 154	**EUR 144**	**2023**	**5.300**	**7.500**

Outstanding currency swap agreements at 31 December 2017 are summarised as follows:

Currency swapped (million)	Currency received (million)	Maturity date	Interest rate paid	Interest rate received
US$ 50	EUR 40	2018	Euribor +3.480	4.875
US$ 250	EUR 198	2018	4.805	4.875
EUR 22	BRL 87	2020	127.3% CDI	Euribor +2.25
EUR 38	BRL 150	2021	129.2% CDI	Euribor +2.50
US$ 154	EUR 144	2023	5.300	7.500

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

	2018 €m	2017 €m
Hedge of US$ debt:		
Carrying amount – asset	**–**	7
Carrying amount – liability	**(15)**	(22)
Notional amount – EUR	**144**	342
Line item in balance sheet – hedging instrument	**Derivative financial instruments**	Derivative financial instruments
Line item in balance sheet – hedged item	**Borrowings**	Borrowings
Maturity dates	**November 2023**	September 2018 & November 2023
Hedge ratio	**1:1**	1:1
Change in fair value of outstanding hedging instrument recognised in OCI	**(3)**	(4)
Change in fair value of hedged item used to determine hedge effectiveness	**3**	4
Weighted average EUR:USD hedged rate	**1.07**	1.18
Hedge – Brazil acquisition funding:		
Carrying amount – asset	**8**	2
Notional amount – BRL	**237**	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	**3.90**	3.90

At 31 December 2017, the Group was party to a cross currency swap to swap US$50 million fixed rate debt into €40 million variable rate debt. This swap was terminated in 2018 with the redemption of the underlying debt.

ENERGY RISK MANAGEMENT

The Group had the following energy hedging contracts outstanding at the end of 31 December 2018 and 2017. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

	2018		2017	
	Notional	Maturity	Notional	Maturity
Energy contracts	**€9 million**	**Q1 2019 – Q4 2022**	€6 million	Q1 2018 – Q4 2020

28. FINANCIAL INSTRUMENTS CONTINUED

EFFECTIVE INTEREST RATES AND REPRICING ANALYSIS

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

31 December 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]	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)

28. FINANCIAL INSTRUMENTS CONTINUED

EFFECTIVE INTEREST RATES AND REPRICING ANALYSIS CONTINUED

31 December 2017	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%	–	–	–	–	245	245
2018 notes	5.30%	–	455	–	–	–	455
2020 fixed rate notes	4.40%	–	–	–	405	–	405
2021 notes	3.51%	–	–	–	497	–	497
2024 notes	2.65%	–	–	–	–	498	498
2025 notes	2.99%	–	–	–	–	249	249
Bank loans/overdrafts	9.88%	1	3	3	23	–	30
Effect of interest rate swaps		–	125	50	174	–	349
Effect of fair value cross currency swap		–	(42)	–	–	–	(42)
Total		1	541	53	1,099	992	2,686
Finance leases	5.06%	1	–	–	2	9	12
Total fixed rate liabilities		2	541	53	1,101	1,001	2,698
Floating rate instruments							
Assets:							
Cash and cash equivalents	(0.16%)	530	–	–	–	–	530
Restricted cash	1.31%	9	–	–	–	–	9
Total floating rate assets		539	–	–	–	–	539
Liabilities:							
Senior credit facility	2.24%	487	–	–	–	–	487
2019 receivables securitisation	2.31%	88	–	–	–	–	88
2022 receivables securitisation[1]	8.86%	4	–	–	–	–	4
2020 floating rate notes	3.46%	250	–	–	–	–	250
Bank loans/overdrafts	10.08%	124	–	–	–	–	124
Effect of interest rate swaps	1.55%	(349)	–	–	–	–	(349)
Effect of fair value cross currency swap	(1.87%)	40	–	–	–	–	40
Total floating rate liabilities		644	–	–	–	–	644
Total net position		(107)	(541)	(53)	(1,101)	(1,001)	(2,803)

1 At the end of the financial year the carrying amount of the 2022 receivables securitisation programme was €49 million compared to €4 million at 31 December 2017. If the drawn amount in 2018 had been unchanged year-on-year the average effective interest rate would be 9.94% (2017: 8.86%) due to the relative impact of deferred debt issue costs recognised in finance costs in the Consolidated Income Statement using the effective interest method over the remaining life of the programme. The interest rate charged on the variable rate notes was 0.90% at 31 December 2018 (2017: 0.84%).

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 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
Total liabilities		17	1,730	1,112	941	1,724	5,524

28. FINANCIAL INSTRUMENTS CONTINUED

LIQUIDITY ANALYSIS CONTINUED

31 December 2017	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		–	1,432	–	–	–	1,432
Senior credit facility	1.7	–	88	87	331	–	506
2019 receivables securitisation	1.5	–	1	90	–	–	91
2022 receivables securitisation	4.1	–	–	–	5	–	5
Bank loans/overdrafts	1.1	27	108	11	15	9	170
2025 debentures	7.8	–	18	18	55	299	390
2018 notes	0.7	–	473	–	–	–	473
2020 fixed rate notes	2.0	–	17	17	408	–	442
2020 floating rate notes	2.8	–	8	8	258	–	274
2021 notes	3.4	–	16	16	525	–	557
2024 notes	6.0	–	12	12	36	518	578
2025 notes	7.0	–	7	7	21	267	302
		27	2,180	266	1,654	1,093	5,220
Finance leases	5.9	–	3	2	4	7	16
		27	2,183	268	1,658	1,100	5,236
Derivative liabilities		–	5	3	2	–	10
Total liabilities		27	2,188	271	1,660	1,100	5,246

The financial liabilities of the Company of €5 million (2017: €4 million) are repayable on demand.

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

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**

31 December 2017	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
Liabilities:					
Cross currency swaps	(806)	(14)	(76)	(152)	(1,048)
Foreign currency forwards	(308)	(90)	–	–	(398)
Total outflow	(1,114)	(104)	(76)	(152)	(1,446)
Assets:					
Cross currency swaps	814	11	89	121	1,035
Foreign currency forwards	307	90	–	–	397
Total inflow	1,121	101	89	121	1,432

28. FINANCIAL INSTRUMENTS CONTINUED

CURRENCY ANALYSIS

The table below sets out the Group's financial assets and liabilities according to their principal currencies. Currency risk related to financial assets and liabilities denominated in currencies other than the Group's presentation currency (euro) represents both transactional and translation risk. As at 31 December 2018 and 2017 the Company had no material financial assets or liabilities denominated in foreign currencies.

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**
Total liabilities	**3,852**	**298**	**188**	**521**	**163**	**5,022**
Impact of foreign exchange contracts	**(127)**	**109**	**55**	**61**	**(99)**	**(1)**
Total (liabilities)/assets	**(2,511)**	**(228)**	**(31)**	**(322)**	**120**	**(2,972)**

31 December 2017	Euro €m	Sterling €m	Latin America[1] €m	US dollar €m	Other €m	Total €m
Trade and other receivables	836	130	200	163	145	1,474
Available-for-sale financial assets	21	–	–	–	–	21
Cash and cash equivalents	382	39	34	51	24	530
Restricted cash	6	–	–	2	1	9
Total assets	1,245	169	234	216	170	2,034
Trade and other payables	905	107	145	150	125	1,432
Senior credit facility	313	128	–	46	–	487
2019 receivables securitisation	8	80	–	–	–	88
2022 receivables securitisation	4	–	–	–	–	4
Bank loans/overdrafts	25	–	111	18	–	154
2025 debentures	–	–	–	245	–	245
2018 notes	201	–	–	254	–	455
2020 fixed rate notes	405	–	–	–	–	405
2020 floating rate notes	250	–	–	–	–	250
2021 notes	497	–	–	–	–	497
2024 notes	498	–	–	–	–	498
2025 notes	249	–	–	–	–	249
	3,355	315	256	713	125	4,764
Finance leases	2	1	–	9	–	12
Total liabilities	3,357	316	256	722	125	4,776
Impact of foreign exchange contracts	251	167	64	(191)	(291)	–
Total (liabilities)/assets	(2,363)	(314)	(86)	(315)	336	(2,742)

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

28. FINANCIAL INSTRUMENTS CONTINUED

FAIR VALUE

	2018		2017	
	Carrying value €m	**Fair value €m**	Carrying value €m	Fair value €m
Trade and other receivables [1]	**1,612**	**1,612**	1,474	1,474
Available-for-sale financial assets [2]	**–**	**–**	21	21
Equity instruments [2]	**10**	**10**	–	–
Listed and unlisted debt instruments [2]	**10**	**10**	–	–
Cash and cash equivalents [3]	**407**	**407**	530	530
Derivative assets [4]	**21**	**21**	19	19
Restricted cash [3]	**10**	**10**	9	9
	2,070	**2,070**	2,053	2,053
Trade and other payables [1]	**1,483**	**1,483**	1,432	1,432
Senior credit facility [5]	**411**	**411**	487	487
2022 receivables securitisation [3]	**49**	**49**	4	4
2023 receivables securitisation [3]	**179**	**179**	88	88
Bank overdrafts [3]	**119**	**119**	154	154
2025 debentures [6]	**257**	**296**	245	298
2018 notes [6]	**–**	**–**	455	464
2020 fixed rate notes [6]	**406**	**421**	405	438
2020 floating rate notes [6]	**251**	**260**	250	270
2021 notes [6]	**498**	**521**	497	541
2024 notes [6]	**499**	**505**	498	526
2025 notes [6]	**250**	**254**	249	266
2026 notes [6]	**601**	**600**	–	–
	5,003	**5,098**	4,764	4,968
Finance leases	**19**	**19**	12	12
	5,022	**5,117**	4,776	4,980
Derivative liabilities [4]	**27**	**27**	36	36
	5,049	**5,144**	4,812	5,016
Total net position	**(2,979)**	**(3,074)**	(2,759)	(2,963)

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 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 senior credit facility is based on the present value of its estimated future cash flows discounted at an appropriate market discount rate at the balance sheet date.
6 The fair value (level 2) is based on broker prices at the balance sheet date.

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

29. LEASE OBLIGATIONS

OPERATING LEASES

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

	2018 €m	2017 €m
Within one year	**82**	90
Within two to five years	**166**	173
Over five years	**84**	87
	332	350

The Group leases properties, plant and machinery and vehicles under operating leases. The leases have 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 are as follows:

	2018		2017	
	Minimum payments €m	Present value of minimum payments €m	Minimum payments €m	Present value of minimum payments €m
Within one year	**2**	**2**	3	2
Within two to five years	**8**	**5**	5	3
Over five years	**14**	**12**	8	7
Total minimum lease payments	**24**	**19**	16	12
Less: amounts allocated to future finance costs	**(5)**	**–**	(4)	–
Present value of minimum lease payments	**19**	**19**	12	12

The Group has an arrangement in place in relation to a cogeneration facility that does not take the legal form of a lease but conveys the right to use the underlying assets in return for a series of payments. This arrangement has been assessed as having the substance of a finance lease arrangement. See Note 11 for the capitalised value of this finance lease.

30. RELATED PARTY TRANSACTIONS

The principal related party relationships requiring disclosure under IAS 24, *Related Party Disclosures* pertain to the existence of subsidiaries and associates and transactions with these entities entered into by the Group and the identification and compensation of key management personnel as addressed in greater detail below.

TRANSACTIONS WITH SUBSIDIARIES

The Consolidated Financial Statements include the Financial Statements of the Company and its subsidiaries and associates as documented in the accounting policies on page 103. 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

	2018 €m	2017 €m
Sale of goods	**12**	9
Rendering of services	**1**	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 (2017: €1 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 (2017: nil).

No provision has been made in 2018 or 2017 relating to balances with related parties.

30. RELATED PARTY TRANSACTIONS CONTINUED

TRANSACTIONS WITH OTHER RELATED PARTIES

There were no transactions with other related parties during 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.

	2018 €m	2017 €m
Short-term employee benefits	5	4
Post-employment benefits	1	1
Share-based payment expense	2	1
	8	6

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.

31. BUSINESS COMBINATIONS

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

- Reparenco, (100%, 2 July 2018), a paper and recycling business in the Netherlands;
- Caradec, (100%, 4 December 2018), an integrated corrugated plant and an erecting centre in France; and
- Papcart, (100%, 4 December 2018), a specialist corrugated converter in France.

The table below reflects the fair value of the identifiable net assets acquired in respect of the acquisitions completed during the year. The acquisitions of Caradec and Papcart both completed on 4 December 2018 and, as such, the fair values assigned to them have been performed on a provisional basis. 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*.

	Reparenco €m	Other[1] €m	Total €m
Non-current assets			
Property, plant and equipment	308	17	325
Intangible assets	95	–	95
Deferred income tax assets	18	–	18
Current assets			
Inventories	11	9	20
Trade and other receivables	30	12	42
Cash and cash equivalents	12	4	16
Non-current liabilities			
Employee benefits	–	(1)	(1)
Deferred income tax liabilities	(60)	–	(60)
Borrowings	(9)	(1)	(10)
Current liabilities			
Borrowings	(9)	–	(9)
Trade and other payables	(39)	(8)	(47)
Net assets acquired	357	32	389
Goodwill	109	–	109
Consideration	466	32	498
Settled by:			
Cash	466	32	498

1 In addition to the Caradec and Papcart acquisitions, other also includes fair value adjustments in relation to 2017 acquisitions. The Group has considered the size of these adjustments and does not deem them to be sufficiently material to warrant a restatement of the 2017 Consolidated Financial Statements.

31. 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.

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

Net cash outflow arising on acquisition	€m
Cash consideration	498
Less cash and cash equivalents acquired	(16)
Total	**482**

The gross contractual value of trade and other receivables as at the respective dates of acquisition amounted to €45 million. The fair value of these receivables is estimated at €42 million (all of which is expected to be recoverable).

Acquisition-related costs of €2 million were incurred and are included within administrative expenses in the Consolidated Income Statement.

The Group's acquisitions in 2018 have contributed €120 million to revenue and €21 million of profit to the result for the financial year. The proforma revenue and loss of the Group for the year ended 31 December 2018 would have been €9,144 million and €621 million respectively had the acquisitions taken place at the start of the current reporting period.

No contingent liabilities were recognised on the acquisitions completed during the year.

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*.

32. EVENTS AFTER THE BALANCE SHEET DATE

On 30 January 2019, the Group successfully priced a €400 million add-on offering to the June 2018 €600 million senior notes due 2026, issued by its wholly-owned subsidiary, Smurfit Kappa Acquisitions Unlimited Company. The proceeds of the offering were used to reduce indebtedness under the Group's senior facilities agreement and existing securitisation facilities and for general corporate purposes.

The notes were offered in a private placement, and there was no public offering of the notes. The notes priced at 100.75 and carry a coupon of 2.875%, giving a yield of 2.756%. The sale of the notes was completed on 4 February 2019.

Also in January 2019, the Group signed and completed a new 5-year €1,350 million RCF with 21 of its existing relationship banks. The new RCF refinances the Group's existing senior credit facility which was due to mature in March 2020.

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 €235 million (2017: a profit after tax of €222 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, Smurfit Kappa Corporation Designated Activity Company, Smurfit Kappa Funding Designated Activity Company 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**	70
Grupo Smurfit México, S.A. de C.V. Avenida 16 de Septiembre 25, Industrial Naucalpan, Naucalpan de Juarez, Estado de Mexico, 53370, Mexico	Manufacture and sale of paperboard and packaging products	**Mexico**	100
Nettingsdorfer Papierfabrik AG & Co KG Nettingsdorfer Straße 40, 4053 Haid bei Ansfelden, Austria	Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board	**Austria**	100
Smurfit International B.V. Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Principal international holding company	**Netherlands**	100

34. PRINCIPAL SUBSIDIARIES CONTINUED

Subsidiaries[1]	Principal activities	Country of incorporation[2]	Holding %
Smurfit Kappa de Argentina, S.A. Paque Saenz Pena 308 – 8th Floor, Buenos Aires, Argentina	Manufacture and sale of paperboard and packaging products	**Argentina**	100
Smurfit Kappa Deutschland GmbH Tilsiter Straße 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
Smurfit Kappa Europe B.V. Evert van den Beekstraat 1-104, 1118 CL Schiphol, The Netherlands	International holding company	**Netherlands**	100
Smurfit Kappa Italia, S.p.A. Via Vicenzo Monti 12 20123 Milano (MI), Italy	Holding company for Italian operations whose principal activities are the manufacture and sale of paperboard and packaging products	**Italy**	100
Smurfit Kappa Holdings US, Inc. 913 N. Market Street Suite 200 Wilmington, DE 19801 (P) USA	Holding company for North American 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 other countries 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 AS 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.

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) 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 Corporation Designated Activity Company, Smurfit Kappa Funding Designated Activity Company, 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 Unlimited Company, Smurfit Kappa Treasury Funding Designated Activity Company, Smurfit Kappa Treasury Receivables Designated Activity Company, Smurfit Natural Resources Limited, Smurfit Securities Limited.

34. PRINCIPAL SUBSIDIARIES CONTINUED

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 Brittania 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.

NON-CONTROLLING INTERESTS

The total non-controlling interests at 31 December 2018 is €131 million (2017: €151 million), of which €125 million (2017: €121 million) relates to Cartón de Colombia S.A. The non-controlling interests in respect of the Group's other subsidiaries are not considered to be material.

Name	Principal activities	Country of incorporation	Ownership interest held by non-controlling interest % 2018	2017
Cartón de Colombia S.A.	Manufacture and sale of paperboard, paper sacks, writing paper and packaging products	Colombia	**30**	30

The profit allocated to the non-controlling interest of this subsidiary in the Group's Financial Statements is €12 million (2017: €8 million).

The total comprehensive income allocated to the non-controlling interest of this subsidiary in the Group's Financial Statements is €6 million (2017: expense of €7 million).

SUMMARISED FINANCIAL INFORMATION

The following is summarised financial information for Cartón de Colombia S.A., prepared in accordance with IFRS. The information is before intercompany eliminations with other Group companies.

SUMMARISED INCOME STATEMENT

	2018 €m	2017 €m
Revenue	**387**	362
Profit before income tax	**63**	46
Income tax expense	**(15)**	(14)
Profit for the financial year	**48**	32
Other comprehensive expense	**(18)**	(49)
Total comprehensive income/(expense)	**30**	(17)

SUMMARISED BALANCE SHEET

	2018 €m	2017 €m
Current assets	**143**	140
Non-current assets	**393**	407
Current liabilities	**(83)**	(111)
Non-current liabilities	**(50)**	(53)
Net assets	**403**	383

SUMMARISED CASH FLOW

	2018 €m	2017 €m
Cash flows from operating activities	**66**	40
Cash flows from investing activities	**(16)**	(45)
Cash flows from financing activities	**(51)**	3
Net decrease in cash and cash equivalents	**(1)**	(2)
Dividends paid to non-controlling interest during the year[1]	**3**	3

1 Included in cash flows from financing activities.

Alternative Performance Measures

Certain financial measures set out below, are not defined under IFRS. These Alternative Performance Measures ('APMs') are presented because we believe that they, and similar measures, are widely used in the paper and packaging manufacturing industry as a means of evaluating a company's operating performance and financing structure.

These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered as substitutes for the information contained in our Financial Statements. These APMs have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our operating income or cash flows as reported under IFRS.

The principal APMs used by the Group, together with reconciliations where the non-IFRS measures are not readily identifiable from the 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 (loss)/profit to EBITDA is included below:

Reconciliation of (Loss)/Profit to EBITDA

	2018 €m	2017 €m
(Loss)/profit for the financial year	**(639)**	423
Income tax expense (after exceptional items)	**235**	153
Deconsolidation of Venezuela	**1,270**	–
Exceptional items charged in operating profit	**66**	23
Net finance costs (after exceptional items)	**173**	221
Share-based payment expense	**24**	24
Depreciation, depletion (net) and amortisation	**416**	396
EBITDA	**1,545**	1,240

EBITDA MARGIN TO REVENUE

Definition

EBITDA margin is a measure of profitability by taking our EBITDA divided by revenue.

	2018 €m	2017 €m
EBITDA	**1,545**	1,240
Revenue	**8,946**	8,562
EBITDA margin to revenue	**17.3%**	14.5%

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 a company's operating and financial performance.

	2018 €m	2017 €m
Borrowings (see Note 23)	**3,539**	3,344
Less:		
Restricted cash	**(10)**	(9)
Cash and cash equivalents	**(407)**	(530)
Net Debt	**3,122**	2,805

NET DEBT TO EBITDA

Definition

Leverage (ratio of net debt to EBITDA) is an important measure of our overall financial position.

	2018 €m	2017 €m
Net Debt	**3,122**	2,805
EBITDA	**1,545**	1,240
Net debt to EBITDA (times)	**2.0**	2.3

FREE CASH FLOW ('FCF')

Definition

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

The summary cash flow is prepared on a different basis to the 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 to 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 Free cash flow reconciles to cash generated from operations in the IFRS cash flow as shown in the table below. The main adjustments are in respect of cash interest, capital expenditure, tax payments and the sale of 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 is shown separately in the IFRS cash flow. It also includes capitalised leased 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.

A reconciliation of free cash flow (APM) to cash generated from operations (IFRS measure) is included below.

Reconciliation of Free Cash Flow to Cash Generated from Operations

		2018 €m	2017 €m
Free cash flow		**494**	307
Add back:	Cash interest	**155**	158
	Capital expenditure (net of change in capital creditors)	**561**	458
	Tax payments	**193**	154
Less:	Sale of property, plant and equipment	**(4)**	(5)
	Profit on sale of property, plant and equipment – non-exceptional	**(3)**	(9)
	Receipt of capital grants (in 'Other' in summary cash flow)	**(2)**	(4)
	Dividends received from associates (in 'Other' in summary cash flow)	**–**	(1)
	Non-cash financing activities	**(1)**	–
Cash generated from operations		**1,393**	1,058

RETURN ON CAPITAL EMPLOYED ('ROCE')

Definition

ROCE is an effective measure of ensuring that we are generating profit from the capital employed. It is calculated as pre-exceptional operating profit plus share of associates' profit (after tax) 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 year).

	2018 €m	2017 €m
Pre-exceptional operating profit plus share of associates' profit (after tax)	**1,105**	820
Total equity – current year end	**2,890**	2,659
Net debt – current year end	**3,122**	2,805
Capital employed – current year end	**6,012**	5,464
Total equity – prior year end	**2,659**	2,503
Net debt – prior year end	**2,805**	2,941
Capital employed – prior year end	**5,464**	5,444
Average capital employed	**5,738**	5,454
Return on capital employed	**19.3%**	15.0%

PRE-EXCEPTIONAL EARNINGS PER SHARE ('EPS')

Definition

Pre-exceptional EPS serves as an effective indicator of a company's profitability as it excludes exceptional one-off items and, in conjunction with other metrics such as ROCE, is a measure of the company's financial strength. Given the fundamental repositioning of the Group through debt pay down and interest savings and, consequently, earnings growth and lower leverage, pre-exceptional EPS is an important measure for the Group. Pre-exceptional 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 EPS is shown in Note 9 to the Consolidated Financial Statements.

Shareholder Information

CREST

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

ORDINARY SHAREHOLDINGS

On 31 December 2018, the ordinary shares of the Company in issue were held as follows:

Number of shares	Number of shareholders	% of total	Number of shares held '000	% of total
1 – 1,000	1,369	44.7	504	0.2
1,001 – 5,000	624	20.4	1,500	0.6
5,001 – 10,000	242	7.9	1,790	0.8
10,001 – 100,000	540	17.6	18,298	7.7
100,001 – 500,000	196	6.4	42,922	18.1
Over 500,000	94	3.0	172,199	72.6
Total	3,065	100.0	237,213	100.0

STOCK EXCHANGE LISTINGS

The Company's shares are listed on the following exchanges:

Exchange	Type	City	Symbol
LSE	Primary	London	SKG
Euronext Dublin (formerly ISE)	Secondary	Dublin	SK3

FINANCIAL CALENDAR

AGM	3 May 2019
Interim results announcement	31 July 2019

WEBSITE

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

REGISTRARS

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

Link Asset Services,
Link Registrars Limited,
P.O. Box 1110,
Maynooth, Co. Kildare
Tel: +353 (0)1 553 0050
Fax: +353 (0)1 224 0700
enquiries@linkgroup.ie
www.signalshares.com

CREST PROXY VOTING

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

Notes

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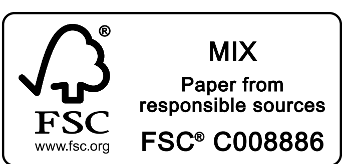

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