Open the future

Smurfit Kappa

PRESS RELEASE

31 July: Smurfit Kappa Group plc ('SKG' or 'the Group') today announced results for the 6 months ending 30 June 2019.

2019 First Half | Key Financial Performance Measures

€m	H1 2019	H1 2018	Change
Revenue	€4,622	€4,428	4%
EBITDA [1]	€847	€724	17%
EBITDA Margin [1]	18.3%	16.4%	
Operating Profit before Exceptional Items	€558	€529	5%
Profit before Income Tax	€456	€416	9%
Basic EPS (cent)	140.6	124.5	13%
Pre-exceptional Basic EPS (cent) [1]	141.6	140.7	1%
Free Cash Flow [1]	€159	€148	8%
Return on Capital Employed [1]	18.7%	18.1%	
Net Debt [1]	€3,751	€2,871	
Net Debt to EBITDA (LTM) [1]	2.2x	2.1x	

Key Points

- Revenue growth of over 4%
- EBITDA of €847 million, up 17%, with a margin of 18.3%
- ROCE of 18.7%
- €190 million of acquisitions in Bulgaria, Colombia and Serbia
- Interim dividend increased by 10% to 27.9 cent per share

Performance Review and Outlook
Tony Smurfit, Group CEO, commented:

"I am pleased to report, for the first half of 2019, another set of excellent results. Revenue grew by 4% with EBITDA increasing to €847 million, up 17% on the prior year. The continued execution of our Medium-Term Plan together with our resilient business model allows us to continue to progress and deliver consistently excellent performance.

"During the first six months, our European business continued to perform strongly, delivering an increased EBITDA margin of 19.3%, up from 17.3% in the same period in 2018. Box volumes grew by approximately 2% on an organic basis, or 4% when including acquisitions.

[1] Additional information in relation to these Alternative Performance Measures ('APMs') is set out in Supplementary Financial Information on page 35.

“The Americas region continued to perform well, delivering an increased EBITDA margin of 17.1% up from 15.2% in the first half of 2018. Volumes grew by 3% in the first half. The region had especially strong performances in our larger markets of Colombia, Mexico and the US.

“We continue to work with our existing customer base, and indeed our new customers, in solving their many business challenges. This includes finding alternatives to less sustainable packaging, helping drive increased sales using paper-based packaging as a merchandising medium, and reducing complexity and costs in their supply chain by leveraging our unique SMART applications.

“In May, the Group hosted over 350 customers from across the globe at its biennial innovation event in the Netherlands. The event highlighted both the sustainability challenges we all face and how Smurfit Kappa’s expertise is part of the solution. We expect our Better Planet Packaging initiative to be a source of future incremental demand.

“During the first half, the Group continued to expand and strengthen its geographic footprint with acquisitions in Bulgaria, Colombia and Serbia and we are excited about the opportunities these additions present.

“The Group understands that the Italian Competition Authority will shortly release the outcome of its work in relation to approximately 50 market participants in Italy, including one of the Group’s Italian subsidiaries. We await the outcome of its work and will update accordingly.

“In February 2018, we outlined our four year Medium-Term Plan. We have completed a number of projects across our corrugated and containerboard business since its announcement. With the acquisition of Reparenco in July 2018, we accelerated a central part of the plan linked to our integrated model and secured our paper supply for future growth opportunities. Our plan remains flexible and agile and is the foundation for our current and future performance. The qualities of Smurfit Kappa continue to be evident, not alone in terms of our performance but in our world class containerboard system, leadership in sustainable packaging, customer-focused innovation and disciplined, returns focused, capital allocation.

“While macro-economic and political risks remain, SKG continues to be highly confident of another year of progress and delivery.

“Reflecting this and the future prospects of the business the Board is recommending a 10% increase in the interim dividend to 27.9 cent per share.”

About Smurfit Kappa

Smurfit Kappa, a FTSE 100 company, is one of the leading providers of paper-based packaging solutions in the world, with around 46,000 employees in over 350 production sites across 35 countries and with revenue of €8.9 billion in 2018. We are located in 23 countries in Europe, and 12 in the Americas. We are the only large-scale pan-regional player in Latin America.

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

Our products, which are 100% renewable and produced sustainably, improve the environmental footprint of our customers.

smurfitkappa.com

Check out our microsite*:* openthefuture.info
Follow us on Twitter at @smurfitkappa and on LinkedIn at 'Smurfit Kappa'.

Forward Looking Statements

Some statements in this announcement are forward-looking. They represent expectations for the Group's business, and involve risks and uncertainties. These forward-looking statements are based on current expectations and projections about future events. The Group believes that current expectations and assumptions with respect to these forward-looking statements are reasonable. However, because they involve known and unknown risks, uncertainties and other factors, which are in some cases beyond the Group's control, actual results or performance may differ materially from those expressed or implied by such forward-looking statements.

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2019 First Half | Performance Overview

The Group reported EBITDA for the first half of €847 million, 17% up on the same period in 2018, a record performance for the Group.

The Group EBITDA margin was 18.3%, up from 16.4% in the first half of 2018. The result reflects the resilience of the Group's integrated model, the benefits of our capital spend programme, volume growth, higher corrugated pricing, lower recovered fibre costs and the impact of IFRS 16, *Leases*.

In Europe for the first half, EBITDA increased by €101 million or 17% to €688 million. The EBITDA margin was 19.3%, up from 17.3% in the first half of 2018. The benefits of the prior years' capital investments, organic box volume growth of approximately 2%, higher corrugated prices, the benefits of acquisitions, the impact of IFRS 16 and lower recovered fibre costs all contributed to the strong result.

The price of recovered fibre in our European business was 9% lower year-on-year for the first half, contributing €25 million towards the European result.

European pricing for testliner and kraftliner has reduced by €120 per tonne and €140 per tonne respectively from the high of October 2018, and have shown signs of stabilisation in recent months.

During the first half of 2019, the Group completed acquisitions in Serbia and Bulgaria, a further step in its South Eastern European strategy. The integration of these assets into the Smurfit Kappa system is progressing well.

In the Americas for the first half, EBITDA increased 14% on the same period last year to €179 million. The EBITDA margin also improved, from 15.2% in the first half of 2018 to 17.1% in the first half of 2019. 85% of the region's earnings were delivered by Colombia, Mexico and the US with strong year-on-year performances in all three countries.

The benefit of lower recovered fibre costs in the Americas for the first half was approximately €7 million.

In Colombia, volumes were up 9% for the year driven by high growth in the FMCG sector along with the agriculture and flower markets. In June, the Group announced the successful tender offer to acquire the minority shares in Cartón de Colombia S.A.. The consideration payable under the Tender Offer amounted to approximately €81 million.

In Mexico, we saw continued improvement on both an EBITDA and EBITDA margin basis as well as continued volume growth. The growth of e-commerce, the increasing focus on sustainable packaging solutions, together with the Group's ability to provide a unique Pan-American sales offering have continued to drive demand in our Mexican business.

In the US, our margins continued progressing year-on-year in the first half due to the strong mill performance and the benefit of lower recovered fibre costs.

The Group reported free cash flow of €159 million in the first half of 2019 compared to €148 million in the same period of 2018. In January 2019, the Group successfully priced a €400 million add-on offering to the June 2018 bond issue at a price of 100.75% giving a yield of 2.756%. Also in January 2019, the Group signed and completed a new 5 year €1,350 million revolving credit facility ('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. The average maturity profile of the Group's debt (including the effect of our latest financing activity) now stands at 4.2 years with an average interest rate of 3.78%. Net debt to EBITDA was 2.2x at the half year, with the Group's net debt impacted by IFRS 16 and the Group's acquisition activity. The Group remains well positioned within its Ba1/BB+/BB+ credit rating.

2019 First Half | Financial Performance

Revenue for the first half was €4,622 million, up approximately 4% on the same period last year, on a reported and underlying[2] basis, reflecting the benefits of higher prices and volume growth.

EBITDA for the first half was €847 million, €123 million ahead of the same period in 2018. While the positive impact of IFRS 16 accounted for €44 million of the increase, earnings were also higher in both Europe and the Americas.

Operating profit before exceptional items in the first half of 2019 at €558 million was 5% or €29 million higher than the €529 million for the same period in 2018.

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

Exceptional items charged within operating profit in the first half of 2018 amounted to €31 million relating to the defence from the unsolicited approach by International Paper and a loss on the disposal of our Baden operations in Germany.

Exceptional finance costs charged in the first half of 2019 amounted to €3 million reflecting the accelerated amortisation of the debt issue costs relating to the refinancing of the senior credit facility.

Exceptional finance costs charged in the six months to June 2018 amounted to €6 million, including €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.

Pre-exceptional net finance costs at €100 million were €23 million higher in 2019 primarily as a result of an increase in non-cash costs of €16 million reflecting a negative swing from a currency translation gain of €23 million in 2018 to a small loss in 2019. Cash interest was €7 million higher year-on-year mainly as a result of the interest now recognised in respect of IFRS 16.

With the €29 million increase in pre-exceptional operating profit, partly offset by the €23 million increase in net finance costs, the pre-exceptional profit before income tax of €459 million was €6 million higher than in 2018.

After exceptional finance costs of €3 million, the profit before tax in the first six months of 2019 was €456 million compared to a profit of €416 million in 2018. The income tax expense was €118 million compared to €121 million in 2018, resulting in a profit of €338 million for the half year compared to €295 million in 2018.

Basic EPS for the first half of 2019 was 140.6 cent, compared to 124.5 cent earned in the same period of 2018. On a pre-exceptional basis, EPS was 141.6 cent in the first half, 1% higher than the 140.7 cent in the first half of 2018.

2019 First Half | Free Cash Flow

Free cash flow in the first half was €159 million compared to €148 million in the first half of 2018. EBITDA growth of €123 million and the absence of the exceptional outflow of €17 million, were partly offset by higher outflows for capital expenditure, working capital and other items.

Working capital amounted to €905 million at June 2019, representing 9.8% of annualised revenue compared to 9.4% at March 2019 and 7.5% at December 2018. Working capital increased by €222 million in the half year, representing principally the net cash outflow of €169 million, the reduction in capital creditors of €34 million and working capital acquired of €13 million.

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[2] Underlying in relation to financial measures throughout this report excludes acquisitions, disposals, currency and hyperinflation movements where applicable

Capital expenditure in 2019 amounted to €272 million (equating to 103% of depreciation) compared to €205 million (equating to 111%) in 2018. Excluding the impact of leases, capital expenditure was €257 million and represented 115% of depreciation.

Cash interest was €82 million in the first half of 2019. Cash interest in 2018 was €81 million but included exceptional finance costs of €6 million. Excluding these amounts, our cash interest amounted to €75 million in 2018. The year-on-year increase mainly reflects the interest now recognised in respect of IFRS 16.

Tax payments in the first half of €92 million were €3 million higher than in 2018.

2019 First Half | Capital Structure

Net debt was €3,751 million at the end of June, resulting in a net debt to EBITDA ratio of 2.2x compared to 2.0x at the end of December 2018 and 2.1x at the end of June 2018. Our leverage at June 2019 was negatively impacted by IFRS 16 with the Group's net debt increasing by €338 million. The Group's balance sheet continues to provide considerable financial strategic flexibility, subject to the stated leverage range of 1.75x to 2.5x through the cycle and SKG's Ba1/BB+/BB+ credit rating.

At 30 June 2019 the Group's average interest rate was 3.78% compared to 3.63% at 31 December 2018. The Group's diversified funding base and long dated maturity profile of 4.2 years provide a stable funding outlook. In terms of liquidity, the Group held cash balances of €247 million at the end of June, which was further supplemented by available commitments under its new RCF of approximately €1,132 million.

Dividends

The Board will increase the 2019 interim dividend by 10% to 27.9 cent per share. It is proposed to pay the interim dividend on 25 October 2019 to shareholders registered at the close of business on 27 September 2019.

2019 First Half | Sustainability

In May, the Group launched its 12th annual sustainability report. An ambitious new set of sustainability goals was unveiled having met or exceeded previous targets ahead of their 2020 deadline. Smurfit Kappa continues to have a long-term commitment to making real and measurable progress against its five strategic sustainability priorities of forest, climate change, water, waste and people.

This report is evidence of our industry-leading transparency and demonstrates how Smurfit Kappa is making progress in supporting the UN's 2030 Sustainability Development Goals. For Smurfit Kappa, sustainability is not only about mitigating climate change and reducing inefficiency. For packaging to be truly sustainable, it must be produced and designed in a sustainable fashion and be biodegradable within a relatively short time. Paper-based packaging is uniquely positioned to do this.

Smurfit Kappa continues to be listed on the FTSE4Good, Euronext Vigeo Europe 120, STOXX Global ESG Leaders and Ethibel's sustainable investment register. SKG also performs strongly across a variety of third party cerification bodies, including MSCI, Sustainalytics and EcoVadis.

2019 First Half | Commercial Offering and Innovation

The Group continues to progress its industry leading 'Better Planet Packaging' initiative, which seeks to reduce packaging waste by creating more sustainable packaging solutions through design, innovation and recycling capabilities. The intensity of customer and broader industry interest in this Smurfit Kappa initiative was best highlighted at our biennial innovation event in May of this year when the Group hosted over 350 customers from across the globe and from a diverse array of businesses and functional responsibility. Attendees heard how a change in packaging design and a move to more sustainable packaging materials like corrugated packaging can help them to meet their own sustainability commitments.

Our innovation event was an industry-leading response to our customer's request for help in moving away from less sustainable packaging materials. The commercial pipeline in Smurfit Kappa has grown considerably on the back of this and we expect it to be a driver of incremental demand.

In the first six months of 2019, the Group's leadership in innovation was recognised with 44 national or international awards for packaging innovation, sustainability, design and print. The Group's operations were awarded in Belgium, Colombia, the Czech Republic, Ireland, Mexico, the Netherlands, Russia, and the UK.

The winning of two awards at the annual European e-Logistics 'Deliver' conference in Lisbon was particularly pleasing as there were only five awards given, with SKG securing the 'Cool Vendor' and 'Sustainability' awards.

In the Americas, SKG was awarded the 'Transforming Innovation' award from Kellogg's which recognised suppliers from Canada through to Brazil and the award itself reflected the work done by Smurfit Kappa to identify a sustainable and innovative packaging solution requiring fewer cases during transportation.

2019 First Half | Medium-Term Plan

To date, over €600 million of capital projects has been approved under the Medium-Term Plan. This includes 15 case-makers, 20 die-cutters for the creation of complex designs, seven printers and the upgrade of 13 of our corrugators to bring them up to the standards expected by Smurfit Kappa, as well as multiple paper related debottlenecking projects. The plan is being implemented in a controlled, disciplined manner. The agile nature of the plan has been demonstrated with the acquisition of Reparenco, replacing the need for the construction of paper capacity in Europe with reduced risk and immediate earnings, while future proofing the Group's European containerboard requirements.

Summary Cash Flow

Summary cash flows for the six months are set out in the following table.

	6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
EBITDA	**847**	724
Exceptional items	**-**	(17)
Cash interest expense	**(82)**	(81)
Working capital change	**(169)**	(149)
Current provisions	**(17)**	(3)
Capital expenditure	**(272)**	(205)
Change in capital creditors	**(34)**	(26)
Tax paid	**(92)**	(89)
Sale of property, plant and equipment	**2**	-
Other	**(24)**	(6)
Free cash flow	**159**	148
Purchase of own shares (net)	**(25)**	(10)
Sale of businesses and investments	**-**	(11)
Purchase of businesses and investments	**(204)**	(16)
Dividends	**(175)**	(155)
Derivative termination receipts	**-**	17
Net cash outflow	**(245)**	(27)
Net debt acquired	**(4)**	-
Adjustment on initial application of IFRS 16	**(361)**	-
Deferred debt issue costs amortised	**(7)**	(5)
Currency translation adjustment	**(12)**	(34)
Increase in net debt	**(629)**	(66)

Funding and Liquidity

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

At 30 June 2019, Smurfit Kappa Treasury Funding Limited had outstanding US$292.3 million 7.50% senior debentures due 2025. The Group had outstanding €120 million variable funding notes issued under the €230 million accounts receivable securitisation programme maturing in June 2023, together with €5 million variable funding notes issued under the €200 million accounts receivable securitisation programme maturing in February 2022.

Smurfit Kappa Acquisitions had outstanding €400 million 4.125% senior notes due 2020, €250 million senior floating rate 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 and €1,000 million 2.875% senior notes due 2026. Smurfit Kappa Treasury is also party to a €1,350 million RCF maturing in 2024. At 30 June 2019, the Group's drawings on this facility comprised of €124 million, US$23.6 million and STG£60 million, with a further €6 million drawn in operational facilities including letters of credit drawn under various ancillary facilities.

Funding and Liquidity (continued)

The following table provides the interest rates at 30 June 2019 for each of the drawings under the RCF loans:

Borrowing Arrangement	Currency	Interest Rate
Revolving Credit Facility	EUR	0.900%
	USD	3.294%
	GBP	1.627%

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

In January 2019, the Group successfully priced a €400 million add-on offering to the June 2018 €600 million 2.875% bond issue at a price of 100.75 giving a yield of 2.756%. Also, in January 2019, the Group signed and completed the new 5-year €1,350 million RCF. This new RCF refinanced the Group’s existing senior credit facility which was due to mature in March 2020.

Market Risk and Risk Management Policies

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. As at 30 June 2019, the Group had fixed an average of 82% of its interest cost on borrowings over the following twelve months.

The Group’s fixed rate debt comprised €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 €1,000 million 2.875% senior notes due 2026. In addition, the Group had €174 million in interest rate swaps converting variable rate borrowings to fixed rate with maturity dates ranging from October 2020 to January 2021.

The Group’s earnings are affected by changes in short-term interest rates as a result of its floating rate borrowings. If LIBOR/EURIBOR interest rates for these borrowings increased by one percent, the Group’s interest expense would increase, and income before taxes would decrease, by approximately €8 million over the following twelve months. Interest income on the Group’s cash balances would increase by approximately €2 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

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

Principal Risks and Uncertainties

Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified, evaluated and appropriate risk management strategies are implemented at each level.

The Board in conjunction with senior management identifies major business risks faced by the Group and determines the appropriate course of action to manage these risks.

The principal risks and uncertainties faced by the Group were outlined in our 2018 Annual Report on pages 32-35. The Annual Report is available on our website smurfitkappa.com. The principal risks and uncertainties for the remaining six months of the financial year are summarised below.

- If the current economic climate were to deteriorate, especially as a result of Brexit or changes in free trade agreements, and result in an 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 the operations.
- The cyclical nature of the packaging industry could result in overcapacity and consequently threaten the Group's pricing structure.
- If operations at any of the Group's facilities (in particular its key mills) were interrupted for any significant length of time it could adversely affect the Group's financial position and results of operations.
- Price fluctuations in raw materials and energy costs could adversely affect the Group's manufacturing costs.
- The Group is exposed to currency exchange rate fluctuations.
- The Group may not be able to attract and retain suitably qualified employees as required for its business.
- Failure to maintain good health and safety practices may have an adverse effect on the Group's business.
- The Group is subject to a growing number of environmental laws and regulations, and the cost of compliance or the failure to comply with current and future laws and regulations may negatively affect the Group's business.
- The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates.
- The Group, similar to other large global companies, is susceptible to cyber-attacks with the threat to the confidentiality, integrity and availability of data in its systems.

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

Condensed Consolidated Income Statement – Six Months

	6 months to 30-Jun-19 Unaudited			6 months to 30-Jun-18 Unaudited		
	Pre-exceptional 2019	**Exceptional 2019**	**Total 2019**	Pre-exceptional 2018	Exceptional 2018	Total 2018
	€m	**€m**	**€m**	€m	€m	€m
Revenue	**4,622**	**-**	**4,622**	4,428	-	4,428
Cost of sales	**(3,089)**	**-**	**(3,089)**	(2,984)	-	(2,984)
Gross profit	**1,533**	**-**	**1,533**	1,444	-	1,444
Distribution costs	**(363)**	**-**	**(363)**	(351)	-	(351)
Administrative expenses	**(612)**	**-**	**(612)**	(564)	-	(564)
Other operating expenses	**-**	**-**	**-**	-	(31)	(31)
Operating profit	**558**	**-**	**558**	529	(31)	498
Finance costs	**(107)**	**(3)**	**(110)**	(115)	(6)	(121)
Finance income	**7**	**-**	**7**	38	-	38
Share of associates' profit (after tax)	**1**	**-**	**1**	1	-	1
Profit before income tax	**459**	**(3)**	**456**	453	(37)	416
Income tax expense			**(118)**			(121)
Profit for the financial period			**338**			295
Attributable to:						
Owners of the parent			**332**			294
Non-controlling interests			**6**			1
Profit for the financial period			**338**			295
Earnings per share						
Basic earnings per share - cent			**140.6**			124.5
Diluted earnings per share - cent			**139.8**			123.8

Condensed Consolidated Statement of Comprehensive Income – Six Months

	6 months to 30-Jun-19 Unaudited €m	6 months to 30-Jun-18 Unaudited €m
Profit for the financial period	**338**	295
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Foreign currency translation adjustments:		
- Arising in the period	**4**	(178)
Effective portion of changes in fair value of cash flow hedges:		
- Movement out of reserve	**4**	7
- New fair value adjustments into reserve	**-**	(16)
- Movement in hedging reserve	**(1)**	-
Changes in fair value of cost of hedging:		
- Movement out of reserve	**-**	(1)
- New fair value adjustments into reserve	**(1)**	2
	6	(186)
Items which will not be subsequently reclassified to profit or loss		
Defined benefit pension plans:		
- Actuarial loss	**(78)**	(35)
- Movement in deferred tax	**9**	6
	(69)	(29)
Total other comprehensive expense	**(63)**	(215)
Total comprehensive income for the financial period	**275**	80
Attributable to:		
Owners of the parent	**268**	88
Non-controlling interests	**7**	(8)
Total comprehensive income for the financial period	**275**	80

Condensed Consolidated Balance Sheet

	30-Jun-19 Unaudited €m	30-Jun-18 Unaudited €m	31-Dec-18 Audited €m
ASSETS			
Non-current assets			
Property, plant and equipment	**4,055**	3,159	3,613
Goodwill and intangible assets	**2,672**	2,382	2,590
Other investments	**21**	21	20
Investment in associates	**15**	14	14
Biological assets	**103**	118	100
Other receivables	**36**	35	40
Derivative financial instruments	**4**	9	8
Deferred income tax assets	**149**	128	153
	7,055	5,866	6,538
Current assets			
Inventories	**856**	819	847
Biological assets	**11**	12	11
Trade and other receivables	**1,845**	1,789	1,667
Derivative financial instruments	**11**	10	13
Restricted cash	**13**	15	10
Cash and cash equivalents	**234**	1,051	407
	2,970	3,696	2,955
Total assets	**10,025**	9,562	9,493
EQUITY			
Capital and reserves attributable to owners of the parent			
Equity share capital	**-**	-	-
Share premium	**1,984**	1,984	1,984
Other reserves	**331**	(855)	355
Retained earnings	**549**	1,352	420
Total equity attributable to owners of the parent	**2,864**	2,481	2,759
Non-controlling interests	**38**	147	131
Total equity	**2,902**	2,628	2,890
LIABILITIES			
Non-current liabilities			
Borrowings	**3,393**	3,749	3,372
Employee benefits	**865**	841	804
Derivative financial instruments	**13**	26	17
Deferred income tax liabilities	**164**	81	173
Non-current income tax liabilities	**39**	39	36
Provisions for liabilities	**98**	52	47
Capital grants	**18**	17	18
Other payables	**16**	15	14
	4,606	4,820	4,481
Current liabilities			
Borrowings	**605**	188	167
Trade and other payables	**1,832**	1,859	1,871
Current income tax liabilities	**41**	31	24
Derivative financial instruments	**12**	19	10
Provisions for liabilities	**27**	17	50
	2,517	2,114	2,122
Total liabilities	**7,123**	6,934	6,603
Total equity and liabilities	**10,025**	9,562	9,493

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent						
	Equity share capital €m	Share premium €m	Other reserves €m	Retained earnings €m	Total €m	Non-controlling interests €m	Total equity €m
Unaudited							
At 31 December 2018	**-**	**1,984**	**355**	**420**	**2,759**	**131**	**2,890**
Adjustment on initial application of IFRS 16 (net of tax) (Note 3)	**-**	**-**	**-**	**(21)**	**(21)**	**-**	**(21)**
At 1 January 2019	**-**	**1,984**	**355**	**399**	**2,738**	**131**	**2,869**
Profit for the financial period	**-**	**-**	**-**	**332**	**332**	**6**	**338**
Other comprehensive income							
Foreign currency translation adjustments	**-**	**-**	**3**	**-**	**3**	**1**	**4**
Defined benefit pension plans	**-**	**-**	**-**	**(69)**	**(69)**	**-**	**(69)**
Effective portion of changes in fair value of cash flow hedges	**-**	**-**	**3**	**-**	**3**	**-**	**3**
Changes in fair value of cost of hedging	**-**	**-**	**(1)**	**-**	**(1)**	**-**	**(1)**
Total comprehensive income for the financial period	**-**	**-**	**5**	**263**	**268**	**7**	**275**
Purchase of non-controlling interests	**-**	**-**	**(29)**	**45**	**16**	**(97)**	**(81)**
Hyperinflation adjustment	**-**	**-**	**-**	**14**	**14**	**-**	**14**
Dividends paid	**-**	**-**	**-**	**(172)**	**(172)**	**(3)**	**(175)**
Share-based payment	**-**	**-**	**25**	**-**	**25**	**-**	**25**
Net Shares acquired by SKG Employee Trust	**-**	**-**	**(25)**	**-**	**(25)**	**-**	**(25)**
At 30 June 2019	**-**	**1,984**	**331**	**549**	**2,864**	**38**	**2,902**
Unaudited							
At 1 January 2018	-	1,984	(678)	1,202	2,508	151	2,659
Profit for the financial period	-	-	-	294	294	1	295
Other comprehensive income							
Foreign currency translation adjustments	-	-	(169)	-	(169)	(9)	(178)
Defined benefit pension plans	-	-	-	(29)	(29)	-	(29)
Effective portion of changes in fair value of cash flow hedges	-	-	(9)	-	(9)	-	(9)
Changes in fair value of cost of hedging	-	-	1	-	1	-	1
Total comprehensive (expense)/income for the financial period	-	-	(177)	265	88	(8)	80
Purchase of non-controlling interests	-	-	-	(5)	(5)	(3)	(8)
Hyperinflation adjustment	-	-	-	43	43	9	52
Dividends paid	-	-	-	(153)	(153)	(2)	(155)
Share-based payment	-	-	10	-	10	-	10
Net Shares acquired by SKG Employee Trust	-	-	(10)	-	(10)	-	(10)
At 30 June 2018	-	1,984	(855)	1,352	2,481	147	2,628

An analysis of the movements in Other reserves is provided in Note 14.

Condensed Consolidated Statement of Cash Flows

	6 months to 30-Jun-19 Unaudited €m	6 months to 30-Jun-18 Unaudited €m
Cash flows from operating activities		
Profit before income tax	**456**	416
Net finance costs	**103**	83
Depreciation charge	**238**	177
Amortisation of intangible assets	**21**	18
Amortisation of capital grants	**(1)**	(1)
Equity settled share-based payment expense	**25**	10
(Profit)/loss on sale/purchase of assets and businesses	**(2)**	13
Share of associates' profit (after tax)	**(1)**	(1)
Net movement in working capital	**(169)**	(152)
Change in biological assets	**5**	(10)
Change in employee benefits and other provisions	**(44)**	(27)
Other (primarily hyperinflation adjustments)	**3**	18
Cash generated from operations	**634**	544
Interest paid	**(98)**	(100)
Income taxes paid:		
Irish corporation tax paid	**(7)**	(7)
Overseas corporation tax (net of tax refunds) paid	**(85)**	(82)
Net cash inflow from operating activities	**444**	355
Cash flows from investing activities		
Interest received	**2**	2
Business disposals	**-**	(11)
Additions to property, plant and equipment and biological assets	**(282)**	(219)
Additions to intangible assets	**(8)**	(12)
Receipt of capital grants	**1**	1
Increase in restricted cash	**(3)**	(6)
Disposal of property, plant and equipment	**4**	1
Purchase of subsidiaries	**(99)**	-
Deferred consideration paid	**(14)**	-
Net cash outflow from investing activities	**(399)**	(244)
Cash flows from financing activities		
Proceeds from bond issue	**403**	600
Proceeds from issue of other debt	**417**	-
Purchase of own shares (net)	**(25)**	(10)
Purchase of non-controlling interests	**(81)**	(16)
Repayment of borrowings	**(399)**	(526)
(Decrease)/increase in other interest-bearing borrowings	**(306)**	533
Repayment of lease liabilities (2018: repayment of finance lease liabilities)	**(39)**	(2)
Derivative termination receipts	**-**	17
Deferred debt issue costs paid	**(13)**	(6)
Dividends paid to shareholders	**(172)**	(153)
Dividends paid to non-controlling interests	**(3)**	(2)
Net cash (outflow)/inflow from financing activities	**(218)**	435
(Decrease)/increase in cash and cash equivalents	**(173)**	546
Reconciliation of opening to closing cash and cash equivalents		
Cash and cash equivalents at 1 January	**390**	503
Currency translation adjustment	**(5)**	(20)
(Decrease)/increase in cash and cash equivalents	**(173)**	546
Cash and cash equivalents at 30 June	**212**	1,029

An analysis of the Net movement in working capital is provided in Note 12.

Notes to the Condensed Consolidated Interim Financial Statements

1. General Information

Smurfit Kappa Group plc ('SKG plc' or 'the Company') and its subsidiaries (together 'SKG' or 'the Group') 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.

2. Basis of Preparation and Accounting Policies

Basis of preparation and accounting policies
The condensed consolidated interim financial statements included in this report have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with IAS 34, *Interim Financial Reporting* as adopted by the European Union. The balance sheet as at 30 June 2018 has been included in this report; this information is supplementary and not required by IAS 34. This report should be read in conjunction with the consolidated financial statements for the year ended 31 December 2018 included in the Group's 2018 Annual Report which is available on the Group's website; smurfitkappa.com.

The accounting policies and methods of computation and presentation adopted in the preparation of the condensed consolidated interim financial statements are consistent with those described and applied in the Annual Report for the financial year ended 31 December 2018 with the exception of IFRS 16, *Leases.* The impact of the adoption of IFRS 16 and the new accounting policies are disclosed in Note 3 *Changes in Significant Accounting Policies*. A number of other changes to IFRS became effective in 2019, however they did not have a material effect on the condensed consolidated interim financial statements included in this report.

Going concern
The Group is a highly integrated manufacturer of paper-based packaging products with leading market positions, quality assets and broad geographic reach. The financial position of the Group, its cash generation, capital resources and liquidity continue to provide a stable financing platform. Having assessed the principal risks facing the Group, the Directors believe that the Group is well placed to manage these risks successfully and have a reasonable expectation that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

Statutory financial statements and audit opinion
The Group's auditors have not audited or reviewed the condensed consolidated interim financial statements contained in this report.

The condensed consolidated interim financial statements presented do not constitute full statutory financial statements. Full statutory financial statements for the year ended 31 December 2018 will be filed with the Irish Registrar of Companies in due course. The audit report on those statutory financial statements was unqualified.

3. Changes in Significant Accounting Policies

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.

The Group has adopted IFRS 16 using the modified retrospective approach, with the date of initial application of 1 January 2019. Under this method, the impact of the standard is calculated retrospectively, however, the cumulative effect arising from the new leasing rules is recognised in the opening balance sheet at the date of initial application. Accordingly, the comparative information presented for 2018 has not been restated.

3. Changes in Significant Accounting Policies (continued)

The Group's leasing activities and how these are accounted for
The Group leases a range of assets including property, plant and equipment and vehicles.

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

The Group presents right-of-use assets in 'property, plant and equipment', in the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

	Land and buildings	Plant and equipment	Total
	€m	€m	€m
At 1 January 2019	255	95	350
At 30 June 2019	**240**	**91**	**331**

The Group presents lease liabilities in 'borrowings' in the balance sheet. The carrying amounts of lease liabilities are as below.

	Current lease liabilities	Non-current lease liabilities	Total
	€m	€m	€m
At 1 January 2019	73	307	380
At 30 June 2019	**74**	**288**	**362**

Significant accounting policies

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

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

3. Changes in Significant Accounting Policies (continued)

The lease liability is initially measured at the present value of certain lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. The Group has elected to avail of the practical expedient not to separate lease components from any associated non-lease components.

The lease payments are discounted using the lessee’s incremental borrowing rate as the interest rate implicit in the lease is generally not readily determinable.

After the commencement date, the lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

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

Significant accounting judgements
The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

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

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the lessee’s incremental borrowing rate as at 1 January 2019. Right-of-use assets were measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee’s incremental borrowing rate at the date of initial application – the Group applied this approach for certain property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other leases.

3. Changes in Significant Accounting Policies (continued)

The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Relied on its assessment of whether leases are onerous under IAS 37 immediately before the date of initial application to meet the impairment requirement.

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

Impacts on financial statements

Impacts on transition

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

	1 January 2019
	€m
Right-of-use assets presented in property, plant and equipment	**331**
Deferred tax asset	**4**
Provisions for liabilities	**(5)**
Lease liabilities	**361**
Retained earnings	**(21)**

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

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

	€m
Operating lease commitments at 31 December 2018	**332**
Add:	
Extension options reasonably certain to be exercised	71
Non-lease components	23
Less:	
Commitments relating to short-term and low-value leases	(1)
Total future lease payments	425
Effect of discounting	(64)
Finance lease liabilities recognised at 31 December 2018	19
Lease liabilities at 1 January 2019	**380**

3. Changes in Significant Accounting Policies (continued)

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised €307 million of right-of-use assets and €338 million of lease liabilities at 30 June 2019.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs instead of an operating lease expense. During the six months ended 30 June 2019, the Group recognised €40 million of depreciation charges and €5 million of interest costs from these leases.

4. Segment and Revenue Analyses

The Group has determined 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. 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 profit is measured based on EBITDA.

	6 months to 30-Jun-19			6 months to 30-Jun-18		
	Europe	**The Americas**	**Total**	Europe	The Americas	Total
	€m	**€m**	**€m**	€m	€m	€m
Revenue and results						
Revenue	**3,574**	**1,048**	**4,622**	3,397	1,031	4,428
EBITDA before exceptional items	**688**	**179**	**867**	587	157	744
Segment exceptional items	**-**	**-**	**-**	(14)	-	(14)
EBITDA after exceptional items	**688**	**179**	**867**	573	157	730
Unallocated centre costs			**(20)**			(20)
Share-based payment expense			**(25)**			(10)
Depreciation and depletion (net)			**(243)**			(167)
Amortisation			**(21)**			(18)
Exceptional items			**-**			(17)
Finance costs			**(110)**			(121)
Finance income			**7**			38
Share of associates' profit (after tax)			**1**			1
Profit before income tax			**456**			416
Income tax expense			**(118)**			(121)
Profit for the financial period			**338**			295

4. Segment and Revenue Analyses (continued)

Assets

	6 months to 30-Jun-19			6 months to 30-Jun-18		
	Europe	**The Americas**	**Total**	Europe	The Americas	Total
	€m	**€m**	**€m**	€m	€m	€m
Segment assets	**7,622**	**2,180**	**9,802**	6,502	2,025	8,527
Investment in associates	**1**	**14**	**15**	1	13	14
Group centre assets			**208**			1,021
Total assets			**10,025**			9,562

Liabilities

	6 months to 30-Jun-19			6 months to 30-Jun-18		
	Europe	**The Americas**	**Total**	Europe	The Americas	Total
	€m	**€m**	**€m**	€m	€m	€m
Segment liabilities	**2,820**	**579**	**3,399**	2,503	388	2,891
Group centre liabilities			**3,724**			4,043
Total liabilities			**7,123**			6,934

Revenue information about geographical areas

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

	6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
Ireland	**55**	54
Germany	**658**	677
France	**571**	528
Mexico	**451**	390
Spain	**393**	376
United Kingdom	**388**	385
Rest of the world	**2,106**	2,018
Total revenue by geographical area	**4,622**	4,428

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

Disaggregation of revenue

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

	6 months to 30-Jun-19			6 months to 30-Jun-18		
	Paper	**Packaging**	**Total**	Paper	Packaging	Total
	€m	**€m**	**€m**	€m	€m	€m
Europe	**600**	**2,974**	**3,574**	540	2,857	3,397
The Americas	**146**	**902**	**1,048**	149	882	1,031
Total revenue by product	**746**	**3,876**	**4,622**	689	3,739	4,428

5. Exceptional Items

The following items are regarded as exceptional in nature:	**6 months to 30-Jun-19 €m**	6 months to 30-Jun-18 €m
International Paper defence costs	**-**	17
Loss on the disposal of Baden operations	**-**	14
Exceptional items included in operating profit	**-**	31
Exceptional finance costs	**3**	6
Exceptional items included in net finance costs	**3**	6
Total exceptional items	**3**	37

The exceptional finance cost of €3 million, which arose in the first half of 2019, represented the accelerated amortisation of the debt issue costs relating to the refinancing of the senior credit facility.

Exceptional items charged within operating profit in 2018 amounted to €31 million. This comprised the cost of countering the unsolicited approach from International Paper and the loss on the disposal of the Baden operations in Germany.

Exceptional finance costs charged in 2018 amounted to €6 million, including €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 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.

6. Finance Costs and Income

	6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
Finance costs:		
Interest payable on bank loans and overdrafts	**23**	25
Interest payable on leases	**6**	-
Interest payable on other borrowings	**59**	57
Exceptional finance costs associated with debt restructuring	**3**	-
Exceptional consent fee - reporting waiver	**-**	4
Exceptional interest on early termination of cross currency swaps	**-**	2
Unwinding of discount element of provisions	**1**	-
Foreign currency translation loss on debt	**6**	11
Fair value loss on derivatives not designated as hedges	**3**	-
Net interest cost on net pension liability	**9**	11
Net monetary loss - hyperinflation	**-**	11
Total finance costs	**110**	121
Finance income:		
Other interest receivable	**(2)**	(2)
Foreign currency translation gain on debt	**(3)**	(33)
Fair value gain on derivatives not designated as hedges	**-**	(3)
Fair value gain on financial assets	**(1)**	-
Net monetary gain - hyperinflation	**(1)**	-
Total finance income	**(7)**	(38)
Net finance costs	**103**	83

7. Income Tax Expense

Income tax expense recognised in the Condensed Consolidated Income Statement

	6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
Current tax:		
Europe	**81**	62
The Americas	**30**	35
	111	97
Deferred tax	**7**	24
Income tax expense	**118**	121
Current tax is analysed as follows:		
Ireland	**4**	9
Foreign	**107**	88
	111	97

Income tax recognised in the Condensed Consolidated Statement of Comprehensive Income

	6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
Arising on defined benefit pension plans	**(9)**	(6)

The income tax expense in 2019 is €3 million lower than in the comparable period in 2018. However, in 2018 the expense includes a €13 million charge for Venezuela which does not occur in 2019. The resulting €10 million net increase on a like-for-like basis is mainly attributable to higher profitability in 2019 but it also includes the benefit of an investment tax credit.

There is a €14 million increase in the current tax expense. In Europe, the expense is €19 million higher due to changes in profitability, timing differences and an investment tax credit. In the Americas, the current tax expense is €5 million lower. However, after adjusting for the deconsolidation of Venezuela in 2018, there is a €7 million net increase on a like-for-like basis. This is primarily due to changes in profitability.

The deferred tax charge is €17 million lower than in the comparable period in 2018. The decrease is largely due to the reversal of timing differences on which deferred tax liabilities were previously recognised.

There is no income tax expense or credit from exceptional items in 2019 compared to a €1 million expense in 2018.

8. Employee Benefits – Defined Benefit Plans

The table below sets out the components of the defined benefit cost for the period:

	6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
Current service cost	**14**	15
Gain on settlement	**(1)**	-
Past service cost	**-**	(2)
Net interest cost on net pension liability	**9**	8
Defined benefit cost	**22**	21

Included in cost of sales, distribution costs and administrative expenses is a defined benefit cost of €13 million (2018: €13 million). Net interest cost on net pension liability of €9 million (2018: €8 million) is included in finance costs in the Condensed Consolidated Income Statement.

The amounts recognised in the Condensed Consolidated Balance Sheet were as follows:

	30-Jun-19 €m	31-Dec-18 €m
Present value of funded or partially funded obligations	**(2,349)**	(2,145)
Fair value of plan assets	**2,002**	1,831
Deficit in funded or partially funded plans	**(347)**	(314)
Present value of wholly unfunded obligations	**(516)**	(489)
Amounts not recognised as assets due to asset ceiling	**(2)**	(1)
Net pension liability	**(865)**	(804)

The employee benefit provision has increased from €804 million at 31 December 2018 to €865 million at 30 June 2019 due to lower discount rates as a result of lower euro and Sterling AA corporate bond yields.

9. Earnings per Share

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

	6 months to 30-Jun-19	6 months to 30-Jun-18
Profit attributable to owners of the parent (€ million)	**332**	294
Weighted average number of ordinary shares in issue (million)	**236**	236
Basic earnings per share (cent)	**140.6**	124.5

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, and deferred shares held in trust issued under the Deferred Annual Bonus Plan, which are based on the passage of time.

	6 months to 30-Jun-19	6 months to 30-Jun-18
Profit attributable to owners of the parent (€ million)	**332**	294
Weighted average number of ordinary shares in issue (million)	**236**	236
Potential dilutive ordinary shares assumed (million)	**1**	1
Diluted weighted average ordinary shares (million)	**237**	237
Diluted earnings per share (cent)	**139.8**	123.8

Pre-exceptional	6 months to 30-Jun-19	6 months to 30-Jun-18
Profit attributable to owners of the parent (€ million)	**332**	294
Exceptional items included in profit before income tax (Note 5) (€ million)	**3**	37
Income tax on exceptional items (€ million)	**-**	1
Pre-exceptional profit attributable to owners of the parent (€ million)	**335**	332
Weighted average number of ordinary shares in issue (million)	**236**	236
Pre-exceptional basic earnings per share (cent)	**141.6**	140.7
Diluted weighted average ordinary shares (million)	**237**	237
Pre-exceptional diluted earnings per share (cent)	**140.8**	140.0

10. Dividends

During the period, the final dividend for 2018 of 72.2 cent per share was paid to the holders of ordinary shares. The Board has decided to pay an interim dividend of 27.9 cent per share for 2019 and it is proposed to pay this dividend on 25 October 2019 to all ordinary shareholders on the share register at the close of business on 27 September 2019.

11. Property, Plant and Equipment

	Land and buildings €m	Plant and equipment €m	Total €m
Six months ended 30 June 2019			
Opening net book amount	**1,059**	**2,554**	**3,613**
Adjustment on initial application of IFRS 16 (Note 3)	**246**	**85**	**331**
Restated balance at 1 January 2019	**1,305**	**2,639**	**3,944**
Reclassifications	**15**	**(17)**	**(2)**
Additions	**5**	**254**	**259**
Acquisitions	**40**	**40**	**80**
Depreciation charge	**(47)**	**(191)**	**(238)**
Retirements and disposals	**(1)**	**(1)**	**(2)**
Hyperinflation adjustment	**2**	**4**	**6**
Foreign currency translation adjustment	**5**	**3**	**8**
At 30 June 2019	**1,324**	**2,731**	**4,055**
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

12. Net Movement in Working Capital

	6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
Change in inventories	**2**	(39)
Change in trade and other receivables	**(132)**	(264)
Change in trade and other payables	**(39)**	151
Net movement in working capital	**(169)**	(152)

13. Analysis of Net Debt

	30-Jun-19	31-Dec-18
	€m	€m
Revolving credit facility - interest at relevant interbank rate (interest rate floor of 0%) + 0.9%[1]	**205**	-
Senior credit facility[2]:		
Revolving credit facility – interest at relevant interbank rate + 1.10%	**-**	4
Facility A term loan – interest at relevant interbank rate + 1.35%	**-**	407
US$292.3 million 7.50% senior debentures due 2025 (including accrued interest)	**258**	257
Bank loans and overdrafts	**142**	119
€200 million receivables securitisation variable funding notes due 2022 (including accrued interest)	**4**	49
€230 million receivables securitisation variable funding notes due 2023	**119**	179
€400 million 4.125% senior notes due 2020 (including accrued interest)	**406**	406
€250 million senior floating rate notes due 2020 (including accrued interest)[3]	**251**	251
€500 million 3.25% senior notes due 2021 (including accrued interest)	**499**	498
€500 million 2.375% senior notes due 2024 (including accrued interest)	**499**	499
€250 million 2.75% senior notes due 2025 (including accrued interest)	**250**	250
€1,000 million 2.875% senior notes due 2026 (including accrued interest)[4]	**1,003**	601
Gross debt before leases	**3,636**	3,520
Lease liabilities[5]	**362**	19
Gross debt including leases	**3,998**	3,539
Cash and cash equivalents	**(247)**	(417)
Net debt including leases	**3,751**	3,122

(1) Revolving credit facility ("RCF") of €1,350 million maturing in 2024.
(a) Revolver loans - €212 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) In January 2019, the senior credit facility which was due to mature in March 2020 was refinanced with a new 5-year RCF.

(3) Interest at EURIBOR + 3.5%.

(4) In February 2019, the Group issued €400 million senior notes which form a single series with the existing €600 million senior notes.

(5) The adoption of IFRS 16 effective 1 January 2019 increases reported leases by €338 million at 30 June 2019.

14. Other Reserves

Other reserves included in the Condensed Consolidated Statement of Changes in Equity are comprised of the following:

	Reverse acquisition reserve €m	Cash flow hedging reserve €m	Cost of hedging reserve €m	Foreign currency translation reserve €m	Share-based payment reserve €m	Own shares €m	Available-for-sale reserve €m	FVOCI reserve €m	Total €m
At 1 January 2019	**575**	**(14)**	**3**	**(367)**	**185**	**(28)**	**-**	**1**	**355**
Other comprehensive income									
Foreign currency translation adjustments	**-**	**-**	**-**	**3**	**-**	**-**	**-**	**-**	**3**
Effective portion of changes in fair value of cash flow hedges	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**3**
Changes in fair value of cost of hedging	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Total other comprehensive income/(expense)	**-**	**3**	**(1)**	**3**	**-**	**-**	**-**	**-**	**5**
Purchase of non-controlling interest	**-**	**-**	**-**	**(29)**	**-**	**-**	**-**	**-**	**(29)**
Share-based payment	**-**	**-**	**-**	**-**	**25**	**-**	**-**	**-**	**25**
Net shares acquired by SKG Employee Trust	**-**	**-**	**-**	**-**	**-**	**(25)**	**-**	**-**	**(25)**
Shares distributed by SKG Employee Trust	**-**	**-**	**-**	**-**	**(9)**	**9**	**-**	**-**	**-**
At 30 June 2019	**575**	**(11)**	**2**	**(393)**	**201**	**(44)**	**-**	**1**	**331**
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	-	-	-	(169)	-	-	-	-	(169)
Effective portion of changes in fair value of cash flow hedges	-	(9)	-	-	-	-	-	-	(9)
Changes in fair value of cost of hedging	-	-	1	-	-	-	-	-	1
Total other comprehensive (expense)/income	-	(9)	1	(169)	-	-	-	-	(177)
Share-based payment	-	-	-	-	10	-	-	-	10
Net shares acquired by SKG Employee Trust	-	-	-	-	-	(10)	-	-	(10)
Shares distributed by SKG Employee Trust	-	-	-	-	(12)	12	-	-	-
At 30 June 2018	575	(28)	3	(1,551)	174	(29)	-	1	(855)

15. Fair Value Hierarchy

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2019:

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Other investments:				
Listed	**1**	**-**	**-**	**1**
Unlisted	**-**	**8**	**12**	**20**
Derivative financial instruments:				
Assets at fair value through Condensed Consolidated Income Statement	**-**	**8**	**-**	**8**
Derivatives used for hedging	**-**	**7**	**-**	**7**
Derivative financial instruments:				
Liabilities at fair value through Condensed Consolidated Income Statement	**-**	**(3)**	**-**	**(3)**
Derivatives used for hedging	**-**	**(22)**	**-**	**(22)**
Deferred contingent consideration	**-**	**-**	**(53)**	**(53)**
	1	**(2)**	**(41)**	**(42)**

The following table presents the Group's financial assets and liabilities that are measured at fair value 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 Condensed Consolidated Income Statement	-	12	-	12
Derivatives used for hedging	-	9	-	9
Derivative financial instruments:				
Liabilities at fair value through Condensed Consolidated Income Statement	-	(3)	-	(3)
Derivatives used for hedging	-	(24)	-	(24)
	1	1	12	14

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

The 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 unlisted investment by approximately €3 million.

The fair value of the derivative financial instruments has been measured in accordance with level 2 of the fair value hierarchy. All are plain derivative instruments, valued with reference to observable foreign exchange rates, interest rates or broker prices.

Deferred contingent consideration arose in relation to the put option on our Serbian acquisition (Note 18) in the period. The valuation model for the deferred contingent consideration measured in accordance with level 3 of the fair value hierarchy is based on the present value of the expected payment discounted using a risk-adjusted discount rate. The unobservable input in determining the fair value is the underlying profitability of the business unit to which the consideration relates. A 5% movement in the unobservable input would increase/decrease the fair value of the deferred contingent consideration by approximately €3 million.

There were no other material changes to the fair values of the level 3 instruments during the period.

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

16. Fair Value

The following table sets out the fair value of the Group's principal financial assets and liabilities. The determination of these fair values is based on the descriptions set out within Note 2 to the consolidated financial statements of the Group’s 2018 Annual Report.

	30-Jun-19		31-Dec-18	
	Carrying value €m	**Fair value €m**	Carrying value €m	Fair value €m
Trade and other receivables [1]	**1,757**	**1,757**	1,612	1,612
Equity instruments[2]	**10**	**10**	10	10
Listed and unlisted debt instruments[2]	**11**	**11**	10	10
Cash and cash equivalents [3]	**234**	**234**	407	407
Derivative assets [4]	**15**	**15**	21	21
Restricted cash[3]	**13**	**13**	10	10
	2,040	**2,040**	2,070	2,070
Trade and other payables[1]	**1,455**	**1,455**	1,483	1,483
Senior credit facility[5]	**205**	**205**	411	411
2022 receivables securitisation[3]	**4**	**4**	49	49
2023 receivables securitisation[3]	**119**	**119**	179	179
Bank overdrafts[3]	**142**	**142**	119	119
2025 debentures[6]	**258**	**305**	257	296
2020 fixed rate notes[6]	**406**	**416**	406	421
2020 floating rate notes[6]	**251**	**261**	251	260
2021 notes[6]	**499**	**529**	498	521
2024 notes[6]	**499**	**537**	499	505
2025 notes[6]	**250**	**273**	250	254
2026 notes[6]	**1,003**	**1,097**	601	600
	5,091	**5,343**	5,003	5,098
Lease liabilities	**362**	**362**	19	19
	5,453	**5,705**	5,022	5,117
Derivative liabilities[4]	**25**	**25**	27	27
Deferred contingent consideration[7]	**53**	**53**	-	-
	5,531	**5,783**	5,049	5,144
Total net position	**(3,491)**	**(3,743)**	(2,979)	(3,074)

(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 Condensed Consolidated Balance Sheet is estimated to approximate to fair value because of the short-term maturity of these instruments and, in the case of the receivables securitisation, the variable nature of the facility and repricing dates.

(4) The fair value of forward foreign currency and energy contracts is based on their listed market price if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(5) The fair value (level 2) of the 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) Fair value (level 2) is based on broker prices at the balance sheet date.

(7) The fair value of deferred contingent consideration is based on the present value of the expected payment, discounted using a risk-adjusted discount rate.

17. Related Party Transactions

Details of related party transactions in respect of the year ended 31 December 2018 are contained in Note 30 to the consolidated financial statements of the Group's 2018 Annual Report. The Group continued to enter into transactions in the normal course of business with its associates and other related parties during the period. There were no transactions with related parties in the first half of 2019 or changes to transactions with related parties disclosed in the 2018 consolidated financial statements that had a material effect on the financial position or the performance of the Group.

18. Business Combinations

The acquisitions completed by the Group in the first half of 2019, together with percentages acquired and completion dates were as follows:

- Fabrika Hartije d.o.o. Beograd ('FHB') and Avala Ada d.o.o. Beograd ('Avala Ada'), (75%, 1 January 2019 with put and call options in place over the remaining 25%), respectively a paper mill and a corrugated plant in Serbia;

- Balkanpack EOOD ('Balkanpack'), (100%, 28 February 2019), an integrated corrugated plant in Bulgaria; and

- Vitavel AD ('Vitavel'), (100%, 30 April 2019), an integrated corrugated plant in Bulgaria.

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

	Total[1]
	€m
Non-current assets	
Property, plant and equipment	**80**
Current assets	
Inventories	**6**
Trade and other receivables	**23**
Cash and cash equivalents	**10**
Non-current liabilities	
Deferred income tax liabilities	**(3)**
Provisions for liabilities	**(1)**
Borrowings	**(11)**
Current liabilities	
Borrowings	**(3)**
Trade and other payables	**(16)**
Current income tax liabilities	**(1)**
Net assets acquired	**84**
Goodwill	**88**
Consideration	**172**
Settled by:	
Cash	**109**
Deferred consideration	**10**
Deferred contingent consideration	**53**
	172

[1] In addition to the 2019 acquisitions, the amounts also include fair value adjustments in relation to 2018 acquisitions. The Group has considered the size of these adjustments and does not deem them to be sufficiently material to warrant a restatement of the 2018 consolidated financial statements.

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.

Net cash outflow arising on acquisition	**€m**
Cash consideration	**109**
Less cash & cash equivalents acquired	**(10)**
Total	**99**

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

The Group's acquisitions in 2019 have contributed €35 million to revenue and €4 million to profit for the first half of 2019.

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

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

19. Other Information

The Group understands that the Italian Competition Authority will shortly release the outcome of its work in relation to approximately 50 market participants in Italy, including one of the Group's Italian subsidiaries. We await the outcome of its work.

20. Board Approval

This interim report was approved by the Board of Directors on 30 July 2019.

21. Distribution of the Interim Report

This 2019 interim report is available on the Group's website smurfitkappa.com.

Responsibility Statement in Respect of the Six Months Ended 30 June 2019

The Directors, whose names and functions are listed on pages 60 to 62 in the Group's 2018 Annual Report, are responsible for preparing this interim management report and the condensed consolidated interim financial statements in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with IAS 34, *Interim Financial Reporting* as adopted by the European Union.

The Directors confirm that, to the best of their knowledge:

- the condensed consolidated interim financial statements for the half year ended 30 June 2019 have been prepared in accordance with the international accounting standard applicable to interim financial reporting, IAS 34, adopted pursuant to the procedure provided for under Article 6 of the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

- the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the condensed consolidated interim financial statements for the half year ended 30 June 2019, and a description of the principal risks and uncertainties for the remaining six months;

- the interim management report includes a fair review of related party transactions that have occurred during the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period, and any changes in the related party transactions described in the last Annual Report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

Signed on behalf of the Board

A. Smurfit, Director and Chief Executive Officer
K. Bowles, Director and Chief Financial Officer

30 July 2019.

Supplementary Financial Information

Alternative Performance Measures

Certain financial measures set out in this report are not defined under International Financial Reporting Standards ('IFRS'). An explanation for the use of these Alternative Performance Measures ('APMs') is set out within Key Performance Indicators on pages 28-31 of the Group's 2018 Annual Report. The key APMs of the Group are set out below.

APM	Description
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 assets amortisation.
EBITDA Margin %	$\frac{\text{EBITDA}}{\text{Revenue}} \times 100$
Pre-exceptional Basic EPS (cent)	$\frac{\text{Profit attributable to owners of the parent, adjusted for exceptional items included in profit before income tax and income tax on exceptional items}}{\text{Weighted average number of ordinary shares in issue}} \times 100$
Return on Capital Employed %	$\frac{\text{Last twelve months ('LTM') pre-exceptional operating profit plus share of associates' profit (after tax)}}{\text{Average capital employed (where capital employed is the average of total equity and net debt at the beginning and end of the LTM)}} \times 100$
Free Cash Flow	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. Free cash flow (APM) is included in the interim management report. The IFRS cash flow is included in the condensed consolidated interim financial statements. A reconciliation of free cash flow to cash generated from operations (IFRS measure) is included below.
Net Debt	Net debt is comprised of borrowings net of cash and cash equivalents and restricted cash.
Net Debt to EBITDA (LTM) times	$\frac{\text{Net debt}}{\text{EBITDA (LTM)}}$

Reconciliation of Profit to EBITDA

	6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
Profit for the financial period	**338**	295
Income tax expense	**118**	121
Exceptional items charged in operating profit	**-**	31
Share of associates' profit (after tax)	**(1)**	(1)
Net finance costs (after exceptional items)	**103**	83
Share-based payment expense	**25**	10
Depreciation, depletion (net) and amortisation	**264**	185
EBITDA	**847**	724

Return on Capital Employed

	30-Jun-19 €m	30-Jun-18 €m
Pre-exceptional operating profit plus share of associates' profit (after tax) (LTM)	**1,134**	991
Total equity – current period end	**2,902**	2,628
Net debt – current period end	**3,751**	2,871
Capital employed – current period end	**6,653**	5,499
Total equity – prior period end	**2,628**	2,488
Net debt – prior period end	**2,871**	2,985
Capital employed – prior period end	**5,499**	5,473
Average capital employed	**6,076**	5,486
Return on capital employed	**18.7%**	18.1%

Reconciliation of Free Cash Flow to Cash Generated from Operations

		6 months to 30-Jun-19 €m	6 months to 30-Jun-18 €m
Free cash flow		**159**	148
Add back:	Cash interest	**82**	81
	Capital expenditure (net of change in capital creditors)	**306**	231
	Tax payments	**92**	89
Less:	Sale of property, plant and equipment	**(2)**	-
	Profit on sale of assets and businesses – non-exceptional	**(2)**	(1)
	Receipt of capital grants (in 'Other' in summary cash flow)	**(1)**	(1)
	Non-cash financing activities	**-**	(3)
Cash generated from operations		**634**	544

The summary cash flow is prepared on a different basis to the Condensed Consolidated Statement of Cash Flows under IFRS ('IFRS cash flow') and as such the reconciling items between EBITDA and decrease/(increase) 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 above. The main adjustments are in respect of cash interest, capital expenditure and tax payments.

(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.