Leading Innovating Delivering

for a Sustainable Future

Annual Report 2019

Smurfit Kappa ('SKG'), a FTSE 100 company, is one of the leading providers of paper-based packaging solutions in the world.

We operate across 35 countries with around 46,000 employees in over 350 production sites and revenue of €9.0 billion in 2019.

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 pages 4 to 7.

Financial Highlights of 2019

Continuing to deliver

A year of strong delivery and performance.

Revenue (million)

€9,048

↑ 1%

2019	9,048
2018	8,946

EBITDA* (million)

€1,650

↑ 7%

2019	1,650
2018	1,545

EBITDA Margin* (%)

18.2

2019	18.2
2018	17.3

Operating Profit Before Exceptional Items*
(million)

€1,062

↓ 4%

2019	1,062
2018	1,105

Profit/(Loss) Before Income Tax
(million)

€677

2019	677
2018	(404)

Basic Earnings Per Share
(cent)

201.6

2019	201.6
2018	(273.7)

* These financial key performance indicators are not defined under International Financial Reporting Standards ('IFRS'). Further information in relation to these Alternative Performance Measures ('APMs') is included in the Supplementary Information section on pages 162 to 165.

Free Cash Flow* (million)

€547

↑ 11%

2019	547
2018	494

Net Debt* (million)

€3,483

↑ 12%

2019	3,483
2018	3,122

Return On Capital Employed* (%)

17.0

2019	17.0
2018	19.3

Pre-exceptional Basic Earnings Per Share*
(cent)

274.8

↓ 6%

2019	274.8
2018	292.2

Net Debt to EBITDA*
(times)

2.1x

2019	2.1
2018	2.0

Where We Operate

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 by production volume in corrugated packaging and containerboard and in Latin America we are the only large-scale pan-regional player.

Forestry Plantations (hectares)	Fibre Sourcing	Mills	Converting Plants	Other Production Facilities
68k	42	34	245	34

The Americas

Revenue

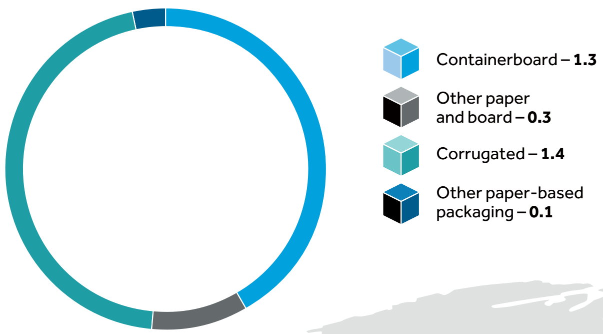
€2 billion

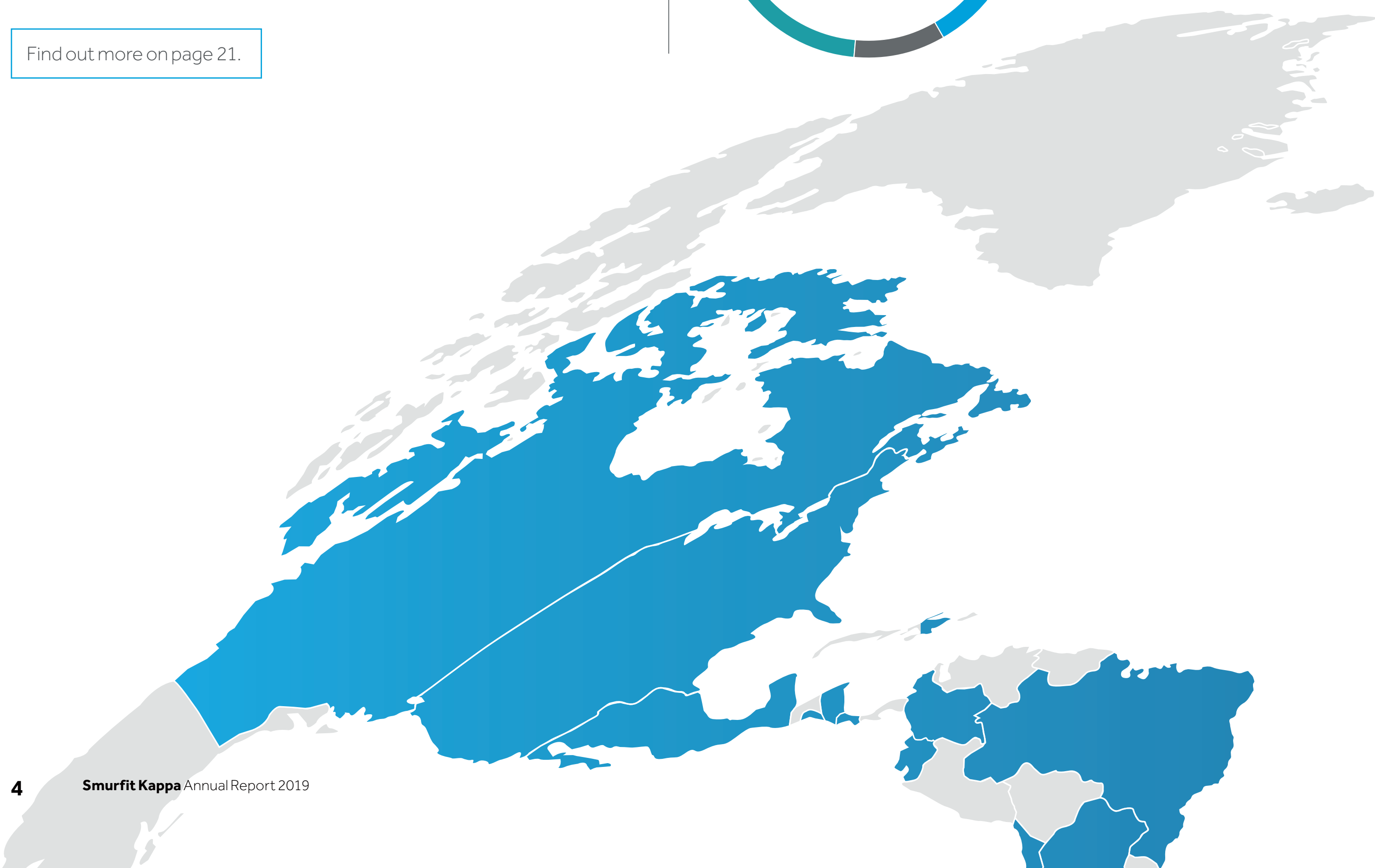
↑1%

The Group's operations in the Americas comprise a system of mills and plants that primarily produce a full line of containerboard that is converted into corrugated containers. Our operations in the Americas also include forestry; other types of paper, such as boxboard, sack paper and graphic paper; and paper-based packaging, such as folding cartons and paper sacks.

Find out more on page 21.

2019 Gross Sales Volume (million tonnes)





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 and therefore converting plants need to be close to customers (within 300kms). Our unique global footprint makes us well placed to reliably deliver on customer requirements.

Europe

Revenue

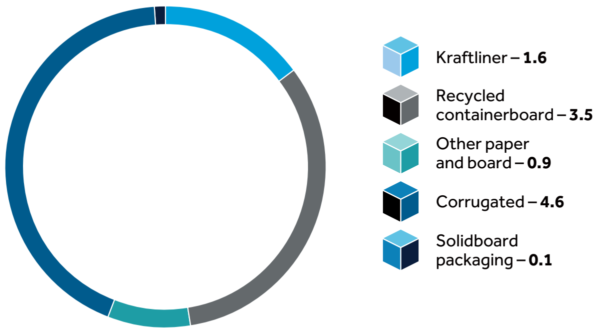
€7 billion

↑1%

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, sack kraft paper and graphic paper; and other paper-based packaging, such as solidboard packaging and folding cartons; and bag-in-box packaging.

Find out more on page 21.

2019 Gross Sales Volume (million tonnes)



Our Business Model

We're a packaging leader in a growth sector

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

Innovation

Packaging 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 packaging development, process improvement or optimising supply chain efficiency.

Range of Tools

We employ a range of 'Innotools', unique to Smurfit Kappa, enabling us to create the optimal fit-for-purpose packaging solutions for our customers.

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.

See more in our Innovation section on pages 8 to 11.

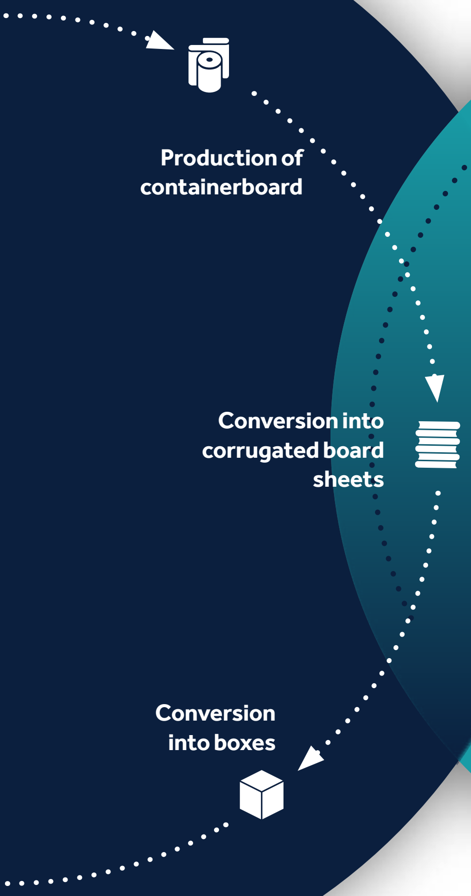
Culture and People

At Smurfit Kappa, 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 and learning from one another is continuous, which helps us to adapt to a changing environment and ensure our culture supports our business model.

Our Integrated Model

We have an integrated system of containerboard mills and corrugated box plants. Our recycling, wood procurement and forestry operations provide raw material to our containerboard mills, who produce a full line of containerboard which is converted into corrugated containers.

Our vertical integration is key to guaranteeing security of supply for our customers and 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 our product through the uncertainty of market falls and rises.



Sustainability

Our circular business model, from replacing natural resources to recycling materials and optimising processes, including reducing CO_2 emissions, gives us a competitive advantage.

Our embedded Chain of Custody ensures that close to 100% of our raw material comes from sustainable and/or certified sources regardless of whether is it virgin or recycled.

Sustainability Leadership

We are focused on reducing our CO_2 footprint, improving water discharge quality and eventually sending zero waste to landfill. SKG supports our customers to address their sustainability needs using data driven innovation.

Better Planet Packaging

As a leader in sustainable packaging we have a responsibility to respond to the challenge the world faces with litter and single use plastics. To address this we have introduced our Better Planet Packaging initiative, read more on pages 12 to 15.

See more in our Sustainability section, pages 40 to 45.

The Board is committed to promoting a strong and positive culture that is aligned with strategy and based on our values of:

- Safety
- Loyalty
- Integrity
- Respect
- Teamwork
- Entrepreneurship

These values foster the guiding principles by which we operate:

- Inclusion and Diversity
- Recognition
- Performance
- Accountability

Smurfit Kappa unites some 46,000 people around the globe. Our people are at the heart of all our operations. We can only achieve sustainable long-term success by developing our people's talent, expertise and innovation. 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.

See more in our Stakeholder Engagement and People sections on pages 38 to 39 and 46 to 53.

Innovation

Our culture of innovation is based on experience, science, creativity and data with state of the art facilities ensuring we're ready for the challenges of the future.

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

Our Approach:

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.

Customer focus, understanding our customers' markets

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.

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, packaging solutions development, process improvement or optimising supply-chain efficiency.

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.

Creative design thinking

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.

SupplySmart

SupplySmart is a combination of unique tools, data and expertise that enables customers to optimise their supply chain with improved packaging solutions with the reassurance they're making fully risk-assessed decisions that will deliver measurable cost savings.

SKG engages with businesses using a proven six-step methodology, designed to help our customers make the most informed packaging choices to deliver the best return while minimising risk.

Automated packing line

100%

Automated Packaging Solution

Topro, a producer of mobility aid products, needed smarter transport packaging in order to minimise logistics costs and environmental impact. They also wanted to improve production efficiency and automate their entire packaging process. Together with Topro, we assessed the supply chain throughout Europe and with the help of Paper to Box, defined the required packaging criteria and functionality. Our new tapered box solution allowed better pallet fill with 180 more products per truck. Our solution for Topro reduced logistics costs by 40% and their packing line is now 100% automated.

eSmart

Our eSmart process is designed to improve all aspects of eCommerce packaging, from packing line to supply chain to customer experience.

SKG helps customers manage complexity by analysing their eCommerce business across 12 key areas – from optimising their planning, increasing supply chain efficiency and delivering a positive customer experience this analysis helps to identify areas for improvement and further development.

Sustainable Packaging

Using our expertise and eSmart service, we identified a sustainable packaging concept for Jardines de Los Andes, a leading flower grower in Colombia, that would protect even the most delicate blooms through a complex eCommerce supply chain, while delighting the recipient. The beautifully designed and branded packaging is 100% recyclable and biodegradable. The new packaging, designed for a wedding bouquet line, contributed to sales growth of 300%.

Sales growth

300%

ShelfSmart

The right shelf-ready packaging is proven to boost sales quickly and cost effectively, giving our customers maximum brand benefit where it matters most – at the point of purchase.

ShelfSmart is an innovative retail merchandising service designed to develop scalable, risk-proofed shelf-ready packaging solutions.

Shelf-Ready Packaging

A German yoghurt producer was facing the challenge of a highly competitive market and a decreasing market share. Their packaging didn't stand out on the shelf, they were not communicating with the target market. Smurfit Kappa worked with the customer at a ShelfSmart workshop to create a fresh new design with improved brand impact. Eye tracking technology confirmed that the new design stands out, with increased visibility of 37%.

Increased visibility

37%

Our Sustainable Approach

Better Planet Packaging

seeks to reduce packaging waste and address the challenges of litter that ends up in our oceans and landfill.

Smurfit Kappa continues to lead in innovative sustainable packaging solutions for our customers, led by our 'Better Planet Packaging' initiative which provides our customers with sustainable solutions today, ready for the challenges of tomorrow.

In doing this we:

- **Develop** and **design** paper-based packaging concepts and materials with improved functionalities, that are fully renewable, recyclable and biodegradable as alternatives for today's unsustainable packaging solutions.
- **Educate** and **inspire** all stakeholders to understand the role sustainable packaging can play in addressing the challenges of waste.
- **Support** our customers and other stakeholders to develop a go-to-market strategy and **implementation** plan for paper-based packaging alternatives.

Develop and Design

We are working with customers (and many other stakeholders) to deliver innovative, sustainable packaging solutions, including TopClip (pictured).

These solutions include alternatives to traditional fruit and vegetable packaging (Safe&Green), a paper-based solution to traditional wood and plastic pallets, a lightweight sustainable alternative to wooden pallet tops (TOPPSafe™) and a portfolio of products to replace single-use plastic in the bundling of cans and bottles (TopClip, Green Clip and Nor-Grip), to name a few. We are working to develop paper-based packaging with functional barrier properties, that is fully renewable, recyclable and biodegradable and new recycling systems (linked to the paper recycling system) to recycle packaging that is 'unrecyclable' today.

Education and Inspiration

As part of the Better Planet Packaging ('BPP') initiative, Smurfit Kappa is actively engaging with networks and organisations to educate on the challenges and opportunities in paper-based packaging solutions. We aim to inspire our customers and the wider public about the role sustainable packaging can play in reducing environmental impact.

SKG's engagement with customers was best illustrated with two flagship events, our biennial Innovation Event in May 2019, hosted over 350 customers from across the globe and our inaugural 'Global Better Planet Packaging Day' in November 2019. This year, we launched the 'BPP starts with ME' internal campaign to ensure that, as a Group, we are working hard towards removing plastics in our daily lives, both at home and at work. On 21 September 2019, over 8,000 employees from Smurfit Kappa came together to take part in World Cleanup Day and clean designated areas in 28 countries across Europe and the Americas.

Replacing Single-Use Plastics in Beverage Packs

Smurfit Kappa has launched a portfolio of sustainable packaging solutions for bundling canned and bottled beverages.

GreenClip, TopClip and Nor-Grip are three new innovative corrugated products which eliminate the need for single-use plastic and are 100% recyclable and biodegradable.

All three innovative products were showcased at Smurfit Kappa's first ever Better Planet Packaging Day.

Recyclable and biodegradable

100%

Global Better Planet Packaging Day

On 21 November 2019, we hosted our inaugural Global Better Planet Packaging Day. This event saw us welcome over 650 brand owners and retailers to our Global Experience Centre network in 27 locations, across three continents. The day involved a combination of educational and inspirational lectures followed by a series of interactive workshops aimed at helping our customers to design packaging that helps rather than harms our planet.

Customers welcomed on Global BPP day

+650

Implement and Support

We support customers in the development of a sustainable packaging strategy, a go-to-market strategy and implementation plan for paper-based packaging alternatives for today's unsustainable packaging solutions.

We analyse proposed solutions for recyclability, design for recycling and biodegradability.

Successful Packaging Collaboration

Smurfit Kappa has worked with a well-known Belgian specialty brewer, Kasteel Brouwerij Vanhonsebrouck, to produce, implement and market a sustainable outer carton concept that eliminated the need for shrink film. The company invested in a fully circular canning line which includes a new innovative, branded and sustainable outer pack that is easy to recycle.

Paper-based solution

100%

Chair's Statement

2019 in Review

In this, my first statement as Chair, I am delighted to report that 2019 represents another year of strong delivery and performance for SKG.

Irial Finan
Chair

EBITDA was €1,650 million, a 7% increase on 2018 with earnings growth and improved margins in both Europe and the Americas. These results reflect the benefits of our customer-focused innovation, our sustainability credentials, the resilience of the Group's integrated model, the returns from our strategic capital spend programme and the contribution from acquisitions. The 2019 outcome also reflects our performance culture, which has, at its core, an unrelenting customer focus.

Our employees, and the commitment shown by them, is fundamental to the delivery of what is another year of record EBITDA for the Group. On behalf of the Board, I would like thank the entire Smurfit Kappa team for their continued professionalism, focus and dedication.

Medium-Term Plan

In February 2018, the Group set out a four-year Medium-Term Plan ('MTP'). The plan set out ambitious targets to strengthen our position as a leader in the global paper-based packaging industry; and to continue to drive superior returns for shareholders. The plan identified a range of investments to accelerate our ability to serve the growing needs of our customers and their demand for what we have described as 'Better Planet Packaging'. It ensures we retain a world-class containerboard and corrugated system; maintain our leadership in sustainable packaging; and continue our relentless drive for customer-focused innovation. Our plan, however, remains flexible and agile and we maintain a disciplined, returns-focused approach to capital allocation. The progress we have made during 2019 is set out in the Group CEO's Statement on pages 20 to 23 of this report.

Board Changes

The Smurfit Kappa Board recognises the importance of Board refreshment and therefore reviews its composition and skillset on an annual basis. In 2019, we appointed Dr Lourdes Melgar to the Board as an independent, non-executive Director with effect from 1 January 2020.

Lourdes, a Mexican citizen, is recognised for her expertise in the areas of energy, sustainability and public policy. In her career she has held a number of roles at the top levels of government, in academia and in the private sector.

Further information in relation to Alternative Performance Measures ('APMs') referenced in this statement is included in the Supplementary Information section on pages 162 to 165.

"2019 represents another year of strong delivery and performance for Smurfit Kappa."

Her extensive career in energy, sustainability and business in Latin America will add valuable insight to the Board and we look forward to working with her. Lourdes has joined the Audit and Sustainability Committees.

There were also a number of retirements from the Board during 2019; most notably Liam O'Mahony. Liam joined the Group Board in 2007 and served as Chair from December 2008. He led the Group during a period of significant transformation and left us in an extremely healthy position and well positioned for further growth in the years ahead. On behalf of the entire Board and all of our employees, we extend our sincere appreciation to Liam for his contribution and stewardship of the Group.

In addition to Liam's retirement, Roberto Newell, who had served on the Board since 2010, and Christel Bories, who had served on the Board since 2012, retired from the Board in December 2019. We are grateful to Roberto and Christel for their respective contributions to Smurfit Kappa over the last number of years. Roberto served as our Senior Independent Director since 2017 and we are pleased that Gonzalo Restrepo has succeeded him in that role.

Governance and Oversight

As we move into 2020, we continue to refine our governance framework to reflect the requirements of the 2018 iteration of the Corporate Governance Code. As a Board, we welcome the Financial Reporting Council's introduction of the 2018 Code, with a more principle based approach to corporate governance.

A number of the governance revisions to the 2018 Code were made in areas where we as a Group already show leadership. The Code places an emphasis on the Company's relationship with its shareholders and other stakeholders and highlights the importance of establishing a corporate culture aligned with the Company's purpose and business strategy, and which promotes integrity and values diversity. It also reiterates the importance of employee engagement and development to ensure that the employee voice is consistently heard and considered at Board-level.

During the year, we formed a Sustainability Committee, the purpose of which is to provide direction and oversight of the sustainability strategy for the benefit of all our stakeholders. Its remit encompasses Planet, People and Business, further details of which are set out on page 80 of this report and also later in this statement.

The Board, following the introduction of the 2018 Code, will continue to enhance the integration of the Code into our corporate governance framework.

Employee Engagement and Development

Employee engagement has always been a key consideration of the Board and one which has continuously developed over time. Now, in line with the requirements of the 2018 Code, our newly formed Sustainability Committee, under its People agenda, is responsible for the direction and oversight of workforce engagement on behalf of the Board.

Over the last number of years, employee engagement surveys have been conducted across the 46,000 employees in the Group. During 2019, the outcome of a pulse survey conducted showed an increase in employee engagement. In 2020, another engagement survey of all employees will be conducted. As a Board, we are looking for continuous improvement in our employee engagement scores.

In addition, the Board has always had direct interaction with employees through a comprehensive programme of plant visits.

During 2019, I visited over 20 of our operations across Europe and the Americas, following which I reported back to the Board on my experiences, including my interactions with the workforce. A number of our other Directors also visited operations across the Group during 2019. In addition, the Board continued its ongoing programme of making at least one trip annually as a group to the operations. This year our trip was to Germany where we visited our recycled containerboard mill in Zülpich and our corrugated plant in Brühl. These visits are considered very valuable in giving members of the Board a deeper first-hand understanding of the strategic positioning of our operations as well as the strength of our teams and the benefits to the local communities.

We recognise that a central element of our continued success is the quality of our people. To ensure SKG attracts, retains and develops the best talent, we partner with leading global business schools such as INSEAD to develop global training programmes across our business. In the last three years alone, over 1,400 employees have participated in these programmes across the Group with many thousands more on local educational training programmes. Further details on these programmes are outlined on page 50 of this report.

Stakeholder Engagement

A key focus of the 2018 Code is on stakeholder engagement. This is an area where we have strong foundations on which to build. In addition to enhanced employee engagement as set out above, we continue to work collaboratively with our customers and suppliers. These close relationships with customers, suppliers and development partners aid product innovation as well as promoting our sustainability agenda. Our engagement with the communities in which we operate is a core management priority and is aided by the Smurfit Kappa Foundation, as detailed further on page 39.

In the period ahead, a key focus for me as Chair will be to spend a lot of time listening to and understanding our key stakeholders: customers, colleagues, suppliers, shareholders and the communities in the countries in which we operate.

Chair's Statement continued

Our Shareholders

Following my appointment as Chair, I sought to meet as many of our major shareholders as possible. I am grateful for the substantial number of shareholders who took the time to engage with me, to foster mutual understanding of what is important to the Group and our investors. The engagement provided valuable insights which I have relayed to the Board. Under my stewardship, consistent interaction with our shareholders will remain a priority as part of our commitment to the highest standards of corporate governance.

Sustainability

Sustainability is a central part of SKG's business strategy. During the course of 2019, the focus on climate change, plastics and sustainability has intensified. Smurfit Kappa has a central role to play in working with customers to reduce waste, increase the use of recyclable and biodegradable materials through the supply chain and to provide innovative, sustainable packaging solutions for our customers. This will be led by our 'Better Planet Packaging' initiative which provides our customers with sustainable solutions today, ready for the challenges of tomorrow.

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 both for SKG, our customers and their consumers.

In May 2019, the Group launched its twelfth annual Sustainable Development 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 our three pillars: minimising our environmental impact, respecting people and making an impactful business. Further details are set out in the Sustainability report on pages 40 to 45.

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 pleased to acknowledge third party recognition of our work in this area, details of which are set out in our Group CEO's Statement.

As previously mentioned, in order to provide direction and oversight of the Group's sustainability strategy, the Board has established a Sustainability Committee of the Board, details of which are set out on page 80.

Dividends

Dividends remain a central component of our commitment to deliver value for our shareholders. The Board is proposing a 12% increase in the final dividend to 80.9 cent per share. In combination with the interim dividend of 27.9 cent per share, this will deliver a total dividend of 108.8 cent per share; an 11% increase on 2018. This is our eighth year of consecutive increases in dividends and a statement of our confidence in the strength and capability of the business.

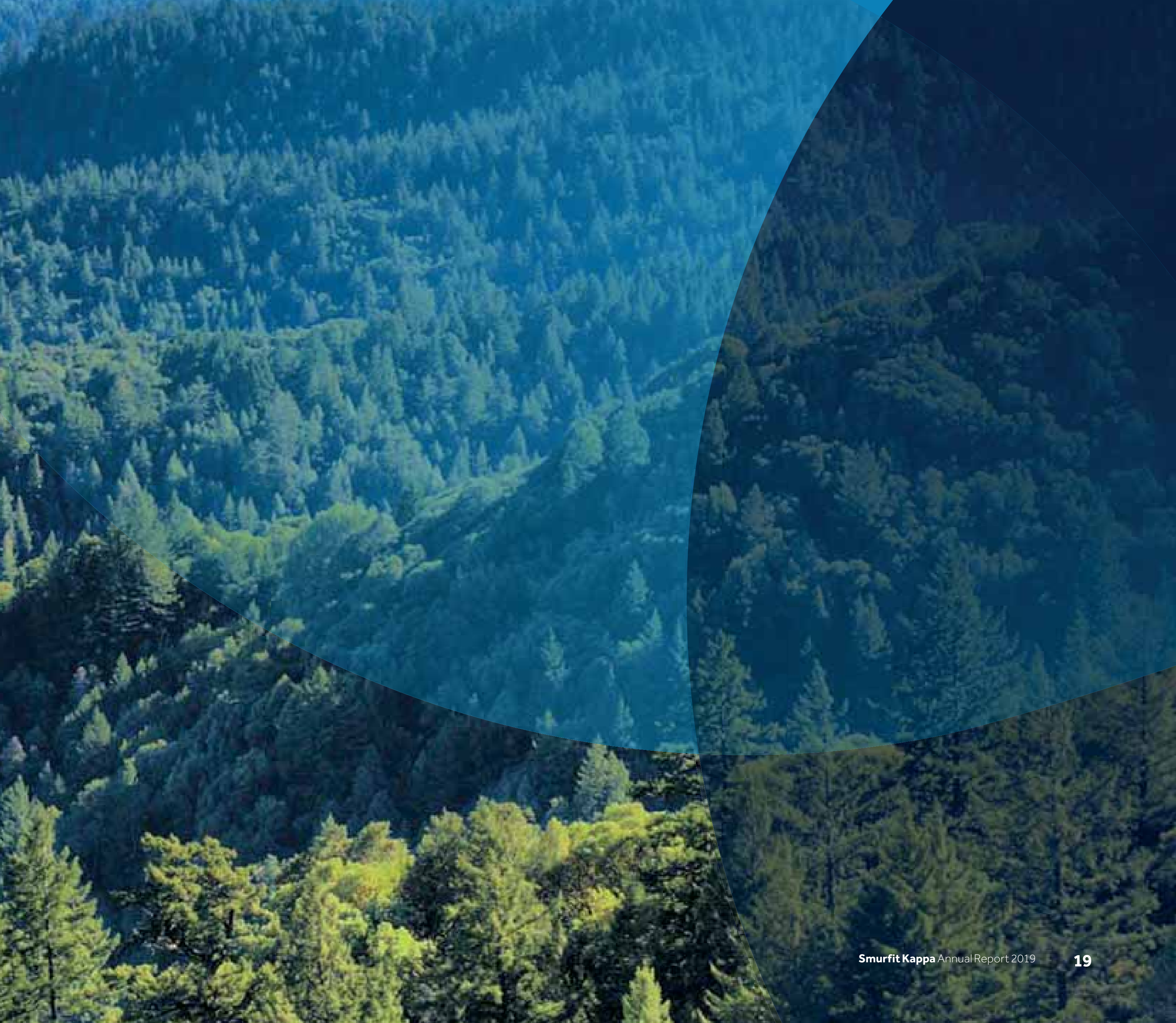
Outlook

We continue to implement our strategy, creating a sustainable business that builds on our strengths and will generate value for all stakeholders over the long term. The delivery of another year of record financial performance in 2019 is the outcome of the hard work and dedication of our 46,000 employees across 35 countries.

From a demand perspective, 2020 has started well and, while macro and economic risks remain, we expect another year of strong free cash flow and consistent progress against our strategic objectives.

Irial Finan
Chair

"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."



Group Chief Executive Officer's Statement

Delivering on our Vision

I am pleased to report that 2019 has delivered another record EBITDA result. At €1,650 million, our full-year EBITDA was 7% higher than the previous record reported in 2018 with an increased EBITDA margin of 18.2%.

Tony Smurfit
Group Chief Executive Officer

2019 Overview
Revenue for the full year was €9,048 million, up over 1% on 2018 reflecting the benefits of resilient box pricing, volume growth and the net contribution from acquisitions and disposals.

Our EBITDA of €1,650 million was €105 million ahead of 2018. In addition to the €92 million positive impact of IFRS 16, *Leases*, both Europe and the Americas continued to perform well. On an underlying basis, Group EBITDA was down 1% on 2018, with Europe down 3%, offset in part by the Americas, up 7%.

The Group reported a strong free cash flow of €547 million in 2019 compared to €494 million in 2018. This result primarily reflected our EBITDA growth and working capital inflow and was partly offset by higher outflows for capital expenditure and other items.

The Group's 2019 performance represents another milestone towards the realisation of our vision to be a globally admired company that dynamically delivers secure and superior returns for all stakeholders. Across 35 countries, we continue to create market leading innovative solutions for over 65,000 customers, delivering sustainable and optimised paper-based packaging.

EBITDA (million)
€1,650
2018: €1,545

EBITDA Margin (%)
18.2
2018: 17.3

Further information in relation to Alternative Performance Measures ('APMs') referenced in this Statement is included in the Supplementary Information section on pages 162 to 165.

"2019 is another milestone towards the realisation of our vision to be a globally admired company that dynamically delivers secure and superior returns for all stakeholders."

Europe

The Europe segment is the larger of the Group's two segments, accounting for 77% of revenue and 81% of EBITDA in 2019. Our Europe segment is highly integrated. It includes a system of mills and plants that primarily produce 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, sack kraft paper and graphic paper; and other paper-based packaging, such as solidboard packaging and folding cartons; and bag-in-box packaging.

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 29 other production facilities carrying out related activities. The mills are supported by 18 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 2019, and 14 recycled containerboard mills. In 2019, our 14 recycled containerboard mills produced over 3.5 million tonnes of paper.

We also have two virgin fibre based mills in Spain, which in 2019 produced approximately 140,000 tonnes of sack kraft paper and approximately 80,000 tonnes of machine glazed ('MG') paper. In 2019, our three mills in Germany together produced approximately 340,000 tonnes of solidboard and boxboard and approximately 70,000 tonnes of graphicboard. The Parenco containerboard mill, in the Netherlands, in addition produced 240,000 tonnes of graphic paper in the year.

On the conversion side, the operations comprise 50 sheet plants and 110 corrugated plants which produced approximately 9.0 billion square metres (4.6 million tonnes) in 2019. In addition, we have 33 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 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, Mexico and the United States.

Our European business continued to perform strongly in 2019, delivering an EBITDA margin of 19.0%, up from 18.3% in 2018, on revenues of €6,994 million (compared to €6,922 million in 2018). In Europe, EBITDA increased by €65 million or 5% to €1,332 million. Corrugated demand growth was approximately 4%, or approximately 1.5% for the year on an organic basis. On an operational basis, demand growth was approximately 2% for the year. The Group continued to advance its Medium-Term Plan ('MTP') in 2019, with the implementation of a number of significant projects across our corrugated and paper divisions. During 2020, the Group will complete a number of major European paper projects and will continue to invest in its market-facing corrugated division to capitalise on the many opportunities and secular trends.

European pricing for testliner and kraftliner at December 2019 reduced by €145 per tonne and €185 per tonne respectively from the high of October 2018. In light of strong demand for recycled containerboard and tighter inventories, we have informed our customers of a €60 per tonne price increase effective for all new orders.

In 2019, the Group completed acquisitions in Bulgaria and Serbia and our entry into these markets represents a further step in the Group's South Eastern European strategy. The integration of these assets is progressing well, complementing the Group's broader integrated system.

In August 2019, the Italian Competition Authority ('ICA') notified approximately 50 companies, of which Smurfit Kappa Italia S.p.A. was one, that an investigation had found the companies to have engaged in anti-competitive practices, in relation to which the ICA levied a fine of €124 million on Smurfit Kappa Italia S.p.A. We are very disappointed with the decision of the ICA on many levels and are vigorously appealing this decision on both administrative and substantive grounds. This process may take a number of years. SKG is committed to the highest standards of conduct in its business and does not tolerate any actions that are inconsistent with its values.

EBITDA Europe (million)

€1,332

2018: €1,267

EBITDA Margin Europe (%)

19.0

2018: 18.3

The Americas

Our Americas segment is also highly integrated. Like our Europe segment, it includes a system of mills and plants that primarily produce a full line of containerboard that is converted into corrugated containers. The Americas segment, which includes a number of Latin American countries and the United States, also comprises forestry; other types of paper, such as boxboard, sack paper and graphic paper; and paper-based packaging, such as folding cartons and paper sacks.

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, sack paper and graphic paper with a combined production of

EBITDA the Americas (million)

€360

2018: €317

EBITDA Margin the Americas (%)

17.5

2018: 15.7

1.6 million tonnes in 2019. 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 2019 production of approximately 2.3 billion square metres (1.4 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 one flexible packaging plant in El Salvador.

The Group's Americas business continues to provide geographic diversification and growth opportunities. The Americas region continued to perform well in 2019 with our three main countries of Colombia, Mexico and the United States having strong financial performances; with demand in Colombia particularly strong.

Our performance in the Americas resulted in an EBITDA increase of 13% versus 2018, with reported EBITDA of €360 million. Our EBITDA margin in the Americas continues to improve, up from 15.7% in 2018 to 17.5% in 2019 on revenues of €2,054 million (compared to €2,024 million in 2018). Colombia, Mexico and the United States delivered approximately 84% of the region's earnings with strong year-on-year performances in all three countries. The increasing focus on sustainable packaging solutions, together with the Group's unique pan-American offering, have continued to help strengthen relationships and drive growth in the region.

In Colombia, volumes were up 9% for the year driven by continued high growth in the FMCG sector and flower markets. In June, the Group announced the successful tender offer to acquire the non-controlling interest in Cartón de Colombia S.A. The consideration paid amounted to approximately €81 million for 27.8% of that company, bringing our shareholding to 97.7%. In Mexico, EBITDA margin continued to improve versus 2018 supported by our strong and developing market offering and position. In the United States, EBITDA and EBITDA margin continued to improve year-on-year due to a strong operational performance in our mill system and lower recovered fibre costs. Similar to Europe, the Group advanced its MTP during the year, with the successful completion of a number of projects in Colombia, Mexico and the United States. The region continues to advance some significant and exciting projects for 2020 and beyond.

As discussed in the 2018 Annual Report, following the deconsolidation of our Venezuelan operations in August 2018, the Group initiated international arbitration proceedings to protect the interests of its stakeholders and seek compensation from the government of Venezuela. This continues to progress.

Capital Structure

Net debt was €3,483 million at the end of December 2019, resulting in a net debt to EBITDA ratio of 2.1 times compared to 2.0 times at the end of December 2018. Our net debt to EBITDA at December 2019 was negatively impacted by the adoption of IFRS 16, increasing our net debt by €356 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.

In 2019 we extended our debt maturity profile and decreased our average interest rate as a result of a number of actions which we undertook during the year. Consequently, at December 2019, the Group's average interest rate was 3.18% compared to 3.63% at December 2018. The Group's diversified funding base and long dated maturity profile of 5.5 years provide a stable funding outlook.

Medium-Term Plan

The Group has demonstrated substantial progress on our MTP since its announcement in February 2018. To date, over €700 million of capital projects have been approved or spent under the MTP covering almost 100 projects. In Europe, the main paper projects have either been started or completed in most instances. The most significant achievement was the acquisition of Reparenco in 2018, delivering in year one, what would otherwise have been a multi-year capital project through to 2021. This again highlights the flexibility of the plan.

In looking at our more consumer-oriented corrugated division, progress has been made across a number of investments, installing a variety of machinery to cater for high growth trends requiring speciality gluing machines for eCommerce, casemakers with 'shelf-ready packaging' functionality or high quality print machines to create greater impact for our customers' products at the point of purchase.

Having achieved many of our objectives ahead of plan, and in light of a number of new opportunities that we have, supported by mega-trends, a new iteration of our strategic investments plan is under way and we will update the market in due course.

Commercial Offering and Innovation

What defines us in Smurfit Kappa is our customer focus. We have the scale, the experience, the innovation and the desire to help support our customers' needs in a dynamic and sustainable way. We have the right people and the best applications and tools to help our customers to succeed in their markets. We do this by reducing cost, driving innovation and differentiation and mitigating risk for our customer; all in a sustainable manner. We have developed 27 innovation centres across our operations in Europe and the Americas to help this process. Equally, we continue to invest in, and acquire, high quality assets in existing or adjacent markets which are highly complementary with our existing businesses.

As consumer purchasing habits evolve, the importance of how our customers' product looks on-shelf, or how it arrives when ordered online, is a key merchandising consideration in today's world. SKG is uniquely positioned to capitalise on this trend with its unrivalled market offering that enables our customers to increase sales, reduce costs and reduce risk. Customers benefit from SKG's innovative business applications, such as ShelfSmart, SupplySmart and eSmart, along with our geographic coverage, Global Experience Centre network and depth of data to provide innovative and sustainable packaging solutions.

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. Our engagement with customers, both current and prospective, on this initiative was best illustrated with two flagship events, our biennial Innovation Event in May hosted over 350 customers from across the globe and our inaugural 'Global Better Planet Packaging Day' on 21 November, which involved over 650 brand owners and retailers across our global operations, with our Global Experience Centre network providing a unique platform for the day. These innovation events were an industry-leading response to our customers' 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. 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 2019, the Group's leadership in innovation was recognised with 63 national or international awards for packaging innovation, sustainability, design and print. The Group's operations received awards in Argentina, Austria, Belgium, Brazil, Bulgaria, Colombia, the Czech Republic, France, Ireland, Mexico, the Netherlands, Russia, Sweden and the UK.

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

Sustainability

In May 2019, the Group launched its twelfth annual Sustainable Development Report. An ambitious new set of sustainability goals was unveiled after 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 strategic priorities within all areas of sustainability: Planet, People and Business.

The report is evidence of our industry-leading transparency and demonstrates how Smurfit Kappa is making progress in supporting the 2030 United Nations Sustainable 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.

Looking beyond our own operations, the Group continues to lead in innovative, sustainable packaging solutions for our customers, led by our 'Better Planet Packaging' initiative, which provides our customers with sustainable solutions today, ready for the challenges of tomorrow.

The Group is actively committed to social and environmental best practices. We are proud to support and develop the many Corporate Social Responsibility initiatives in the countries in which we operate. In association with our related foundations, our social investments focus on the education of disadvantaged children and young people. 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 Group is listed on the FTSE4Good, Euronext Vigeo Europe 120, STOXX Global ESG Leaders and Ethibel's sustainable investment register. The Group was also included in the newly formed Solactive ISS ESG Beyond Plastic Waste Index, which recognises companies active in the reduction of plastic pollution. SKG also performs strongly across a variety of third party certification bodies, including MSCI, CDP, Sustainalytics and EcoVadis.

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, who are dedicated to working together to support and service our diverse customer base.

Our commitment to our people is reflected in our people strategy, as we strive towards our ambition of being recognised as a globally admired company, a great place to work for all our employees and a company of choice for top talent. We want our colleagues to come to work every day and not only be themselves, but be the best they can possibly be. We put our employees at the core of our business, because we know that our success is driven by this highly motivated team.

The safety of every member of our team is the number one priority for the Group. We continue to ensure that our approach to safety remains embedded into our ways of working.

Having moved to using the Total Recordable Injury Rate ('TRIR') metric in 2018, we again achieved an improvement in our Health and Safety metrics in 2019. Overall, we have seen a year-on-year reduction in the TRIR of 17% during 2019. We also further developed our Health and Safety campaign during 2019, now titled 'Safety for Life Conversations'. The aim of this new element of the campaign is to ensure that safety conversations become part of our employees' everyday lives both at work and at home.

I would like to acknowledge the effort and commitment of all our employees in the 35 countries in which we operate, for their significant contribution to the results achieved in 2019. We look forward to the challenges and opportunities of 2020, to progressing on our medium-term plan 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

"What defines us in Smurfit Kappa is our customer focus. We have the scale, the experience, the innovation and the desire to help support our customers' needs in a dynamic and sustainable way."

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 sustainable 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 sustainability.

Outlook
SKG remains well positioned to build upon our strong performance in 2019. Going forward, we will continue to implement our strategy, creating a sustainable business that builds on our strengths and will generate value for all stakeholders over the long-term. We will continue to lead in innovative, sustainable packaging solutions for our customers, led by our 'Better Planet Packaging' initiative which provides our customers with sustainable solutions today, ready for the challenges of tomorrow. We remain relentlessly focused on employee training and development in order to help our people to reach their full potential within the organisation. Our strategy remains flexible and agile and we maintain a disciplined, returns focused approach to capital allocation.

Strategic Priorities	Description
Market position	**Expand our market positions in Europe and the Americas through selective focused growth.**
Partner of choice	**Become the supplier/partner of choice.**
Operational excellence	**Enhance our operational excellence through the continuous upgrade of our customer offering.**
Investment in people	**Recruit, retain, develop and motivate the best people.**
Capital allocation	**Maintain a disciplined approach to capital allocation and maintain the focus on cash generation.**

The Strategic Priorities are linked to Key Performance Indicators on pages 26 to 29 and to Risks on pages 30 to 33.

Objectives	Progress in the Year
• 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.	Set out in the Group Chief Executive Officer's Statement on pages 20 to 23.
• 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.	Set out in the Innovation section on pages 8 to 11.
• 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, sustainability initiatives, products and services on offer to our customers through the use of the Group's development and technology centres, our sustainability credentials and our innovation tools; and • Ensuring that the driving force behind all our operations is one of customer satisfaction and excellence in the marketplace.	Set out in the Group Chief Executive Officer's Statement on pages 20 to 23.
• 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.	Set out in the People section on pages 46 to 53.
• 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.	Set out in the Finance Review on pages 34 to 37.

Key Performance Indicators

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* (million)

€1,650

2018: €1,545

Strategic Priorities

Definition

EBITDA is the key performance measure of the Group's operating segments. It is an appropriate and useful measure used to compare recurring financial performance between periods.

Performance

EBITDA for 2019 was €1,650 million, €105 million ahead of 2018. This reflects the benefits of our customer-focused innovation, the resilience of the Group's integrated model, the benefits of our capital spend programme, the contribution from acquisitions, volume growth, lower recovered fibre costs and the impact of IFRS 16. In addition to the €92 million positive impact of IFRS 16, both Europe and the Americas continued to perform well.

EBITDA Margin* (%)

18.2

2018: 17.3

Strategic Priorities

Definition

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

Performance

EBITDA margin was 18.2% in 2019 compared to 17.3% in 2018 with improvement in both Europe and the Americas. In Europe, our overall margin strengthened from 18.3% in 2018 to 19.0% in 2019. In the Americas, our margin improved from 15.7% in 2018 to 17.5% in 2019. Colombia, Mexico and the US delivered approximately 84% of the region's earnings with strong year-on-year performances in all three countries.

Net Debt* (million)

€3,483

2018: €3,122

Strategic Priorities

Definition

Net debt comprises borrowings net of cash and cash equivalents and restricted cash. We believe that this measure highlights the overall movement resulting from our operating and financial performance.

Performance

Net debt amounted to €3,483 million at December 2019 compared to €3,122 million at December 2018. The year-on-year increase of €361 million reflected free cash flow of €547 million for the year, more than offset by net investment and financing outflows of €497 million, the uplift of €361 million to net debt for leasing (the IFRS 16 transition), the amortisation of deferred debt issue costs, net negative translation adjustments and net debt acquired.

* Further information in relation to the definition and calculation of these Alternative Performance Measures ('APMs') is included in the Supplementary Information section on pages 162 to 165.

Key to Strategic Priorities

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

Financial KPIs continued

Net Debt* to EBITDA (times)

2.1x

2018: 2.0x

Strategic Priorities

Definition

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

Performance

With net debt of €3,483 million and EBITDA of €1,650 million, our leverage ratio was 2.1 times at December 2019 compared to 2.0 times at December 2018, well within our target leverage range of 1.75x to 2.5x. The increase in our leverage was driven primarily by the increase in net debt which was impacted by IFRS 16 and the Group's acquisition activity, partly offset by the increase in EBITDA. Excluding the effect of IFRS 16 on net debt and EBITDA, leverage would be 2.0 times at December 2019.

Free Cash Flow ('FCF')* (million)

€547

2018: €494

Strategic Priorities

Definition

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

Performance

FCF of €547 million in 2019 was €53 million higher than the €494 million reported in 2018. EBITDA growth of €105 million, a working capital inflow and the absence in 2019 of the exceptional outflow of €29 million, were partly offset by higher outflows for capital expenditure and other items.

Link to Remuneration

See Remuneration Report for Annual Bonus, Deferred Annual Bonus Plan ('DABP') and Performance Share Plan ('PSP') metrics, pages 65 to 77.

Return on* Capital Employed ('ROCE') (%)

17.0

2018: 19.3

Strategic Priorities

Definition

ROCE is an effective measure of ensuring that we are generating profit from the capital employed.

Performance

At 17.0% for 2019 our ROCE was in line with our medium-term target of 17%. With a lower level of operating profit combined with a higher level of average capital employed, our ROCE decreased from 19.3% at December 2018.

Link to Remuneration

See Remuneration Report for Annual Bonus, DABP and PSP metrics, pages 65 to 77.

Financial KPIs continued

Earnings per Share ('EPS') (cent)

Pre-Exceptional Basic EPS*

274.8

2018: 292.2

Basic EPS

201.6

2018: (273.7)

Strategic Priorities

Definition

EPS serves as an effective indicator of a company's profitability and, in conjunction with other metrics such as ROCE, is a measure of a company's financial strength. The calculation of EPS is shown in Note 10 to the Consolidated Financial Statements.

Performance

Our pre-exceptional basic EPS in 2019 decreased by 6% from 292.2 cent in 2018 to 274.8 cent, reflecting a lower pre-exceptional profit attributable to owners of the parent of €649 million in 2019 compared to €689 million in 2018.

Basic EPS amounted to a positive 201.6 cent in 2019 compared to a negative 273.7 cent in 2018. This was mainly due to a lower charge for exceptional items in 2019 resulting in a profit for the financial year attributable to owners of the parent of €476 million, compared to a loss of €646 million in 2018.

Link to Remuneration

See Remuneration Report for PSP metrics, pages 65 to 77.

Non-Financial KPIs

Health and Safety (TRIR)

0.84

2018: 1.01

Strategic Priorities

Definition

A safe and healthy workplace is a fundamental right for every person at Smurfit Kappa, and is a business imperative for the Group. 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

We have committed to a 5% reduction in our Total Recordable Injury Rate ('TRIR'). The target was set in 2018, when we reached a base line of 1.01. Our result for the year 2019 was 0.84, a reduction of 17% on 2018.

Link to Remuneration

See Remuneration Report for Annual Bonus metrics, pages 65 to 77.

* Further information in relation to the definition and calculation of these Alternative Performance Measures ('APMs') is included in the Supplementary Information section on pages 162 to 165.

Key to Strategic Priorities

Market Position

Partner of Choice

Operational Excellence

Investment in People

Capital Allocation

Non-Financial KPIs continued

CO_2 Emissions Reduction (%)

32.9

2018: 29.0

Strategic Priorities

Definition

Although our industry is energy intensive, it is also one of the most energy efficient and 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 2019, we reached a reduction of 32.9% compared to 29% in 2018.

Chain of Custody (%)

92.1

2018: 88.4

Strategic Priorities

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 2019 was 92.1%.

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 Executive 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 Audit Committee is responsible for reviewing the effectiveness of the Group's system of internal control including risk management on behalf of the Board and reports to the Board on all significant matters.

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.

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.

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 Executive 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 annual budgeting, medium-term planning, and management's estimates of future profitability taking into account a number of factors including the budget and external economic factors and assumptions as appropriate (including the OECD expectations on GDP growth and the Fastmarkets RISI paper packaging forecast). The model incorporates and considers the important indicators of performance of the operations of the Group; EBITDA, EBITDA margin, free cash flow, net debt, 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.

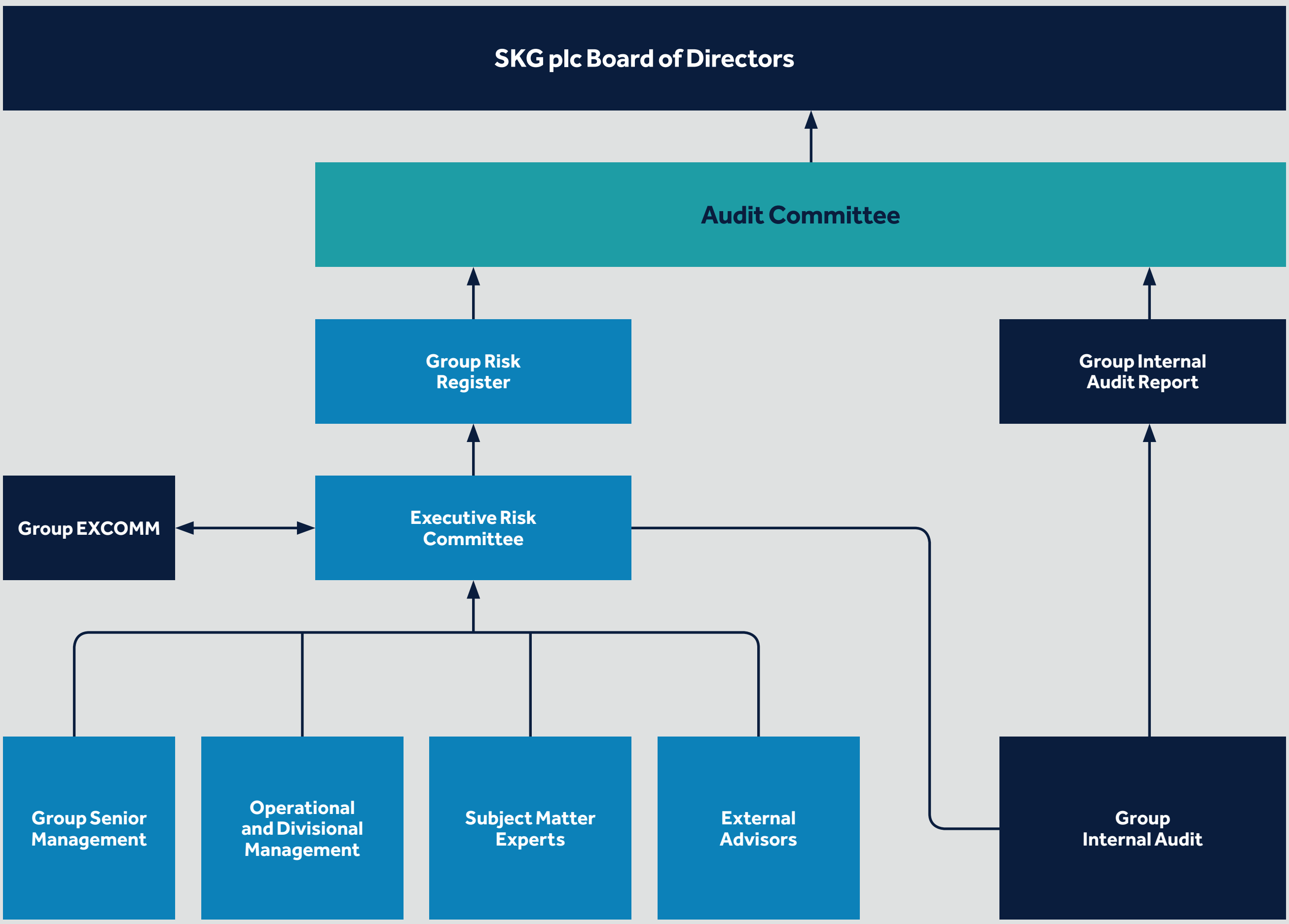
Going Concern
After making enquiries, the Directors have a reasonable expectation that the Company and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Consolidated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

Emerging Risks
In addition to considering current principal risks we also looked at emerging risk as part of our overall risk management processes. Management have identified climate change as being an emerging risk. Changes in weather patterns resulting in more regular flooding or water shortages, or catastrophic events such as earthquakes could give rise to business interruptions in our operations and our supply chain and potentially increase the cost of raw materials like wood where access to forests is hampered or forests are made more vulnerable to pests and diseases due to unseasonable weather. While this is not yet considered a principal risk we are now integrating the assessment of climate related risks into our standard risk reporting process in order to assess the potential risk to our strategy and the need for investment to mitigate against the risk.

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 the Executive Risk Committee 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 Report continued

Key to Strategic Priorities

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

Key to Risk Trend

Increased · Reduced · No Change

Risk Description	Mitigation	Trend

Economic

If the current economic climate were to deteriorate, for example as a result of geopolitical uncertainty (including Brexit), trade tensions or the coronavirus outbreak, it could result in an increased economic slowdown which, if sustained over any significant length of time, could adversely affect the Group's financial position and results of operations.

- As a highly integrated player, we are better able to cope with the effects of an economic downturn than a pure paper or corrugated producer.
- 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 we have done in the past.
- 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 75% 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** | **Trend**

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.
- Group wide auditing process based on current high risk activities.
- Annual safety improvement planning.

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 Group CEO.
- For newly acquired entities robust environmental due diligence is performed.

Legislation and Regulation – Anti-trust

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

- Revised Group Competition Law Compliance Policy is in place and communicated to all employees. All managers and market-facing employees are required to formally confirm adherence to the policy for the preceding calendar year 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 practice and legislative amendments.
- Contracts with competitors are recorded in an online register.
- Reduced trade association participation.

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.

Providing financial strategic flexibility

The strength of the Group's Balance Sheet provides considerable strategic flexibility with net debt to EBITDA at 2.1 times (well within our target leverage range of 1.75x to 2.5x).

Ken Bowles
Group Chief Financial Officer

Results

Revenue for 2019 was €9,048 million, up over 1% on 2018 reflecting the benefits of resilient box pricing, volume growth and the net contribution from acquisitions and disposals.

European revenue rose by €72 million to €6,994 million in 2019. The underlying decrease in revenue of €102 million and negative currency movements were more than offset by the net contribution of €180 million from acquisitions and disposals. Corrugated demand growth was approximately 4%, or approximately 1.5% for the year on an organic basis. On an operational basis, demand growth was approximately 2% for the year. European pricing for testliner and kraftliner reduced by €145 per tonne and €185 per tonne respectively from the high of October 2018 to December 2019.

Revenue in the Americas increased by €30 million in 2019 to €2,054 million, with underlying growth of €126 million, equating to 6%, partly offset by net negative currency and hyperinflationary movements and the absence of Venezuela in 2019. The underlying increase was driven by increased volumes across the region. In Colombia, volumes were up 9% for the year driven by continued high growth in the FMCG sector and flower markets.

EBITDA for 2019 was €1,650 million, €105 million ahead of 2018. This reflects the benefits of our customer-focused innovation, the resilience of the Group's integrated model, the benefits of our capital spend programme, the contribution from acquisitions, volume growth, lower recovered fibre costs and the impact of IFRS 16. In addition to the €92 million positive impact of IFRS 16, both Europe and the Americas continued to perform well. On an underlying basis, Group EBITDA was down 1% on 2018, with Europe down 3% offset in part by the Americas up 7%.

At €1,332 million, reported EBITDA in Europe was €65 million higher than in 2018. With the positive impact of IFRS 16 of €62 million and the contribution of €45 million from net acquisitions partly offset by a negative currency movement of €5 million, underlying earnings were €37 million lower than in 2018. The underlying decrease was primarily driven by lower paper prices, partly offset by volume growth and lower recovered fibre costs.

Further information in relation to Alternative Performance Measures ('APMs') referenced in this Review is included in the Supplementary Information section on pages 162 to 165.

At €360 million, reported EBITDA in the Americas was €43 million higher than in 2018. With the positive impact of IFRS 16 of €30 million partly offset by net negative currency and hyperinflationary movements and the absence of Venezuela in 2019, the underlying year-on-year move in earnings was an increase of €21 million. For the year, 84% of the region's earnings were delivered by Colombia, Mexico and the United States with strong year-on-year performances in all three countries driven by increased volumes, lower recovered fibre costs and continued progression of our capital investment programme.

Allowing for the impact of IFRS 16, net acquisitions, currency movements, hyperinflation and higher group centre costs, the underlying year-on-year decrease in EBITDA for the Group was €19 million, equating to 1%.

The reported year-on-year growth of €105 million in EBITDA was more than offset by an increase of €131 million in the overall charge for depreciation, depletion and amortisation (largely due to the application of IFRS 16 and acquisitions) and an increase of €17 million in the share-based payment expense. As a result, the Group's operating profit before exceptional items decreased by €43 million from €1,105 million in 2018 to €1,062 million in 2019.

Pre-exceptional net finance costs at €192 million were €25 million higher in 2019 primarily as a result of an increase in non-cash costs of €18 million, reflecting a negative swing from a currency translation gain of €22 million in 2018 to an €8 million loss in 2019. Cash interest, net of exceptional costs, was €7 million higher year-on-year, mainly as a result of the interest now booked in respect of leases.

With the €43 million decrease in operating profit before exceptional items and the €25 million increase in net finance costs, partly offset by an increase of €2 million in our share of associates' profit, the pre-exceptional profit before income tax of €872 million was €66 million lower than in 2018.

After exceptional items of €195 million, the profit before income tax for 2019 was €677 million compared to a loss of €404 million in 2018. The income tax expense was €193 million compared to €235 million in 2018, resulting in a profit of €484 million for 2019 compared to a loss of €639 million in 2018.

Exceptional Items

Exceptional items charged within operating profit in 2019 amounted to €178 million, of which €124 million related to the Italian Competition Authority fine levied on Smurfit Kappa Italia S.p.A., €46 million related to the impairment of goodwill in Brazil and €8 million to the impairment of property, plant and equipment and customer-related intangible assets in one of our North American corrugated plants. In 2018, exceptional items charged within operating profit amounted to €66 million comprising €28 million related to reorganisation and restructuring costs in Europe, €18 million related to the defence of the unsolicited approach by International Paper, €11 million to the loss on disposal of the Baden operations in Germany and €9 million was due to the UK High Court ruling on equalisation of guaranteed minimum pensions in the UK.

Net exceptional finance costs charged in 2019 amounted to €17 million, comprised of a redemption premium of €31 million, and accelerated amortisation of debt issue costs of €6 million relating to the refinancing of the senior credit facility and the early redemption of bonds. These were partly offset by a €20 million fair value gain on the put option over the remaining 25% non-controlling interest of our Serbian acquisition. Exceptional finance costs charged in 2018 amounted to €6 million, relating to the fee payable to the bondholders to secure their consent to the Group's move from quarterly to semi-annual reporting and the interest cost on the early termination of certain US dollar/euro swaps.

Exceptional costs of €1,270 million in relation to the deconsolidation of Venezuela were charged to the Consolidated Income Statement in 2018.

Profit Before Income Tax

After exceptional items, the Group's profit before income tax amounted to €677 million in 2019, comprising the pre-exceptional profit before income tax of €872 million and a net exceptional charge of €195 million. In 2018, the total loss before income tax was €404 million, comprising the pre-exceptional profit before income tax of €938 million and a net exceptional charge of €1,342 million (primarily relating to the deconsolidation of the Group's operations in Venezuela). The year-on-year increase of €1,081 million reflected the decrease of €66 million in the pre-exceptional profit before income tax more than offset by a lower net charge for exceptional items.

Income Tax Expense

The income tax expense in 2019 was €193 million (comprising a current tax charge of €200 million and a deferred tax credit of €7 million) compared to €235 million (comprising a current tax charge of €199 million and a deferred tax charge of €36 million) in 2018.

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

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

There was a net tax credit of €22 million on exceptional items in 2019 compared to a €7 million tax credit in 2018.

Earnings Per Share

Basic EPS amounted to a positive 201.6 cent in 2019 compared to a negative 273.7 cent in 2018. On a diluted basis, our EPS in 2019 amounted to a positive 200.0 cent compared to a negative 273.7 cent in 2018.

The year-on-year increase in the Group's basic EPS reflected the impact of a lower charge for exceptional items in 2019 resulting in a profit before income tax in 2019 compared to a loss in 2018. Our pre-exceptional basic EPS in 2019 decreased by 6% from 292.2 cent in 2018 to 274.8 cent.

EBITDA Europe (million)

€1,332

↑€65

EBITDA the Americas (million)

€360

↑€43

Finance Review continued

Summary Cash Flow	2019 €m	2018 €m
EBITDA	**1,650**	1,545
Exceptional items	**–**	(29)
Cash interest expense	**(156)**	(155)
Working capital change	**45**	(94)
Current provisions	**(23)**	(1)
Capital expenditure	**(730)**	(574)
Change in capital creditors	**19**	13
Tax paid	**(222)**	(193)
Sale of property, plant and equipment	**4**	4
Other	**(40)**	(22)
Free cash flow	**547**	494
Share issues	**2**	–
Purchase of own shares (net)	**(23)**	(10)
Sale of businesses and investments	**–**	(8)
Deconsolidation of Venezuela	**–**	(17)
Purchase of businesses, investments and NCI[1]	**(204)**	(516)
Dividends	**(242)**	(219)
Derivative termination receipts	**1**	17
Early repayment of bonds	**(31)**	–
Net cash inflow/(outflow)	**50**	(259)
Net debt acquired	**(7)**	(3)
Adjustment on initial application of IFRS 16	**(361)**	–
Deferred debt issue costs amortised	**(14)**	(10)
Currency translation adjustments	**(29)**	(45)
Increase in net debt	**(361)**	(317)

1 'NCI' refers to non-controlling interests

The EPS figures are calculated on the basis of the weighted average number of shares in issue during the year, which was 236,071,000 in 2019 compared to 236,008,000 in 2018.

Cash Generation

Free cash flow in 2019 was €547 million compared to €494 million in 2018, an increase of €53 million. EBITDA growth of €105 million, a working capital inflow and the absence in 2019 of the exceptional outflow of €29 million, were partly offset by higher outflows for capital expenditure and other items.

The outflow of €29 million for exceptional items 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.

Cash interest was €156 million in 2019. Cash interest in 2018 was €155 million which included exceptional finance costs of €6 million. The year-on-year increase, net of exceptional costs, mainly reflects the interest now recognised in respect of IFRS 16.

The working capital inflow was €45 million compared to an outflow of €94 million in 2018. The inflow in 2019 was the combination of a decrease in debtors and stocks, partly offset by a decrease in creditors. Working capital amounted to €630 million at December 2019, representing 7.2% of annualised revenue compared to 7.5% at December 2018. Working capital decreased by €53 million in the year, representing principally the net cash inflow of €45 million and an inflow in capital creditors of €19 million, partly offset by working capital acquired of €12 million.

Current provisions gave rise to an outflow of €23 million in 2019 compared to €1 million in 2018. The outflow in 2019 was mainly due to payments for restructuring and legal provisions.

Capital expenditure in 2019 amounted to €730 million (equating to 134% of depreciation) compared to €574 million (equating to 138%) in 2018. Excluding the impact of leases, capital expenditure for the year was €651 million and represented 141% of depreciation.

Tax payments in 2019 of €222 million were €29 million higher than in 2018.

The 'other' net outflow of €40 million in 2019 comprised mainly an outflow in respect of employee retirement benefits. In 2018, an outflow in respect of retirement benefits was partly offset by a hyperinflationary adjustment related inflow. Following the deconsolidation of Venezuela, the impact of hyperinflation is considerably reduced and is now confined to Argentina, with the resulting hyperinflationary inflow significantly lower in 2019.

Investment and financing cash flows in 2019 amounted to €497 million compared to €753 million in 2018. The year-on-year decrease was driven mainly by the lower outflow for the purchase and sale of businesses, investments and non-controlling interests and the absence in 2019 of the outflow relating to the deconsolidation of Venezuela. These were partly offset by higher dividend payments of €242 million (including €238 million to Group shareholders), an outflow of €31 million relating to a redemption premium on the early repayment of bonds, a higher outflow in respect of share purchases under the Deferred Bonus Plan ('DBP') and a lower inflow from the termination of derivatives compared to 2018.

The outflow of €204 million for the purchase of businesses and investments related mainly to the acquisitions in Serbia and Bulgaria and the buy-out of a significant portion of the non-controlling interests in Colombia along with some deferred consideration for previous acquisitions. The outflow of €516 million in 2018 related mainly to Reparenco, Papcart and Caradec with additional amounts for the buy-out of the Beacon and Fustelpack non-controlling interests and some deferred consideration for previous acquisitions.

With our free cash flow of €547 million in 2019 largely offset by the net investment and financing outflows of €497 million, the result was a net inflow of €50 million compared to an outflow of €259 million in 2018. After the €361 million uplift to net debt for leasing, resulting from the transition to IFRS 16, the amortisation of deferred debt issue costs of €14 million, net negative currency translation adjustments of €29 million and net debt acquired of €7 million, net debt increased by €361 million to €3,483 million at December 2019 from €3,122 million at December 2018.

The net negative currency translation adjustments of €29 million in 2019 related mainly to the US dollar and Sterling. The US dollar strengthened from US$1.15/euro at December 2018 to US$1.12 at December 2019, resulting in a negative currency translation adjustment of

"An important component of our vision is to deliver secure and superior returns for all stakeholders."

Free Cash Flow (million)

€547

↑ 11%

€13 million. Sterling strengthened from £0.89/euro at December 2018 to £0.85 at December 2019, resulting in a negative currency translation adjustment of €11 million. 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.

With net debt of €3,483 million and EBITDA of €1,650 million, our leverage ratio was 2.1 times at December 2019 compared to 2.0 times at December 2018. The increase in our leverage was driven primarily by the increase in net debt which was impacted by IFRS 16 and the Group's acquisition activity, partly offset by the increase in EBITDA. Excluding the effect of IFRS 16 on net debt and EDITDA, leverage would be 2.0 times at December 2019.

Capital Resources and Liquidity

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,589 million (2018: €4,499 million) of which €3,255 million (2018: €3,466 million) was utilised at 31 December 2019. The weighted average period until maturity of undrawn committed facilities is 3.8 years (2018: 1.6 years). Pro-forma for the Revolving Credit Facility ('RCF') extension in January 2020, the weighted average maturity of undrawn committed facilities increases to 4.5 years.

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 2019.

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 RCF with 21 of its existing relationship banks. The new RCF refinanced the Group's senior credit facility, which was due to mature in March 2020. Building on the €400 million add-on to the June 2018 bond, SKG issued an 8-year, €750 million bond in September 2019 at a coupon of 1.5%. The proceeds were used to finance the early redemption in October 2019 of €250 million senior floating rate notes due 2020 and €500 million 3.25% senior notes due 2021. In October 2019, the Group redeemed €400 million 4.125% senior notes due 2020. On 13 January 2020, the Group secured the agreement of all lenders in its RCF to extend the maturity date by a further year to 28 January 2025.

At 31 December 2019, the Group's average interest rate was 3.18% compared to 3.63% at 31 December 2018. The Group's diversified funding base and long dated maturity profile of 5.5 years provide a stable funding outlook. In terms of liquidity, the Group held cash balances of €203 million at the end of December, which was further supplemented by available commitments of €1,004 million under its new RCF and €330 million under its securitisation programme.

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.

Market Risk and Risk Management Policies

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

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. As at 31 December 2019, the Group had fixed an average of 90% of its interest cost on borrowings over the following twelve months.

The Group's fixed rate debt comprised €500 million 2.375% senior notes due 2024, €250 million 2.75% senior notes due 2025, US$292.3 million 7.50% senior debentures due 2025, €1,000 million 2.875% senior notes due 2026 and €750 million 1.5% senior notes due 2027. In addition, the Group had €174 million in interest rate swaps converting variable rate borrowings to fixed rate with maturity dates ranging from October 2020 to January 2021.

The Group's earnings are affected by changes in short-term interest rates as a result of its floating rate borrowings. If LIBOR/EURIBOR interest rates for these borrowings increased by one percent, the Group's interest expense would increase and income before taxes would decrease by approximately €5 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.

Conclusion

An important component of our vision is to deliver secure and superior returns for all stakeholders. Consistently delivering these levels of returns primarily reflects the strength of our free cash flow generation. Since 2007, our cash generation has allowed us to significantly transform the balance sheet of the Group, reduce leverage and take advantage of multiple opportunities to refinance our debt. Our cash interest bill has reduced significantly, and we have given those benefits back to shareholders. Dividends form an integral part of our capital allocation decision-making process and provide certainty of value for shareholders. Our progressive dividend policy has delivered a CAGR of 28% since 2011. This iterative process of investment in the business, with value-enhancing acquisitions delivering superior returns, facilitates the further strengthening of the balance sheet and in turn ever greater returns for our shareholders.

Ken Bowles
Group Chief Financial Officer

Stakeholder Engagement

Understanding our stakeholders

One of our goals is to build a culture which fosters engagement and enables us to build and maintain successful relationships with our stakeholders.

Stakeholder Engagement

Engagement with our stakeholders is designed to be two-way in nature and serves to further enhance the evolution of our strategy by ensuring the Board has a fundamental understanding of stakeholder views. The Board is cognisant of the principle underpinning Provision 5 of the new UK Corporate Governance Code, which asks Boards to have regard for engagement mechanisms with stakeholders as a means to ensure their views are taken into account at Board-level. The Board is fully aware of its responsibilities in this area and this stakeholder report sets out clearly the long-lasting partnerships we have developed with customers, investors, employees, the communities in which we operate and suppliers.

One of our goals is to build a culture which fosters engagement and enables us to build and maintain successful relationships with our stakeholders. 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 Group. We consider stakeholder engagement to be 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.

Customers

Experience Centres

Our worldwide Experience Centres are a way for us to share knowledge with customers and together improve and develop packaging solutions to gain real business value.

There are 27 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, get introduced to our industry leading 'Innotools' and experience how all this can be applied to their business needs.

Global Better Planet Packaging Day

On 21 November 2019, we hosted our first ever Global Better Planet Packaging Day. This event saw us welcome over 650 brand owners and retailers to our Global Experience Centre network. The day involved a combination of educational and inspirational lectures followed by a series of interactive workshops aimed at helping our customers to design packaging that helps, and does not harm our planet.

Innovation Events

We believe that it's important to recognise and celebrate our achievements in innovation, particularly in packaging design and sustainability. To do this, we hold a central Innovation Event every two years with customers and employees from around the world. This year, focused on the theme 'Better Planet Packaging', the event looked at how we can make packaging for a sustainable world. A record number of over 350 customers were treated to a rich and varied programme.

Interviews with Customers

In 2019, we commissioned interviews with 90 customers across Europe and the Americas to better understand their expectations of ESG rating agencies packaging suppliers as well as their views on Smurfit Kappa. Their feedback will be used to understand what improvements can be made to continue to improve our offering for customers.

Investors

Ongoing Investor Engagement

Our executive Directors together with the investor relations team maintain active engagement/dialogue with the investment community. During 2019, the team met with over 300 analysts and portfolio managers from over 200 different investment funds. Conversations took place at various investor conferences and roadshows as well as multiple ad hoc meetings, site visits, investor days and calls.

In 2019, following his appointment to the role, the Chair also met with many of our major shareholders.The engagement provided valuable insights which were relayed to the Board.

Perception Study

The Group commissioned an external consultant to carry out a perception study with the aim of gaining a better understanding of how investors, both current and potential, as well as sell side analysts, view Smurfit Kappa.

Annual General Meeting ('AGM')

The Company held its AGM on 3 May 2019, wherein all shareholders were given the opportunity to ask questions or voice any concerns.

Annual Report

The Investors section on the Group's website, smurfitkappa.com, provides the full text of the Annual Report 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.

ESG Ratings by Rating Agencies

Smurfit Kappa is listed on the FTSE4Good, Euronext Vigeo Europe 120, STOXX Global ESG Leaders, Solactive and ISS index, and Ethibel's sustainable investment register. SKG also performs strongly across a variety of third party certification bodies, including MSCI, CDP, Sustainalytics and EcoVadis.

Employees

MyVoice
Our Employee Engagement Survey which is conducted frequently, gives all our 46,000 employees the opportunity to give us their views on how colleagues feel about our Company, our business, our vision and values. It also helps us understand our strengths and development opportunities. We experience very high completion rates of over 85% across our global business, and develop real action plans with our colleagues locally to build on feedback.

Safety First
This unique annual survey gives us an informed understanding and view of how our colleagues feel about Health and Safety in Smurfit Kappa. The key focus area is whether they feel we are improving with our investments and efforts. This is a great way for our colleagues to give open feedback.

Smurfit Kappa Academy
Our Group SK Academy provides a range of training, learning and developmental opportunities and programmes available to our colleagues. This includes functional and managerial/leadership development programmes which also provide our colleagues with the opportunity to meet and spend time with the senior leaders and mentors across our global business, as well as coaching support.

Works Councils
We collaborate and work with the relevant employee nominated Works Councils and Employee Union/representatives. With regular meetings and updates, we work together to ensure colleague matters are discussed. These cover a range of topics, and collaborations have been very successful and beneficial, supporting local business and colleague needs.

Communities

Smurfit Kappa Foundation
The Smurfit Kappa Foundation supports projects in countries where we operate, focusing on disadvantaged children's health and nutrition, basic care, and early education. The Foundation supported such projects in 2019 in Colombia, France, Germany, Ireland, Italy, Mexico and eight other countries.

In 2019, recipients of donations from the Smurfit Kappa Foundation included children's education, health and social inclusiveness projects and research programmes into areas such as biodiversity.

World Cleanup Day
In support of our sustainability ambitions-our colleagues and their families also took part in World Cleanup Day in September 2019, when over 8,000 colleagues came together to clean up litter and plastic waste, making a contribution to our planet. Over 10,000 bags and boxes of litter were collected from a diverse range of locations including beaches, river, parks, streets and woodlands.

Volunteering
During 2019, thousands of colleagues volunteered and took part in some of the social initiatives with our SK Foundation. Our colleagues have helped hundreds of community based social and environmental projects. Community involvement builds trust and serves as a link to the issues important to us. We focus on self-help initiatives, education and health programmes, and contribute through financial donations and volunteering by local employees.

Suppliers

Compliance with Policies and Audits
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.

Training
We offer our suppliers a range of training, covering many topics including print technology and process improvement.

Standardisation
We continue to standardise our capital equipment purchases for our corrugated plants. This allows our suppliers the potential to achieve process and manufacturing economies of scale and to reduce their energy consumption and carbon footprint.

Supplier Collaboration
We work with our suppliers to promote better Health and Safety and continuous improvement in the work environment.

By agreeing with suppliers that shipments can be bundled, they can optimise volume to choose more sustainable transport options with lower emissions, better service levels and lower costs.

Delivering a better tomorrow

Sustainability is a central part of SKG's business strategy. In order to create long-term value, SKG has built its business on three pillars of sustainability – Planet, People and Business. 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 our 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 almost ten billion in 2050, will offer significant business opportunities and challenges to companies such as SKG. In response to rising global wealth and well-being, commerce will change and worldwide demand for packaging goods and services will continue to grow.

Since our inception 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, littering, a growing population and associated social issues, 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 in turn consumers. As an employer, we want to be globally admired through investing in our people and supporting the communities in which we operate.

Working towards global sustainability gives new business opportunities, while requiring us all to set common targets. The United Nations Sustainable Development Goals ('SDGs') and the Paris Agreement offer both, and SKG will play its part in making them a reality. In our materiality assessment, we compare 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 and the Paris Agreement is covered in our Sustainable Development Report.

The cornerstone of our sustainability strategy, as with all our work, is our Code of Business Conduct. For environmental matters, our starting point is that all of our sites operate within their permits. We actively monitor this through our environmental data collection, information on permits, incidents and fines. We continuously invest in our sites to maintain state-of-the-art facilities and proactively follow environmental legislative developments to ensure compliance. We focus our sustainability efforts on three pillars, identified through a robust materiality assessment process. Further information on these pillars is outlined on the next page.

SKG reports annually on its sustainability performance – the 2019 Sustainable Development Report will be published in April 2020. SKG published its twelfth Sustainable Development Report in May 2019, and it can be found on our website: smurfitkappa.com. All previous Sustainable Development Reports are also available. The Group's Sustainable Development Reports provide an overview of SKG's performance against its long-term sustainability commitments and sustainability strategy.

SKG is committed to the principles of the United Nations Global Compact and reports in line with the comprehensive criteria of the Global Reporting Initiative ('GRI') Standards against which our sustainability data and reporting has been assured since 2009. This provides a transparency in SKG's operational reporting and guarantees our credibility to stakeholders, especially customers, investors and the communities in which we operate.

Three Pillars of Sustainability

In order to create long-term value, SKG has built its business on three pillars of sustainability. We base our ambition of sustainable growth on making impactful business through our products and their production, respecting people in our organisations and as stakeholders and continually minimising our environmental impact. Our approach to the three pillars of sustainability is explained in the following sections and below. We are mapping against the SDGs, the cirlcles below refer to the specfic SDG which are listed at the bottom of the page.

Further details of our SDG assessment will be included in our 2019 Sustainable Development Report, which will be published in April 2020.

SDG 15 · SDG 14 · SDG 13 · SDG 07

A greener, bluer planet

Climate change/Forests
Water/Waste

The circular economy is at the core of our business. We use renewable, recyclable and biodegradable materials to create new products.

SDG 06 · SDG 12 · SDG 11

SDG 01 · SDG 02 · SDG 03 · SDG 04 · SDG 05 · SDG 10

An employer of choice

People Values/People Strategy
Communities/Health and well-being

Having engaged employees is critical for our business. We work safely with talented people in a global, culturally diverse organisation.

SDG 08

An impactful business

Innovation/Governance and human rights/Sustainable sourcing

As a global group, our activities create sustainable value for our shareholders, customers, employees, suppliers and the communities where we operate.

SDG 17 · SDG 16 · SDG 09

UN Sustainable Development Goals:

Reducing CO_2 emissions through investing in energy efficiency

Creating a business of enduring value is important to SKG, and for this reason, the Group works tirelessly to reduce its fossil carbon emissions.

In 2018, the Group introduced its new specific CO_2 reduction target to reduce fossil CO_2 emissions by 40% per tonne of paper produced by 2030. To achieve its targets, the Group has a three tiered approach: investing in efficient energy generation on site, investing in efficient energy use in our processes and moving to CO_2 neutral biofuels where possible.

Townsend Hook paper mill in the UK and Los Reyes paper mill in Mexico are the Group's most recent investments in efficient energy generation and use. In both mills, the Group replaced existing paper machines with new more energy efficient machines.

In 2015, Townsend Hook replaced two existing recycled paper machines with a new machine which was configured to work more efficiently. This machine can produce up to 226,000 tonnes of paper per annum with 17% lower energy consumption.

A new Combined Heat and Power installation, built in 2018, is dedicated to the paper machine production and produces both electricity and steam from natural gas with an average 85% efficiency. In total, the CO_2 emissions from the site were reduced by 22% versus 2012.

SK Los Reyes built a new paper machine and boiler house as part of a project to meet its customers' needs. 2018 marked the first year of the newly upgraded operational facility working to full capacity. The new paper machine has a capacity of 100,000 tonnes of paper and it has been designed to be significantly more energy efficient than the previous, decommissioned machine. Together with the new more efficient boilers, the mill upgrade led to over 19% savings in CO_2 per produced tonne of paper in 2018 and a further 2% in 2019.

Both cases show the power of investing in efficient energy generation and in improving process energy efficiency.

Circular Approach Based on Evidence

For many years our operations and products have been based on a circular model driven by our raw materials. Forests, where our virgin fibres come from, are a closed loop, from which we can positively benefit when they are managed 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, having 100% renewable and recyclable fibre, and over 90% of our final products are collected 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.

Our approach helps mitigate the concerns of our stakeholders regarding sustainable forest and fibrous raw materials. 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. We seek circular synergies where we can both utilise our raw material side streams and seek collaboration with partners. As part of our commitment to sustainable business practices, we have consistently collected robust sustainability data on our operations for over ten years. We use this information to continually improve our process and resource 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. For example, our Piteå mill in Sweden, 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.

Delivering Sustainable Value for our Stakeholders

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, which enables 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. See more about our Sustainable Approach on pages 12 to 15.

Growing our Business Through Growing our People

SKG conducts a large part of its commitment to sustainability 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, religion, race and 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, has regular meetings and updates. 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. See more in our People section, pages 46 to 53.

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".

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.

In 2018, the Group introduced the Total Recordable Injury Rate ('TRIR') as a key performance indicator to further improve the measurement of the success of its health and safety efforts. The Group health and safety performance improved in 2019 with a reduction in TRIR compared to last year as a result of continuously improving health and safety measures and initiatives implemented across the Group. For details on this KPI see page 28.

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.

Corporate Citizenship Policies

SKG has specific policies on key areas of sustainability which are integral in improving future performance. These cover Environment, Sustainable Forestry, Social Citizenship, and Health and Safety. These policies complement other policies in place, covering: Code of Business Conduct, Code of Ethics for Senior Financial Officers, Sustainable Sourcing Policy, Supplier Code of Conduct Policy, Diversity Policy, Group Financial Reporting Guide, Group Treasury Policy, Financial Monitoring Policy, Treasury Compliance Policy and Competition Law Compliance Programme. A report on Corporate Governance is detailed on pages 57 to 61 of this report.

Anti-Bribery and Anti-Corruption

SKG 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.

Human Rights

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 our acquisition practices are in line with these principles also. 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 Sustainable Development 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 whereby we distinguish 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 have increased supplier screening on Human Rights. In addition we will issue our updated statement under section 54 of the UK Modern Slavery Act in June 2020.

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.

Chain of Custody: sustainable packaging delivered by people, not just processes

At Smurfit Kappa, we understand the importance of sustainability in everything we do – and everything our customers do. Every day, we take pride in proving how our ways of working across the breadth of our operations contribute to a better use of the world's resources and a more sustainable future. We have sustainability in every fibre – ingrained in our products, our processes and, importantly, our people – delivering value across the supply chain.

Nowhere is this more evident than in our certified and verified approach to Chain of Custody. Right across the packaging product life cycle, from forest to the finished packaging product that is delivered to factory or shop floors, Smurfit Kappa people are at the heart of guaranteeing sustainability at every stage.

Five of our dedicated employees outline the important part they play in the Chain of Custody journey

Sustainable Forest Management

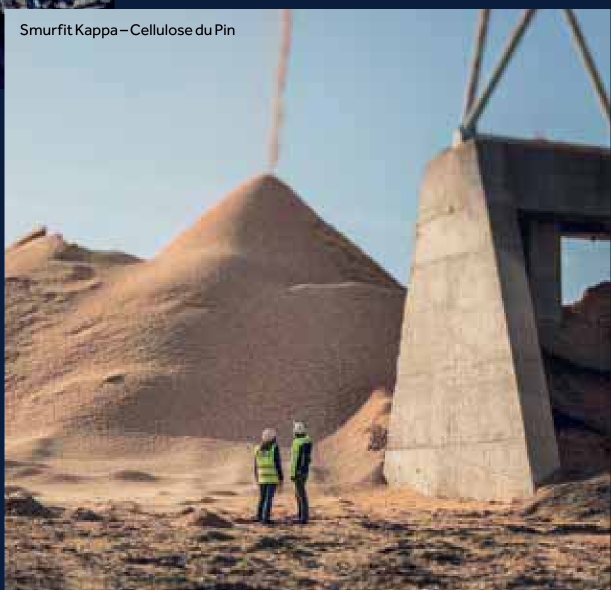
"Certified forests mean that we apply specific procedures to protect and manage the forest and forest ecosystems sustainably, as well as to maintain safety of our operations in the forest. I know this is important to our customers, but certified plantations also act as a source of employment for the surrounding communities that we are committed to supporting."

Jose Nehil Zuluaga Trujillo, Harvest Technician of Forestry, who works in Smurfit Kappa's own Colombian FSC® certified forest plantations

Responsible Sourcing at Paper Mills

"We are commited to securing our wood from sustainably managed forests, mainly from nearby regions, either from certified forests or from controlled sources. When a timber load enters the paper mill, our resource planning systems are in place to check the status of certification and prevent any unidentified fibres from being put into production. Once we know fibres are okay to use, a documented information trail of the raw material follows it throughout the paper making process. From certification documentation to origin controls and independent third-party audits, our processes ensure transparency. As a forest engineer in the paper industry and as a father, I am passionate about the benefits of certified forestry – not just environmental, but social and economic."

Ernst Kastner, Wood Purchasing Manager at Smurfit Kappa Nettingsdorfer paper mill in Austria



Smurfit Kappa – Cellulose du Pin

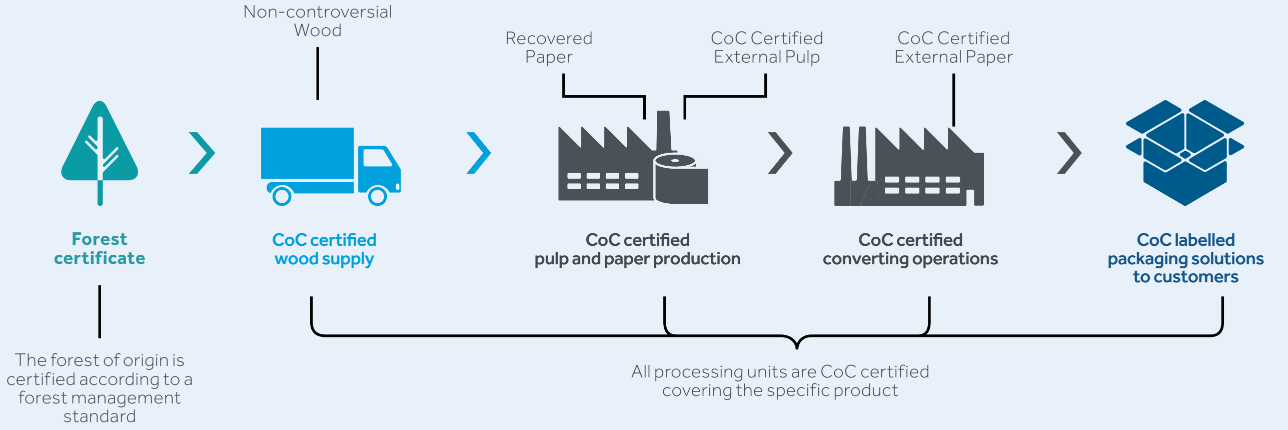
Smurfit Kappa Recycling – Roermond

Paper Recovery and Recycling

"Our principal raw material is recovered paper and cardboard which we receive from Smurfit Kappa's recycling operations (post-consumer waste) as well as clippings which we receive from our corrugated operations (pre-consumer waste). Material sources and specifications are stipulated and compliance is closely monitored – a key requirement to help demonstrate appropriate Chain of Custody. For me personally, our approach to Chain of Custody means we're minimising our impact on the depletion of natural resources; that makes me proud to work at Smurfit Kappa."

Mark Webster, Compliance & Environmental Manager at Smurfit Kappa SSK's recycled paper mill in the UK

Chain of Custody ('CoC') Model



Transforming Paper into Packaging

"Our plant doesn't work with non-certified material. For a start, it's all traced and tracked through our order system. My colleagues and I also receive annual in-house FSC training to ensure we know and understand the materials we work with; so customers can rest assured the people behind our products know what they're working with. Our training and day-to-day work within the parameters of our Chain of Custody system has raised our awareness of the importance of certified material: it has a massive impact on both the environment and society."

Dave Senior, Conversion Shift Manager at Smurfit Kappa Weston Super Mare corrugated plant in the UK

Smurfit Kappa – Stalybridge

Smurfit Kappa – Zedek

The Final Packaging Product

"Product delivered? Have a look at the paperwork that came with it. All of our customers receive a dispatch note and an invoice with our certified 'stamp of proof' clearly marked – their guarantee that our product originates from a sustainable source, verified throughout the supply chain. What's more, all of our products are fully recyclable so you can have peace of mind that the paper from your packaging can be recovered and reused again and again. Selling certified, sustainable products gives the whole of our Company great pride – and it sets us apart."

Peter De Knop, Key Account Manager for Smurfit Kappa Benelux

People

Striving to be a globally admired employer of choice

It has always been the ambition of the Smurfit Kappa Group to be recognised as a globally admired company, a great place to work and an employer of choice for top talent. These ambitions are not just based on our business growth, but also on our understanding that our success is driven by our highly valued and motivated team, across the world. We believe our employees are the beating heart of our business.

As a FTSE 100 company, with operations in 35 countries, spread across over 350 production sites, the Smurfit Kappa family of over 46,000 colleagues is as diverse as any organisation in the world. Our inclusive culture is dedicated to leveraging the expertise and diversity of this team, to work together to drive the organisation forward. Together we are committed to building a better tomorrow for our customers, our shareholders, our communities and of course for all of us, who are part of this great organisation.

We constantly strive to drive a culture of innovation, with our colleagues across all our sites; leveraging their passion, expertise and manufacturing capabilities. We work to develop packaging solutions and products that can deliver new growth opportunities for our customers and help build a more sustainable planet – a commitment you can see clearly outlined in the Sustainability section of this document.

We see this as an opportunity for both the Group and our people, ensuring we are all ready to step-up, as and when required. We also want to be sure that those like-minded, talented individuals, who are not yet part of the Smurfit Kappa story, find their way into our organisation.

Over the past number of years, we have built a solid foundation of employee welfare and care, based on our safety-first approach; instigated an enviable people development programme and developed extensive rewards and recognition programmes. At Smurfit Kappa, we have a very strong people focused foundation and over the past year, the Group HR team has been evolving the HR Strategy, to build on this work, with a series of new initiatives based around our people's development and engagement.

Additionally, we have also made significant changes and improvements to our recruitment processes, to ensure we are attracting the best and most diverse talent available.

Sharon Whitehead
Group Vice President Human Resources
Smurfit Kappa Group

Our Evolved Approach

We have evolved our people strategy under four key pillars, which we believe will ensure that the business continues to be set up for success from a people perspective:

Smurfit Kappa – a globally admired employer of choice

Employee Experience for Performance

Engaging and inspiring our entire workforce to perform at their best every day, by creating a continuous dialogue with our employees and building deep internal connections for better performance.

See page 48 for more details

Inclusion, Diversity and Belonging

Creating a diverse place to work where 'EveryOne' feels respected, supported and a real sense of belonging, so that all our employees can thrive and be their authentic self at work, every day.

See page 49 for more details

People Development and Talent Management

Building a diverse talent pipeline for Smurfit Kappa's current and future needs, whilst ensuring we help everyone reach their full potential, growing our people and their careers to enable us to grow our business.

See page 50 for more details

Rewards and Recognition

Attracting, retaining and recognising our employees through fair and competitive practice. Deploying rewards and recognition programmes that our people understand and value, and which drive Smurfit Kappa's success.

See page 51 for more details

Five fundamentals of our HR strategy

Safety and Well-being	Legal Framework	Industrial Relations	HR Information Systems	Internal Communications

See more in our HR section, pages 52 to 53.

Employee Experience for Performance

Our Ambition: Create a continuous two-way dialogue, to ensure our people understand our strategy and the role they play in its delivery, to inspire them to perform at their best every day.

We are a wonderfully diverse team in the context of background and life experience, but also in terms of longevity of service. We are proud so many employees choose to stay with us for most, if not all, of their careers. Almost 50% of our workforce have service exceeding 11 years, which provides a great mix of experience in the workplace.

It is our belief that these people who make such a commitment to the organisation, along with everyone who joins us on their career journey, deserve a working life full of moments that matter, right through from the moment they are hired, to the time they depart the organisation or indeed, they choose to retire.

Employee Engagement – MyVoice

To make sure this happens, since 2014 we have deployed 'MyVoice', a staff engagement survey which reaches deep into our mills and plants.

The full survey was repeated in 2017, with a 'Pulse' in 2019. Last year's 'Pulse' survey attracted a record participation level of 85%, but breaking records is not what drives us forward.

We believe that the continued success and engagement levels with the survey, is driven by the fact that out of every survey, we have taken all feedback seriously and have implemented extensive employee action plans, from the top of the organisation, right across all of our sites and offices.

We are also using the momentum created by the various surveys, to improve our change management systems and use this information to provide better insights and inform our decision making, such as considering how to better accommodate a more diverse workforce, which includes significantly more women than ever before, on some of our more industrialised sites.

We are already looking forward and planning our third full MyVoice survey in September 2020.

Inclusion, Diversity and Belonging

Our Ambition: To create a diverse workplace where everyone has a real sense of belonging and can be their authentic self at work, every day.

Fostering diversity, inclusion and belonging at Smurfit Kappa is important to us. With a workforce of over 46,000, we truly value our diverse mix of people, who bring so much in terms of leadership, culture, perspective and innovative thinking to our organisation.

Building on our Global Diversity Programme 'EveryOne', which was launched in 2018, we have continued to advance our commitment to nurturing a diverse culture, where all employees can contribute to our success.

Likewise, our enhanced focus is always on abilities, not disabilities – if you have the skills to work with us, we will do what is necessary to make that happen.

Inclusiveness at Smurfit Kappa Group

As part of our 'EveryOne' diversity strategy, earlier this year we became a patron of the Trinity Centre for People with Intellectual Disabilities ('TCPID').

TCPID aims to provide people who have intellectual disabilities, with the opportunity to participate in a higher education programme, designed to enhance their capacity to fully participate in society as independent adults.

As a patron, we believe we can help TCPID deliver on their goals, by providing an inclusive environment and work opportunities. In fact, in December, we were joined by a TCPID graduate.

He will work as part of our IT compliance team over the coming months. During this time, we will give him good insights into SKG, provide him with an on-the-job learning opportunity and give him the chance to leverage the skills and knowledge he acquired during the TCPID programme.

People Development and Talent Management

Our Ambition: To help our people grow their careers and deliver on their potential, so we can realise our ambitions for the organisation and drive forward.

People development is another area where our work in establishing the highly successful Smurfit Kappa Academy and related programmes has extended right across 2019. Year-on-year, we have continued to increase our investment in people development.

Smurfit Kappa Academy

One of our key areas of focus is leadership. As an organisation, Smurfit Kappa understands the importance of strong leadership, to align, empower and inspire our people.

In order to help them grow and exceed, we have put in place a number of developmental programmes under the banner of the Smurfit Kappa Academy. In 2019, the courses we ran and the numbers who attended were as follows:

Graduate Programme	86
Advance Management Development Programme ('AMD')	27
Global Manager Programme ('GMP')	31
Open Leadership Programme @ INSEAD Business School	270
English Immersion Programme	67

In addition to these Group training events, there are also extensive training programmes organised regionally, to address the needs of specific sites and individuals. This mix of training programmes, combined with our ongoing performance dialogue and 360 degree feedback programme for our senior teams, is all combining to extend our reputation as a great place to work.

We have also developed the Smurfit Kappa Open Leadership programme, which is a key part of the Group training offering. It began in 2016 and is a partnership with INSEAD, one of the world's leading business schools, who worked with us to design a fully customised programme based on the Smurfit Kappa Open Leadership model. The model is based on four key activity areas to deliver strong leadership behaviours: Leading Self, Leading People, Leading the Organisation and Leading the Market.

The programme comprises three modules and supports participants from our operations across the world, to develop the capabilities to align, empower and inspire their people to anticipate and meet the changing demands of the markets.

The Open Leadership model is the result of a one-year project in 2015 involving Smurfit Kappa leaders, at all levels of the organisation. They worked together to identify nine key capabilities that we believe are vital in Smurfit Kappa to achieve sustained growth and long term success and which are depicted in the graphic.

The success of the Academy, along with our focus on recruitment of talent directly from third level institutions, is ensuring we have the right mix of talent and experience at every level of the organisation. In 2019, our focus on graduate recruitment provided a graduate pool of 86, across many disciplines including accounting, marketing, engineering and HR, to name but a few.

Smurfit Kappa Academy

Rewards and Recognition

Our Ambition: We aim to attract, retain and recognise our employees through competitive working practices. Making sure that people are not just appropriately rewarded from a monetary perspective, but also see their achievements recognised and valued in the workplace.

There are many ways in which we make it clear to our employees that we respect and value them. For example, we have competitive wage structures aligned with market standards, multiple career advancement opportunities, a commitment to global mobility, easy to understand communication of rewards packages; as well as a policy of openly thanking our colleagues for going above and beyond what is expected. As an organisation, we are also committed to gender pay equality and will continue to proactively monitor the pay of male and female colleagues, in similar roles, to ensure it is comparable. For example, under new legislation, UK employers with more than 250 employees are required to publish key metrics on their gender pay gap. Our UK business has published such a report.

The way we recognise the success of our people happens in a variety of different ways. No two people are the same and they feel rewarded and motivated in different ways. Recognition can be anything from a simple thank you from co-workers, to a success story published on the Smurfit Kappa intranet.

Our key objectives for our Rewards Policy is 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 strategic objectives.
- Provide competitive rewards and benefits that are clearly linked to performance.

The Group ensures that positive employee and trade/labour union relations are maintained to ensure fair and sustainable Collective Labour Agreements. In setting our rewards packages, Smurfit Kappa takes into consideration the employee's performance, external benchmark data for their role in companies of similar size and scope, while also ensuring internal equity within the Group.

We are increasingly looking at total rewards when benchmarking our remuneration levels. The overall rewards package is tailored to help meet both short and long-term financial needs, but also the development and well-being of our employees.

We Couldn't Do Without You

One of the ways we recognise our colleagues for their commitment to the organisation is through our long-service awards.

During 2019, in the Irish business, 15 people received their 25-year awards. Between them they have a combined service of over 375 years. Smurfit Kappa is extremely proud of its long service record and is very thankful that these colleagues, as well as many more around the world, have committed their careers and working life to the organisation.

Our Human Resources Foundations

Underpinning our four new HR strategic pillars are the five fundamentals of our HR strategy;

Safety and Well-being	Legal Framework	Industrial Relations	HR Information Systems	Internal Communications

These are the areas on which we focus, to ensure the health and well-being of our people, the reliability of our information, the integrity of our organisation, while ensuring we communicate with all our colleagues in a consistent and timely manner.

These do not just underpin our behaviours, but provide us with an approach and way of working, behind which the entire HR organisation is aligned. For example, at Smurfit Kappa, every relevant meeting begins with a discussion on Health and Safety.

There are always several key activities being undertaken at any one time, under these areas of focus. 2019 was no exception and we will continue to progress and add processes and programmes in the years ahead.

Making Safety the Only Way of Working

The safety of our people is our number one priority at Smurfit Kappa. All our key meetings, particularly those at site level, begin with a review and conversation around safety.

It is our ambition, to ensure that our approach to safety is embedded in everyone's ways of working, right across the organisation. To help achieve this, in 2018 we launched our 'Safety for Life' campaign and in 2019, we developed it further by adding on the 'Safety for Life Conversations' element. This ensures safety conversations become an instinctive part of our employees' everyday lives, both at work and at home.

The supporting materials for the campaign carried images of our employees at home and at work, to reinforce the message that everyone needs to focus on this critical issue, in order to go home from work safely every day.

It is an extremely engaging and hard-hitting campaign and its simple approach has created many conversations, while reinforcing to everybody the importance of thinking before we act and to always act safely. In fact, it is leading to year-on-year reductions in our Total Recordable Incident Rate.

Ethical Approach In Everything We Do

During 2019, the Group has been working on a project dedicated to the review of our Group Ethics Management processes and governance.

This will provide an enhanced reporting channel and case management process that aligns with the three underlying principles of Smurfit Kappa's Code of Conduct: compliance with law, ethical behaviour and a commitment to quality and service.

It will also ensure our employees have a voice, and an opportunity to report wrongdoing or potential wrongdoing in full confidence, through an independent channel with no fears of retaliation.

We have just launched the 'Speak Up' service, which allows employees to raise a concern across all key communications channels, including telephone, email and online. It is available in 20 different languages, 24/7/365. The service will guarantee users confidentiality and/or anonymity and assurance of non-retaliation.

In support of this new initiative, we also reviewed our Code of Business Conduct and integrated our Good Faith Reporting Policy (Whistleblower Code) into one single policy.

The Human Library

Understanding and tolerance of different people is at the core of Smurfit Kappa's EveryOne inclusion and diversity programme.

At their 2019 Management Conference attended by 140 managers, Smurfit Kappa UK facilitated a 'Human Library' event. In-keeping with the conference theme 'Working Together, Delivering Together', the objective of the Human Library event was to bring to life the Inclusion and Diversity agenda in a surprising and engaging way.

Human Library, is an international organisation that first started in Denmark in 2000, which aims to address people's prejudices. This is done by helping participants to talk to different types of people they would not normally meet such as someone with an alcohol addiction, someone with Autism or ADHD, someone who suffers with depression or Bi-Polar, someone who is homeless, is HIV+ or has been a refugee.

The Human Library works with experts, who are called books, that represent different experienced prejudices. Eighteen 'books' from the Human Library were invited to the Smurfit Kappa UK Management Conference, and the delegates were given an opportunity to have three readings or in-depth conversations, with the 'books' to explore topics such as race, being a refugee, having an addiction, sexual orientation, and political views, amongst other topics. Delegates found the sessions hugely thought provoking, challenging and engaging.

"For us this was an efficient and interesting way to bring inclusion and diversity to the attention of our managers," explains Trudy Rush, HR Director SK UK. "We are very pleased to have been able to use a creative way to introduce a topic that may challenge people and their thoughts."

Image used with permission from the Human Library Organisation.

Conclusion

Employees who find meaning at work are happier, more productive, and more engaged. This is well understood by the business community. People who believe their job has meaning and a broader purpose are more likely to work harder, take on challenging or unpopular tasks, and collaborate effectively.

This is why Smurfit Kappa Group, strives to constantly evolve and improve its people strategy and why our four new pillars; Employee Experience for Performance; Inclusion, Diversity and Belonging; People Development and Talent Management and Rewards and Recognition have been developed.

We will continue to work hard to share our ambitions with our people, to constantly exceed their developmental and career aspirations and to show them how much they are valued by the organisation.

Board of Directors

Irial Finan
Non-executive Chair

Age: 62 | Nationality: Irish

Irial Finan joined the Board in February 2012. He was appointed Chair in 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. 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.

Anthony Smurfit
Group Chief Executive Officer

Age: 56 | 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: 48 | Nationality: Irish

Ken Bowles joined the Group in 1994 and has occupied a number of finance roles in various parts of the Group. Mr Bowles was appointed Group Chief Financial Officer in April 2016, prior to which he was the Group Financial Controller from 2010. He was the Group's Head of Tax from 2007 to 2010 prior to which he was appointed as the Group's first Head of Compliance in 2004. 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.

	Irial Finan	Anthony Smurfit	Ken Bowles
Term of office	Irial Finan joined the Board in February 2012. He was appointed Chair in May 2019.	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	Yes**	No	No
Committee membership			

* For Smurfit Kappa Group plc or its predecessor companies, SKG returned to Euronext Dublin (formerly ISE) and LSE on its IPO in March 2007.
** On his appointment as Chair in May 2019 Irian Finan was independent.

Board Committees
Audit · Remuneration · Nomination · Sustainability · Ⓒ Chair

Anne Anderson
Non-executive Director

Age: 67 | 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: 72 | Nationality: Dutch

Frits Beurskens joined the Kappa Group in 1990 and held various Managing Director positions until his appointment as its President and CEO in 1996 which he held until the merger with Smurfit. He is a former Chair 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.

Carol Fairweather
Non-executive Director

Age: 58 | 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 a Fellow of the Institute of Chartered Accountants.

James Lawrence
Non-executive Director

Age: 67 | Nationality: American

James Lawrence is currently Chair of Lake Harriet Capital, LLC, an investment and advisory firm. He served as Chair 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-Chair 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.

	Anne Anderson	Frits Beurskens	Carol Fairweather	James Lawrence
Term of office	Anne Anderson joined the Board in January 2019.	Frits Beurskens has served as a Director of the Group since December 2005.*	Carol Fairweather joined the Board in January 2018.	James Lawrence joined the Board in October 2015.
Independent	Yes	No	Yes	Yes
Committee membership	Nomination, Sustainability	Nomination	Audit (Chair), Remuneration	Audit, Nomination

Board Committees
Audit Remuneration Nomination Sustainability © Chair

Lourdes Melgar
Non-executive Director

Age: 57 | Nationality: Mexican

Lourdes Melgar is a consultant and scholar recognised for her expertise in the areas of energy, sustainability and public policy. During her career, she held various positions in Mexico's foreign service. During the design and implementation of Mexico's energy reform, Dr Melgar served as Vice-Minister for Electricity from 2012 to 2014 and was appointed Vice-Minister for Hydrocarbons, a position she held until 2016. Dr Melgar is currently a Research Affiliate at the Center for Collective Intelligence at MIT and a non-resident Fellow at the Center of Energy of the Baker Institute. She currently serves on the Board of Grupo Financiero Santander Mexico.

John Moloney
Non-executive Director

Age: 65 | 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 Chair of DCC plc.

Jørgen Buhl Rasmussen
Non-executive Director

Age: 64 | 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 Chair of Novozymes AS and Chair of Unhrenholt AS and an Advisory Board member of Blazar Capital.

Gonzalo Restrepo
Senior Independent Non-executive Director

Age: 69 | 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.

	Lourdes Melgar	John Moloney	Jørgen Buhl Rasmussen	Gonzalo Restrepo
Term of office	Lourdes Melgar joined the Board in January 2020.	John Moloney joined the Board in December 2013.	Jørgen Buhl Rasmussen joined the Board in March 2017.	Gonzalo Restrepo joined the Board in June 2015.
Independent	Yes	Yes	Yes	Yes
Committee membership		C	C	C

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 2019 Smurfit Kappa Group plc applied the principles of the 2018 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 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. The Board retains 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 24 and 25
- Board appointments including those of the Chair, Group Chief Executive Officer and other executive Directors
- Appointment and removal of Group Secretary
- 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.

The Board with the support of the Group Secretary is satisfied that it has the policies, processes, time and information to function effectively.

Membership, Board Size and Independence

Following the appointment of Dr Lourdes Melgar, there are eleven Directors on the Board, comprising: a non-executive Chair, two executive Directors and eight non-executive Directors. The Board of Directors and their biographical details are set out on pages 54 to 56. The Board considers that the Board comprising eleven Directors is not so large as to be unwieldy and that the Directors, having 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 54 to 56.

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 strategies and business ideas. The Board's ongoing refreshment has continued, with the appointment of Dr Melgar to the Board. The Board continues to include an appropriate balance of longer serving and more recently appointed Directors.

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.

An independent external evaluation of the Board and its Committees was conducted by Independent Audit in 2019. The process concluded that overall the Board and its Committees continue to operate effectively. The Board will focus on implementing the actions arising from the review going forward.

Following these reviews, the Board is satisfied that the Board and its Committees have the appropriate balance of skill, experience, diversity, independence and knowledge of the Group 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 composition and independence.

Corporate Governance Statement continued

The Board reviewed the composition of the Board and determined that Ms Anderson, Ms Fairweather, Mr Lawrence, Dr Melgar, Mr Moloney, 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.

The Chair was independent on appointment.

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. Frits Beurskens has the additional benefit of many years exposure to paper-based packaging companies either as employee, director or stakeholder which complements the experiences of the executive Directors. The diversity of skills and experiences are set out in extensive detail in the biographies of the Directors on pages 54 to 56.

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.

Dr Melgar is offering herself up for election and each of the other Directors, are offering themselves for re-election at the 2020 AGM.

External Directorships and Time Commitment

For executive Directors the Board believes that there is benefit for the Group if they 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.

In relation to non-executive Directors the Chair is satisfied that each has demonstrated that he/she has sufficient time to meet his/her Board responsibilities.

Mr Finan was appointed as non-executive Director of Fortune Brands Home & Security, Inc. in February 2019. The Board are satisfied that the responsibilities resulting from this appointment will not impact on Mr Finan's time commitment to the Group. Prior to accepting the appointment, Mr Finan discussed the nature of the role and the time commitment involved with the Chair.

Remuneration

Details of remuneration paid to Directors (executive and non-executive) are set out in the Remuneration Report on pages 65 to 77. 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 30 April 2020.

Chair

Mr Irial Finan, who joined the Board in February 2012, was appointed Chair with effect from 3 May 2019 succeeding Mr. Liam O'Mahony who retired as a non-executive Director and Chair on the same date. 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.

Senior Independent Director

Mr Gonzalo Restrepo was appointed the Group's Senior Independent Director in December 2019. 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 five times in 2019. 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 2019, the July Board meeting was held in Düsseldorf and the Board visited the Brühl and Zülpich plants. 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 2019

	A*	B*
I. Finan	5	5
A. Anderson	5	5
F. Beurskens	5	5
C. Bories***	5	4
C. Fairweather	5	5
J. Lawrence	5	4
L. Melgar****	0	0
J. Moloney	5	5
R. Newell***	5	4
L. O'Mahony**	2	2
J. Buhl Rasmussen	5	5
G. Restrepo	5	5
A. Smurfit	5	5
K. Bowles	5	5

* 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.
** Mr O'Mahony retired from the Board in May 2019.
*** Ms Bories and Mr Newell retired from the Board in December 2019.
**** Dr Melgar joined the Board in January 2020.

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. Having been appointed in January 2019, Anne Anderson completed an induction process. As part of this she visited a number of the Group's operations in the Netherlands and in the USA. Ms Anderson also received a briefing on directors duties under Irish Company Law and relevant securities laws applicable to Smurfit Kappa Group. 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 Düsseldorf and the Board visited the Brühl and Zülpich plants. 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 seven 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 Dr Melgar's appointment in January 2020. 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.

External Board Evaluation

In 2019, an externally facilitated evaluation of the Board and its Committees was conducted by Independent Audit. This process was completed in accordance with the requirement to have an evaluation externally facilitated every three years under Provision 21 of the Code. The process involved experienced evaluators from Independent Audit conducting confidential one to one interviews with each Director, the Group Secretary and the Head of Internal Audit. The evaluators also attended and observed a Board meeting as well as an Audit, Remuneration and Nomination Committee meeting.

The report received from Independent Audit was considered by the Board at its meeting on 5 December 2019. An evaluator from Independent Audit attended for part of that meeting to provide a summary of and to facilitate the discussion of their report. Following this discussion, the Board formally concluded on its own performance, on the performance of Committees and on the performance of individual Directors, including the Chair. The Board agreed on a number of actions, primarily arising from the Independent Audit report, which will be implemented during the year.

Internal Board Evaluation

The Senior Independent Director co-ordinates a rigorous annual evaluation of 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. In addition, 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 73 and 76. 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)).

Corporate Governance Statement continued

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 Remuneration 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. During 2019, the Board also established a Sustainability Committee with responsibility to provide direction and oversight of the sustainability strategy of the Group. 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 62 to 80.

Stock Exchange Listings

Smurfit Kappa Group plc, 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 ISE).

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.

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, as applicable, 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 Event 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's AGM affords each shareholder the opportunity to engage with and 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 consideration of the Annual Report, the Directors' Remuneration Report and the Remuneration Policy (on adoption) 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/she 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 of Business Conduct. The Code of Business Conduct was reviewed and updated during 2019 and now incorporates the Group's Good Faith Reporting Policy. The Code of Business Conduct is available on the Group's website: smurfitkappa.com and is translated into 17 languages.

Sustainability

In order to create long-term value, our Company has built its business on three pillars of sustainability – Planet, People and Business. This means respecting the social environment we are in, and ensuring that the impacts on nature and natural resources do not exceed the needs of future generations. SKG manages its business in a way which recognises its key responsibilities in all material aspects of sustainability especially in the areas of Environment, Sustainable Forestry, Social Citizenship and Health and Safety. The Group's principles are summarised on pages 40 to 45 and are described in detail in the Sustainable Development Report for 2018 which is available on the Group's website. The Sustainable Development Report for 2019 will be published in April 2020. The new Board Sustainability Committee is responsible for guiding and overseeing the Group's sustainability strategy going forward.

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 pages 30 to 33.

The Directors confirm there is an ongoing process for identifying, evaluating and managing the emerging and 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 emerging and 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 emerging and principal risks that could affect the Group's business (as outlined on pages 30 to 33), 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 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 pages 81 to 82 of the Directors' Report and form part of this Corporate Governance Statement.

Audit Committee Report

"
Dear Shareholder

I am pleased to present the Audit Committee report for the 2019 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
6 March 2020

Committee Members
C. Fairweather (Chair)
J. Lawrence
L. Melgar
J. Moloney

Role of the Audit Committee
The Committee is responsible for providing oversight and assurance to the Board regarding:
- the integrity of the published financial statements and the significant financial reporting judgements;
- internal financial controls and risk management and internal control systems;
- the Internal Audit function;
- the External Audit arrangements; 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 were updated in December 2019 to reflect the revised Code and are available on smurfitkappa.com.

Membership of the Committee
The Board has reviewed and updated the composition of the Committee during the year and is satisfied that the mix of business and financial experience and sector expertise enables the Committee to effectively fulfil its responsibilities. The biographical details of each member are set out on pages 54 to 56. The Committee is currently comprised of four independent non-executive Directors. Of these, Mr James Lawrence and I, the Committee Chair, have recent and relevant financial experience.

Meetings
The Committee met five times during the year under review. Details of the Committee members and meetings attended are provided in the adjacent table. The Group Chief Financial Officer, the Group Internal Auditor, 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 Chief Financial Officer, Group finance team, the Group Internal Auditor and the External Auditor.

Attendance Record	A*	B*	Appointment Date
C. Fairweather (Chair)	5	5	2018
A. Anderson**	4	4	2019
C. Bories***	5	4	2012
I. Finan**	1	1	2012
J. Lawrence	5	4	2015
L. Melgar****	0	0	2020
J. Moloney	5	5	2014
R. Newell***	5	4	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 Anderson was appointed to the Committee and Mr Finan retired from the Committee in February 2019. Ms Anderson retired from the Committee in December 2019.
*** Ms Bories and Mr Newell retired from the Board, and Mr Buhl Rasmussen and Mr Restrepo retired from the Committee in December 2019.
**** Dr Melgar was appointed to the Committee in January 2020.

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 implementation of IFRS 16, *Leases*, and its impact on the financial statements. See Note 4 to the Consolidated Financial Statements for further information;
- the continued evolution of the Group's risk function and the focus on emerging risks; and
- the integration of newly acquired businesses.

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 and narrative statements of the Company, including the annual and interim reports, preliminary results' announcement, trading statements and any other formal announcement relating to its financial performance. The Committee reported its views to the Board to assist in the Board's approval of the results announcements.

The Committee assessed whether suitable accounting policies had been adopted and whether management has made appropriate estimates and judgements. The Committee considered management's position in relation to 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.

Insofar as it relates to audit and risk management, the Committee considered all material information presented with the financial statements, such as the strategic report and the corporate governance statements.

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 Code requires that a fair, balanced and understandable assessment of the Company's position and prospects be presented by the Board and 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.

The Committee, on behalf of the Board, considered and discussed with management the key processes that they have in place for the preparation of the Annual Report including their detailed planning and co-ordination as well as comprehensive review procedures. This allowed the Committee to confirm to the Board that the Annual Report, taken as a whole, is fair, balanced and understandable and that it provides the necessary information for shareholders to assess the Group's position and performance, business model and strategy. In addition, the Committee noted the formal processes performed by KPMG in relation to the Annual Report.

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 was satisfied it was operating effectively within the current remit. The Committee met privately with the Internal Auditor during the year.

Whistleblowing
The Committee is responsible for ensuring that the Group maintains suitable whistleblowing arrangements. During 2019, the Group completed a review of the whistleblower policy and arrangements. The outcome of this review resulted in the implementation of 'Speak Up' (further details included on page 53), a third party system which provides an enhanced reporting channel and case management process that aligns with the Smurfit Kappa Code of Conduct which was also updated during 2019 and now incorporates the Group's Good Faith Reporting Policy.

Risk Management and Internal Control
The Group's internal control and risk management systems are 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.

The Committee has reviewed the adequacy and effectiveness of the Group's internal control systems regularly through various activities including:
- reviewing the effectiveness of its risk management processes;
- reviewing and challenging management's self-assessment of the internal control framework;
- the work undertaken by internal and external auditors in relation to internal controls; and
- the regular reporting on any control, fraud related or whistleblowing issues.

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 pages 30 to 33.

External Auditor
The Committee is responsible for overseeing the relationship with, and the 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.

During the year, the Committee considered the effectiveness and independence of the External Auditor and confirmed its satisfaction on both. This review involved discussions with both Group management and Internal Audit and feedback provided by divisional management. The Committee continues to monitor the performance and objectivity of the External Auditor and takes this into consideration when making its recommendation to the Board.

Prior to the commencement of the 2019 year-end audit, the Committee approved the External Auditor's strategy and plan and agreed the scope of the audit, the key risks, the proposed audit fee and the terms of engagement. The Committee has recommended to the Board that the current External Auditor, KPMG, be proposed for reappointment at the forthcoming AGM.

KPMG attended all the Audit Committee meetings during the year and had a number of private meetings with the Committee during the year.

KPMG has been the Group's auditor since 2018, following a formal tender process.

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.

Audit Committee Report continued

All contracts for non-audit services in excess of €50,000 must be notified to and pre-approved 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 6 on page 111. Fees paid to KPMG for non-audit work in 2019 amounted to €0.3 million and total 3.5% of the fees paid for the statutory audit (2018: 12%).

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

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 pages 30 to 33.

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 €2,383 million at 31 December 2019. 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 was satisfied that the judgements made by management are reasonable and that except for the €46 million charge in relation to Brazil, goodwill is not impaired, and the disclosures in Note 13 to the Consolidated Financial Statements are appropriate.
Valuation of Defined Benefit Obligations The Group has defined benefit obligations totalling €899 million at 31 December 2019.	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 €195 million in 2019.	The Committee considered management's proposed treatment of each of the items included within exceptional charges which totalled €195 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.

Committee Evaluation

An independent external evaluation of the Board and its Committees was conducted by Independent Audit in 2019, details of which are outlined in the Corporate Governance Statement on page 59. The evaluation concurred with the Board's plans to reduce the size of the Audit Committee's membership and the changes took effect from 1 January 2020. 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 including identification of emerging risks.

The periodic independent external quality assessment of the Internal Audit function will be carried out during the year and the report will be considered by the Committee.

Remuneration Report

"Dear Shareholder

I am pleased to present our Directors' Remuneration Report for the financial year ended 31 December 2019, my first as Chair of the Remuneration Committee. I also want to thank Irial Finan for his leadership of the Committee over the last number of years, including the development of the current Remuneration Policy which was approved by shareholders at the 2018 AGM."

John Moloney
Chair of Remuneration Committee
6 March 2020

Committee Members
J. Moloney (Chair)
I. Finan
C. Fairweather
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 only. Nevertheless, the Committee recognises the importance of effective corporate governance and is therefore voluntarily adopting a number of the requirements of these reporting regulations.

The current Directors' Remuneration Policy was approved by shareholders at the 2018 AGM by way of an advisory vote and is subject to renewal at the 2021 AGM (in line with the normal three-year cycle). The Committee has reviewed the EU Shareholders' Rights Directive ('SRDII'). While the Irish legislation implementing SRDII has not yet been published, the current policy was drafted in anticipation of SRDII, and the Committee is satisfied that the Group is complying with best practice in respect of remuneration reporting. In addition, the Committee proposes to present a new policy for shareholder approval at the 2021 AGM to ensure full compliance with SRDII and the implementing legislation.

In line with our commitment to effective corporate governance, the annual Remuneration Report has been drafted to cover the key requirements of the UK remuneration reporting regulations. In addition, where appropriate, the report has been updated to cover additional Irish remuneration reporting requirements, which do not take effect until next year. The annual Remuneration Report will be subject to an advisory vote at the 2020 AGM.

Link Between Remuneration and Strategy

As set out in further detail throughout the Annual Report, Smurfit Kappa's strategic objective is to develop long-term customer relationships by providing customers with differentiated sustainable packaging solutions that enhance the customers' prospects of success in their end markets.

To deliver this, the Group's key aims are:

- expand our market position in Europe and the Americas through selective focused growth;
- become the supplier/partner of choice;
- enhance our operational excellence through the continuous upgrade of our customer offering;
- recruit, retain, develop, and motivate the best people; and
- maintain a disciplined approach to capital allocation and the focus on cash generation.

Successful delivery of our strategy will continue to build a sustainable business delivering long-term shareholder value, profit growth and positive returns on capital.

Executive Director remuneration arrangements are aligned with the delivery of our strategy through the underpinning performance metrics, which include: profit based metrics (Earnings Before Interest and Tax ('EBIT') for the annual bonus and EPS for the LTIP); cash based metrics (FCF for the annual bonus); return based metrics (ROCE for the annual bonus and LTIP); shareholder return metrics (relative Total Shareholder Return ('TSR') for the LTIP); and key non-financial metrics.

Remuneration Report continued

2019 Performance and Incentive Out-turns

For 2019, the Group reported strong results with EBITDA of €1,650 million (7% greater than 2018), FCF of €547 million (11% greater than 2018) and ROCE of 17.0% compared to 19.3% in 2018. In this context, the Committee reviewed performance against the metrics under the annual bonus plan for 2019 and approved a bonus of 71% of maximum for the executive Directors. In line with the Remuneration Policy, 50% of the annual bonus award will be deferred into shares for three years.

The Committee is conscious that during 2019, one of the Group's subsidiaries, Smurfit Kappa Italia, S.p.A. ('SKI'), was found to have engaged in anti-competitive practices in Italy and was levied with a fine of €124 million by the Italian Competition Authority ('ICA'). As set out elsewhere in the report, SKG is very disappointed with the decision of the ICA and is currently appealing the decision on both administrative and substantive grounds, with the process expected to take a number of years. In light of the appeal process currently underway, the Committee has determined that the deferred bonus awards for the executive Directors will be subject to an additional underpin condition, with the final level of pay-out to be determined on conclusion of the appeal.

The performance period for the 2017 DABP award (the final award to executive Directors under the plan) ended on 31 December 2019. Based on performance against the three-year FCF and ROCE targets, the awards will vest at 100% of the maximum.

The Committee considered that the Remuneration Policy operated as intended during 2019 and that the annual bonus and DABP out-turns were an appropriate reflection of the Executives' and the Company's performance.

Further details on performance against the targets are set out on pages 69 to 71.

Performance Share Plan ('PSP') Targets 2020-2022

Each year the Committee reviews PSP performance measures and targets to ensure that they continue to incentivise executives to achieve clearly defined stretching long-term targets. Performance targets are determined in line with the Group's annual budgeting, Medium-Term Planning and viability statement processes, which are built taking into account a number of factors including the budget and external economic factors (including the OECD expectations on GDP growth and the Fastmarkets RISI paper packaging forecasts).

A key assumption is forecasted paper (containerboard and recovered paper) price movements beyond the budget year to which extent the Group uses information from the Fastmarkets RISI paper packaging forecasts.

In light of the above factors, the Committee has considered the EPS and ROCE targets that will apply to the 2020 PSP awards and has set three-year targets that we consider stretching in the context of the above, with details set out on page 67. Given that performance will be impacted by actual paper price movements, to ensure that pay-outs are appropriate, in the event that paper prices in the period differ materially from current forecasts, the Committee will use its judgement to review the formulaic outcome to ensure that vesting levels accurately reflect the underlying performance of the business. Any adjustments made to the formulaic outcome will be clearly communicated to investors at the end of the performance period.

Corporate Governance Code

Last year the Committee made two changes to the approach to remuneration for executive Directors following the publication of the UK Corporate Governance Code in July 2018:

- Holding periods: 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
- Pensions: we made a commitment that pension provisions for any new executive appointments will be no higher than the pension contributions offered to other employees within the Group in the relevant jurisdiction.

During 2019 the Committee considered the other provisions of the Code and from 2020 we are making the following changes to our approach:

- Post-employment share ownership requirements: share ownership requirements that apply during employment will continue to apply for two years post-employment. The in-employment guideline (300% of salary for the CEO and 200% of salary for the CFO) will apply in full for the first year post-employment and apply at 50% for the second year post-employment.
- Malus and clawback triggers: the triggers in which malus and clawback can be applied have been expanded to include situations of corporate failure.

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 has voluntarily published the ratio of the CEO's pay to selected Irish employees. This information is set out on page 71.

Conclusion

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 2020

The table on the adjacent page sets out a summary of how our Remuneration Policy will be implemented in 2020 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 2020</th></tr>
<tr><th>Group Chief Executive Officer</th><th>Group Chief Financial Officer</th></tr>
<tr><td rowspan="2">Basic Salary</td><td colspan="2">The Group CEO's salary is not being increased for 2020. The Group CFO's salary is being increased by 3.5% effective 1 January 2020. The salary increase for the Group CFO is broadly aligned with both 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=€645,949 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>EBIT</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 ('PSP')</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>655c</td><td>800c</td></tr>
<tr><td>ROCE (three-year average)</td><td>13.5%</td><td>16.5%</td></tr>
<tr><td>Relative TSR*</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>
<tr><td>Post-employment Share Ownership Requirements</td><td colspan="2">The share ownership requirement will apply for the first year post-departure and 50% of the requirement will apply for the second year post departure.</td></tr>
<tr><td>Recovery Provisions</td><td colspan="2">Recovery provisions (clawback and malus) may apply to the Annual Bonus and Performance Share Plan. The provisions may be enforced in the event of:
• a material misstatement of the Group's consolidated audited financial statements;
• where an award was determined by reference to an assessment of a performance condition which was based on an error, or inaccurate or misleading information;
• fraud or other material financial irregularity affecting the Group;
• the occurrence of an event that causes or is likely to cause reputational damage to the Group;
• serious misconduct by a participant;
• a corporate failure in any Group Member or a relevant business unit; or
• other circumstances which the Committee in its discretion considers to be similar in their nature or effect as the above.

Recovery provisions may be enforced in respect of the cash bonus for three years following payment, in respect of deferred shares for three years from grant and in respect of PSP awards for five years from grant.</td></tr>
</table>

Remuneration Report continued

The following table summarises how the Remuneration Policy fulfils the factors set out in Provision 40 of the 2018 UK Corporate Governance Code:

Code	SKG Remuneration
Clarity	
Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The annual bonus and PSP have been designed to incentivise executives to achieve clearly defined stretching targets. Performance measures and targets are reviewed each year by the Committee to ensure that they continue to be clear and appropriate.
Simplicity	
Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	In 2018 the Committee replaced our deferred bonus matching plan with a new performance share plan aligned with market practice. This move supports our aim of operating a simple remuneration structure with a single long-term incentive plan operating separately from the annual bonus.
Risk	
Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	The Remuneration Policy, approved at the 2018 AGM, was designed to support the Group's business strategy and the objective of developing superior, sustainable returns and value at acceptable levels of risk but with a clear and intelligible link to performance and the financial prosperity of the Group.
Predictability	
The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy.	The Committee believes it is important for executive Directors and senior management that a significant portion of the package is performance related. The potential value and composition of the executive Directors' remuneration packages at below threshold, target and maximum scenarios under our Remuneration Policy are set out on page 88 of the 2017 Annual Report.
Proportionality	
The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	Payments from the annual bonus and PSP require delivery against stretching performance conditions. The performance conditions are directly linked to the Group's strategy and KPIs. The Committee has discretion to override formulaic out-turns to ensure that they are appropriate and reflective of overall performance.
Alignment to Culture	
Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	Smurfit Kappa is a multinational Group and it is important that remuneration packages in each geographical location are fair and competitive for that location and at a most senior level, on an international basis. Details of how our remuneration arrangements support delivery of the Group's strategy are set out in the covering letter from the Chair of the Committee.

Non-Executive Directors

The table below sets out a summary of non-executive Director fees. No changes were made to fees for 2020.

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

Total Executive Directors' Remuneration in 2019

The following table shows a single figure of total remuneration for each executive Director for the years 2019 and 2018. The individual remuneration in the tables below is also set out on page 75.

					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								
2019								
A. Smurfit	**1,112**	**228**	**31**	**1,184**	**856**	**259**	**1,115**	**3,670**
K. Bowles	**624**	**106**	**36**	**664**	**396**	**120**	**516**	**1,946**
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

1 Benefits include the use of a company car, club subscriptions or cash equivalent.
2 Includes the total bonus paid in respect of 2019 and 2018, including deferred amounts.
3 Deferred matching shares – for 2019 this represents the matching shares that vested in February 2020 at the grant price in 2017. They vested at 100% of maximum as a result of the achievement of the relevant performance targets for the three-year period ended 31 December 2019 (see page 71 for further details). 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.
4 Share price appreciation element – the estimated additional value generated through share price growth over the grant price in 2017 and 2016. For the 2017 grants the share price used is €33.49 compared to the grant price of €25.71 per share. For the 2016 grants the share price used is €25.81 compared to the grant price of €22.84 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 Remuneration 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 2019 and 2018) 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 2019, the non-pensionable cash allowance for Mr Smurfit represented 20.5% of salary. Mr Bowles also chose the alternative arrangement with the cash allowance in the year representing 17% of salary. In 2018 the total contribution was 17% of salary (partly paid into the defined contribution plan until his individual cap was met and the remainder as a cash allowance).

The pension provision for any new executive appointment will be no higher than the pension contributions offered to other employees within the Group in the relevant jurisdiction.

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.

2019 Annual Bonus

The key target areas as well as their weightings and the specific targets for the 2019 annual bonus plan are set out in the table below:

Performance Metrics	Threshold	Target	Maximum	Resultant Payout (% of max.)
EBIT (23%)	€1,062m			11.0% (48%)
	€827m	€1,073m	€1,318m	
ROCE (24%)	16.8%			11.8% (49%)
	13.1%	16.9%	20.7%	
FCF (23%)	€547m			20.7% (90%)
	€349m	€456m	€563m	
Health and Safety (10%)	The Group TRIR was 0.84. 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 details set out overleaf.			20% (100%)
Personal/Strategic Goals – Mr Bowles (20%)	Strong progress against personal/strategic goals. Further details set out overleaf.			20% (100%)

Personal/Strategic Goals

The following table sets out the executive Directors' achievements against their personal/strategic objectives for 2019:

Executive	Achievement Against Personal/Strategic Objectives
Mr Smurfit	**Innovation** • 63 innovation/design awards won in 2019 (up from 52 in 2018). • Successful biennial Innovation Event held in May 2019 attended by over 350 customers. • Inaugural 'Global Better Planet Packaging Day' in November 2019 which involved over 650 brand owners and retailers across the SKG Global Experience Centre network. **Sustainability** • Strong progress made against Sustainability metrics, including: – Further reduction in CO_2 emissions. In 2019 we reached a 33% reduction in the specific CO_2 emissions per tonne of paper produced compared to 2005 (up from 29% in 2018). – 92% of all deliveries to customers are certified Chain of Custody (up from 88% in 2018). **People** • Successful retention of key personnel and maintained focus and motivation across the wider management Group. • New Talent Management approach encompassing succession planning developed and implemented. • Increase in employee engagement for pulse survey conducted in 2019. • Higher female participation (over 30%) on all training programmes. **Acquisitions/Disposals** • During 2019 successfully completed the acquisition of Vitavel AD in Bulgaria and completed the buyout of a significant portion of the non-controlling interest in Colombia. • Integration of all acquisitions in France, Serbia, Bulgaria and Reparenco in the Netherlands is progressing well. **Stakeholder Engagement** • Continuous engagement with shareholders in 2019, with the executive Directors meeting with over 200 analysts and portfolio managers.
Mr Bowles	**Finance** • Successfully issued €750 million senior notes at a record coupon for the Group, announced in September 2019. **Internal Audit** • 2019 internal audit plan of 72 audits completed with 94% achieving a positive assessment. **People** • In particular, maintained focus, motivation and retention across the financial community within the Group. • New Talent Management approach encompassing succession planning developed and implemented. • Increase in employee engagement for pulse survey conducted in 2019. • Higher female participation (over 30%) on all training programmes. **Acquisitions/Disposals** • During 2019 successfully completed the acquisition of Vitavel AD in Bulgaria and completed the buyout of a significant portion of the non-controlling interest in Colombia. • Integration of all acquisitions in France, Serbia, Bulgaria and Reparenco in the Netherlands is progressing well. **Stakeholder Engagement** • Continuous engagement with shareholders in 2019, with the executive Directors meeting with over 200 analysts and portfolio managers.

Following consideration of performance against the targets, and in the context of the wider performance of the Group, the Committee did not consider it necessary to apply discretion to the out-turns and approved the following annual bonuses for 2019:

	2019				
		Bonus Payable	Annual Cash Bonus	Deferred Shares	Total Bonus
Executive Directors	(% Maximum)	(% Salary)	€'000	€'000	€'000
A. Smurfit	**71**	**106**	**592**	**592**	**1,184**
K. Bowles	**71**	**106**	**332**	**332**	**664**

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.

As set out in the cover letter from the Committee Chair, the Committee has determined that the deferred bonus awards for the executive Directors will be subject to an additional underpin condition, with the final level of pay-out to be determined on conclusion of the appeal of the fine levied by the Italian Competition Authority.

Deferred Annual Bonus Plan

Awards Vesting in Respect of Performance to 31 December 2019

In 2017, 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 2019. The targets for the three-year period ending on 31 December 2019 which were set in 2017, were as follows:

Targets and Match Matrix			Three-Year Performance Period 2017 – 2019			
				ROCE		
				37.8%	44.1%	49.3%
		Level of Performance Attained Over Three-Year Period	Below Threshold	Threshold	Target	Stretch
		Below Threshold	0	0	0	0.5
FCF (€m)	900	Threshold	0	1	1.5	2
	1,046	Target	0	1.5	2.25	2.5
	1,136	Stretch	0.5	2	2.5	3

ROCE and FCF for the three-year period to December 2019 amounted to 51.5% and €1,288 million respectively and as a result a maximum 3 times match was approved by the Committee in February 2020. In line with our normal approach we exclude items which would affect comparability such as acquisitions and disposals, the hyperinflationary effects of Venezuela and the impacts of IFRS 16, *Leases*, which happened during the three-year period to 31 December 2019.

Following consideration of performance against targets, and in the context of the wider performance of the Group, the Committee did not consider it necessary to apply discretion to the out-turns and approved the level of vesting of the 2017 DABP awards.

Share Awards Granted During the Year

During the year, executive Directors were granted Deferred Share Awards in respect of the 2018 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 2021. Performance Share Plan Awards are subject to a holding period such that they are released following the fifth anniversary 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 page 74.

	Type of Interest	Face Value €'000	Basis on Which Award Made	% Vesting at Threshold	Performance Period
Deferred Bonus[1]					
A. Smurfit	Deferred shares	807	Deferred bonus	n/a	n/a
K. Bowles	Deferred shares	440	Deferred bonus	n/a	n/a
Performance Shares[2]					
A. Smurfit	Performance shares	2,502	225% of salary	25%	01/01/2019-31/12/2021
K. Bowles	Performance shares	1,123	180% of salary	25%	01/01/2019-31/12/2021

1 Share price of deferred shares granted in March 2019 was €26.13. Awards will vest based on continued employment to February 2022 (subject to leaver provisions within the plan rules).
2 Share price of performance shares granted in March 2019 was €24.66. Awards are subject to three equally weighted performance conditions: EPS (pre-exceptional); ROCE; and TSR against a bespoke peer group. Details of the underlying targets are set out in the Annual Report 2018.

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 2018 to 2019 for the Group CEO and all employees are set out below:

		Basic Salary	Total Bonus	Benefits
Group Chief Executive Officer	% change	0.6%	(28%)	11%
All employees	% change	4%	(15%)	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.

Chief Executive Officer Pay Ratio

The Committee is 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 has voluntarily published the ratio. The following table sets out the Group CEO pay ratio against Irish employees within the Group, which is considered the most relevant reference point as the Group's headquarters are in Ireland.

Population	25th percentile	50th percentile	75th percentile
Irish employees	92	68	50

Total remuneration for each individual in the above data has been calculated on the same basis as the Group CEO's annual total remuneration for the same period in the single figure table. For part-time employees their relevant pay and benefit components have been adjusted to the equivalent full-time figure for the relevant business.

Remuneration Report continued

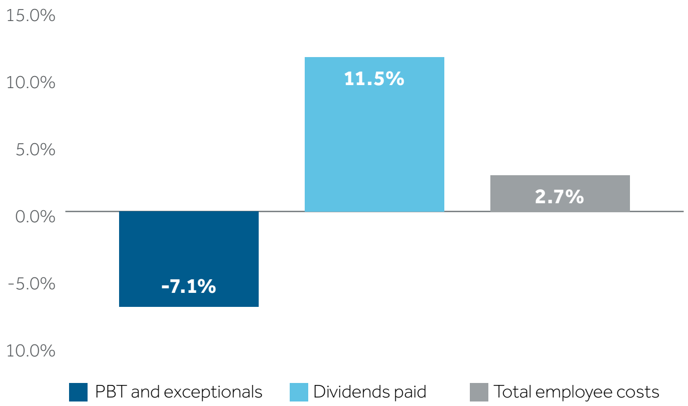
Relative Importance of Spend on Pay

The following tables set out the amounts and percentage change in profit, dividends and total employee costs for the financial year ended 31 December 2019 against 2018.

	2019 €m	2018 €m
Profit before income tax and exceptional items	**872**	938
Dividends paid to shareholders	**238**	213
Total employee costs[1]	**2,202**	2,145

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 46,563 (2018: 46,025).

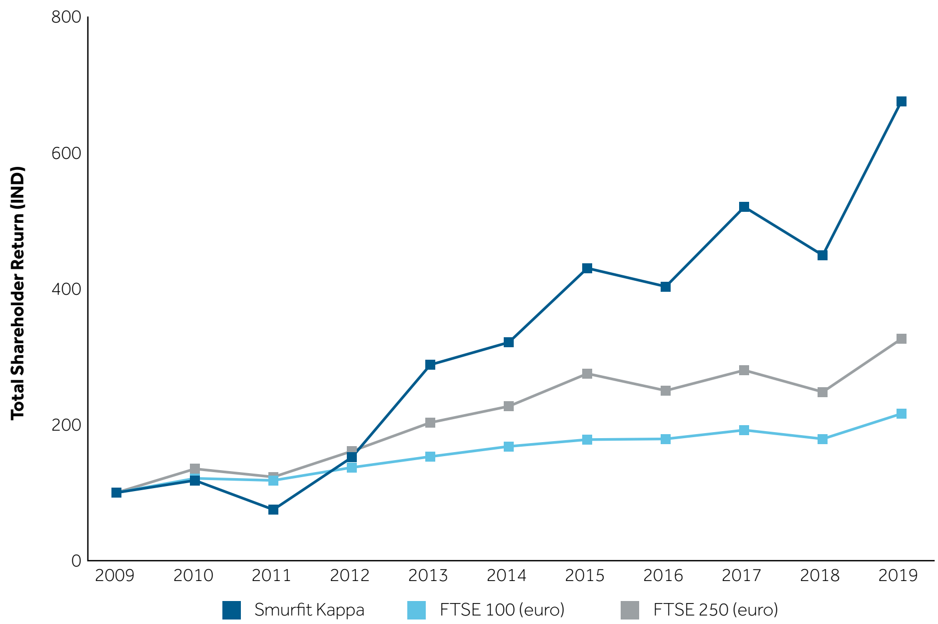
Percentage Change of Spend on Pay 2019 vs 2018



Total Shareholder Return Performance

The performance graph below shows the Group TSR performance from 31 December 2009 to 31 December 2019 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			
2019	A. Smurfit	3,670	71%*	100%[1]
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]

1 The Matching and Conditional Matching Awards granted in 2017, 2016, 2015, 2014, 2013, 2012 and 2011 vested in February 2020, 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 2019, 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 2011 having failed to meet the required performance conditions.
* The annual bonus award for 2019, 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 97.

Pension Entitlements – Defined Benefit

	Increase/ (Decrease) in Accrued Pension During Year €'000	Transfer Value of Increase/ (Decrease) in Accrued Pension €'000	**2019 Total Accrued Pension[1] €'000**
Executive Directors			
A. Smurfit	–	–	**276**
K. Bowles	–	–	**79**

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

Additional Information

Payments to Former Directors

There were no payments made to former 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 2019

The table below summarises the personal shareholdings of each executive Director. The figures include beneficially owned shares and unvested share awards which are not subject to further performance criteria (other than continued employment) on a net of tax basis.

Name	Beneficially Owned at 31 December 2018	Beneficially Owned at 31 December 2019	Unvested Awards Not Subject to Performance Criteria (Net of Tax)	**Total Shareholding as at 31 December 2019**	Shareholding (% of Salary)	Shareholding Guideline (% of Salary)	Shareholding Guideline Met?
A. Smurfit	1,198,331	1,227,010	25,592	**1,252,602**	3,102%	300%	Yes
K. Bowles	30,947	34,626	13,516	**48,142**	213%	200%	Yes

The changes in the executive Directors' interests (beneficially owned shares) between 31 December 2019 and 6 March 2020 were as follows: Mr Smurfit and Mr Bowles increased their holdings by 22,186 and 9,807 shares respectively in February 2020, following the vesting of Deferred and Matching Share Awards.

External Appointments

The Company recognises that, during their employment with the Company, executive Directors may be invited to become non-executive Directors of other companies and that such duties can broaden their experience and knowledge. Executive Directors may, with the written consent of the Company, accept such appointments outside the Company, and the policy is that any fees may be retained by the Director.

Remuneration Report continued

Deferred Annual Bonus Plan and Deferred Bonus Plan Awards

Deferred Share Awards and Matching Share Awards

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

	31 December 2018		Granted (Lapsed) in Year 2019		Shares Distributed on Vesting		31 December 2019		Market Price on Award Date	Performance Period
	Deferred	Matching	**Deferred**	**Matching**	**Deferred**	**Matching**	**Deferred**	**Matching**		
Directors										
A. Smurfit										
	13,265	13,265			**(13,265)[1]**	**(15,414)[1]**	**–**	**–**	22.84	01/01/2016 – 31/12/2018
	11,093	11,093					**11,093[2]**	**11,093[2]**	25.71	01/01/2017 – 31/12/2019
	11,362	–					**11,362**	**–**	30.09	01/01/2018 – 31/12/2020*
	–	–	**30,861**	**–**			**30,861**	**–**	26.13	01/01/2019 – 31/12/2021*
K. Bowles										
	3,559	3,559			**(3,559)[1]**	**(4,136)[1]**	**–**	**–**	22.84	01/01/2016 – 31/12/2018
	5,128	5,128					**5,128[2]**	**5,128[2]**	25.71	01/01/2017 – 31/12/2019
	6,198	–					**6,198**	**–**	30.09	01/01/2018 – 31/12/2020*
	–	–	**16,833**	**–**			**16,833**	**–**	26.13	01/01/2019 – 31/12/2021*
Secretary										
M. O'Riordan										
	4,277	4,277			**(4,277)[1]**	**(4,970)[1]**	**–**	**–**	22.84	01/01/2016 – 31/12/2018
	4,012	4,012					**4,012[2]**	**4,012[2]**	25.71	01/01/2017 – 31/12/2019
	3,615	–					**3,615**	**–**	30.09	01/01/2018 – 31/12/2020*
			9,812	**–**			**9,812**	**–**	26.13	01/01/2019 – 31/12/2021*

1 The deferred shares vested and were distributed in February 2019. The market price at date of distribution was €25.81.
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 and were distributed in February 2019. The market price at the date of distribution was €25.81.
2 The deferred shares vested in February 2020 and were distributed.
Based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2019, the matching shares vested in February 2020 with a match of 3 times the level of the Matching Share Award. The market price at the date of distribution was €33.49.
* Deferred awards are subject to holding period.

The market price of the Company's shares at 31 December 2019 was €34.26 and the range during 2019 was €23.12 to €34.74.

Performance Share Plan Awards

PSP Awards were granted to eligible employees in 2019. Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2021.

	31 December 2018	**Granted (Lapsed) in Year 2019***	**Shares Distributed on Vesting**	**31 December 2019**	Market Price on Award Date	Performance Period**
Directors						
A. Smurfit	74,651	**–**	**–**	**74,651**	33.32	01/01/2018 – 31/12/2020
	–	**101,472**	**–**	**101,472**	24.66	01/01/2019 – 31/12/2021
K. Bowles	32,575	**–**	**–**	**32,575**	33.32	01/01/2018 – 31/12/2020
	–	**45,555**	**–**	**45,555**	24.66	01/01/2019 – 31/12/2021
Secretary						
M. O'Riordan	19,002	**–**	**–**	**19,002**	33.32	01/01/2018 – 31/12/2020
	–	**25,829**	**–**	**25,829**	24.66	01/01/2019 – 31/12/2021

* Awards are eligible to accrue dividend equivalents during the performance period.
** Awards are subject to a holding period. Awards granted in 2018 are released in three equal tranches following the third, fourth and fifth anniversaries of the grant date. Awards granted in 2019 are released on the fifth anniversary of the date of grant.

Directors' Remuneration

	2019 €'000	2018 €'000
Executive Directors		
Basic salary	**1,736**	1,709
Annual cash bonus	**924**	1,247
Pension	**334**	329
Benefits	**67**	56
Executive Directors' remuneration	**3,061**	3,341
Average number of executive Directors	**2**	2
Non-Executive Directors		
Fees	**1,357**	1,357
Non-executive Directors' remuneration	**1,357**	1,357
Average number of non-executive Directors	**10**	10
Directors' Remuneration	**4,418**	4,698

Individual Remuneration for the Financial Year Ended 31 December 2019

	Basic Salary and Fees €'000	Annual Cash Bonus €'000	Pension[1] €'000	Benefits €'000	Total 2019 €'000	Total 2018 €'000
Executive Directors						
A. Smurfit	1,112	592	228	31	**1,963**	2,167
K. Bowles	624	332	106	36	**1,098**	1,174
					3,061	3,341
Non-Executive Directors						
I. Finan	277				**277**	130
A. Anderson[2]	88				**88**	–
F. Beurskens[3]	150				**150**	135
C. Bories[4]	83				**83**	90
C. Fairweather[2]	130				**130**	117
J. Buhl Rasmussen	93				**93**	90
J. Lawrence	90				**90**	90
J. Moloney	117				**117**	90
R. Newell[4]	119				**119**	130
L. O'Mahony[4]	117				**117**	350
G. Restrepo	93				**93**	90
R. Thorne[4]	–				**–**	45
	1,357				**1,357**	1,357

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 Remuneration 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 and Mr Bowles in 2019 and 2018 (for part of year) 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 €228,000 (2018: €226,600) and €106,000 (2018: €34,170) respectively.
The aggregate amount of contributions paid to defined contribution schemes in respect of Mr Bowles in 2018 was €68,340.

2 Ms Anderson and Ms Fairweather joined the Board in January 2019 and January 2018 respectively.

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

4 Ms Bories and Mr Newell both retired from the Board in December 2019. Ms Thorne and Mr O'Mahony, retired from the Board in May 2018 and May 2019 respectively.

Remuneration Report continued

Share-based Payment

The executive Directors receive Deferred Share Awards and Performance Share Awards, details of which are outlined on page 74 of this report. The share-based payment expense recognised in the Consolidated Income Statement for the executive Directors in the year totalled €2,578,164 (2018: €1,810,275).

Non-Executive Directors' Interests in Share Capital at 31 December 2019

The interests of the non-executive Directors and Secretary in the shares of the Company as at 31 December 2019 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 2019**	31 December 2018*
Ordinary Shares		
Directors		
I. Finan	**17,650**	17,650
A. Anderson*	**–**	–
F. Beurskens	**2,500**	2,500
C. Fairweather	**3,000**	3,000
J. Lawrence	**335,000**	335,000
J. Moloney	**8,000**	8,000
J. Buhl Rasmussen	**2,469**	2,469
G. Restrepo	**–**	–
C. Bories**	**1,800**	1,800
R. Newell**	**8,925**	8,925
L. O'Mahony**	**29,830**	29,830
Secretary		
M. O'Riordan	**124,651**	120,213

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

There were no changes in the Secretary's interests between 31 December 2019 and 6 March 2020.

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

The Remuneration Committee
The Remuneration Committee chaired by Mr John Moloney currently comprises five non-executive Directors. The Directors' biographical details on pages 54 to 56 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 2019, the Committee received independent data from its independent advisors, Deloitte LLP, on the approach to executive remuneration in the Group going forward, and received data 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 2019 were £31,450 (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. As detailed on page 59, the Board conducts an annual evaluation of its own performance and that of its Committees, Committee Chairs and individual Directors except in years when an external evaluation is carried out. In accordance with the UK Corporate Governance Code, the process was externally facilitated in 2019. The conclusion from the 2019 process was that the performance of the Remuneration Committee and of the Chair of the Committee were satisfactory and that no changes were necessary to the Committee's Terms of Reference.

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

Attendance Record	A*	B*	Appointment Date
J. Moloney (Chair)	4	4	2015
C. Bories**	4	4	2012
C. Fairweather	4	4	2018
I. Finan	4	4	2012
L. O'Mahony***	2	2	2007
J. Buhl Rasmussen	4	4	2017
G. Restrepo	4	4	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 Bories retired from the Board in December 2019.
*** Mr O'Mahony retired from the Board in May 2019.

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 table shows the voting outcome at the 3 May 2019 AGM for the 2018 Directors' Remuneration Report and the voting outcome at the 4 May 2018 AGM for the Directors' Remuneration Policy.

Item	Votes For and Discretionary	% Votes Cast	Votes Against	% Votes Cast	Total Votes Cast	Vote Withheld
Directors' Remuneration Report (2019 AGM)	151,897,659	99.45%	839,945	0.55%	152,737,604	735,856
Directors' Remuneration Policy (2018 AGM)	139,293,606	97.37%	3,765,320	2.63%	143,058,926	3,757,828

Nomination Report

"Dear Shareholder, I am pleased to present the Nomination Committee report, my first as Chair, covering the work the Committee performed during the 2019 financial year."

Gonzalo Restrepo
Chair of Nomination Committee
6 March 2020

Committee Members
G. Restrepo (Chair)
A. Anderson
F. Beurskens
I. Finan
J. Lawrence

The Committee has undertaken a range of important activities during the past year, with a particular focus on Board and Committee refreshment. From 1 January 2019, the Committee also began operating under the new UK Corporate Governance Code ('Code'), which includes updated guidance for Nomination Committees of companies listed on Euronext Dublin and the LSE. The review and adoption of the principles of the new Code formed part of the Committee's activity during the year with consequent changes to its terms of reference.

The primary role of the Committee is to monitor and maintain an appropriate balance of skills, experience, independence and diversity on the Board while regularly reviewing its structure, size and composition. It is also responsible for ensuring there is a formal, rigorous and transparent process for the appointment of new Directors to the Board. Succession planning is a fundamental aspect of the Committee's work both for Directors and senior management. Our succession planning process is regularly reviewed by the Committee, aided by regular updates from our Group VP of Human Resources and senior management on the development of the talent pipeline and recruitment throughout the organisation.

During the year, the Committee oversaw the nomination process resulting in the appointment of Dr Lourdes Melgar in December 2019. Lourdes joined the Board on 1 January 2020 and further deepens the diversity of experience and knowledge on the Board. As part of ongoing Board refreshment, in addition to Liam O'Mahony who retired in May 2019 after twelve years, Roberto Newell and Christel Bories retired in December 2019 after nine and seven years on the Board, respectively. On behalf of the Committee and the entire Board, I would like to thank Liam, Roberto and Christel for their valuable insight and unwavering commitment over their tenures. Following the retirement of Roberto who served as Chair of the Committee since May 2017, I was appointed Chair, effective from 6 December 2019.

As a Committee, we also lead oversight of the annual Board evaluation process to assess the performance of individual Directors and the effectiveness of the Board and its Committees. In 2019, an external evaluation took place, which was carried out by Independent Audit. Details of this evaluation are set out in greater detail on page 59.

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 and its Committees to ensure they continue to operate effectively;
- prepare descriptions of the role and requirements for new appointees; and
- give full consideration to succession planning for Directors and senior management.

Where necessary, the Committee uses the services of external advisors in order to assist in the search for new appointments to the Board. Advisors 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.

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 five 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 and the Group VP of Human Resources attends as appropriate.

Attendance Record	A*	B*	Appointment Date
G. Restrepo (Chair) **	0	0	2019
R. Newell**	5	4	2017
A. Anderson***	4	4	2019
F. Beurskens	5	5	2013
I. Finan**	3	3	2019
J. Lawrence	5	4	2015
L. O'Mahony**	2	2	2007

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

** Mr Finan joined and Mr O'Mahony retired from the Board in May 2019. Mr Newell retired and Mr Restrepo joined the Committee and was elected Chair in December 2019.

*** Ms Anderson joined the Committee in February 2019.

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 Committee was also apprised of the key aspects of the revised Code as it relates to Nomination Committees. The Committee has reviewed, in detail, the composition, succession and evaluation section of the Code as well as the relevant sections of the Financial Reporting Council's Guidance on Board Effectiveness.

The Committee oversaw the external evaluation process which took place during the past year. As part of that process, the Committee was deemed to be operating at a high standard. In terms of enhancements, the Committee will ensure greater focus is placed on planning for unplanned departures in the future and, more importantly, augment the alignment of succession planning with the evolution of strategy.

Refreshing the Board and its Committees

During the year, the Committee instructed Korn Ferry to identify appropriate candidates for appointment to the Board based on a profile and skillset agreed by the Chair and the Committee. The Committee also provided input into the shortlist of candidates with members meeting candidates prior to recommending their appointment to the Board. After considering a number of candidates put forward by Korn Ferry as meeting the required profile and skill set, and following a robust interview process carried out in accordance with the Code's supporting principle that Board appointments should be made "on merit, against objective criteria and with due regard for the benefits of diversity on the Board", the Committee recommended that Dr Lourdes Melgar be appointed to the Board. The appointment of Dr Melgar, with effect from 1 January 2020, was confirmed by the Board in December 2019. Dr Melgar's extensive career in energy, sustainability and business in Latin America will add valuable insight to the Board. Dr Melgar's biography is set out on page 56. Korn Ferry have no other affiliation with the Group.

As announced last year, Mr O'Mahony retired from the Board following the AGM in May 2019. Subsequent to Dr Melgar's appointment in December, with effect from 1 January 2020, it was announced that Senior Independent Director, Mr Newell, and Ms Bories had stepped down from the Board in December 2019. Following a recommendation by the Committee, and prior to his appointment to the Committee, Gonzalo Restrepo succeeded Roberto as Senior Independent Director.

Board Balance and Effectiveness

As is the case each year, the Committee reviewed the size and performance of the Board during 2019. Key elements of ensuring the Board continues to operate at a high standard is independent oversight and a diverse background of skills, which allows non-executive Directors to scrutinise and, when necessary, challenge management proposals and strategy. The Committee continues to review that each of the non-executive Directors, excluding the Chair, remain impartial and independent in order to meet the challenges of their roles.

Throughout the year, over half of the Board comprised independent non-executive Directors. Gonzalo Restrepo is the Senior Independent Director of the Company. The Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for the other Directors and shareholders when necessary.

The Board has had due regard to various matters which might affect, or appear to affect, the independence of certain of the Directors. The Board considers that other than Mr Beurskens, each of the non-executive Directors is independent. In determining the independence of the non-executives, the Committee scrutinised any issues relating to actual or perceived conflicts of interest.

Boardroom and Senior Management Diversity

As a global business, diversity is an integral part of how we do business. The Board and Committee recognise the value of gender diversity to the Group and is committed to increasing the representation of females within senior management roles. At Board level, women represent 27% of our Directors.

Notwithstanding this policy, any search for Board candidates and any subsequent appointments are made purely on merit regardless of ethnicity, gender, religion, age or disability. We look to ensure we have the appropriate balance of skills, diversity of knowledge and thinking, professional and geographic backgrounds and experience on our Board and recruit accordingly. We are committed to appointing the best people and ensuring that all employees have an equal chance of developing their careers within the Group. As such, we do not think it is appropriate to set specific targets for Board appointments.

Sustainability Committee Report

"As Chair, I am pleased to present the first report of the newly formed Sustainability Committee"

Jørgen Buhl Rasmussen
Chair of Sustainability Committee
6 March 2020

Committee Members
J. Buhl Rasmussen (Chair)
A. Anderson
L. Melgar

Sustainable business practices have been at the centre of Smurfit Kappa's strategy since the business was founded. The Group recycles packaging (handling over 7 million tonnes of recovered fibre in 2019) and promotes the use of our paper-based packaging among our customers and continues to assess ways to increase the recovery of paper-packaging waste; produce our products more efficiently and reduce our environmental impact.

In addition to recycled fibre, wood fibres are a core component of our paper products which strongly links Smurfit Kappa to the bio economy and through that to the circular economy. Whether they are virgin or recycled fibres, from our own sustainably managed forests and plantations or those of others, we make sure that their credentials are of the highest standard and are Chain of Custody certified.

As the business has evolved, we have also expanded our focus to provide customers with innovative sustainable packaging solutions which reduces their waste and which not only provides an attractive merchandising medium but also provides an efficient and environmentally friendly transport and packaging solution which reduces transport costs and associated emissions.

Our commitment to provide innovative, sustainable packaging solutions for our customers, is embodied in our 'Better Planet Packaging' initiative which is intended to provide our customers with sustainable packaging solutions to address their sustainability needs today and tomorrow and provides us with a key platform for different options in a competitive market.

We also believe that sustainable and responsible business practices are central to our corporate culture and how we engage with our employees. We are a responsible employer and the health, safety and well-being of our employees is a core value of how we conduct our business each and every day.

During 2018, we met or exceeded all of our sustainability related targets ahead of their 2020 deadline. We set new targets in 2019 and continue to invest time and resources to meet and exceed those targets. Further details are set out in our Sustainable Development Report released in May 2019 which is available on our website.

While the Group is intensely proud of its progress to reduce its own environmental footprint and work with our customers to do the same, during the course of 2019 we recognised the growing global debate and emphasis on addressing a range of environmental, social and governance issues; most notably issues affecting climate change, carbon emission and plastic waste.

Against this backdrop, the Board reviewed the Group's sustainability and corporate social responsibility objectives and decided to establish a permanent sub-committee of the Board with responsibility for Sustainability.

The purpose of the Committee is to, provide direction and oversight of SKG's sustainability strategy for the benefit of all of the Group's stakeholders.

In line with the requirements of the 2018 UK Corporate Governance Code, the Committee will also be responsible for the engagement with the workforce on behalf of the Board. On an annual basis, this report will set out the details on our engagement with the workforce.

We look forward to reporting on our continued progress to all of our stakeholders in the years ahead.

Membership of the Committee

The Committee is currently comprised of three non-executive Directors. The Committee was established during 2019 and met once during the year under review. Details of Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer, Group Chief Financial Officer, Group V.P. Human Resources and Group Vice President Development may attend meetings of the Committee.

Attendance record	A*	B*	Appointment date
J. Buhl Rasmussen (Chair)	1	1	2019
A. Anderson	1	1	2019
L. Melgar**	0	0	2020

* 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.
** Dr Melgar was appointed to the Committee in January 2020.

Directors' Report

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

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

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

Results for the Year
The results for the year are set out in the Consolidated Income Statement on page 89.

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

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

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

Accounting Records
The Directors are responsible for ensuring that adequate accounting records, as outlined in Section 281-286 of the Companies Act, are kept by the Company. The Directors are also responsible for the preparation of the Annual Report. The Directors have appointed professionally qualified accounting personnel with appropriate expertise and have provided adequate resources to the finance function in order to ensure that those requirements are met. The accounting records of the Company are maintained at the Group's principal executive offices, located at Beech Hill, Clonskeagh, Dublin 4, D04 N2R2.

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

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

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first AGM after their appointment and, pursuant to the Articles of Association of the Company, all Directors are subject to re-election at intervals of no more than three years. However, in compliance with the Code, all Directors will retire at the 2020 AGM.

To enable shareholders to make an informed decision, reference should be made to pages 54 to 56 which contains a biographical note on each Director offering themselves for re-election and to the Notice of the AGM which explains why the Board believes the relevant Directors should be re-elected. The Directors intend to confirm at the AGM that the performance of each individual seeking re-election continues to be effective and demonstrates commitment to the role.

Shareholders are referred to the information contained in the Corporate Governance Statement on pages 57 to 61 concerning the operation of the Board and the composition and functions of the Committees of the Board.

Directors' and Secretary's Interests
Details of the Directors' and Company Secretary's interests in the share capital are set out in the Remuneration Report on pages 73, 74 and 76 and are incorporated into this Directors' Report.

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

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

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

Substantial Holdings

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

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

Directors' Report continued

Audit Committee

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

Non-Financial Information

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

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

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

Purchase of Own Shares

Special resolutions will be proposed at the AGM to renew the authority of the Company, or any of its subsidiaries, to purchase up to 10% of the Company's ordinary shares in issue at the date of the AGM and in relation to the maximum and minimum prices at which treasury shares (effectively shares purchased by the Company and not cancelled) may be re-issued off-market by the Company. If granted, the authority will expire on the earlier of the date of the AGM in 2021 or 29 July 2021.

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

Change of Control

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

Capital Structure

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

Directors' Compliance Statement

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

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

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

Financial Instruments

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

Disclosure of Information to the External Auditor

Each of the Directors individually confirm that:

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

External Auditor

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

A. Smurfit
Director

K. Bowles
Director

6 March 2020

Statement of Directors' Responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

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

The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

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

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

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

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

On behalf of the Board

A. Smurfit
Director

K. Bowles
Director

6 March 2020

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

Opinion

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

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

Basis for Opinion

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

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

Key Audit Matters: Our Assessment of Risks of Material Misstatement

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

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

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

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

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

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

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

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

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

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

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

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

Company Key Audit Matter

Investment in Subsidiaries – Carrying Value €2,100 Million (2018 – €2,078 Million)

Refer to Note 2 (accounting policy) and Note 14 (financial disclosures)

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

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

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

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

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

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

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

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

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

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

We Have Nothing to Report on Going Concern

We are required to report to you if:

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

We have nothing to report in these respects.

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

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

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

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

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

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

We have nothing to report in these respects.

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

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

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

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

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

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

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

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

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

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

The Listing Rules of Euronext Dublin and the UK Listing Authority require us to review:

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

Respective Responsibilities and Restrictions on use

Directors' Responsibilities

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

Auditor's Responsibilities

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

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

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

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

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

6 March 2020

Consolidated Income Statement
For the Financial Year Ended 31 December 2019

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

Consolidated Statement of Comprehensive Income

For the Financial Year Ended 31 December 2019

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

Consolidated Balance Sheet

At 31 December 2019

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

A. Smurfit
Director

K. Bowles
Director

Company Balance Sheet
At 31 December 2019

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

A. Smurfit
Director

K. Bowles
Director

Consolidated Statement of Changes in Equity

For the Financial Year Ended 31 December 2019

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

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

Company Statement of Changes in Equity

For the Financial Year Ended 31 December 2019

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

Consolidated Statement of Cash Flows

For the Financial Year Ended 31 December 2019

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

Company Statement of Cash Flows

For the Financial Year Ended 31 December 2019

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

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

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

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

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

Statement of Compliance
The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') as adopted by the European Union ('EU'), those parts of the Companies Act 2014 applicable to companies reporting under IFRS and Article 4 of the IAS Regulation. The Company Financial Statements have been prepared in accordance with IFRS adopted by the EU as applied in accordance with the provisions of the Companies Act 2014. IFRS adopted by the EU differ in certain respects from IFRS issued by the IASB. References to IFRS hereafter refer to IFRS adopted by the EU.

Basis of Preparation
The Consolidated Financial Statements are presented in euro rounded to the nearest million. They have been prepared under the historical cost convention except for the following which are recognised at fair value: certain financial assets and liabilities including derivative financial instruments; biological assets; share-based payments at grant date; pension plan assets; and contingent consideration. The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit currency at the end of the reporting period. This is the case for the Group's subsidiaries in Argentina.

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

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

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

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

New and Amended Standards and Interpretations Issued but not yet Effective or Early Adopted
A number of new standards and interpretations have been issued but are not yet effective for the Group. These standards are either not expected to have a material effect on the Consolidated Financial Statements or they are not currently relevant for the Group.

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

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

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

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

2. Summary of Significant Accounting Policies continued
Basis of Consolidation continued
Associates
Associates are entities in which the Group has significant influence arising from its power to participate in the financial and operating policy decisions of the investee. Associates are recognised using the equity method from the date on which significant influence is obtained until the date on which such influence is lost. Under the equity method investments in associates are recognised at cost and subsequently adjusted to reflect the post-acquisition movements in the Group's share of the associates' net assets. The Group profit or loss includes its share of the associates' profit or loss after tax and the Group's other comprehensive income includes its share of the associates other comprehensive income. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. Losses in associates are not recognised once the Group's carrying value reaches zero, except to the extent that the Group has incurred further obligations in respect of the associate. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are similarly eliminated to the extent that they do not provide evidence of impairment. Where necessary, the accounting policies of associates are modified to ensure consistency with Group accounting policies.

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

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

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

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

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

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

Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities carried at cost are not subsequently retranslated. Non-monetary assets carried at fair value are subsequently remeasured at the exchange rate at the date of valuation. Foreign exchange differences arising on translation are recognised in profit or loss with the exception of differences on foreign currency borrowings that qualify as a hedge of the Group's net investment in foreign operations. The portion of exchange gains or losses on foreign currency borrowings used to provide a hedge against a net investment in a foreign operation and that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in the Consolidated Income Statement.

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

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

2. Summary of Significant Accounting Policies continued

Reporting in Hyperinflationary Economies

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

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

Business Combinations

The Group uses the acquisition method in accounting for business combinations. Under the acquisition method, the assets, liabilities and contingent liabilities of an acquired business are initially recognised at their fair value at the date of acquisition; which is the date on which control is transferred to the Group. The cost of a business combination is measured as the aggregate of the fair values at the date of exchange of any assets transferred, liabilities assumed and equity instruments issued in exchange for control. When settlement of all or part of a business combination is deferred, the fair value of the deferred component is determined by discounting the amounts payable to their present value at the date of exchange. The discount component is unwound as an interest expense in the Consolidated Income Statement over the life of the obligation. Where a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the contingent consideration is measured at fair value. Any subsequent remeasurement of the contingent amount is recognised in the Consolidated Income Statement if it is identified as a financial liability.

When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated to the identifiable assets and liabilities are made within twelve months of the acquisition date. Non-controlling interests are measured either, at their proportionate share of the acquiree's identifiable net assets or, at fair value as at the acquisition date, on a case by case basis. Acquisition related costs are expensed as incurred.

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

Goodwill

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

Intangible Assets

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

Property, Plant and Equipment

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

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

2. Summary of Significant Accounting Policies continued

Property, Plant and Equipment continued

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

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

Impairment

Goodwill

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

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

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

Impairment of Non-financial Assets

Long-term tangible and intangible assets that are subject to depreciation or amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Consolidated Income Statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. When assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that have suffered impairment losses are reviewed for possible reversal of the impairment at each reporting date. The impairment loss is only reversed to the extent that the asset's carrying amount does not exceed that which would have been determined had no impairment been recognised.

Impairment of Financial Assets

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

Biological Assets

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

Inventories

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

Financial Instruments

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

On initial recognition, a financial asset is classified as measured at amortised cost, or fair value through other comprehensive income ('FVOCI'), or FVPL. The classification is based on the business model for managing the financial assets and the contractual terms of the cash flows. Reclassification of financial assets is required only when the business model for managing those assets changes. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire, are extinguished or transferred to a third party.

Financial liabilities are classified as measured at amortised cost or FVPL. Financial liabilities are derecognised when the Group's obligations specified in the contracts expire, are discharged or cancelled. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid, (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

2. Summary of Significant Accounting Policies continued

Financial Instruments continued

Cash and Cash Equivalents

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

Restricted Cash

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

Equity Instruments

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

Debt Instruments

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

Borrowings

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

Securitised Assets

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

Trade and Other Receivables

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

Trade and Other Payables

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

Derivative Financial Instruments and Hedging Activities

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

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

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

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

2. Summary of Significant Accounting Policies continued

Derivative Financial Instruments and Hedging Activities continued

Cash Flow Hedges

Changes in the fair value of derivative hedging instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

Amounts accumulated in other comprehensive income are reclassified to the Consolidated Income Statement in the same periods that the hedged items affect profit or loss as follows:
- The reclassified gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Consolidated Income Statement within finance income or costs respectively.
- When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs, unless the hedged transaction is no longer expected to occur, in which case the cumulative gain or loss that was previously recognised in other comprehensive income is transferred to the Consolidated Income Statement.

Fair Value Hedges

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

Net Investment Hedges

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

Derivatives not Designated as Hedges

Changes in the fair value of derivatives which are not designated for hedge accounting are recognised in the Consolidated Income Statement.

Fair Value Hierarchy

The Group reports using the fair value hierarchy in relation to its assets and liabilities which are measured at fair value except for those which are exempt as defined under IFRS 13, *Fair Value Measurement*. The fair value hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value, which are described as follows:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Provisions

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

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

Finance Costs and Income

Finance costs comprise interest expense on borrowings (including amortisation of deferred debt issue costs), certain foreign currency translation losses related to financing, unwinding of the discount on provisions, borrowing extinguishment costs, fair value loss on financial assets, fair value loss on put options arising in business combinations, net interest cost on net pension liability, net monetary loss arising in hyperinflationary economies, the interest element of lease payments and losses on derivative instruments that are not designated as hedging instruments and are recognised in profit or loss. Borrowing costs are recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the Consolidated Income Statement.

2. Summary of Significant Accounting Policies continued

Finance Costs and Income continued

Finance income comprises interest income on funds invested, certain foreign currency translation gains related to financing, fair value gain on financial assets, fair value gain on put options arising in business combinations, net monetary gain arising in hyperinflationary economies, gains on derivative instruments that are not designated as hedging instruments and are recognised in profit or loss and dividend income. Interest income is recognised as it accrues using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Income Taxes

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

Current Income Tax

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

Deferred Income Tax

Deferred income tax is provided using the liability method, on temporary differences between the carrying amounts of assets and liabilities in the Consolidated Financial Statements and their tax bases. If the temporary difference arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect accounting nor taxable profit or loss, it is not recognised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not subject to discounting.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Leases

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

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

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

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

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

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

2. Summary of Significant Accounting Policies continued

Leases continued

Accounting Policy Applied Before 1 January 2019

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

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

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

Retirement Benefit Obligations

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

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

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

The costs and liabilities of defined benefit pension plans are calculated using the projected unit credit method. Actuarial calculations are prepared by independent, professionally qualified actuaries at each balance sheet date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Defined benefit costs are categorised as: (1) service cost; (2) net interest expense or income; and (3) remeasurement. Service cost includes current and past service cost (which can be negative or positive) as well as gains and losses on settlements; it is included in operating profit. Past service cost is recognised at the earlier of the date when the plan amendment or curtailment occurs and the date that the Group recognises related restructuring costs. A gain or loss on settlement is recognised when the settlement occurs. Net interest, included within finance costs, is calculated by applying the discount rate to the net defined benefit asset or liability at the beginning of the year. Remeasurement is comprised of the return on plan assets (excluding net interest) and actuarial gains and losses; it is recognised in other comprehensive income in the period in which it arises and is not subsequently reclassified to the Consolidated Income Statement.

The net surplus or deficit arising on the Group's defined benefit pension plans, together with the liabilities associated with the unfunded plans, are shown either within non-current assets or liabilities in the Consolidated Balance Sheet. The defined benefit pension asset or liability comprises the total for each plan of the present value of the defined benefit obligation less the fair value of plan assets. Fair value of plan assets is based on market price information and in the case of published securities, it is the published bid price. Any pension asset is limited to the present value of economic benefits available in the form of refunds from the plans or reductions in future contributions. The deferred tax impact of pension plan surpluses and deficits is disclosed separately within deferred income tax assets or liabilities, as appropriate.

Share-based Payments

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

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

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

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

2. Summary of Significant Accounting Policies continued

Exceptional Items

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

Emissions Rights and Obligations

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

Government Grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with any related conditions. Grants that compensate the Group for expenses are offset against the related expense in the Consolidated Income Statement in the same accounting periods. Grants related to the cost of an asset are recognised in the Consolidated Income Statement over the useful life of the asset within administrative expenses.

Share Capital

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

Own Shares

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

Dividend Distributions

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

3. Significant Accounting Judgements, Estimates and Assumptions

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

Significant Accounting Judgements

Consolidation of Structured Entities

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

The Group has established a trust which facilitates the operation of the Group's long-term incentive plans. While the Group does not hold any of the equity of the trust, the Directors believe that the Group controls its activities and therefore the financial statements of the trust are included in the Consolidated Financial Statements.

Impairment of Goodwill

Judgement is required in determining whether goodwill is impaired or not. The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of groups of CGUs have been determined based on value-in-use calculations. The principal assumptions used to determine value-in-use relate to future cash flows and the time value of money. Further information is provided in the *Goodwill and Intangible Assets* note.

Income Taxes

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

Exceptional Items

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

3. Significant Accounting Judgements, Estimates and Assumptions continued

Significant Accounting Estimates and Assumptions

Measurement of Defined Benefit Obligations

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

4. Changes in Significant Accounting Policies

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

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

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

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

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

Transition

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

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

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

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

Impact on Consolidated Financial Statements

Impact on Transition

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

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

4. Changes in Significant Accounting Policies continued

Impact on Consolidated Financial Statements continued

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

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

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

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

5. Segment and Revenue Information

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

The Europe and the Americas segments are highly integrated. They include a system of mills and plants that primarily produce a full line of containerboard that is converted into corrugated containers within each segment. In addition, the Europe segment also produces other types of paper, such as solidboard, sack kraft paper and graphic paper; and other paper-based packaging, such as solidboard packaging and folding cartons; and bag-in-box packaging. The Americas segment, which includes a number of Latin American countries and the United States, also comprises forestry; other types of paper, such as boxboard, sack paper and graphic paper; and paper-based packaging, such as folding cartons and paper sacks. Inter-segment revenue is not material. No operating segments have been aggregated for disclosure purposes.

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

Segment profit is measured based on EBITDA[1]. Segment assets consist primarily of property, plant and equipment, right-of-use assets, biological assets, goodwill and intangible assets, inventories, trade and other receivables, deferred income tax assets and cash and cash equivalents. Group centre assets are comprised primarily of property, plant and equipment, other investments, derivative financial assets, deferred income tax assets, cash and cash equivalents and restricted cash. Segment liabilities are principally comprised of borrowings, operating liabilities, deferred income tax liabilities and employee benefits. Group centre liabilities are comprised of items such as borrowings, employee benefits, derivative financial instruments, deferred income tax liabilities and certain provisions.

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

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

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

Notes to the Consolidated Financial Statements continued

For the Financial Year Ended 31 December 2019

5. Segment and Revenue Information continued

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

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

5. Segment and Revenue Information continued

Information about Geographical Areas

The Group has a presence in 35 countries worldwide. The following is a geographical analysis presented in accordance with IFRS 8, which requires disclosure of information about country of domicile (Ireland) and countries with material revenue and non-current assets.

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

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

While the Group does not allocate goodwill by geographic area, if it were to ascribe goodwill to Ireland we estimate the amount would be less than 3% (2018: less than 3%) of the total goodwill of the Group of €2,383 million (2018: €2,361 million).

Disaggregation of Revenue

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

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

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

6. Cost and Income Analysis

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

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

6. Cost and Income Analysis continued

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

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

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

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

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

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

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

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

6. Cost and Income Analysis continued

Auditors' Remuneration

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

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

7. Employee Benefit Expense

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

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

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

8. Finance Costs and Income

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

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

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

9. Income Tax Expense

Income tax expense recognised in the Consolidated Income Statement

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

9. Income Tax Expense continued

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

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

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

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

Reconciliation of the Effective Tax Rate

The following table relates the applicable Republic of Ireland statutory tax rate to the effective tax rate (current and deferred) of the Group:

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

Income Tax Recognised Within Equity

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

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

Unremitted Earnings in Subsidiaries and Associates

The Group has not made provision for deferred tax in relation to temporary differences applicable to investments in subsidiaries on the basis that the Group can control their timing and choose which temporary timing differences will reverse. The Group is not obliged to remit earnings from subsidiaries. It is probable that the Group would only remit earnings which can benefit from the availability of participation tax exemption or sufficient tax credits (actual or deemed) to ensure there is no additional tax due. The aggregate amount of this temporary difference is approximately €860 million (2018: €782 million). Due to the absence of control in the context of associates (significant influence by definition) deferred tax liabilities are recognised where necessary in respect of the Group's investment in these entities.

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

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

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

10. Earnings per Share ('EPS')

Basic

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

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

Diluted

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

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

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

Pre-exceptional

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

11. Dividends

The following dividends were declared and paid by the Group.

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

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

12. Property, Plant and Equipment

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

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

12. Property, Plant and Equipment continued

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

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

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

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

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

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

Capital Commitments
The following capital commitments in relation to property, plant and equipment were authorised by the Directors, but have not been provided for in the Consolidated Financial Statements:

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

Impairments
Impairment tests for items of property, plant and equipment are performed on a cash-generating unit basis when impairment triggers arise. The recoverable amounts of property, plant and equipment are based on the higher of fair value less costs to sell and value-in-use. Value-in-use calculations are based on cash flow projections and discount rates for items of property, plant and equipment. Impairment charges are recognised within cost of sales in the Consolidated Income Statement. In 2019, the Group recorded an impairment charge of €4 million in relation to one of our North American corrugated plants.

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

13. Goodwill and Intangible Assets

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

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

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

In 2019, goodwill of €43 million and customer related intangible assets of €30 million arose on the acquisition of a paper mill and corrugated plant in Serbia. A further €12 million of goodwill arose on the acquisition of plants in France and Bulgaria. In 2018, goodwill of €109 million arose on the acquisition of Reparenco in the Netherlands.

Impairment Testing of Intangible Assets

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

13. Goodwill and Intangible Assets continued

Impairment Testing of Goodwill

Goodwill arising as part of a business combination is allocated to groups of cash-generating units ('CGUs') for the purpose of impairment testing based on the Group's existing business segments or, where appropriate, by recognition of a new CGU. The CGU groups represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, *Operating Segments*. A total of 15 groups (2018: 15) of CGUs have been identified and these are analysed between the two operating segments as follows:

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

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

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

An impairment charge of €46 million arose in 2019 in relation to Brazil and was recognised in other operating expenses. Management reassessed the expected future business performance in the country as a result of the continuing difficult economic conditions and consequently the projected cashflows are lower, giving rise to the impairment charge. The goodwill relating to our operations in Brazil pre-impairment represented 2% of the Group's total goodwill. No impairment arose in 2018 in any CGU as the recoverable amount of the groups of CGUs, based on value-in-use and estimated using the methodology outlined below, exceeded the carrying amount.

Impairment Testing Methodology and Results

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

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

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

Of the goodwill allocated to each of the 15 groups of CGUs, three units individually account for between 10% and 20% of the total carrying amount of €2,383 million and are summarised in the table below. All other units account individually for less than 10% of the total carrying amount and are not regarded as individually significant. The additional disclosures required under IAS 36, *Impairment of Assets* in relation to significant goodwill amounts arising in each of the three groups of CGUs are as follows:

	Europe France		**Europe Benelux**		**Europe Germany, Austria and Switzerland**	
	2019	2018	**2019**	2018	**2019**	2018
Carrying amount of goodwill (€ million)	**307**	303	**408**	408	**427**	427
Basis of recoverable amount	**Value-in-use**	Value-in-use	**Value-in-use**	Value-in-use	**Value-in-use**	Value-in-use
Discount rate applied (pre-tax)	**10.0%**	11.2%	**9.2%**	11.2%	**9.7%**	11.2%
Earnings multiple used for terminal value	**7.1**	7.1	**7.1**	7.1	**7.1**	7.1
Excess of value-in-use (€ million)	**382**	308	**395**	345	**743**	695

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

13. Goodwill and Intangible Assets continued

Impairment Testing Methodology and Results continued

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

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

	Europe France		Europe Benelux		Europe Germany, Austria and Switzerland	
	2019	2018	**2019**	2018	**2019**	2018
Increase in pre-tax discount rate (percentage points)	**7.1**	6.2	**6.8**	6.2	**9.5**	9.8
Reduction in terminal value multiple	**4.4**	3.6	**4.6**	3.7	**5.3**	5.2
Reduction in EBITDA	**24%**	23%	**25%**	23%	**29%**	32%

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

14. Financial Assets

Other Investments – Group

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

1 Listed on a recognised stock exchange.

Equity Instruments Designated at FVOCI

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

Listed and Unlisted Debt Instruments

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

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

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

Investment in Subsidiaries – Company

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

15. Investment in Associates

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

16. Biological Assets

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

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

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

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

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

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

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

17. Deferred Tax Assets and Liabilities

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

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

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

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

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

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

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

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

17. Deferred Tax Assets and Liabilities continued

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

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

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

No deferred tax asset is recognised in respect of the above assets on the grounds that there is insufficient evidence that the assets will be recoverable. In the event that sufficient profits are generated in the relevant jurisdictions in the future these assets may be recovered.

No deferred tax assets have been recognised in respect of gross tax losses amounting to €56 million (2018: €50 million) that can be carried forward against future taxable income. The expiry dates in respect of these losses are as follows:

Expiry dates	Tax Losses 2019 €m
1 January 2022 to 31 December 2022	**2**
Greater than 4 years	**1**
Other expiry	**2**
Indefinite	**51**
	56

18. Inventories

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

19. Trade and Other Receivables

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

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

The Group has securitised €607 million (2018: €643 million) of its trade receivables. The securitised receivables have not been derecognised as the Group remains exposed to certain related credit risk. As a result, both the underlying trade receivables and the associated borrowings are shown in the Consolidated Balance Sheet.

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

Impairment Losses

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

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

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

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

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

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

19. Trade and Other Receivables continued

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

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

20. Net Movement in Working Capital

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

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

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

22. Cash and Cash Equivalents and Restricted Cash

Cash and Cash Equivalents

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

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

23. Capital and Reserves

Share Capital

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

Restriction on Transfer of Shares

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

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

All convertible shares (classes B, C, D convertible shares) are subject to restrictions as to their transferability. Generally they are not transferable either at all or without consent of the Directors, save by transmission on the death of a holder.

Ordinary Shares

Subject to the Articles of Association of SKG plc, the holders of ordinary shares are entitled to share in any dividends in proportion to the number of shares held by them and are entitled to one vote for every share held by them at a general meeting. On a return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall firstly be distributed amongst the holders of ordinary shares, in proportion to the number of ordinary shares held by them, of the nominal value of their ordinary shares, secondly (to the extent available) distributed amongst the holders of convertible shares, in proportion to the number of convertible shares held by them, of the nominal value of their convertible shares and the balance (if any) shall be distributed amongst the holders of ordinary shares in proportion to the number of ordinary shares held by them.

Convertible Shares

The holders of convertible shares have no right to participate in the profits of SKG plc and are not entitled to receive notice of, attend or vote at general meetings or to vote on any members' resolution (save for any resolution with regard to the rights of convertible shares). On return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall, subject first to the rights of the holders of ordinary shares be distributed amongst the holders of convertible shares, in proportion to the number of convertible shares held by them, of the nominal value of their convertible shares.

Restriction of Rights

If the Directors determine that a Specified Event as defined in the Articles of Association of SKG plc has occurred in relation to any share or shares, the Directors may serve a notice to such effect on the holder or holders thereof. Upon the expiry of fourteen days from the service of any such notice, for so long as such notice shall remain in force no holder or holders of the share or shares specified in such notice shall, in relation to such specified shares, be entitled to attend, speak or vote either personally, by representative or by proxy at any general meeting of the Company or at any separate general meeting of the class of shares concerned or to exercise any other right conferred by membership in relation to any such meeting.

The Directors shall, where the shares specified in such notice represent not less than 0.25 per cent of the class of shares concerned, be entitled: to withhold payment of any dividend or other amount payable (including shares issuable in lieu of dividend) in respect of the shares specified in such notice; and/or to refuse to register any transfer of the shares specified in such notice or any renunciation of any allotment of new shares or debentures made in respect thereof unless such transfer or renunciation is shown to the satisfaction of the Directors to be a bona fide transfer or renunciation to another beneficial owner unconnected with the holder or holders or any person appearing to have an interest in respect of which a notice has been served.

	2019 €m	2018 €m
Authorised		
Ordinary shares		
9,910,931,085 Ordinary shares of €0.001 each	**10**	10
Convertible shares of €0.001 each		
2,356,472 Class A1	**–**	–
2,356,471 Class A2	**–**	–
2,355,972 Class A3	**–**	–
30,000,000 Class B	**–**	–
30,000,000 Class C	**–**	–
75,000,000 Class D	**–**	–
	10	10

23. Capital and Reserves continued

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

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

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

Share Premium

Share premium of €1,986 million (2018: €1,984 million) relates to the share premium arising on share issues.

Other Reserves

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

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

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

23. Capital and Reserves continued

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

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

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

Foreign Currency Translation Reserve
This reserve comprises all foreign currency translation adjustments arising from the translation of the Group's net investment in foreign operations as well as from the translation of liabilities that hedge those net assets.

Share-based Payment Reserve
This reserve represents the amounts credited to equity in relation to the share-based payment expense recognised in the Consolidated Income Statement, net of deferred shares distributed by the SKG Employee Trust to participants of the Deferred Annual Bonus Plan.

Own Shares
This represents ordinary shares acquired and disposed of by the SKG Employee Trust under the terms of the Deferred Annual Bonus Plan and the Deferred Bonus Plan.

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

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

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

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

24. Borrowings

Analysis of Total Borrowings

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

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

Included within the carrying value of borrowings are deferred debt issue costs of €37 million (2018: €27 million), all of which will be recognised in finance costs in the Consolidated Income Statement using the effective interest rate method over the remaining life of the borrowings.

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,589 million (2018: €4,499 million) of which €3,255 million (2018: €3,466 million) was utilised at 31 December 2019. The weighted average period until maturity of undrawn committed facilities is 3.8 years (2018: 1.6 years). Pro-forma for the RCF extension in January 2020, the weighted average maturity of undrawn committed facilities increases to 4.5 years.

Maturity of Undrawn Committed Facilities

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

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

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

24. Borrowings continued

Maturity of Undrawn Committed Facilities continued

The Group has in place a trade receivables securitisation programme of up to €200 million at a margin of 1.375% and a February 2022 maturity. Receivables generated by certain of its operating companies in Austria, Belgium, Italy and the Netherlands are sold to a special purpose Group subsidiary to support the funding. A conduit of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (trading as Rabobank) provides €154 million of the funding and a conduit of Landescovnantbank Hessen-Thüringen Girozentrale (trading as Helaba Bank) provides €46 million of the funding.

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

The sale of the securitised receivables under the Group's securitisation programmes is not intended to, and does not, meet the requirements for derecognition under IFRS 9, with the result that the sold receivables continue to be shown on the face of the Consolidated Balance Sheet and the notes issued which fund the purchase of these receivables continue to be shown as liabilities.

The gross amount of receivables collateralising the 2023 receivables securitisation at 31 December 2019 was €340 million (2018: €357 million). The gross amount of receivables collateralising the 2022 receivables securitisation at 31 December 2019 was €267 million (2018: €286 million). As the Group retains a subordinated interest in the securitised receivables, the Group remains exposed to the credit risk of the underlying securitised receivables. Further details are set out in Note 29. In accordance with the contractual terms, the counterparty has recourse to the securitised debtors only. Given the short-term nature of the securitised debtors and the variable floating notes, the carrying amount of the securitised debtors and the associated liabilities reported on the Consolidated Balance Sheet is estimated to approximate to fair value. At 31 December 2019, cash of €4 million (2018: €1 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

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

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

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

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

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

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

Certain other maturity, interest rate repricing and key terms relating to the Group's borrowings have been set out in Note 29.

25. Employee Benefits

The Group operates both defined benefit and defined contribution pension plans throughout its operations in accordance with local requirements and practices. These plans have broadly similar regulatory frameworks. The major plans are of the defined benefit type and are funded by payments to separately administered funds. In these defined benefit plans, the level of benefits available to members depends on length of service and their average salary over their period of employment or their salary in the final years leading up to retirement or leaving. While the majority of the defined benefit plans are funded, in certain countries, such as Germany, Austria and France, plan liabilities are for the most part unfunded and recognised as liabilities in the Consolidated Balance Sheet. In these countries, a full actuarial valuation of the unfunded liabilities is undertaken by independent actuaries on an annual basis. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies with the Company and the boards of trustees.

The most significant defined benefit plans are in the United Kingdom, the Netherlands, Ireland and Germany. The most recent valuations of the significant funded plans are as follows:

Ireland	1 January 2019
Netherlands	31 December 2019
United Kingdom	31 March 2017

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

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

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

In determining the defined benefit costs and obligations, all valuations are performed by independent actuaries using the projected unit credit method.

Financial Assumptions

The main actuarial assumptions used to calculate liabilities under IAS 19, *Employee Benefits* at 31 December 2019 and 31 December 2018 are as follows:

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

25. Employee Benefits continued

Mortality Assumptions

In assessing the Group's post retirement liabilities, the mortality assumptions chosen for the principal plans above are based on the country's population mortality experience, large pension scheme mortality experience and the plan's own mortality experience. Following a mortality investigation carried out by the pension scheme trustees in the United Kingdom, the mortality tables changed in 2017, resulting in a slightly lower life expectancy. A further decrease of life expectancy occurred in 2018 and 2019, in line with general trends in the United Kingdom. In 2018, in the Netherlands mortality tables were updated, reflecting a slight disimprovement in assumed longevity. In 2019, the fund-specific correction factors were adjusted to take into account fund-specific mortality. These fund-specific correction factors decrease the mortality probabilities compared to the unadjusted standard mortality table. In comparison to the correction factors used in 2018, the 2019 correction decreases the mortality probability slightly. In Ireland, the assumptions used are from the 2019 actuarial valuation. In Germany, the mortality table, which was updated in 2019, is that specified by statutory authorities. In all cases, the mortality tables used allow for future improvements in life expectancy.

The current life expectancies underlying the valuation of the plan liabilities for the significant plans are as follows:

	Ireland		United Kingdom		Netherlands		Germany	
	2019	2018	**2019**	2018	**2019**	2018	**2019**[1]	2018
Longevity at age 65 for current pensioners (years)								
Male	**21.7**	21.5	**19.9**	20.1	**21.0**	20.9	**20.2**	20.5
Female	**24.1**	24.0	**21.8**	22.1	**23.7**	23.5	**23.7**	24.1
Longevity at age 65 for current member aged 45 (years)								
Male	**24.0**	23.9	**20.9**	21.2	**23.3**	23.2	**23.0**	23.3
Female	**26.1**	26.0	**23.0**	23.3	**25.8**	25.7	**26.0**	26.3

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

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

Sensitivity Analysis

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

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

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

25. Employee Benefits continued

Analysis of Plan Assets and Liabilities

Plan assets are comprised as follows:

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

Included in plan assets at 31 December 2019 under Property is an amount of €3.6 million (2018: €1.2 million) relating to the Group's Gosport plant in the United Kingdom. This is the only self-investment in the Group by the defined benefit plans.

The actual return on plan assets for the year ended 31 December 2019 was a gain of €272 million (2018: a loss of €65 million).

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

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

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

25. Employee Benefits continued

Analysis of the Amount Charged in the Consolidated Income Statement

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

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

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

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

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

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

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

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

25. Employee Benefits continued

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

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

Employee Benefit Plan Risks

The employee benefit plans expose the Group to a number of risks, the most significant of which are:

Asset Volatility	The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to equities is monitored to ensure it remains appropriate given the plans' long-term objectives.
Changes in Bond Yields	A decrease in corporate bond yields will increase the value placed on the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
Inflation Risk	The plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life Expectancy	The majority of the plans' obligations are to provide benefits based on the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In the case of the funded plans, the Group ensures that the investment positions are managed with an asset-liability matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency.

25. Employee Benefits continued

Maturity Analysis

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

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

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

Most of the plans are closed to new entrants and therefore, under the projected unit credit method, the current service cost is expected to increase (all other elements remaining equal) as the members approach retirement and to decrease as members retire or leave service. The expected employee and employer contributions for the year ending 31 December 2020 for the funded schemes are €5 million and €46 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2020 are €27 million and the expected benefit payments made directly by the employer in respect of funded plans for the year ending 31 December 2020 are €1 million.

26. Share-based Payment

Share-based Payment Expense Recognised in the Consolidated Income Statement

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

The Group grants equity settled share-based payments to employees as part of their remuneration; there are no cash-settled share-based payments. The accounting for share-based payment expense falls under IFRS 2, *Share-based Payment*. Under IFRS 2, when share awards are subject to vesting conditions, the related expense is recognised in profit or loss over the vesting period.

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

Deferred Bonus Plan

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

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

The structure of the plan is that 50% of any annual bonus earned for a financial year will be deferred into SKG plc shares ('Deferred Shares') to be granted in the form of a Deferred Share Award. The Deferred Shares will vest (i.e. become unconditional) after a three-year holding period based on a service condition of continuity of employment or in certain circumstances, based on normal good leaver provisions.

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

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

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

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

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

26. Share-based Payment continued

Performance Share Plan

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

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

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

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

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

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

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

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

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

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

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

Deferred Annual Bonus Plan

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

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

The structure of the plan was that 50% of any annual bonus earned for a financial year was deferred into SKG plc shares to be granted in the form of a Deferred Share Award. These Deferred Shares vest (i.e. become unconditional) after a three-year holding period based on a service condition of continuity of employment or in certain circumstances, based on normal good leaver provisions.

At the same time as the grant of a Deferred Share Award, a Matching Share Award could be granted up to the level of the Deferred Share Award. Following a three-year performance period, the Matching Shares could vest up to a maximum of three times the level of the Deferred Share Award. Matching Share Awards would vest provided that the Remuneration Committee considered the Group's ROCE and TSR to be competitive when compared to the constituents of a peer group of international paper and packaging companies over that performance period. The actual number of Matching Shares that would vest under the Matching Share Awards was dependent on the performance conditions of the Group's FCF and ROCE targets measured over the same three-year performance period on an inter-conditional basis and the multiplier was calculated by interpolation.

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

26. Share-based Payment continued

Deferred Annual Bonus Plan continued

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

The actual performance targets assigned to the Matching Share Awards were set by the Remuneration Committee on the granting of awards at the start of each three-year cycle. The Group was required to lodge the actual targets with the Group's auditors prior to the grant of any awards under the DABP.

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

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

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

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

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

2007 Share Incentive Plan

This scheme has expired for the purpose of issuing invitations to subscribe for convertible shares. However a number of convertible shares issued under this plan have not yet been converted to ordinary shares. Further details are provided below.

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

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

	2019		2018	
	Number of Convertible Shares	Weighted Average Exercise Price (€ per Share)	Number of Convertible Shares	Weighted Average Exercise Price (€ per Share)
Outstanding at the beginning of the year	**490,182**	**4.93**	532,098	4.95
Lapsed during the year	**(19,260)**	**4.36**	–	–
Exercised in the year	**(407,224)**	**4.74**	(41,916)	5.08
Outstanding at the end of the year	**63,698**	**6.33**	490,182	4.93
Exercisable at the end of the year	**63,698**	**6.33**	490,182	4.93

26. Share-based Payment continued

2007 Share Incentive Plan continued

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

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

27. Provisions for Liabilities

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

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

Deferred and Contingent Consideration

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

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

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

Restructuring

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

Environmental

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

Legal

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

Other

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

28. Trade and Other Payables

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

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

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

29. Financial Instruments

Financial Instruments by Category

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

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

1 Excludes statutory taxes and prepayments.

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

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

1 Excludes statutory taxes and employee benefits.

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

29. Financial Instruments continued

Financial Instruments by Category continued

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

1 Excludes statutory taxes and prepayments.

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

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

1 Excludes statutory taxes and employee benefits.

The financial liabilities of the Company of €5 million consist of other financial liabilities.

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

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

Financial and Credit Risk Management

The operating parameters and policies of the Group's treasury management function are established under formal Board authority. The Treasury Policy covers the areas of funding, counterparty risk, foreign exchange, controls and derivatives. Risk arising on counterparty default is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. The Group uses financial instruments, including fixed and variable rate debt to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including derivative instruments are used to hedge exposure to interest rate, commodity and foreign currency risks. Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. The Group does not use financial instruments for trading purposes. The Group mitigates the risk that counterparties to derivatives will fail to perform by contracting with major financial institutions having high credit ratings and considers the likelihood of counterparty failure to be low. Trade debtors arise from a wide and varied customer base. There is no significant concentration of credit risk amongst any of the Group's most significant financial assets. The Group also holds no collateral in respect of its principal credit exposures.

The successful management of the Group's currency and interest rate exposure depends on a variety of factors, some of which are outside its control. The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in foreign currencies. The Group manages interest rate exposure to achieve what management considers to be an appropriate balance of fixed and variable rate funding. To achieve this objective the Group enters into interest rate swaps, options and forward rate agreements. Interest rate swap agreements are primarily used to change the interest payable on its underlying borrowings from variable to fixed rate. Tables detailing the impact of any such swaps on the Group's financial instruments have been set out elsewhere in this note.

The Group manages its balance sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges currency exposure through the use of currency swaps, options and forward contracts. Tables detailing the impact of these derivatives on the currency profile of the Group's financial instruments have been set out elsewhere in this note.

29. Financial Instruments continued

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

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

Interest Rate Risk

The Group is exposed to changes in interest rates, primarily changes in Euribor. The revolving credit facility is variable rate debt, as are the Group's securitisation facilities. Interest rate changes therefore generally do not affect the market value of such debt but do impact the amount of the Group's interest payments and, therefore, its future earnings and cash flows, assuming other factors are held constant. At 31 December 2019, the Group had fixed an average of 90% (2018: 79%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2019 a one percentage point increase in variable interest rates would have an estimated impact on pre-tax interest expense of approximately €5 million (including the effect of interest rate swaps) over the following 12 months. Interest income on our cash balances would increase by approximately €2 million, assuming a one percent increase in interest rates earned on such balances over the following twelve months.

The Group has entered into one or more interest rate protection agreements (principally interest rate swaps and cross currency interest rate swaps), which establish a fixed interest rate with respect to certain of its borrowings. Tables detailing the fixed and floating variable rate debt together with the impact of the related interest rate and cross currency swaps have been set out elsewhere in this note.

Currency Sensitivity

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

Commodity Price Risk

Containerboard

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

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

The price of recovered paper can fluctuate significantly within a given year, affecting the operating results of the Group's paper processing facilities. The Group seeks to manage this risk operationally rather than by entering into financial risk management derivatives. Accordingly, at each of 31 December 2019 and 2018, there were no derivatives held to mitigate such risks.

In addition, developing policy changes in the EU with regard to renewable energy sources have created an additional demand for wood, the principal raw material used in the manufacture of kraftliner. This has the effect of potentially increasing the price of wood and consequently the cost of the Group's raw materials. At each of 31 December 2019 and 2018, the Group held no derivatives to mitigate such risks.

Energy

The cost of producing the Group's products is also sensitive to the price of energy. The Group's main energy exposure is to the cost of gas and electricity. These energy costs have experienced significant price volatility in recent years, with a corresponding effect on Group production costs. Natural gas prices, relevant to the Group, started the year at €23.92 per megawatt-hour, decreased to €10.84 in August 2019 and was €15.90 per megawatt-hour in December 2019, giving an average price of €15.42 for 2019. The Group has entered into a limited level of energy derivative contracts to economically hedge a portion of its energy costs in Sweden. The Group has also fixed a certain level of its energy costs through contractual arrangements directly with its energy suppliers.

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

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

29. Financial Instruments continued

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

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

Liquidity Risk

The Group is exposed to liquidity risk which arises primarily from the maturing of short-term and long-term debt obligations and derivative transactions. The Group's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facilities, to ensure all obligations can be met as they fall due. To achieve this objective, the Group:
- maintains cash balances and liquid investments with highly rated counterparties;
- limits the maturity of cash balances; and
- borrows the bulk of its debt needs under committed bank lines or other term financing and by policy maintains a minimum level of undrawn committed facilities.

The Group has entered into a series of borrowing arrangements in order to facilitate its liquidity needs in this regard and the key terms of those arrangements are described within Note 24 and within certain tables set out below. At each year-end, the Group's rolling liquidity reserve (which comprises cash and undrawn committed facilities and which represents the amount of available cash headroom in the Group's funding structure) was as follows:

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

Management monitors rolling cash flow forecasts on an ongoing basis to determine the adequacy of the liquidity position of the Group. This process also incorporates a longer term liquidity review to ensure refinancing risks are adequately catered for as part of the Group's strategic planning. The Group continues to benefit from its existing financing package and debt profile. In addition, the Group's operating activities are cash generative and expect to be so over the foreseeable future; the Group has committed undrawn facilities of €1,334 million at 31 December 2019; and the Group has cash and cash equivalents of €189 million at 31 December 2019.

The maturity dates of the Group's main borrowing facilities as set out in Note 24, together with the liquidity analysis as set out in this note, more fully describes the Group's longer term financing risks.

Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

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

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

The capital employed of the Company at 31 December 2019 was €2,100 million (2018: €2,078 million).

Credit Risk

Credit risk arises from credit exposure to trade debtors, cash and cash equivalents including deposits with banks and financial institutions, derivative financial instruments and investments. The Group has no sovereign exposures and no material debtors with Government agencies. The maximum exposure to credit risk is represented by the carrying amount of each asset.

Trade debtors arise from a wide and varied customer base spread throughout the Group's operations and as such there is no significant concentration of credit risk. Credit evaluations are performed on all customers over certain thresholds and all customers are subject to continued monitoring at operating company level. Further information on the Group approach to providing for expected credit losses is set out in Note 19.

Risk of counterparty default arising on cash and cash equivalents and derivative financial instruments is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. Of the Group's total cash and cash equivalents (including restricted cash) at 31 December 2019 of €203 million, 52% was with financial institutions in the A rating category of Standard & Poor's or Moody's and 29% was with financial institutions in the AA/Aa or higher rating category.

29. Financial Instruments continued

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

The remaining 19% was represented mainly by cash held with banks in Latin America which fell outside the A or higher ratings categories. At 31 December 2019 derivative transactions were with counterparties with ratings ranging from BB- to AA- with Standard & Poor's or B3 to Aa2 with Moody's.

At each reporting date, there were no significant concentrations of credit risk which individually represented more than 10% of the Group's financial assets. A geographical analysis of the Group's segment assets has been provided in Note 5.

Market Risk – Equity Instruments

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

Market Risk – Listed and Unlisted Debt Instruments

The Group's listed and unlisted debt instruments principally comprise investments held relating to unfunded pension liabilities. These investments are being carried at their estimated fair value and the Group's maximum exposure to risks associated with these investments is represented by their carrying amounts.

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

Derivative Positions

Derivative financial instruments recognised as assets and liabilities in the Consolidated Balance Sheet both as part of cash flow hedges and other economic hedges which do not meet the criteria for hedge accounting under IFRS 9, have been set out below:

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

29. Financial Instruments continued

Fair Value Hierarchy

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

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

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

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

Financial Instruments in Level 3

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

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

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

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

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

29. Financial Instruments continued

Cash Flow Hedging

As more fully set out in this note, the Group principally utilises interest rate swaps to swap its variable rate debt into fixed rates. The Group has also designated a number of cross currency swaps which swap fixed US dollar debt into fixed euro debt as cash flow hedges where permitted. These swaps are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying debt being hedged.

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

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

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

There was no material ineffectiveness in hedged risk in relation to these hedges in 2019 and 2018. Amounts accounted for in the cash flow hedging reserve in respect of these swaps during the current and preceding periods have been set out in the Consolidated Statement of Comprehensive Income. These fair value gains and losses are expected to impact on profit and loss over the period from 2020 to 2023, in line with the underlying debt being hedged.

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

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

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

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

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

29. Financial Instruments continued

Derivatives not Designated as Hedges

The Group utilises a combination of foreign currency forward contracts and cross currency swaps in order to economically hedge on balance sheet debtor, creditor and borrowing exposures which are denominated in currencies other than the euro. Formal hedge accounting as permitted by IFRS 9 is not applied to these derivative instruments because a natural offset is effectively already achieved through fair valuing the derivatives through the profit or loss as required by IFRS 9, while also retranslating the related balance sheet foreign currency denominated monetary assets or liabilities at appropriate closing rates at each balance sheet date, as required by IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

The Group has also entered into certain energy hedging contracts to mitigate the associated price risks which occur as a result of the Group's normal operations. These have not been designated as hedges in accordance with IFRS 9 and are recognised at fair value through the profit or loss as required by that standard.

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

Interest Rate Risk Management

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

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

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

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

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

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

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

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

.

29. Financial Instruments continued

Foreign Exchange Risk Management

The Group manages its balance sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges a portion of its currency exposure through the use of currency swaps and forward contracts. At 31 December 2019 the Group had entered into €232 million (2018: €309 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2019 the Group had also entered into further short-term currency swaps of €634 million equivalent (2018: €538 million) as part of its short-term liquidity management.

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

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

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

The Group also enters into longer term cross currency swap arrangements in respect of its US dollar debt, which are set out in more detail in the tables below. In addition, the Group entered into a number of cross currency swaps in respect of the funding of its acquisition in Brazil, which are set out in more detail in the table below.

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

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

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

29. Financial Instruments continued
Foreign Exchange Risk Management continued
Outstanding currency swap agreements at 31 December 2018 are summarised as follows:

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

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

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

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

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

29. Financial Instruments continued

Effective Interest Rates and Repricing Analysis

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

31 December 2019	Average Effective Interest Rate	6 Months or Less €m	6-12 Months €m	1-2 Years €m	2-5 Years €m	More Than 5 Years €m	Total €m
Fixed rate instruments							
Liabilities:							
2025 debentures	7.56%	–	–	–	–	262	262
2024 notes	2.64%	–	–	–	500	–	500
2025 notes	2.98%	–	–	–	–	250	250
2026 notes	3.06%	–	–	–	–	1,004	1,004
2027 notes	1.68%	–	–	–	–	744	744
Bank loans/overdrafts	6.09%	–	–	15	14	4	33
Effect of interest rate swaps		–	74	100	–	–	174
Total		–	74	115	514	2,264	2,967
Leases	3.05%	3	8	21	128	217	377
Total fixed rate liabilities		3	82	136	642	2,481	3,344
Floating rate instruments							
Assets:							
Cash and cash equivalents	0.19%	189	–	–	–	–	189
Restricted cash	0.96%	14	–	–	–	–	14
Total floating rate assets		203	–	–	–	–	203
Liabilities:							
Revolving credit facility	2.64%	333	–	–	–	–	333
2022 receivables securitisation	2.08%	29	–	–	–	–	29
2023 receivables securitisation	1.24%	69	–	–	–	–	69
Bank loans/overdrafts	10.72%	85	–	–	–	–	85
Effect of interest rate swaps	1.85%	(174)	–	–	–	–	(174)
Total floating rate liabilities		342	–	–	–	–	342
Total net position		(142)	(82)	(136)	(642)	(2,481)	(3,483)

29. Financial instruments continued

Effective Interest Rates and Repricing Analysis continued

31 December 2018	Average Effective Interest Rate	6 Months or Less €m	6-12 Months €m	1-2 Years €m	2-5 Years €m	More Than 5 Years €m	Total €m
Fixed rate instruments							
Liabilities:							
2025 debentures	7.57%	–	–	–	–	257	257
2020 fixed rate notes	4.39%	–	–	406	–	–	406
2021 notes	3.50%	–	–	–	498	–	498
2024 notes	2.65%	–	–	–	–	499	499
2025 notes	2.99%	–	–	–	–	250	250
2026 notes	3.09%	–	–	–	–	601	601
Bank loans/overdrafts	8.00%	–	–	8	23	6	37
Effect of interest rate swaps		50	–	74	100	–	224
Total		50	–	488	621	1,613	2,772
Finance leases	4.03%	–	–	1	1	17	19
Total fixed rate liabilities		50	–	489	622	1,630	2,791
Floating rate instruments							
Assets:							
Cash and cash equivalents	0.24%	407	–	–	–	–	407
Restricted cash	1.32%	10	–	–	–	–	10
Total floating rate assets		417	–	–	–	–	417
Liabilities:							
Senior credit facility	2.26%	411	–	–	–	–	411
2022 receivables securitisation	1.63%	49	–	–	–	–	49
2023 receivables securitisation	1.87%	179	–	–	–	–	179
2020 floating rate notes	3.46%	251	–	–	–	–	251
Bank loans/overdrafts	10.53%	82	–	–	–	–	82
Effect of interest rate swaps	1.63%	(224)	–	–	–	–	(224)
Total floating rate liabilities		748	–	–	–	–	748
Total net position		(381)	–	(489)	(622)	(1,630)	(3,122)

29. Financial Instruments continued

Liquidity Analysis

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

31 December 2019	Weighted Average Period Until Maturity (Years)	No Fixed Term €m	Less Than 1 Year €m	1-2 Years €m	2-5 Years €m	More Than 5 Years €m	Total €m
Liabilities:							
Trade and other payables		–	1,465	–	–	–	1,465
Revolving credit facility	4.1	–	7	7	354	–	368
2022 receivables securitisation	2.1	–	–	–	30	–	30
2023 receivables securitisation	3.5	–	1	1	71	–	73
Bank loans/overdrafts	1.1	18	80	13	17	2	130
2025 debentures	5.8	–	20	20	59	280	379
2024 notes	4.1	–	12	12	530	–	554
2025 notes	5.0	–	7	7	21	253	288
2026 notes	6.0	–	29	29	86	1,043	1,187
2027 notes	7.7	–	11	11	34	784	840
		18	1,632	100	1,202	2,362	5,314
Leases	5.0	–	86	71	133	143	433
		18	1,718	171	1,335	2,505	5,747
Derivitive liabilities		–	4	1	–	–	5
Deferred consideration		–	2	–	10	–	12
Deferred contingent consideration		–	–	33	–	–	33
Total liabilities		18	1,724	205	1,345	2,505	5,797

31 December 2018	Weighted Average Period Until Maturity (Years)	No Fixed Term €m	Less Than 1 Year €m	1-2 Years €m	2-5 Years €m	More Than 5 Years €m	Total €m
Liabilities:							
Trade and other payables		–	1,483	–	–	–	1,483
Senior credit facility	1.0	–	74	347	–	–	421
2022 receivables securitisation	3.1	–	–	–	51	–	51
2023 receivables securitisation	4.5	–	3	3	188	–	194
Bank loans/overdrafts	1.4	17	67	18	21	9	132
2025 debentures	6.8	–	19	19	57	294	389
2020 fixed rate notes	1.1	–	17	408	–	–	425
2020 floating rate notes	1.8	–	8	258	–	–	266
2021 notes	2.4	–	16	16	508	–	540
2024 notes	5.0	–	12	12	36	506	566
2025 notes	6.0	–	7	7	21	260	295
2026 notes	6.9	–	18	17	52	643	730
		17	1,724	1,105	934	1,712	5,492
Finance leases	5.8	–	2	3	6	12	23
		17	1,726	1,108	940	1,724	5,515
Derivative liabilities		–	4	4	1	–	9
Deferred consideration		–	14	1	–	–	15
Total liabilities		17	1,744	1,113	941	1,724	5,539

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

29. Financial Instruments continued

Liquidity Analysis continued

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

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

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

Currency Analysis

The table below sets out the Group's financial assets and liabilities according to their principal currencies. Currency risk related to financial assets and liabilities denominated in currencies other than the Group's presentation currency (euro) represents both transactional and translation risk. As at 31 December 2019 and 2018 the Company had no material financial assets or liabilities denominated in foreign currencies.

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

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

29. Financial Instruments continued

Currency Analysis continued

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

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

29. Financial Instruments continued

Fair Value

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

1 The fair value of trade and other receivables and payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.
2 The fair value of listed financial assets is determined by reference to their bid price at the reporting date. Unlisted financial assets are valued using recognised valuation techniques for the underlying security including discounted cash flows and similar unlisted equity valuation models.
3 The carrying amount reported in the Consolidated Balance Sheet is estimated to approximate to fair value because of the short-term maturity of these instruments and, in the case of the receivables securitisation, the variable nature of the facility and repricing dates.
4 The fair value of forward foreign currency, energy and commodity contracts is based on their listed market price if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.
5 The fair value (level 2) of the senior credit facility is based on the present value of its estimated future cash flows discounted at an appropriate market discount rate at the balance sheet date. The fair value (level 2) of the revolving credit facility is based on the present value of its estimated future cash flows discounted at an appropriate market discount rate at the balance sheet date.
6 The fair value (level 2) is based on broker prices at the balance sheet date.
7 The fair value of deferred consideration is based on the present value of the expected payment, discounted using an appropriate market discount rate at the balance sheet date.
8 The fair value of deferred contingent consideration is based on the present value of the expected payment, discounted using a risk-adjusted discount rate.

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

30. Leases

Amounts Recognised in the Consolidated Balance Sheet

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

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

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

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

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

Amounts Recognised in the Consolidated Income Statement

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

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

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

30. Leases continued

Amounts Recognised in the Consolidated Statement of Cash Flows

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

Leasing Activites

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

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

Extension and Termination Options

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

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

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

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

Comparative Lease Disclosures Under IAS 17

Operating Leases

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

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

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

Finance Leases

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

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

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

31. Related Party Transactions

The principal related party relationships requiring disclosure under IAS 24, *Related Party Disclosures* pertain to the existence of subsidiaries and associates and transactions with these entities entered into by the Group and the identification and compensation of key management personnel as addressed in greater detail below.

Transactions with Subsidiaries

The Consolidated Financial Statements include the Financial Statements of the Company and its subsidiaries and associates as documented in the accounting policies on pages 97 and 98. A listing of the principal subsidiaries is provided on pages 159 and 160.

Sales to and purchases from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IFRS 10, *Consolidated Financial Statements*.

Transactions with Associates

The Group conducts certain transactions with associates in the normal course of business which are summarised as follows:

Sales and Purchase of Goods and Services

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

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

The receivables from related parties of €3 million (2018: €3 million) arise mainly from sale transactions and are due two months after the date of sale. The receivables are unsecured in nature and do not bear interest.

The payables to related parties are nil in the current year (2018: nil).

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

Transactions with Other Related Parties

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

Transactions with Key Management Personnel

For the purposes of the disclosure requirements of IAS 24, the term 'key management personnel' (i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the Company) comprises the Board of Directors and Secretary who manage the business and affairs of the Company.

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

Information on the Parent Company

The parent Company is an investment holding company and as a result, holds investments in the Group subsidiaries as financial assets. The parent Company also has receivables and payables with its subsidiaries entered into in the normal course of business. These balances are repayable on demand. The notes to the Company Balance Sheet disclose these various balances.

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

32. Business Combinations
The acquisitions completed by the Group during the year, together with percentages acquired and completion dates, were as follows:
- Fabrika Hartije d.o.o. Beograd ('FHB') and Avala Ada d.o.o. Beograd ('Avala Ada'), (75%, 1 January 2019 with put and call options in place over the remaining 25%), respectively a paper mill and a corrugated plant in Serbia;
- Balkanpack EOOD ('Balkanpack'), (100%, 28 February 2019), an integrated corrugated plant in Bulgaria; and
- Vitavel AD ('Vitavel'), (100%, 30 April 2019), an integrated corrugated plant in Bulgaria.

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

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

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

32. Business Combinations continued

The principal factors contributing to the recognition of goodwill are the realisation of cost savings and other synergies with existing entities in the Group which do not qualify for separate recognition as intangible assets.

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

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

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

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

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

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

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

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

33. Profit Dealt with in the Parent Company

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

34. Principal Subsidiaries

Each of Smurfit Kappa Group plc, Smurfit Kappa Investments Limited, Smurfit Kappa Holdings Limited and Smurfit Kappa Acquisitions Unlimited Company with an address at Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, is a holding company with no operations of its own. Smurfit Kappa Acquisitions Unlimited Company is a Public Unlimited Company. A listing of the principal subsidiaries is set out below:

Subsidiaries[1]	Principal Activities	Country of Incorporation[2]	Holding %
Cartón de Colombia, S.A. Calle 15 No. 18-109 Puerto Isaacs, Yumbo – Valle del Cauca, Colombia	Manufacture and sale of paperboard, paper sacks, writing paper and packaging products	**Colombia**	97.7
Grupo Smurfit México, S.A. de C.V. Miguel de Cervantes Saavedra, 301, Torre B Piso 8. Colonia Ampliación Granada, Alc. Miguel Hidalgo Ciudad de Mexico, c.p. 11520, Mexico	Manufacture and sale of paperboard and packaging products	**Mexico**	100
Smurfit Kappa Nettingsdorfer AG & Co KG Nettingsdorfer Straße 40, 4053 Haid bei Ansfelden, Austria	Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board	**Austria**	100
Smurfit International B.V. Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Principal international holding company	**Netherlands**	100
Smurfit Kappa de Argentina, S.A. Av. Cordoba 838, 9 Floor, of. 18, Ciudad de Buenos Aires, Argentina	Manufacture and sale of paperboard and packaging products	**Argentina**	100
Smurfit Kappa Deutschland GmbH Tilsiter Straße 162, 22047 Hamburg, Germany	Holding company for German operations whose principal activities are the manufacture and sale of paperboard, solidboard and packaging products	**Germany**	100

34. Principal Subsidiaries continued

Subsidiaries[1]	Principal Activities	Country of Incorporation[2]	Holding %
Smurfit Kappa Europe B.V. Evert van den Beekstraat 1-106, 1118 CL Schiphol, The Netherlands	International holding company	**Netherlands**	100
Smurfit Kappa Italia, S.p.A. Via Vicenzo Monti 12 20123 Milano (MI), Italy	Manufacture and sale of paperboard and packaging products	**Italy**	100
Smurfit Kappa Holdings US, Inc. 913 N. Market Street Suite 200, Wilmington, DE 19801 USA	Holding company for North America and certain Mexican operations whose principal activities are the manufacture and sale of paperboard and packaging products	**United States**	100
Smurfit Kappa Ireland Limited Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, Ireland	Manufacture and sale of packaging products	**Ireland**	100
Smurfit Kappa Kraftliner Piteå AB SE – 941 86, Piteå, Sweden	Manufacture and sale of containerboard and holding company for operations in Sweden and Norway which manufacture and sell packaging products	**Sweden**	100
Smurfit Kappa Nederland B.V. Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Holding company for Dutch operations which manufacture paperboard and packaging products	**Netherlands**	100
Smurfit Kappa Nervión, S.A. B Arriandi s/n, 48215 Iurreta, Vizcaya, Spain	Manufacture and sale of sack paper and holding company for Spanish and Portuguese operations whose principal activities are the manufacture and sale of paperboard and packaging	**Spain**	100
Smurfit Kappa Packaging UK Limited Cunard Building, Pier Head, Liverpool, LS3 1SF, United Kingdom	Holding company for operations in the United Kingdom whose principal activities are the manufacture and sale of paperboard and packaging products	**England**	100
Smurfit Kappa do Brasil Indústria de Embalagens S.A Rua Castilho, 392, Cj.162, Brooklin, CEP 04568-010 São Paulo, Brazil	Holding company for operations in Brazil whose principal activities are the manufacture and sale of paperboard and packaging products	**Brazil**	100
Smurfit Kappa Participations SAS 5 Avenue du Général de Gaulle, 94160 Saint Mandé, France	Holding company for French operations whose activities are the manufacture and sale of paperboard and packaging products	**France**	100
Smurfit Kappa Treasury Unlimited Company Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, Ireland	Finance company	**Ireland**	100

1 A full list of subsidiaries and associates will be annexed to the Annual Return of the Company to be filed with the Irish Registrar of Companies.
2 The companies operate principally in their countries of incorporation.

34. Principal Subsidiaries continued

Section 357 Guarantees

Pursuant to the provisions of Section 357, Companies Act 2014, Smurfit Kappa Group plc has irrevocably guaranteed all commitments entered into by certain of its Irish subsidiaries (including amounts shown as liabilities in the statutory financial statements of such subsidiaries) for the financial year ended 31 December 2019 and as a result such subsidiaries have been exempted from the filing provisions of Section 347, Companies Act 2014. These Irish subsidiaries are as follows – Belgray Holdings Unlimited Company, Brenchley Limited, Claystoke Designated Activity Company, Damous Limited, DLRS (Holdings) Limited, Smurfit Kappa Security Concepts Limited, Gorda Limited, Iona Print Limited, iVenus Limited, Jefferson Smurfit & Sons Limited, Margrave Investments Limited, Smurfit International Designated Activity Company, Smurfit Investments (Ireland) Limited, Smurfit Kappa Holdings Limited, Smurfit Kappa Investments Limited, Smurfit Kappa Ireland Limited, Smurfit Kappa Irish Paper Sacks Limited, Smurfit Kappa Leasing Unlimited Company, Smurfit Kappa News Press Limited, Smurfit Kappa Packaging Limited, Smurfit Kappa Services Limited, Smurfit Kappa Treasury Funding Designated Activity Company, Smurfit Kappa Treasury Receivables Designated Activity Company, Smurfit Natural Resources Limited, Smurfit Securities Limited.

Article 403 Guarantees

Smurfit Kappa Group plc has, in accordance with Article 403, Book 2 of the Dutch Civil Code, guaranteed the debts of its following Dutch subsidiaries – Adavale (Netherlands) B.V., Smurfit International B.V., Smurfit Corrugated B.V., Smurfit Holdings B.V., Smurfit Investments B.V., Packaging Investments Netherlands (PIN) B.V., Packaging Investments Holdings (PIH) B.V., Smurfit Kappa Europe B.V., Smurfit Kappa Nederland B.V., Smurfit Kappa Technical Services B.V.,Smurfit Kappa Corrugated Benelux B.V., Smurfit Kappa TWINCORR B.V., Smurfit Kappa MNL Golfkarton B.V., Smurfit Kappa Van Dam Golfkarton B.V., Smurfit Kappa Vandra B.V., Smurfit Kappa Orko-Pak B.V., Smurfit Kappa ELCORR B.V., Smurfit Kappa Trobox Kartonnages B.V., Smurfit Kappa Zedek B.V., Smurfit Kappa North East Europe Head Office B.V., Kartonfabriek Britannia B.V., Smurfit Kappa Recycling B.V., Smurfit Kappa Development Centre B.V., Smurfit Kappa Paper Services B.V., Smurfit Kappa Roermond Papier B.V., Kappa Holding (Nederland) B.V., Smurfit Kappa RapidCorr Eindhoven B.V., Smurfit Kappa Group IS Nederland B.V., Smurfit Kappa Finance B.V., Smurfit Kappa Hexacomb B.V., Reparenco Holding B.V., Smurfit Kappa Parenco B.V., Parenco Energy B.V., Reparco Nederland B.V., Smurfit Kappa Roermond Machines B.V.

Non-controlling Interests

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

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

Alternative Performance Measures

The Group uses certain financial measures as set out below in order to evaluate the Group's financial performance. These Alternative Performance Measures ('APMs') are not defined under IFRS and are presented because we believe that they, and similar measures, provide both SKG management and users of the Consolidated Financial Statements with useful additional financial information when evaluating the Group's operating and financial performance.

These measures may not be comparable to other similarly titled measures used by other companies, and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered in isolation or as substitutes for the information contained in our Consolidated Financial Statements.

The principal APMs used by the Group, together with reconciliations where the non-IFRS measures are not readily identifiable from the Consolidated Financial Statements, are as follows:

EBITDA
Definition
EBITDA is earnings before exceptional items, share-based payment expense, share of associates' profit (after tax), net finance costs, income tax expense, depreciation and depletion (net) and intangible assets amortisation. It is an appropriate and useful measure used to compare recurring financial performance between periods. A reconciliation of profit/(loss) to EBITDA is included below:

Reconciliation of Profit/(Loss) to EBITDA

	2019 €m	2018 €m
Profit/(loss) for the financial year	**484**	(639)
Income tax expense (after exceptional items)	**193**	235
Deconsolidation of Venezuela	**–**	1,270
Exceptional items charged in operating profit	**178**	66
Net finance costs (after exceptional items)	**209**	173
Share of associates' profit (after tax)	**(2)**	–
Share-based payment expense	**41**	24
Depreciation, depletion (net) and amortisation	**547**	416
EBITDA	**1,650**	1,545

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

	2019 €m	2018 €m
EBITDA	**1,650**	1,545
Revenue	**9,048**	8,946
EBITDA margin	**18.2%**	17.3%

Operating Profit before Exceptional Items
Definition
Operating profit before exceptional items represents operating profit as reported in the Consolidated Income Statement before exceptional items. Exceptional items are excluded in order to assess the underlying financial performance of our operations.

	2019 €m	2018 €m
Operating profit	**884**	1,039
Exceptional items	**178**	66
Operating profit before exceptional items	**1,062**	1,105

Pre-exceptional Basic Earnings Per Share
Definition
Pre-exceptional basic EPS serves as an effective indicator of our profitability as it excludes exceptional one-off items and, in conjunction with other metrics such as ROCE, is a measure of our financial strength. Pre-exceptional basic EPS is calculated by dividing profit attributable to owners of the parent, adjusted for exceptional items included in profit before income tax and income tax on exceptional items, by the weighted average number of ordinary shares in issue. The calculation of pre-exceptional basic EPS is shown in Note 10.

Free Cash Flow ('FCF')
Definition
FCF is the result of the cash inflows and outflows from our operating activities, and is before those arising from acquisition and disposal activities. We use FCF to assess and understand the total operating performance of the business and to identify underlying trends.

Free Cash Flow ('FCF') continued

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 from amounts presented in the IFRS cash flow. The principal differences are as follows:

(a) The summary cash flow details movements in net debt. The IFRS cash flow details movements in cash and cash equivalents.

(b) FCF reconciles to cash generated from operations in the IFRS cash flow as shown in the table below. The main adjustments are in respect of cash interest, capital expenditure 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 are shown separately in the IFRS cash flow. It also includes right-of-use assets which are excluded from additions to property, plant and equipment and biological assets in the IFRS cash flow.
- 'Other' in the summary cash flow includes changes in employee benefits and other provisions (excluding current provisions), amortisation of capital grants, receipt of capital grants and dividends received from associates which are shown separately in the IFRS cash flow.

A reconciliation of FCF (APM) to cash generated from operations (IFRS measure) is included below.

Reconciliation of Free Cash Flow to Cash Generated from Operations

	2019 €m	2018 €m
Free cash flow	**547**	494
Reconciling items:		
Cash interest	**156**	155
Capital expenditure (net of change in capital creditors)	**711**	561
Tax payments	**222**	193
Sale of property, plant and equipment	**(4)**	(4)
Lease terminations/modifications (in 'Other' in summary cash flow)	**(9)**	–
Profit on sale of property, plant and equipment – non-exceptional	**(3)**	(3)
Receipt of capital grants (in 'Other' in summary cash flow)	**(2)**	(2)
Dividends received from associates (in 'Other' in summary cash flow)	**(1)**	–
Non-cash financing activities	**1**	(1)
Cash generated from operations	**1,618**	1,393

Return on Capital Employed ('ROCE')

Definition

ROCE measures profit from capital employed. It is calculated as operating profit before exceptional items plus share of associates' profit (after tax) divided by the average capital employed (where average capital employed is the average of total equity and net debt at the current and prior year end).

	2019 €m	2018 €m
Operating profit before exceptional items plus share of associates' profit (after tax)	**1,064**	1,105
Total equity – current year end	**2,993**	2,890
Net debt – current year end	**3,483**	3,122
Capital employed – current year end	**6,476**	6,012
Total equity – prior year end	**2,890**	2,659
Net debt – prior year end	**3,122**	2,805
Capital employed – prior year end	**6,012**	5,464
Average capital employed	**6,244**	5,738
Return on capital employed	**17.0%**	19.3%

Alternative Performance Measures continued

Net Debt

Definition

Net debt comprises borrowings net of cash and cash equivalents and restricted cash. We believe that this measure highlights the overall movement resulting from our operating and financial performance.

	2019 €m	2018 €m
Borrowings (see Note 24)	**3,686**	3,539
Less:		
Restricted cash	**(14)**	(10)
Cash and cash equivalents	**(189)**	(407)
Net debt	**3,483**	3,122

Net Debt to EBITDA

Definition

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

	2019 €m	2018 €m
Net Debt	**3,483**	3,122
EBITDA	**1,650**	1,545
Net debt to EBITDA (times)	**2.1**	2.0

Capital Expenditure

Definition

Capital expenditure comprises additions to property, plant and equipment, right-of-use assets, biological assets and intangible assets.

	2019 €m	2018 €m
Property, plant and equipment	**620**	530
Right-of-use assets	**79**	8
Biological assets	**11**	11
Intangible assets	**20**	25
Total capital expenditure	**730**	574

Capital Expenditure as a Percentage of Depreciation

Definition

Capital expenditure as defined above as a percentage of total depreciation. Total depreciation includes depreciation of property, plant and equipment, right-of-use assets, change in biological assets and amortisation of intangible assets.

	2019 €m	2018 €m
Capital expenditure	**730**	574
Depreciation	**547**	416
Capital expenditure as a percentage of depreciation	**134%**	138%

Working Capital

Definition

Working capital represents total inventories, trade and other receivables and trade and other payables.

	2019 €m	2018 €m
Inventories	**819**	847
Trade and other receivables (current and non-current)	**1,674**	1,707
Trade and other payables	**(1,863)**	(1,871)
Working capital	**630**	683

Working Capital as a Percentage of Sales

Definition

Working capital as a percentage of sales represents working capital as defined above shown as a percentage of annualised quarterly revenue.

	2019 €m	2018 €m
Working capital	**630**	683
Annualised revenue	**8,790**	9,096
Working capital as a percentage of sales	**7.2%**	7.5%

Underlying EBITDA and Revenue

Definition

Underlying EBITDA and revenue are arrived at by excluding the incremental EBITDA and revenue contributions from current and prior year acquisitions and disposals and the impact of currency translation, hyperinflation and any non-recurring items.

The Group uses underlying EBITDA and underlying revenue as additional performance indicators to assess performance on a like-for-like basis each year.

	Europe 2019	The Americas 2019	Total 2019	Europe 2018	The Americas 2018	Total 2018
EBITDA						
Currency	**–**	**–**	**–**	(1%)	(9%)	(3%)
Hyperinflation	**–**	**(1%)**	**–**	–	(3%)	–
Acquisitions/disposals	**3%**	**(2%)**	**2%**	4%	(6%)	1%
IFRS 16	**5%**	**9%**	**6%**	–	–	–
Underlying EBITDA change	**(3%)**	**7%**	**(1%)**	30%	20%	27%
Reported EBITDA change	**5%**	**13%**	**7%**	33%	2%	25%
Revenue						
Currency	**–**	**–**	**–**	(1%)	(12%)	(3%)
Hyperinflation	**–**	**–**	**–**	–	4%	1%
Acquisitions/disposals	**3%**	**(4%)**	**1%**	2%	(6%)	–
Underlying revenue change	**(2%)**	**6%**	**–**	7%	8%	7%
Reported revenue change	**1%**	**2%**	**1%**	8%	(6%)	5%

The Impact of New Accounting Standards

The application of IFRS 16, *Leases* had the following impact on our APMs:

	2019
EBITDA (million)	**€92**
EBITDA margin (%)	**100 bps**
Operating profit before exceptional items (million)	**€8**
Pre-exceptional basic EPS (cent)	**(0.9)**
Return on capital employed (%)	**(40) bps**
Free cash flow (million)	**€11**
Net debt (million)	**€356**
Net debt to EBITDA (times)	**0.1 x**
Capital expenditure (million)	**79**
Capital expenditure as a percentage of depreciation (%)	**(714) bps**

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 2019, 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	1,503	46.7	566	0.2
1,001 – 5,000	664	20.6	1,587	0.7
5,001 – 10,000	217	6.7	1,592	0.7
10,001 – 100,000	554	17.2	19,241	8.1
100,001 – 500,000	191	5.9	42,101	17.7
Over 500,000	91	2.9	172,801	72.6
Total	3,220	100.0	237,888	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	30 April 2020
Interim results announcement	29 July 2020

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 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

Notes

The photos in this report have been taken in a number of locations across the 35 countries in which we operate.

The cover photo at our mill in Pitea, Sweden was taken by Caroline Lundmark.

The photo on page 53 was used with permission from the Human Library organisation.

MIX
Paper from responsible sources
FSC® C008886
FSC
www.fsc.org

The outer cover of this report has been laminated with a biodegradable film.

Around 20 months after composting, an additive within the film will initiate the process of oxidation.

Designed and produced by emperor
Visit us at **emperor.works**

Smurfit Kappa Group plc
Beech Hill, Clonskeagh, Dublin 4, DO4 N2R2 Ireland
+353 1 202 7000

smurfitkappa.com