

# PRESS RELEASE

**1 August:** Smurfit Kappa Group plc ('SKG' or 'the Group') today announced results for the 6 months ending 30 June 2018.

## 2018 First Half | Key Financial Performance Measures

€m	H1 2018	H1 2017	Change
Revenue	€4,428	€4,233	5%
EBITDA <sup>(1)</sup>	€724	€569	27%
EBITDA Margin <sup>(1)</sup>	16.4%	13.4%	
Operating Profit before Exceptional Items	€529	€358	48%
Profit before Income Tax	€416	€245	70%
Basic EPS (cent)	124.5	74.3	68%
Pre-exceptional Basic EPS (cent) <sup>(1)</sup>	140.7	75.0	88%
Return on Capital Employed <sup>(1)</sup>	18.1%	14.7%	
Free Cash Flow <sup>(1)</sup>	€148	€46	220%

  

Net Debt <sup>(1)</sup>	€2,871	€2,985
Net Debt to EBITDA (LTM) <sup>(1)</sup>	2.1x	2.5x

(1) Additional information in relation to these Alternative Performance Measures ('APMs') is set out in Supplementary Financial Information on page 34.

## First Half Key Points

- Significant improvement against all key performance measures
- Underlying<sup>1</sup> revenue growth of 8%
- EBITDA increase of 27% to €724 million and EBITDA margin of 16.4%
- ROCE of 18.1%
- Strong Free Cash Flow of €148 million and Net Debt to EBITDA of 2.1x
- Completion of Reparenco acquisition for €460 million on 2 July accelerating the Medium Term Plan
- 7.5 year bond issuance of €600 million in June 2018
- Interim dividend increased by 10% to 25.4 cent per share

## Performance Review and Outlook

Tony Smurfit, Group CEO, commented:

"SKG is pleased to deliver significant improvement against our key performance measures. With an increase in EBITDA of over 27% to €724 million and an EBITDA margin of 16.4% our first half performance reflects the quality of our assets, geographic reach and market positions. SKG's integrated business model and a performance-led culture continue to drive demonstrably superior returns.

"The performance during the first half is a measure of the tremendous efforts of our people and our continued success in developing innovative packaging solutions for our customers.

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

“Europe reported a record EBITDA margin of 17.3% for the first half, with corrugated volume growth of 3%. Market demand remains strong and the Group has continued to recover corrugated pricing in line with expectations.

“The Americas reported a year-on-year improvement in EBITDA margin to 15.2% for the first half as the recovery of input costs continues. Demand is strengthening with improving corrugated growth. Our 2017 mill investments in Mexico and Colombia continue to ramp-up and deliver incremental tonnage for integration. We see the Americas as a region for growth with ongoing opportunities to expand our geographic reach.

“The Group communicated its Medium Term Plan in February of this year. The plan outlined the positive medium-term growth drivers of corrugated demand such as e-commerce, discount retailers, increased supply chain complexity and the substitution of plastic and other non-renewable substrates. SKG is uniquely positioned to capitalise on these secular drivers with our industry leading business applications delivering scientifically backed solutions to our customers, whether this is in reducing their costs, driving sales growth or reducing their business risk.

“I am particularly pleased with the acquisition of Reparenco financed by our successful bond issuance in June. This acquisition represents a compelling strategic fit for SKG and delivers a significant and early step in our Medium Term Plan, securing our current and expected European containerboard needs in a highly cost effective manner.

“With significant growth opportunities, both organic and through acquisition, we have announced increased medium-term performance targets including: an objective to invest an incremental €1.6 billion above base capex to capitalise on internal and external growth opportunities; an increased medium-term ROCE target of 17% and a lower target leverage range of 1.75x to 2.5x net debt to EBITDA.

“Our first half performance represents an early yet significant step towards the delivery of these targets.

“As we start the second half, business conditions remain strong. We are excited about our prospects and we continue to expect our 2018 EBITDA to be materially better than 2017. Reflecting the Board’s confidence in the Group’s performance and prospects the interim dividend is increased by 10% to 25.4 cent per share.”

## About Smurfit Kappa

Smurfit Kappa, a FTSE 100 company, is one of the leading providers of paper-based packaging solutions in the world, with around 46,000 employees in approximately 370 production sites across 35 countries and with revenue of €8.6 billion in 2017. We are located in 22 countries in Europe, and 13 in the Americas. We are the only large-scale pan-regional player in Latin America.

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

[smurfitkappa.com](http://smurfitkappa.com)

Check out our microsite: [openthefuture.info](http://openthefuture.info)

Follow us on Twitter at [@smurfitkappa](https://twitter.com/smurfitkappa) and on LinkedIn at '[Smurfit Kappa](https://www.linkedin.com/company/smurfit-kappa)'.

## Forward Looking Statements

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

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## 2018 First Half | Performance Overview

The Group reported EBITDA for the first half of €724 million, €155 million or 27% up on the same period last year. EBITDA in Europe was €148 million higher, while the Americas was €11 million higher. The underlying move in EBITDA was an increase of 32%, reflecting higher earnings in both regions offset in part by higher centre costs.

The reported Group EBITDA margin of 16.4% for the first half of 2018 was up on the 13.4% in the first half of 2017 with higher margins in both Europe and the Americas. The improved margins reflect the strength of our integrated model, the benefits of our capital spend programme, the benefits of ongoing corrugated price recovery and lower recovered fibre costs.

The Group results were positively impacted by lower recovered fibre costs of €73 million in the first half of 2018 reflecting the reduction in prices from near record highs in 2017. Current expectations are for recovered fibre prices to trend upwards in the longer term but the shorter term price outlook remains uncertain. While we had a tailwind from lower recovered fibre costs the Group's first half results were negatively impacted by higher costs in areas such as labour, distribution, wood and other raw materials.

In Europe, for the first half, EBITDA increased by 34% to €587 million. The benefits of prior years' capital investments, input cost recovery, together with volume growth were fundamental in achieving this result. Reported corrugated volume growth for the first half of 2018 was 3% year-on-year with the benefits of acquisitions and organic growth being offset in part by some volume loss as a result of price recovery initiatives.

Pricing for both recycled containerboard and kraftliner was stable in the second quarter after increases in both grades in the first quarter of 2018. Industry inventory levels of recycled containerboard remained below critical levels in June highlighting the tight market situation, notwithstanding some recent capacity additions.

The Group completed the acquisition of Reparenco in the Netherlands on 2 July accelerating a central element of the Medium Term Plan. The acquisition will further strengthen our integrated model and we are targeting in excess of €30 million of synergy benefits across transport, paper integration and operational improvements.

In the Americas, EBITDA increased 8% to €157 million in the first half from €146 million in the first half of 2017. Although export pricing for kraftliner from the US into Latin America stabilised in the second quarter, it is up significantly for the first half year-on-year with third party benchmarks reporting a 30% increase in a region where we are short approximately 300,000 tonnes. The Group continues to recover these input cost pressures as we move through 2018. The region is also seeing the benefit of the investments made in our new paper machine in Los Reyes in Mexico as well as the expansion of the Papelsa mill in Colombia.

The Group reported a free cash flow of €148 million in the first half of 2018 compared to €46 million in the first half of 2017, an increase of 220%. In June 2018, SKG issued a €600 million bond at a rate of 2.875% and the average maturity profile of the Group's debt now stands at 4.2 years with an average interest rate of 3.3%. Net debt to EBITDA was 2.1x at the end of June. The Group remains well positioned within its Ba1/BB+/BB+ credit rating.

## 2018 First Half | Financial Performance

Revenue for the first half was €4,428 million, up 5% on the same period last year. On an underlying basis the increase was 8%. Revenue in Europe was up 7% or €233 million, driven predominantly by underlying revenue growth with a small contribution from acquisitions. Revenue in the Americas was down 3% or €38 million reflecting the negative impact of currency in the first half, on an underlying basis revenues were up 9%.

EBITDA for the first half was up 27% to €724 million with growth of 34% in Europe and 8% in the Americas. On an underlying basis, Group EBITDA was up 32% in the first half.

Operating profit before exceptional items in the first half of 2018 at €529 million was 48% higher than the €358 million for the same period in 2017.

Exceptional items charged within operating profit in the first half of 2018 amounted to €31 million and comprised costs relating to the defence from the unsolicited approach by International Paper and a loss on the disposal of our Baden operations in Germany. There were no exceptional items charged within operating profit in the first half of 2017.

Pre-exceptional net finance costs at €77 million were €34 million lower than in 2017, primarily as a result of a decrease of €28 million in non-cash costs, with a positive swing of €26 million from a small currency translation loss on non-hedged debt in 2017 to a gain of €22 million in 2018.

Pre-exceptional cash interest at €75 million was €5 million lower than in 2017.

Exceptional finance costs charged in the six months to June 2018 amounted to €6 million, including €4 million in respect of the fee payable to the bondholders to secure their consent to the Group's move from quarterly to semi-annual reporting and €2 million representing the interest cost on the early termination of certain US dollar/euro swaps. The swaps were terminated following the paydown of the US dollar element of the 2018 bonds.

The exceptional finance cost of €2 million in 2017 represented the accelerated write-off of the issue costs associated with that part of the Senior Credit Facility paid down with the proceeds of the €500 million bond issue.

With the combination of the €171 million increase in pre-exceptional operating profit, the €34 million decrease in pre-exceptional net finance costs and €1 million from our share of the earnings of associates, the pre-exceptional profit before income tax of €453 million was €206 million higher than in 2017.

After exceptional items, the profit before tax was €416 million compared to €245 million in 2017.

The income tax expense (current and deferred) at €121 million in the six months to June 2018 compared to €69 million in 2017. The increase of €52 million in the expense largely reflects moves in profitability.

Basic EPS for the first half was 124.5 cent, 68% higher than the 74.3 cent earned in the same period of 2017. Pre-exceptional basic EPS was 140.7 cent for the first half (2017: 75.0 cent), an increase of 88% year-on-year.

## **2018 First Half | Free Cash Flow**

Free cash flow in the first half was €148 million compared to €46 million in the first half of 2017, an increase of €102 million. The EBITDA growth of €155 million was partly offset by higher outflows for working capital and tax.

The working capital outflow in 2018 was €149 million compared to €125 million in 2017. The outflow in 2018 was the combination of an increase primarily in debtors but also in stocks, partly offset by an increase in creditors. These increases reflect the combination of volume growth, higher corrugated pricing but, in contrast to 2017, lower OCC costs. Working capital amounted to €784 million at June 2018, representing 8.7% of annualised revenue compared to 8.3% at June 2017 and 7.3% at December 2017.

Capital expenditure amounted to €205 million in the first half of 2018 and equated to 111% of depreciation, compared to 88% in the first half of 2017.

Cash interest of €81 million in the first half of 2018 included the exceptional finance costs of €6 million. Excluding these amounts, our cash interest amounted to €75 million in 2018 compared to €80 million in 2017. The year-on-year decrease reflects both a lower level of net debt and lower average rates, partly as a result of the paydown in mid-June of the relatively higher cost 2018 senior notes.

Tax payments in the first half of €89 million were €12 million higher than in 2017 reflecting the timing of payments and the impact on cash tax of having fully utilised historic tax losses in certain countries.

## 2018 First Half | Capital Structure

Net debt was €2,871 million at the end of June, resulting in a net debt to EBITDA ratio of 2.1x compared to 2.3x at the end of December 2017 and 2.5x at the end of June 2017. The Group's balance sheet continues to provide considerable financial strategic flexibility, subject to the stated leverage range of 1.75x to 2.5x through the cycle and SKG's Ba1/BB+/BB+ credit rating.

At 30 June 2018, the Group's average interest rate was 3.3% compared to 4.1% at 31 December 2017. The Group's diversified funding base and long dated maturity profile of 4.2 years provide a stable funding outlook. In terms of liquidity, the Group held cash balances of €1,066 million at the end of June. These balances include the net proceeds from our €600 million 2.875% bond issue, part of which were used on 2 July to complete the €460 million Reparenco acquisition. In addition at 30 June 2018 Group liquidity was further supplemented by available commitments under its revolving credit facility of approximately €614 million.

## Dividends

The Board will increase the 2018 interim dividend by 10% to 25.4 cent per share. It is proposed to pay the interim dividend on 26 October 2018 to shareholders registered at the close of business on 28 September 2018.

## 2018 First Half | Operating efficiency

### Commercial Offering and Innovation

The Group was recognised with 39 awards for design, print and sustainability across our operations in the first half of 2018. These awards were spread across Colombia, France, Ireland, the Netherlands, Poland, Russia, and the United Kingdom.

During the first half, the Group continued to expand its network of global experience centres with the opening in March of the Experience Centre in Mexico City. During the first half the Group's first dedicated agricultural experience centre was opened in Alicante, Spain bringing the total number of experience centres to 24. The expansion of our global experience centre network continues to provide centres of excellence across the globe where customers can avail of SKG's unique scientifically backed business applications which deliver tangible benefits for our customers.

The Group recorded its highest ever sales of machine systems in the first half with increased sales across all machine systems territories. The increase in sales was both from new customers and repeat customers highlighting the customer satisfaction with our existing customer base as we work with them to reduce their cost of doing business, automating parts of their process and ultimately reducing their labour costs.

## Sustainability

In May of this year the Group published its 2017 Sustainable Development Report. The report updated our stakeholders on the five strategic areas of focus for sustainability for us; Forest, Water, Waste, Climate Change and People.

The Group had set an ambitious target to reduce the relative total fossil CO<sub>2</sub> emissions in its mill system by 25% by 2020. That target was met three years early with the Group achieving a 26% reduction in 2017. The 2017 Sustainable Development Report announced several other key achievements including reaching two other targets in 2017. The first was a reduction in the chemical oxygen demand in its water, also reached three years early, and the second was in the area of health and safety with a 9% reduction year-on-year in lost time accident frequency rate over the five year period of 2013-2017, exceeding the targeted decrease of 5% year-on-year for the same period. Smurfit Kappa continues to provide Chain of Custody certified deliveries to packaging customers across Europe and the Americas improving from 86% in 2016 to 88% in 2017, approaching the target level of 90% certification.

Other highlights include Smurfit Kappa's ranking in the top 1% of the EcoVadis Sustainability ratings and its listing on the FTSE4Good, Euronext Vigeo Europe 120, Ethibel and STOXX Global ESG Leaders investor rating systems. The full 2017 Sustainability Report is available in full at [smurfitkappa.com](http://smurfitkappa.com)

## Medium Term Plan

To the end of June 2018 the Group has ordered or approved over €325 million of new internal investments as part of the Medium Term Plan communicated in February of this year. In addition to the internal investments the Group completed the acquisition of Reparenco on 2 July for a consideration of €460 million, delivering an early and significant step in our plan. Both the Reparenco acquisition and our internal investments show early and significant progress in our Medium Term Plan.

## 2018 First Half | Regional Performance Review

### Europe

The European segment delivered a 34% increase in EBITDA to €587 million for the first half of 2018. This record result for the segment reflects the benefits of our capital programme, ongoing input cost recovery and positive operating conditions in most markets. Lower recovered fibre costs positively impacted the European result by €64 million. EBITDA margin for the first half was a record 17.3% versus 13.9% in 2017.

During the first half of 2018 capital expenditure of €13 million was approved for investment in our mill system to comply with European Union “best available techniques reference documents” or BREF. These investments form part of our base capital expenditure outlined in our Medium Term Plan and further raise the barriers to entry into the kraft paper and kraftliner industry.

Corrugated volumes grew by 3% in the first half positively impacted by underlying growth and the contribution from acquisitions with some offset due to pricing initiatives.

Input cost recovery in corrugated pricing continued to progress in the first half with further progress expected in the second half of 2018.

In the first half of 2018, the price of recovered fibre in our European business was down 24% year-on-year. Downward pressure on recovered fibre pricing ceased in the second quarter. The Group continues to anticipate a long-term upward trend in recovered fibre pricing.

During the first half the region experienced higher costs in areas such as labour, distribution, wood and other raw materials.

Kraftliner has remained in tight supply through the first half of 2018 with the Group implementing a price increase in February. The Group carried out significant maintenance on its French kraftliner mill at Factice during the month of March resulting in a reduction in output of 40,000 tonnes with a negative year-on-year EBITDA impact of €9 million in the first half.

Industry inventory levels of recycled containerboard remained below critical levels in June highlighting the tight market situation, notwithstanding some recent capacity additions.

### The Americas

The Americas segment delivered an 8% increase in EBITDA to €157 million in the first half of 2018. The EBITDA margin in the Americas increased in the first half to 15.2% from 13.6% in the first half of 2017 reflecting the benefits of our input cost recovery initiatives and our capital spend programme.

Containerboard prices from the US into Latin America continued to increase in the first half where our system is short approximately 300,000 tonnes of kraftliner; this requires continued input cost recovery as we progress through 2018.

Corrugated volumes in the first half showed continued strengthening with an improved growth rate of 3% in the second quarter.

In Colombia, corrugated volumes were up 6% for the first half. The country is set to benefit from continued input cost recovery and the ramp up of the Papelsa Mill expansion which started up in late 2017 and at full run-rate will deliver an additional 40,000 tonnes of recycled containerboard for integration.

In Mexico, corrugated volumes were flat year-on-year for the first half but showed good momentum in the second quarter at 3% up year-on-year. We expect both margins to improve and volumes to recover as we progress through 2018 with the region also benefitting from the ramp-up of the Los Reyes machine which started mid-2017 and will deliver an additional 100,000 tonnes of recycled containerboard for integration at full run-rate.

In the US, our margins and profitability improved year-on-year in the first half as price increases progressed and our Texas Mill continues to perform well. Corrugated volumes in the first half were lower due to some restructuring projects in our operations in California.

Our Argentinean business continued the recovery seen at the end of 2017 with strong double digit volume growth. In Brazil, a nation-wide transport strike negatively impacted the first half result by over €3 million. However, the business has shown signs of recovering in July.

In Venezuela, our corrugated shipments were down 18% in the first half of 2018 compared to the same period in 2017. However, the Group's operations continue to perform in extremely difficult circumstances and we continue to export paper to other SKG operations in the region. The macro situation remains uncertain and we continue to monitor events as they unfold. The business represented less than 1% of Group EBITDA in the first half of 2018 (2017: 2%) while net assets in Venezuela decreased to €57 million as at 30 June 2018 (31 December 2017: €128 million).



## Summary Cash Flow

Summary cash flows<sup>(1)</sup> for the six months are set out in the following table.

	6 months to 30-Jun-18 €m	6 months to 30-Jun-17 €m
<b>EBITDA</b>	<b>724</b>	569
Exceptional items	(17)	-
Cash interest expense	(81)	(80)
Working capital change	(149)	(125)
Current provisions	(3)	(3)
Capital expenditure	(205)	(177)
Change in capital creditors	(26)	(50)
Tax paid	(89)	(77)
Sale of fixed assets	-	3
Other	(6)	(14)
<b>Free cash flow</b>	<b>148</b>	46
Share issues	-	1
Purchase of own shares (net)	(10)	(11)
Sale of businesses and investments	(11)	5
Purchase of businesses and investments	(16)	(10)
Dividends	(155)	(138)
Derivative termination receipts/(payments)	17	(1)
<b>Net cash outflow</b>	<b>(27)</b>	(108)
Deferred debt issue costs amortised	(5)	(7)
Currency translation adjustment	(34)	71
<b>Increase in net debt</b>	<b>(66)</b>	(44)

- (1) The summary cash flow is prepared on a different basis to the Condensed Consolidated Statement of Cash Flows under IFRS ('IFRS cash flow') and as such the reconciling items between EBITDA and decrease/(increase) in net debt may differ to amounts presented in the IFRS cash flow. The principal differences are as follows:
- (a) The summary cash flow details movements in net debt. The IFRS cash flow details movements in cash and cash equivalents.
  - (b) Free cash flow reconciles to cash generated from operations in the IFRS cash flow as shown in the table on the next page. The main adjustments are in respect of cash interest, capital expenditure, tax payments and the sale of fixed assets and businesses.
  - (c) The IFRS cash flow has different sub-headings to those used in the summary cash flow.
    - Current provisions in the summary cash flow are included within change in employee benefits and other provisions in the IFRS cash flow.
    - The total of capital expenditure and change in capital creditors in the summary cash flow includes additions to intangible assets which is shown separately in the IFRS cash flow. It also includes capitalised leased assets which are excluded from additions to property, plant and equipment and biological assets in the IFRS cash flow.
    - Other in the summary cash flow includes changes in employee benefits and other provisions (excluding current provisions), amortisation of capital grants, receipt of capital grants and dividends received from associates which are shown separately in the IFRS cash flow.

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

	6 months to 30-Jun-18 €m	6 months to 30-Jun-17 €m
<b>Free cash flow</b>	<b>148</b>	46
Add back: Cash interest	81	80
Capital expenditure (net of change in capital creditors)	231	227
Tax payments	89	77
Less: Sale of fixed assets	-	(3)
Profit on sale of assets and businesses – non-exceptional	(1)	(6)
Receipt of capital grants (in 'Other' in summary cash flow)	(1)	-
Non-cash financing activities	(3)	(1)
<b>Cash generated from operations</b>	<b>544</b>	420

## Capital Resources

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

At 30 June 2018, Smurfit Kappa Treasury Funding Limited had outstanding US\$292.3 million 7.50% senior debentures due 2025. The Group had outstanding €156.6 million and STG£64.9 million variable funding notes issued under the €230 million accounts receivable securitisation programme maturing in June 2023, together with €175 million variable funding notes issued under the €175 million accounts receivable securitisation programme maturing in February 2022.

Smurfit Kappa Acquisitions had outstanding €400 million 4.125% senior notes due 2020, €250 million senior floating rate notes due 2020, €500 million 3.25% senior notes due 2021, €500 million 2.375% senior notes due 2024, €250 million 2.75% senior notes due 2025 and €600 million 2.875% senior notes due 2026. Smurfit Kappa Acquisitions and certain subsidiaries are also party to a senior credit facility. At 30 June 2018, the Group's senior credit facility comprised term drawings of €252.3 million, US\$57.4 million and STG£94.6 million under the amortising Term A facility maturing in 2020. In addition, at 30 June 2018, the facility included an €845 million revolving credit facility of which €226 million was drawn in revolver loans, with a further €5 million in operational facilities including letters of credit drawn under various ancillary facilities.

The following table provides the range of interest rates at 30 June 2018 for each of the drawings under the various senior credit facility loans.

Borrowing Arrangement	Currency	Interest Rate
Term A Facility	EUR	0.979% - 1.027%
	USD	3.444%
	GBP	1.851%
Revolving Credit Facility	EUR	0.729 – 0.730%

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

In March 2018, the Group repaid €82 million of amortising Term A facility borrowings under the terms of the senior credit facility.

## Capital Resources (continued)

In June 2018, the Group amended its €240 million receivables securitisation programme, which utilises the Group's receivables in France, Germany and the United Kingdom, reducing the facility to €230 million, extending the maturity from 2019 to 2023 and reducing the variable funding notes margin from 1.4% to 1.2%.

In June 2018, the Group completed the redemption of its €200 million 5.125% senior notes due 2018 and US\$300 million 4.875% senior notes due 2018. The Group funded the redemption by drawing on its revolving credit and securitisation facilities.

In June 2018, the Group issued €600 million of 7.5 year euro denominated senior notes at a coupon of 2.875%. The net proceeds of the offering were used in July 2018 to fund the Reparenco acquisition and reduce borrowings under the revolving credit facility.

## Market Risk and Risk Management Policies

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. As at 30 June 2018, the Group had fixed an average of 75% of its interest cost on borrowings over the following twelve months.

The Group's fixed rate debt comprised €400 million 4.125% senior notes due 2020, €500 million 3.25% senior notes due 2021, €500 million 2.375% senior notes due 2024, €250 million 2.75% senior notes due 2025, US\$292.3 million 7.50% senior debentures due 2025 and €600 million 2.875% senior notes due 2026. In addition the Group had €349 million in interest rate swaps with maturity dates ranging from October 2018 to January 2021.

The Group's earnings are affected by changes in short-term interest rates as a result of its floating rate borrowings. If LIBOR/EURIBOR interest rates for these borrowings increased by one percent, the Group's interest expense would increase, and income before taxes would decrease, by approximately €11 million over the following twelve months. Interest income on the Group's cash balances would increase by approximately €5 million assuming a one percent increase in interest rates earned on such balances over the following twelve months.

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

## Principal Risks and Uncertainties

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

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

The principal risks and uncertainties faced by the Group were outlined in our 2017 annual report on pages 36-41. The annual report is available on our website [smurfitkappa.com](http://smurfitkappa.com). The principal risks and uncertainties for the remaining six months of the financial year are summarised below.

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

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

## Condensed Consolidated Income Statement – Six Months

	6 months to 30-Jun-18 Unaudited			6 months to 30-Jun-17 Unaudited		
	Pre- exceptional 2018	Exceptional 2018	Total 2018	Pre- exceptional 2017	Exceptional 2017	Total 2017
	€m	€m	€m	€m	€m	€m
Revenue	4,428	-	4,428	4,233	-	4,233
Cost of sales	(2,984)	-	(2,984)	(3,011)	-	(3,011)
Gross profit	1,444	-	1,444	1,222	-	1,222
Distribution costs	(351)	-	(351)	(332)	-	(332)
Administrative expenses	(564)	-	(564)	(532)	-	(532)
Other operating expenses	-	(31)	(31)	-	-	-
Operating profit	529	(31)	498	358	-	358
Finance costs	(115)	(6)	(121)	(129)	(2)	(131)
Finance income	38	-	38	18	-	18
Share of associates' profit (after tax)	1	-	1	-	-	-
<b>Profit before income tax</b>	<b>453</b>	<b>(37)</b>	<b>416</b>	<b>247</b>	<b>(2)</b>	<b>245</b>
Income tax expense			(121)			(69)
<b>Profit for the financial period</b>			<b>295</b>			<b>176</b>
Attributable to:						
Owners of the parent			294			175
Non-controlling interests			1			1
<b>Profit for the financial period</b>			<b>295</b>			<b>176</b>
<b>Earnings per share</b>						
Basic earnings per share - cent			124.5			74.3
Diluted earnings per share - cent			123.8			73.9

## Condensed Consolidated Statement of Comprehensive Income – Six Months

	6 months to 30-Jun-18 Unaudited €m	6 months to 30-Jun-17 Unaudited €m
<b>Profit for the financial period</b>	<b>295</b>	176
<b>Other comprehensive income:</b>		
<b>Items that may be subsequently reclassified to profit or loss</b>		
Foreign currency translation adjustments:		
- Arising in the period	(178)	(129)
Effective portion of changes in fair value of cash flow hedges:		
- Movement out of reserve	7	3
- New fair value adjustments into reserve	(16)	(1)
Changes in fair value of cost of hedging:		
- Movement out of reserve	(1)	-
- New fair value adjustments into reserve	2	-
	<b>(186)</b>	(127)
<b>Items which will not be subsequently reclassified to profit or loss</b>		
Defined benefit pension plans:		
- Actuarial (loss)/gain	(35)	15
- Movement in deferred tax	6	(2)
	<b>(29)</b>	13
<b>Total other comprehensive expense</b>	<b>(215)</b>	(114)
<b>Total comprehensive income for the financial period</b>	<b>80</b>	62
Attributable to:		
Owners of the parent	88	83
Non-controlling interests	(8)	(21)
<b>Total comprehensive income for the financial period</b>	<b>80</b>	62

## Condensed Consolidated Balance Sheet

	30-Jun-18 Unaudited €m	30-Jun-17 Unaudited €m	31-Dec-17 Audited €m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3,159	3,191	3,242
Goodwill and intangible assets	2,382	2,426	2,427
Other investments	21	21	21
Investment in associates	14	16	13
Biological assets	118	97	110
Trade and other receivables	35	23	27
Derivative financial instruments	9	20	3
Deferred income tax assets	128	191	200
	<b>5,866</b>	<b>5,985</b>	<b>6,043</b>
<b>Current assets</b>			
Inventories	819	768	838
Biological assets	12	11	11
Trade and other receivables	1,789	1,622	1,558
Derivative financial instruments	10	8	16
Restricted cash	15	8	9
Cash and cash equivalents	1,051	451	530
	<b>3,696</b>	<b>2,868</b>	<b>2,962</b>
<b>Total assets</b>	<b>9,562</b>	<b>8,853</b>	<b>9,005</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the parent</b>			
Equity share capital	-	-	-
Share premium	1,984	1,984	1,984
Other reserves	(855)	(615)	(678)
Retained earnings	1,352	974	1,202
<b>Total equity attributable to owners of the parent</b>	<b>2,481</b>	<b>2,343</b>	<b>2,508</b>
Non-controlling interests	147	145	151
<b>Total equity</b>	<b>2,628</b>	<b>2,488</b>	<b>2,659</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	3,749	3,243	2,671
Employee benefits	841	845	848
Derivative financial instruments	26	19	26
Deferred income tax liabilities	81	141	148
Non-current income tax liabilities	39	31	33
Provisions for liabilities and charges	52	61	62
Capital grants	17	13	19
Other payables	15	13	17
	<b>4,820</b>	<b>4,366</b>	<b>3,824</b>
<b>Current liabilities</b>			
Borrowings	188	201	673
Trade and other payables	1,859	1,718	1,779
Current income tax liabilities	31	37	37
Derivative financial instruments	19	19	10
Provisions for liabilities and charges	17	24	23
	<b>2,114</b>	<b>1,999</b>	<b>2,522</b>
<b>Total liabilities</b>	<b>6,934</b>	<b>6,365</b>	<b>6,346</b>
<b>Total equity and liabilities</b>	<b>9,562</b>	<b>8,853</b>	<b>9,005</b>

## Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the parent					Non-controlling interests €m	Total equity €m
	Equity share capital €m	Share premium €m	Other reserves €m	Retained earnings €m	Total €m		
<b>Unaudited</b>							
At 1 January 2018	-	1,984	(678)	1,202	2,508	151	2,659
Profit for the financial period	-	-	-	294	294	1	295
<b>Other comprehensive income</b>							
Foreign currency translation adjustments	-	-	(169)	-	(169)	(9)	(178)
Defined benefit pension plans	-	-	-	(29)	(29)	-	(29)
Effective portion of changes in fair value of cash flow hedges	-	-	(9)	-	(9)	-	(9)
Changes in fair value of cost of hedging	-	-	1	-	1	-	1
<b>Total comprehensive (expense)/income for the financial period</b>	-	-	(177)	265	88	(8)	80
Purchase of non-controlling interests	-	-	-	(5)	(5)	(3)	(8)
Hyperinflation adjustment	-	-	-	43	43	9	52
Dividends paid	-	-	-	(153)	(153)	(2)	(155)
Share-based payment	-	-	10	-	10	-	10
Net Shares acquired by SKG Employee Trust	-	-	(10)	-	(10)	-	(10)
<b>At 30 June 2018</b>	-	1,984	(855)	1,352	2,481	147	2,628
<b>Unaudited</b>							
At 1 January 2017	-	1,983	(507)	853	2,329	174	2,503
Profit for the financial period	-	-	-	175	175	1	176
<b>Other comprehensive income</b>							
Foreign currency translation adjustments	-	-	(107)	-	(107)	(22)	(129)
Defined benefit pension plans	-	-	-	13	13	-	13
Effective portion of changes in fair value of cash flow hedges	-	-	2	-	2	-	2
<b>Total comprehensive (expense)/income for the financial period</b>	-	-	(105)	188	83	(21)	62
Shares issued	-	1	-	-	1	-	1
Purchase of non-controlling interests	-	-	-	-	-	(15)	(15)
Hyperinflation adjustment	-	-	-	69	69	9	78
Dividends paid	-	-	-	(136)	(136)	(2)	(138)
Share-based payment	-	-	8	-	8	-	8
Net Shares acquired by SKG Employee Trust	-	-	(11)	-	(11)	-	(11)
<b>At 30 June 2017</b>	-	1,984	(615)	974	2,343	145	2,488

An analysis of the movements in Other reserves is provided in Note 13.



## Condensed Consolidated Statement of Cash Flows

	6 months to 30-Jun-18 Unaudited €m	6 months to 30-Jun-17 Unaudited €m
<b>Cash flows from operating activities</b>		
Profit before income tax	416	245
Net finance costs	83	113
Depreciation charge	177	177
Amortisation of intangible assets	18	21
Amortisation of capital grants	(1)	(1)
Equity settled share-based payment expense	10	8
Loss/(profit) on sale/purchase of assets and businesses	13	(6)
Share of associates' profit (after tax)	(1)	-
Net movement in working capital	(152)	(125)
Change in biological assets	(10)	5
Change in employee benefits and other provisions	(27)	(28)
Other (primarily hyperinflation adjustments)	18	11
<b>Cash generated from operations</b>	<b>544</b>	<b>420</b>
Interest paid	(100)	(81)
Income taxes paid:		
Irish corporation tax paid	(7)	(6)
Overseas corporation tax (net of tax refunds) paid	(82)	(71)
<b>Net cash inflow from operating activities</b>	<b>355</b>	<b>262</b>
<b>Cash flows from investing activities</b>		
Interest received	2	1
Business disposals	(11)	4
Additions to property, plant and equipment and biological assets	(219)	(222)
Additions to intangible assets	(12)	(5)
Receipt of capital grants	1	-
Increase in restricted cash	(6)	(1)
Disposal of property, plant and equipment	1	9
Disposal of associates	-	1
Purchase of subsidiaries	-	(2)
Deferred consideration paid	-	(1)
<b>Net cash outflow from investing activities</b>	<b>(244)</b>	<b>(216)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of new ordinary shares	-	1
Proceeds from bond issue	600	500
Purchase of own shares (net)	(10)	(11)
Purchase of non-controlling interests	(16)	(7)
Increase in other interest-bearing borrowings	533	4
Repayment of finance leases	(2)	(1)
Repayment of borrowings	(526)	(366)
Derivative termination receipts/(payments)	17	(1)
Deferred debt issue costs paid	(6)	(9)
Dividends paid to shareholders	(153)	(136)
Dividends paid to non-controlling interests	(2)	(2)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>435</b>	<b>(28)</b>
<b>Increase in cash and cash equivalents</b>	<b>546</b>	<b>18</b>
<b>Reconciliation of opening to closing cash and cash equivalents</b>		
Cash and cash equivalents at 1 January	503	402
Currency translation adjustment	(20)	8
Increase in cash and cash equivalents	546	18
<b>Cash and cash equivalents at 30 June</b>	<b>1,029</b>	<b>428</b>

An analysis of the Net movement in working capital is provided in Note 11.

## Notes to the Condensed Consolidated Interim Financial Statements

### 1. General Information

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

### 2. Basis of Preparation and Accounting Policies

#### Basis of preparation

The condensed consolidated interim financial statements included in this report have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with International Accounting Standard 34, *Interim Financial Reporting* ('IAS 34') as adopted by the European Union. The balance sheet as at 30 June 2017 has been included in this report; this information is supplementary and not required by IAS 34. This report should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017 included in the Group's 2017 annual report which is available on the Group's website; [smurfitkappa.com](http://smurfitkappa.com).

The accounting policies and methods of computation and presentation adopted in the preparation of the condensed consolidated interim financial statements are consistent with those described and applied in the annual report for the financial year ended 31 December 2017 with the exception of IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* which are described below. A number of other changes to IFRS became effective in 2018, however they did not have a material effect on the condensed consolidated interim financial information included in this report.

In preparing these condensed consolidated interim financial statements management is required to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities. At June 2018, due to the extreme long-term lack of exchangeability of currency in Venezuela, management assessed the appropriate exchange rate to use to consolidate its Venezuelan operations. Consequently the Group has estimated an exchange rate (synthetic exchange rate) which it has used to translate its Venezuelan operations. Further information is contained in Note 16 Venezuela.

The condensed consolidated interim financial statements include all adjustments that management considers necessary for a fair presentation of such financial information. All such adjustments are of a normal recurring nature.

#### New and amended standards and interpretations effective during 2018

##### *Financial instruments*

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

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

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

## 2. Basis of Preparation and Accounting Policies (continued)

The financial assets held by the Group include equity instruments which were previously classified as available-for-sale. Under IFRS 9, the Group will continue to measure all equity instruments at FVOCI. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead will be reclassified within equity from the FVOCI reserve to retained earnings. €1 million was reclassified from the available-for-sale reserve to the FVOCI reserve on 1 January 2018.

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

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

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

### **Revenue recognition**

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

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

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

## 2. Basis of Preparation and Accounting Policies (continued)

### **New and amended standards and interpretations issued but not yet effective or early adopted Leases**

IFRS 16, *Leases* issued in January 2016 by the IASB replaces IAS 17, *Leases* and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. For lessees, IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model whereby all leases are accounted for as finance leases, with some exemptions for short-term and low-value leases. It also includes an election which permits a lessee not to separate non-lease components (e.g. maintenance) from lease components and instead capitalise both the lease cost and associated non-lease cost. The lessee will recognise a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. For lessors, IFRS 16 substantially carried forward the accounting requirement in IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, and the Group will apply IFRS 16 from its effective date.

The standard will primarily affect the accounting for the Group's operating leases. The application of IFRS 16 will result in the recognition of additional assets and liabilities in the consolidated balance sheet and in the consolidated income statement it will replace the straight-line operating lease expense with a depreciation charge for the right-of-use asset and an interest expense on the lease liabilities.

The Group has completed an initial assessment of the potential impact of IFRS 16 on its consolidated financial statements. The Group will adopt the new standard by applying the modified retrospective approach and will avail of the recognition exemption for short-term and low-value leases. The Group's non-cancellable operating lease commitments on an undiscounted basis at 31 December 2017 are detailed in Note 30 to the consolidated financial statements of the Group's 2017 annual report and provides an indication of the scale of leases held by the Group. The actual impact of applying IFRS 16 on the consolidated financial statements will depend on future economic conditions, including the discount rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the expected lease term, including renewal options and the extent to which the Group chooses to use practical expedients.

The Group is continuing to assess the impact of applying IFRS 16.

### **Going concern**

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

### **Statutory accounts and audit opinion**

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

The condensed consolidated interim financial statements presented do not constitute full statutory accounts. Full statutory accounts for the year ended 31 December 2017 will be filed with the Irish Registrar of Companies in due course. The audit report on those statutory accounts was unqualified.

### 3. Segment and Revenue Analyses

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

The Europe segment is highly integrated. It includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. The Americas segment comprises all forestry, paper, corrugated and folding carton activities in a number of Latin American countries and the United States. Inter-segment revenue is not material. No operating segments have been aggregated for disclosure purposes.

Segment profit is measured based on EBITDA<sup>(1)</sup>

	6 months to 30-Jun-18			6 months to 30-Jun-17		
	Europe €m	The Americas €m	Total €m	Europe €m	The Americas €m	Total €m
<b>Revenue and results</b>						
Revenue	<b>3,397</b>	<b>1,031</b>	<b>4,428</b>	3,164	1,069	4,233
EBITDA before exceptional items	<b>587</b>	<b>157</b>	<b>744</b>	439	146	585
Segment exceptional items	<b>(14)</b>	-	<b>(14)</b>	-	-	-
EBITDA after exceptional items	<b>573</b>	<b>157</b>	<b>730</b>	439	146	585
Unallocated centre costs			<b>(20)</b>			(16)
Share-based payment expense			<b>(10)</b>			(8)
Depreciation and depletion (net)			<b>(167)</b>			(182)
Amortisation			<b>(18)</b>			(21)
Exceptional items			<b>(17)</b>			-
Finance costs			<b>(121)</b>			(131)
Finance income			<b>38</b>			18
Share of associates' profit (after tax)			<b>1</b>			-
Profit before income tax			<b>416</b>			245
Income tax expense			<b>(121)</b>			(69)
Profit for the financial period			<b>295</b>			176

(1) EBITDA is defined within Alternative Performance Measures set out in Supplementary Financial Information.

#### 4. Exceptional Items

The following items are regarded as exceptional in nature:	6 months to 30-Jun-18 €m	6 months to 30-Jun-17 €m
International Paper defence costs	17	-
Loss on the disposal of Baden operations	14	-
<b>Exceptional items included in operating profit</b>	<b>31</b>	<b>-</b>
Exceptional finance costs	6	2
<b>Exceptional items included in net finance costs</b>	<b>6</b>	<b>2</b>
<b>Total exceptional items</b>	<b>37</b>	<b>2</b>

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

Exceptional finance costs charged in the six months to June 2018 amounted to €6 million, including €4 million in respect of the fee payable to the bondholders to secure their consent to the Group's move from quarterly to semi-annual reporting and €2 million representing interest cost on the early termination of certain US dollar/euro swaps. The swaps were terminated following the paydown of the US dollar element of the 2018 bonds.

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

#### 5. Finance Costs and Income

	6 months to 30-Jun-18 €m	6 months to 30-Jun-17 €m
Finance costs:		
Interest payable on bank loans and overdrafts	25	28
Interest payable on other borrowings	57	59
Exceptional finance costs associated with debt restructuring	-	2
Exceptional consent fee - reporting waiver	4	-
Exceptional interest on early termination of cross currency swaps	2	-
Foreign currency translation loss on debt	11	20
Net interest cost on net pension liability	11	11
Net monetary loss - hyperinflation	11	11
<b>Total finance costs</b>	<b>121</b>	<b>131</b>
Finance income:		
Other interest receivable	(2)	(1)
Foreign currency translation gain on debt	(33)	(10)
Fair value gain on derivatives not designated as hedges	(3)	(7)
<b>Total finance income</b>	<b>(38)</b>	<b>(18)</b>
<b>Net finance costs</b>	<b>83</b>	<b>113</b>

## 6. Income Tax Expense

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

	6 months to 30-Jun-18 €m	6 months to 30-Jun-17 €m
Current tax:		
Europe	62	71
The Americas	35	29
	97	100
Deferred tax	24	(31)
<b>Income tax expense</b>	<b>121</b>	<b>69</b>
<b>Current tax is analysed as follows:</b>		
Ireland	9	8
Foreign	88	92
	97	100

### Income tax recognised in the Condensed Consolidated Statement of Comprehensive Income

	6 months to 30-Jun-18 €m	6 months to 30-Jun-17 €m
Arising on defined benefit pension plans	(6)	2

The income tax expense in 2018 is €52 million higher than in the comparable period in 2017, primarily due to higher earnings.

There is a current tax charge of €97 million in 2018 compared to a current tax charge of €100 million in 2017. In Europe the current tax expense is €9 million lower and in the Americas the current tax expense is €6 million higher. This reflects the tax effects of higher profitability, offset by other timing items.

The movement in deferred tax from a deferred tax credit of €31 million in 2017 to a deferred tax charge of €24 million in 2018 includes the effects of the recognition of deferred tax liabilities on timing differences and non-recurring prior year deferred tax credits, as well as the use and recognition of tax losses and credits.

There is a €1 million net tax charge included in the income tax expense in respect of exceptional items in 2018.

## 7. Employee Benefits – Defined Benefit Plans

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

	<b>6 months to 30-Jun-18</b>	6 months to 30-Jun-17
	<b>€m</b>	€m
Current service cost	15	13
Past service cost	(2)	-
Net interest cost on net pension liability	8	10
<b>Defined benefit cost</b>	<b>21</b>	<b>23</b>

Included in cost of sales, distribution costs and administrative expenses is a defined benefit cost of €13 million (2017: €13 million). Net interest cost on net pension liability of €8 million (2017: €10 million) is included in finance costs in the Condensed Consolidated Income Statement.

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

	<b>30-Jun-18</b>	31-Dec-17
	<b>€m</b>	€m
Present value of funded or partially funded obligations	(2,269)	(2,282)
Fair value of plan assets	1,923	1,953
Deficit in funded or partially funded plans	(346)	(329)
Present value of wholly unfunded obligations	(494)	(517)
Amounts not recognised as assets due to asset ceiling	(1)	(2)
<b>Net pension liability</b>	<b>(841)</b>	<b>(848)</b>



## 8. Earnings per Share

### Basic

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

	<b>6 months to 30-Jun-18</b>	6 months to 30-Jun-17
Profit attributable to owners of the parent (€ million)	<b>294</b>	175
Weighted average number of ordinary shares in issue (million)	<b>236</b>	235
Basic earnings per share (cent)	<b>124.5</b>	74.3

### Diluted

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

	<b>6 months to 30-Jun-18</b>	6 months to 30-Jun-17
Profit attributable to owners of the parent (€ million)	<b>294</b>	175
Weighted average number of ordinary shares in issue (million)	<b>236</b>	235
Potential dilutive ordinary shares assumed (million)	<b>1</b>	2
Diluted weighted average ordinary shares (million)	<b>237</b>	237
Diluted earnings per share (cent)	<b>123.8</b>	73.9

### Pre-exceptional

	<b>6 months to 30-Jun-18</b>	6 months to 30-Jun-17
Profit attributable to owners of the parent (€ million)	<b>294</b>	175
Exceptional items included in profit before income tax (Note 4) (€ million)	<b>37</b>	2
Income tax on exceptional items (€ million)	<b>1</b>	-
Pre-exceptional profit attributable to owners of the parent (€ million)	<b>332</b>	177
Weighted average number of ordinary shares in issue (million)	<b>236</b>	235
Pre-exceptional basic earnings per share (cent)	<b>140.7</b>	75.0
Diluted weighted average ordinary shares (million)	<b>237</b>	237
Pre-exceptional diluted earnings per share (cent)	<b>140.0</b>	74.5

## 9. Dividends

During the period, the final dividend for 2017 of 64.5 cent per share was paid to the holders of ordinary shares. The Board has decided to pay an interim dividend of 25.4 cent per share for 2018 and it is proposed to pay this dividend on 26 October 2018 to all ordinary shareholders on the share register at the close of business on 28 September 2018.

## 10. Property, Plant and Equipment

	Land and buildings €m	Plant and equipment €m	Total €m
<b>Six months ended 30 June 2018</b>			
Opening net book amount	1,023	2,219	3,242
Reclassifications	25	(29)	(4)
Additions	-	188	188
Acquisitions	1	-	1
Depreciation charge	(23)	(154)	(177)
Retirements and disposals	(12)	(7)	(19)
Hyperinflation adjustment	14	12	26
Foreign currency translation adjustment	(51)	(47)	(98)
<b>At 30 June 2018</b>	<b>977</b>	<b>2,182</b>	<b>3,159</b>
<b>Year ended 31 December 2017</b>			
Opening net book amount	1,004	2,257	3,261
Reclassifications	56	(57)	(1)
Additions	1	401	402
Acquisitions	23	15	38
Depreciation charge	(49)	(311)	(360)
Impairments	-	(11)	(11)
Retirements and disposals	(3)	(1)	(4)
Hyperinflation adjustment	42	34	76
Foreign currency translation adjustment	(51)	(108)	(159)
<b>At 31 December 2017</b>	<b>1,023</b>	<b>2,219</b>	<b>3,242</b>

## 11. Net Movement in Working Capital

	6 months to 30-Jun-18 €m	6 months to 30-Jun-17 €m
Change in inventories	(39)	(27)
Change in trade and other receivables	(264)	(181)
Change in trade and other payables	151	83
<b>Net movement in working capital</b>	<b>(152)</b>	<b>(125)</b>

## 12. Analysis of Net Debt

	30-Jun-18 €m	31-Dec-17 €m
Senior credit facility:		
Revolving credit facility <sup>(1)</sup> – interest at relevant interbank rate + 1.1% <sup>(7)</sup>	223	2
Facility A term loan <sup>(2)</sup> – interest at relevant interbank rate + 1.35% <sup>(7)</sup>	407	485
US\$292.3 million 7.50% senior debentures due 2025 (including accrued interest)	252	245
Bank loans and overdrafts	151	154
Cash	(1,066)	(539)
2022 receivables securitisation variable funding notes (including accrued interest)	174	4
2023 receivables securitisation variable funding notes <sup>(3)</sup>	228	88
2018 senior notes (including accrued interest) <sup>(4)</sup>	-	455
€400 million 4.125% senior notes due 2020 (including accrued interest)	405	405
€250 million senior floating rate notes due 2020 (including accrued interest) <sup>(5)</sup>	250	250
€500 million 3.25% senior notes due 2021 (including accrued interest)	498	497
€500 million 2.375% senior notes due 2024 (including accrued interest)	498	498
€250 million 2.75% senior notes due 2025 (including accrued interest)	250	249
€600 million 2.875% senior notes due 2025 (including accrued interest) <sup>(6)</sup>	591	-
<b>Net debt before finance leases</b>	<b>2,861</b>	<b>2,793</b>
Finance leases	10	12
<b>Net debt including leases</b>	<b>2,871</b>	<b>2,805</b>

(1) Revolving credit facility ('RCF') of €845 million (available under the senior credit facility) to be repaid in 2020.

(a) Revolver loans - €226 million

(b) Drawn under ancillary facilities and facilities supported by letters of credit – nil

(c) Other operational facilities including letters of credit - €5 million

(2) Facility A term loan ('Facility A') due to be repaid in certain instalments from 2018 to 2020. In March 2018, the Group repaid €82 million of drawings under the term loan facility.

(3) In June 2018, the €240 million receivables securitisation programme was amended and restated, reducing the facility to €230 million, extending the maturity to 2023 and reducing the variable funding notes margin from 1.4% to 1.2%. The amendment and restatement of the programme did not result in a material modification gain or loss.

(4) €200 million 5.125% senior notes due 2018 and US\$300 million 4.875% senior notes due 2018 redeemed in full in June 2018.

(5) Interest at EURIBOR + 3.5%.

(6) On 28 June 2018 the Group issued €600 million of 7.5 year euro denominated senior notes at a coupon of 2.875%. The net proceeds of the offering were used in July 2018 to fund the Reparenco acquisition and reduce borrowings under the revolving credit facility.

(7) Following a reduction in leverage in December 2017, the margins on the RCF and Facility A reduced by 0.25%, to 1.10% and 1.35% respectively, effective February 2018.

The margins applicable under the senior credit facility are determined as follows:

Net debt/EBITDA ratio	RCF	Facility A
Greater than 3.0 : 1	1.85%	2.10%
3.0 : 1 or less but more than 2.5 : 1	1.35%	1.60%
2.5 : 1 or less but more than 2.0 : 1	1.10%	1.35%
2.0 : 1 or less	0.85%	1.10%

### 13. Other Reserves

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

	Reverse acquisition reserve €m	Cash flow hedging reserve €m	Cost of hedging reserve €m	Foreign currency translation reserve €m	Share-based payment reserve €m	Own shares €m	Available-for-sale reserve €m	FVOCI reserve €m	Total €m
At 31 December 2017	575	(17)	-	(1,382)	176	(31)	1	-	(678)
Adjustment on initial application of IFRS 9 (net of tax)	-	(2)	2	-	-	-	(1)	1	-
At 1 January 2018	575	(19)	2	(1,382)	176	(31)	-	1	(678)
<b>Other comprehensive income</b>									
Foreign currency translation adjustments	-	-	-	(169)	-	-	-	-	(169)
Effective portion of changes in fair value of cash flow hedges	-	(9)	-	-	-	-	-	-	(9)
Changes in fair value of cost of hedging	-	-	1	-	-	-	-	-	1
<b>Total other comprehensive (expense)/income</b>	-	(9)	1	(169)	-	-	-	-	(177)
Share-based payment	-	-	-	-	10	-	-	-	10
Net shares acquired by SKG Employee Trust	-	-	-	-	-	(10)	-	-	(10)
Shares distributed by SKG Employee Trust	-	-	-	-	(12)	12	-	-	-
<b>At 30 June 2018</b>	<b>575</b>	<b>(28)</b>	<b>3</b>	<b>(1,551)</b>	<b>174</b>	<b>(29)</b>	<b>-</b>	<b>1</b>	<b>(855)</b>
At 1 January 2017	575	(22)	-	(1,193)	165	(33)	1	-	(507)
<b>Other comprehensive income</b>									
Foreign currency translation adjustments	-	-	-	(107)	-	-	-	-	(107)
Effective portion of changes in fair value of cash flow hedges	-	2	-	-	-	-	-	-	2
<b>Total other comprehensive income/(expense)</b>	-	2	-	(107)	-	-	-	-	(105)
Share-based payment	-	-	-	-	8	-	-	-	8
Net shares acquired by SKG Employee Trust	-	-	-	-	-	(11)	-	-	(11)
Shares distributed by SKG Employee Trust	-	-	-	-	(10)	10	-	-	-
<b>At 30 June 2017</b>	<b>575</b>	<b>(20)</b>	<b>-</b>	<b>(1,300)</b>	<b>163</b>	<b>(34)</b>	<b>1</b>	<b>-</b>	<b>(615)</b>

## 14. Fair Value Hierarchy

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2018:

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Other investments:				
Listed	1	-	-	1
Unlisted	-	8	12	20
Derivative financial instruments:				
Assets at FVPL	-	8	-	8
Derivatives used for hedging	-	11	-	11
Derivative financial instruments:				
Liabilities at FVPL	-	(5)	-	(5)
Derivatives used for hedging	-	(40)	-	(40)
	<b>1</b>	<b>(18)</b>	<b>12</b>	<b>(5)</b>

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017:

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets:				
Listed	1	-	-	1
Unlisted	-	8	12	20
Derivative financial instruments:				
Assets at FVPL	-	5	-	5
Derivatives used for hedging	-	14	-	14
Derivative financial instruments:				
Liabilities at FVPL	-	(2)	-	(2)
Derivatives used for hedging	-	(34)	-	(34)
	<b>1</b>	<b>(9)</b>	<b>12</b>	<b>4</b>

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

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.

There have been no transfers between level 1 and level 2 during the period.

There were no material changes in the level 3 instruments for the period.

## 15. Fair Value

The following table sets out the fair value of the Group's principal financial assets and liabilities. The determination of these fair values is based on the descriptions set out within Note 2 to the consolidated financial statements of the Group's 2017 annual report.

	30-Jun-18		31-Dec-17	
	Carrying value €m	Fair value €m	Carrying value €m	Fair value €m
Trade and other receivables <sup>(1)</sup>	1,669	1,669	1,474	1,474
Other investments <sup>(2)</sup>	21	21	21	21
Cash and cash equivalents <sup>(3)</sup>	1,051	1,051	530	530
Derivative assets <sup>(4)</sup>	19	19	19	19
Restricted cash	15	15	9	9
	<b>2,775</b>	<b>2,775</b>	<b>2,053</b>	<b>2,053</b>
Trade and other payables <sup>(1)</sup>	1,450	1,450	1,432	1,432
Senior credit facility <sup>(5)</sup>	630	630	487	487
2022 receivables securitisation <sup>(3)</sup>	174	174	4	4
2023 receivables securitisation <sup>(3)</sup>	228	228	88	88
Bank overdrafts <sup>(3)</sup>	151	151	154	154
2025 debentures <sup>(6)</sup>	252	302	245	298
2018 notes <sup>(6)</sup>	-	-	455	464
2020 fixed rate notes <sup>(6)</sup>	405	431	405	438
2020 floating rate notes <sup>(6)</sup>	250	263	250	270
2021 fixed rate notes <sup>(6)</sup>	498	533	497	541
2024 fixed rate notes <sup>(6)</sup>	498	507	498	526
2025 fixed rate notes <sup>(6)</sup>	250	255	249	266
2026 fixed rate notes <sup>(6)</sup>	591	589	-	-
	<b>5,377</b>	<b>5,513</b>	<b>4,764</b>	<b>4,968</b>
Finance leases	10	10	12	12
	<b>5,387</b>	<b>5,523</b>	<b>4,776</b>	<b>4,980</b>
Derivative liabilities <sup>(4)</sup>	45	45	36	36
	<b>5,432</b>	<b>5,568</b>	<b>4,812</b>	<b>5,016</b>
Total net position	<b>(2,657)</b>	<b>(2,793)</b>	<b>(2,759)</b>	<b>(2,963)</b>

- (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 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.
- (3) The carrying amount reported in the Condensed Consolidated Balance Sheet is estimated to approximate to fair value because of the short-term maturity of these instruments and, in the case of the receivables securitisation, the variable nature of the facility and repricing dates.
- (4) The fair value of forward foreign currency and energy contracts is based on their listed market price if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.
- (5) The fair value (level 2) of the senior credit facility is based on the present value of its estimated future cash flows discounted at an appropriate market discount rate at the balance sheet date.
- (6) Fair value (level 2) is based on broker prices at the balance sheet date.

## 16. Venezuela

### Hyperinflation

As discussed more fully in the 2017 annual report, Venezuela became hyperinflationary during 2009 when its cumulative inflation rate for the past three years exceeded 100%. As a result, the Group applied the hyperinflationary accounting requirements of IAS 29 – *Financial Reporting in Hyperinflationary Economies* to its Venezuelan operations at 31 December 2009 and for all subsequent accounting periods.

In 2018 and 2017, management engaged an independent expert to determine an estimate of the annual inflation rate. The estimated level of inflation to June 2018 is 2,213% (2017: 301%).

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the Condensed Consolidated Income Statement is impacted as follows: Revenue €1 million decrease (2017: €25 million decrease), EBITDA €20 million decrease (2017: €22 million decrease) and profit after taxation €26 million decrease (2017: €27 million decrease). In 2018, a net monetary loss of €11 million (2017: €11 million net monetary loss) was recorded in the Condensed Consolidated Income Statement. The impact on our net assets and our total equity is an increase of €98 million (2017: €127 million increase).

### Exchange Control

In 2017, the Government continued to operate the DIPRO and DICOM exchange mechanisms. In January 2018, the Government implemented a reformed exchange rate system for the country. The DIPRO rate was eliminated and the Government mandated that all future foreign exchange transactions be conducted at a renewed DICOM rate. The first auction under the new system was held on 1 February 2018 and the DICOM rate moved to VEF 25,000 per US dollar. Subsequent to this, the economic and political crisis in Venezuela worsened, with a substantial increase in inflation rates. However, in the second quarter of 2018, the renewed DICOM rate has not increased in line with inflation, and therefore is not representative of the rate at which the Group extracts economic benefit from its Venezuelan operations.

These currency exchange controls in Venezuela restrict our ability to convert amounts generated by our Venezuelan operations into US dollars, for instance for the payment of dividends.

At June 2018, in the absence of official rates that are representative of the economic environment in Venezuela, the Group assessed the need to estimate an exchange rate (synthetic exchange rate) which tracks inflation in Venezuela and reflects the rate at which the Group extracts economic benefit from its Venezuelan operations. In calculating a synthetic rate, the Group used DICOM at 31 March 2018 as a starting point, when it was more aligned with inflation, and restated it using the estimated second quarter inflation rate.

The exchange rate calculated under the described methodology at 30 June 2018 was 233,815 VEF/USD. The DICOM rate was 115,000 VEF/USD at that date. On this basis, the financial statements of the Group's operations in Venezuela were translated at 30 June 2018 using a synthetic rate of VEF 233,815 per US dollar and the closing euro/US dollar rate of 1 euro = US\$1.1658.

### Control

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

The Group continues to control operations in Venezuela and, as a result, continues to consolidate all of the results and net assets of these operations at the period end in accordance with the requirements of IFRS 10, *Consolidated Financial Statements*.

In 2018, the Group's operations in Venezuela represented approximately 0.6% (2017: 1.6%) of its EBITDA, 1.2% (2017: 1.4%) of its total assets and 2.3% (2017: 3.3%) of its net assets. Cumulative foreign translation losses arising on its net investment in these operations amounting to €1,230 million (2017: €1,072 million) are included in the foreign currency translation reserve.

## **17. Related Party Transactions**

Details of related party transactions in respect of the year ended 31 December 2017 are contained in Note 31 to the consolidated financial statements of the Group's 2017 annual report. The Group continued to enter into transactions in the normal course of business with its associates and other related parties during the period. There were no transactions with related parties in the first half of 2018 or changes to transactions with related parties disclosed in the 2017 consolidated financial statements that had a material effect on the financial position or the performance of the Group.

## **18. Events after the Balance Sheet Date**

On 2 July 2018, the Group completed the acquisition of Reparenco, a privately owned paper and recycling business, for an enterprise value of €460 million. This acquisition will increase Smurfit Kappa's integration of containerboard and recycling operations into the Group in response to growing demand in particular from the eCommerce sector. The Group has not yet completed an initial purchase price allocation due to the timing of the closure of this transaction.

Three-year cumulative inflation in Argentina using the wholesale price index has now exceeded 100% indicating that Argentina is a hyper-inflationary economy for accounting purposes and should be considered as such from 1 July 2018. The Group will apply IAS 29 to the results of our Argentinian operations from this date.

## **19. Board Approval**

This interim report was approved by the Board of Directors on 31 July 2018.

## **20. Distribution of the Interim Report**

This 2018 interim report is available on the Group's website [smurfitkappa.com](http://smurfitkappa.com).



## **Responsibility Statement in Respect of the Six Months Ended 30 June 2018**

The Directors, whose names and functions are listed on pages 68 to 70 in the Group's 2017 annual report, are responsible for preparing this interim management report and the condensed consolidated interim financial statements in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the related Transparency Rules of the Central Bank of Ireland and with IAS 34, Interim Financial Reporting as adopted by the European Union.

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

- the condensed consolidated interim financial statements for the half year ended 30 June 2018 have been prepared in accordance with the international accounting standard applicable to interim financial reporting, IAS 34, adopted pursuant to the procedure provided for under Article 6 of the Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- the interim management report includes a fair review of the important events that have occurred during the first six months of the financial year, and their impact on the condensed consolidated interim financial statements for the half year ended 30 June 2018, and a description of the principal risks and uncertainties for the remaining six months;
- the interim management report includes a fair review of related party transactions that have occurred during the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period, and any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year.

Signed on behalf of the Board

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

31 July 2018.

## Supplementary Financial Information

### Alternative Performance Measures

Certain financial measures set out in this report are not defined under International Financial Reporting Standards ('IFRS'). An explanation for the use of these Alternative Performance Measures ('APMs') is set out within Financial Key Performance Indicators on pages 46-49 of the Group's 2017 annual report. The key APMs of the Group are set out below.

APM	Description
EBITDA	Earnings before exceptional items, share-based payment expense, share of associates' profit (after tax), net finance costs, income tax expense, depreciation and depletion (net) and intangible assets amortisation.
EBITDA Margin %	$\frac{\text{EBITDA}}{\text{Revenue}} \times 100$
Pre-exceptional Basic EPS (cent)	$\frac{\text{Profit attributable to owners of the parent, adjusted for exceptional items included in profit before income tax and income tax on exceptional items}}{\text{Weighted average number of ordinary shares in issue}} \times 100$
Return on Capital Employed %	$\frac{\text{Last twelve months ('LTM') pre-exceptional operating profit plus share of associates' profit (after tax)}}{\text{Average capital employed (where capital employed is the average of total equity and net debt at the beginning and end of the LTM)}} \times 100$
Free Cash Flow	<p>Free cash flow is the result of the cash inflows and outflows from our operating activities, and is before those arising from acquisition and disposal activities.</p> <p>Free cash flow (APM) and a reconciliation of free cash flow to cash generated from operations (IFRS measure) are included in the interim management report. The IFRS cash flow is included in the condensed consolidated interim financial statements.</p>
Net Debt	Net debt is comprised of borrowings net of cash and cash equivalents and restricted cash.
Net Debt to EBITDA (LTM) times	$\frac{\text{Net debt}}{\text{EBITDA (LTM)}}$

## Reconciliation of Profit to EBITDA

	6 months to 30-Jun-18 €m	6 months to 30-Jun-17 €m
Profit for the financial period	295	176
Income tax expense	121	69
Exceptional items charged in operating profit	31	-
Share of associates' profit (after tax)	(1)	-
Net finance costs (after exceptional items)	83	113
Share-based payment expense	10	8
Depreciation, depletion (net) and amortisation	185	203
EBITDA	<b>724</b>	<b>569</b>

## Return on Capital Employed

	H1 2018 €m	H1 2017 €m
Pre-exceptional operating profit plus share of associates' profit (after tax) (LTM)	991	799
Total equity – current period end	2,628	2,488
Net debt – current period end	2,871	2,985
Capital employed – current period end	<b>5,499</b>	5,473
Total equity – prior period end	2,488	2,252
Net debt – prior period end	2,985	3,121
Capital employed – prior period end	<b>5,473</b>	5,373
Average capital employed	<b>5,486</b>	5,423
Return on capital employed	<b>18.1%</b>	14.7%