

Impactful Business

# An impactful business

Sustainability creates value and is part of our competitive advantage. We use our size and resources to work with customers and suppliers, sustainably growing their and our businesses throughout the value chain. Our innovative packaging solutions are material efficient, produced sustainably and support customers in delivering their sustainability objectives.

Customers welcomed on Global Better Planet Packaging (BPP) Day

+650

Awards won in 2019

63

Use of our PackExpert and Paper to Box in a day

+11,400

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Key Principles

Making sustainability performance measurable, transparent and tangible for our stakeholders, is an approach that Smurfit Kappa has implemented since it started reporting its progress in sustainability in 2007. We report our progress annually, and have our sustainability data independently assured using GRI Standards. We then convert the data into tangible, unique customer-relevant information to support our innovation and design processes. Certifying our management systems adds transparency and credibility for our stakeholders, and having clear policies helps everyone understand how we govern our performance.

Smurfit Kappa is committed to managing its business ethically, 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 integral ingredient in creating and maintaining a sustainable future.

We believe that ethical business conduct must be promoted from the most senior levels of the business, and fostered through the whole organisation. Smurfit Kappa has specific policies on key areas of sustainability, which are integral in improving future performance.

To be able to grow our business, our materials, goods and services must have the right quality and cost, but also be securely and responsibly sourced.

Key Achievements 2019

Smurfit Kappa's engagement with customers, both current and prospective, on the Better Planet Packaging initiative was best illustrated with two flagship events: our biennial innovation event in May hosting 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.

[Read more on pages 16-19](#)

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.

[Read more on pages 64-65](#)

The Group is listed on the FTSE4Good, Euronext Vigeo Europe 120, STOXX Global ESG Leaders, Ethibel's sustainable investment register, and the Green Economy Mark from the London Stock Exchange. 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. Smurfit Kappa also performs strongly across a variety of third-party certification bodies, including MSCI, CDP, Sustainalytics and EcoVadis.

[Read more on page 62](#)

During 2019, we audited 112 suppliers through our seven pillar sustainable sourcing audit programme.

[Read more on pages 68-69](#)

Delivering for SDGs

Smurfit Kappa Contributes

To sustain long-term profitability, it is essential to integrate the three pillars of sustainability into our business. For Smurfit Kappa, this means making impactful business through our products and production, respecting people and having responsible governance. These in turn have a positive impact on the communities we have operations in. Our product offers a great opportunity for innovation that can have a positive impact for society.



Smurfit Kappa Supports

Smurfit Kappa supports local communities through its paper recycling operations and its charitable foundations is part of the infrastructure for building sustainable communities.



## Impactful Business continued

We all want our food, clothing and household goods delivered securely and safe from damage or theft. Businesses therefore need fit-for-purpose packaging solutions, which protect the product and delivers it safely to the consumer.

Paper-based packaging offers the most versatile and, sustainable solution for manufacturers, retailers and consumers, through any chosen sales channel. It has the highest recycling rate of any packaging – wood fibre can be recycled up to eight times before new fibre needs to be introduced to the loop. It also helps reduce product waste. According to the Food and Agriculture Organisation of the United Nations (FAO), inadequate packaging wastes 20-50% of food in developing countries, compared with only 3-5% in developed countries.

where fit-for-purpose packaging ensures safe product transport.

At Smurfit Kappa, we maximise this sustainability for ourselves, our customers and suppliers, through continuous research. Our experience and expertise inspire innovative packaging solutions, making sustainability integral.

### Sustainable Value Chain is our Business

Sustainability creates value and is part of our competitive advantage. We use our size and resources to work with customers and suppliers, sustainably growing their and our businesses throughout the value chain. Our innovative packaging solutions reduce use of raw materials, helping customers deliver their sustainability objectives.

Our investors want long-term profitable businesses, so environmental and social responsibility are key factors when choosing companies for investment. This can be seen in the many investor ratings and disclosure programmes that we participate in, such as FTSE4Good, Euronext Vigeo Europe 120, STOXX Global ESG Leaders, Ethibel's sustainable investment register, the Green Economy Mark from the London Stock Exchange, CDP, SEDEX and EcoVadis. Furthermore, growing consumer demand will increase the paper-based packaging market share. CEPI and the Paper and Packaging Org surveys show increased awareness of environmental issues – for example, over 80% of European and American consumers prefer paper-based packaging.

We provide industry-leading transparency and detail to our stakeholders of every aspect of our operations, whilst promoting sustainability in our customers' businesses. Smurfit Kappa uses suppliers who adhere to our Sustainable Sourcing Policy, our Supplier Code of Conduct, and who are Chain of Custody certified where applicable. We audit suppliers on human rights, labour practices and environmental impact.

Like all ecologically responsible companies, we work to minimise climate change by maximising the efficient use of resources, thereby reducing pressure on the environment. Our raw material – wood-based fibres – is the starting point of our circular business model (see diagram below). Managed sustainably, it enables global carbon management: from the forests that capture atmospheric carbon, to CO<sub>2</sub> neutral bioenergy.

When we balance the use of virgin and recovered fibres, we maintain a positive, sustainable balance of renewable raw material circulation.

### Creating Tangible Progress

For us, sustainability is not only about mitigating climate change and reducing inefficiency. It is vital to our future as one of the world's largest paper-based packaging companies, and for stimulating innovation and creating new customer demand.

According to the UN Global Compact-Accenture CEO Study on Sustainability, sustainability is essential to a CEOs' business strategies, and 88% of investors see it as a competitive advantage. For them, and for our customers, we must demonstrate the link between sustainable business and corporate value.

We integrate sustainable measurement into our business strategy, and throughout our global operations. We know the impact of our sustainable strategy – the facts and figures are in this report, enabling investors to appraise the effect of sustainable performance on our business. We are proud to have received customer awards and investor recognition for our sustainability performance.

## Responding to our Stakeholders

	What our stakeholders expect from us	What we believe	Our commitments
<b>Innovation</b>	To deliver fit-for-purpose, cost-effective and sustainable packaging solutions to our customers. They expect us to respond to the challenge the world faces with litter and develop innovative packaging solutions.	As a leader in sustainable packaging we believe we have a responsibility to respond to the challenge facing the environment and society today – to inspire more sustainable packaging solutions. A fundamental challenge with packaging waste is litter, but we believe that by offering fit-for-purpose packaging solutions we can minimise material waste. Packaging can help to lower a product's environmental footprint, and to promote and protect our customers products. We work to realise these believes through our data-driven innovation approach.	We are committed to inspiring more sustainable packaging solutions through: <ul style="list-style-type: none"> <li>the development of our Better Planet Packaging initiative;</li> <li>using our data to improve our processes, products, supply chains, logistics and markets; and</li> <li>optimising the use of our InnoTools to support our innovation and design, and leverage our global ideas.</li> </ul>
<b>Governance and Human Rights</b>	For our stakeholders, it is fundamental that we comply with regulations and guidelines, have effective corporate governance and respect Human Rights.	As a global company, we operate in an environment with diverse legislations, regulations and cultures. Our Code of Business Conduct is the fundamental guideline for everybody at Smurfit Kappa from the Board of Directors, officers and employees, as well as all individuals, entities, agents or anyone acting on the Group's behalf – and we require the same from our suppliers. Our Code of Business Conduct expects adherence to ethical standards, and commitment to quality and service.	We are committed to: <ul style="list-style-type: none"> <li>ensuring that our Code of Business Conduct is available for anyone interested;</li> <li>ensuring our stakeholders adhere to the principles of the Code; and</li> <li>offering an independent and unbiased channel to raise concerns about breaches to the Code.</li> </ul>
<b>Sustainable Sourcing</b>	That we extend the ethical and sustainable manner of conducting business to our supply chains, and that we require our suppliers to continually advance their sustainable footprints.	Sharing our sustainability knowledge, experience and expertise with our suppliers increases the sustainability of our whole value chain. In order to sustainably grow our business, our materials, goods and services must have the right quality and cost, but also be securely and responsibly sourced.	We are committed to: <ul style="list-style-type: none"> <li>working with suppliers that adhere to our Sustainable Sourcing Policy, Supplier Code of Conduct, are Chain of Custody certified where applicable, and commit to our Modern Slavery Act statement; and</li> <li>regularly auditing our preferred suppliers to ensure adherence with our key sustainable sourcing principles.</li> </ul>

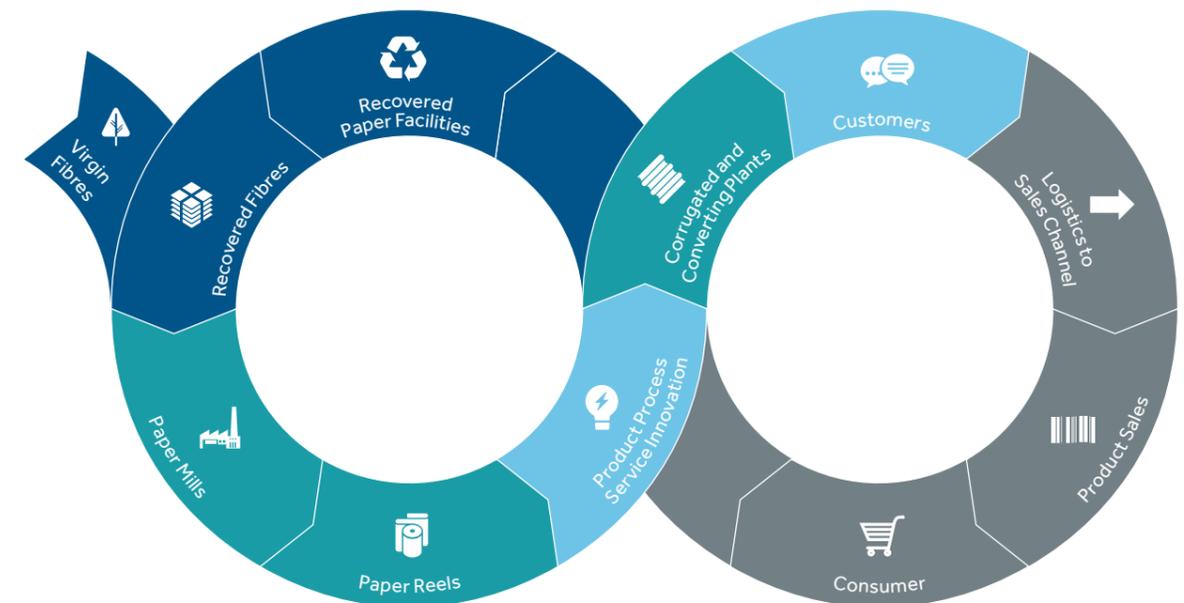
## Our Circular Business Model

We are involved at all stages of the supply chain.

We believe that an integrated model, from the sources of fibre to end products, is the most efficient way to provide innovative packaging, logistics solutions and high-quality service to our customers. This we do by embedding circularity, innovation and inclusiveness through our circular business model.

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

We currently produce 6.6 million tonnes (12.9 billion m<sup>2</sup>) of corrugated packaging, using most of the 7.0 million tonnes of containerboard produced within our own mill system.



### Circularity

Working with a circular business model starts with finding opportunities to reduce linear elements and find synergies that drive efficiencies and process improvements. In the modern business environment, this enables long-term profitability, supports risk management and compliance. Embedding circular economy within a business model helps to manage operational continuity combined with growth.

### Innovation

Rethinking services for customers and manufacturing processes drives innovation. An innovative approach to business makes a business strive to continue adding value to the business, products and services. Sustainability offers a lens through which innovation can be projected, delivering business growth, efficiency and operational continuity.

### Inclusiveness

Engaging employees who feel included in the Company's projects and processes is at the core of an innovative environment. This, along with customer and supplier participation, can lead to new solutions and innovative approaches that deliver value, efficiencies and growth.

Impactful Business continued

# Innovation

Examining the entire supply chain, including packaging, transport, storage and product presentation, identifies more sustainable improvement possibilities than considering each step in isolation.

### Holistic Approach

We do not just sell packaging to our customers, we work closely with them, developing value-adding solutions to their supply chains. We use a holistic approach to find solutions that are impactful and can be realised on a large scale. Eventually, this leads to fit-for-purpose packaging solutions that ensure that the packaged product is delivered, stored safely and sold undamaged to the consumer.

As part of our product and process development, we use engineering-based thinking to analyse customer challenges and find creative solutions for specific products and markets. We deliver smarter sustainable solutions to our customers in three ways: Innovation in our processes, Innovation through the supply chain and Innovation in packaging solutions.

We focus on circularity, by optimising both primary and secondary packaging, we can deliver efficiencies in transport, storage and display and finally ensure recovery of our packaging products in recycling channels. Our scorecards help follow-up sustainable progress and Smart Services help customers to see through the new solutions from idea to implementation.

We focus both on our own and our customers' supply chains. Our virgin and recycled-fibre based packaging is designed to minimise resource use, reduce environmental footprint and use material sourced through certified Chain of Custody fibre origin management systems. The effective monitoring of our sustainability data enables us to discover new approaches to packaging and supply chain management and we use our InnoTools – eSmart, SupplySmart and Pack Expert – to understand our customers' supply chains.

To drive innovation for our customers and suppliers, we examine the entire packaging concept to develop a more appropriate, sustainable solution. We also consider changing customer preferences, demographics, regulatory developments and other competitive forces.

Our ambition is to deliver our customers fit-for-purpose packaging solutions, and we focus on performance packaging for which we use our Paper to Box tool.

### Better Planet Packaging

Smurfit Kappa focuses on circularity in its packaging design. One of our focus points is to support our customers to work against litter. For this, we launched our Better Planet Packaging initiative in 2018. A large part of our initiative involves ensuring packaging materials are recycled effectively. We are confident that with our innovation, we can apply all the Research and Design resources we have, to find ways to reduce the global litter issue. Paper packaging is recyclable, renewable and has consistently had the highest recycling rate in recent years. Even if it does end up as litter, it is still biodegradable and from a consumer perspective, anything from newspapers to corrugated boxes can go into the same recycling stream. We aim to share what information is necessary to make the recycling system work.

With Better Planet Packaging we accelerate and bring a new dimension to our core business but we cannot do this on our own. Smurfit Kappa will collaborate with existing and new partners to inspire new ideas and encourage change. We will instigate meaningful discussions and action on how we can all be more sustainable in our design and use of packaging.

Delivering on the Better Planet Packaging ambition will only be achieved by ensuring the entire Smurfit Kappa community understand the role we want to play in addressing this global issue. We are already working with our customers to create new and alternative solutions for unsustainable packaging especially in the area of plastic substitution (not only single-use). We design paper and packaging solutions that are fit-for-purpose, efficient and favoured by customers but that are also renewable and recyclable. These aspects have been explained in the table on the next page.

Examples of our Better Planet Packaging initiative can be found on pages 14 to 19.

## 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 displays for our customers.

## Circular Aspects of our Products

Our products are designed to protect the packaged goods. While doing so, they have direct and indirect (through our operational sustainability strategies) impacts on our customers' value chains.

### Impact of our Products

		Direct Impact	Indirect Impact
<b>Impact 1 Reduce</b>		Ensuring that resources are maximised and material waste is reduced by offering fit-for-purpose packaging solutions that optimise the use of packaging materials. Where possible, we produce lighter grammage papers which require less fibre.	We intend to use renewable energy wherever it is economically feasible. This will involve additional use of biomass and scaling-up methods, which use our organic waste to generate energy. It will also involve investment in measures to reduce fossil CO <sub>2</sub> emissions and investment in further energy efficiency.
<b>Impact 2 Reuse</b>		Ensuring that where reusing is economically and environmentally unfavourable, our recyclable packaging solutions offer a more sustainable alternative with less environmental impact than using a reusable solution.	Ensuring that we reuse resources in our production wherever possible. For example, using the organic by-product of our production process as biofuel, or reusing materials separated in the paper-making process. We also reuse water in our paper-making processes multiple times, before treating it for discharge.
<b>Impact 3 Recycle</b>		75% of the raw material we use consists of recycled fibres. All paper-based packaging we produce is recyclable.  Recycling of our packaging product delivers new corrugated products with the same quality, whereas the majority of plastic packaging, for example, is downcycled.	We continually find ways to recycle the metal, plastic, wood and other non-paper components separated from the recovered paper that is delivered to our mills.
<b>Impact 4 Recover</b>		Ensuring all paper-based packaging manufactured by Smurfit Kappa can be recovered. For example, offering single-material solutions that are easy to recover for our customers and consumers.	Our corrugated plants recover paper clippings and send them back to paper production at our mills. We close loops and create circularity in our energy production through recovering the high-energy value of any by-products, such as black liquor and biogas, wherever possible, and circulating heat. We also seek synergies with our neighbours where possible.
<b>Impact 5 Renew</b>		We promote sustainable forest management in our own forests and plantations as well as throughout our supply chain, and demand deliveries of fibrous materials to be Chain of Custody certified by an internationally accepted forest management standard, FSC, PEFC or SFI.	
<b>Impact 6 Biodegrade</b>		Paper is made of renewable raw materials, with up to 97% fibre and starch, the rest being fillers and ashes, such as calcium carbonate. Renewable materials biodegrade naturally and at the end-of-life are converted to natural materials, such as CO <sub>2</sub> and water.	

Impactful Business continued

# Governance and human rights

We are committed to strive for the highest standards of corporate governance and ethical business conduct. This commitment is instilled across our business, from the boardroom to the factory floor, and throughout our operations and supply chain.

We believe that ethical business conduct must be promoted from the most senior levels of the business, and fostered through the whole organisation. This section outlines Smurfit Kappa's approach to governance in terms of sustainable conduct. We expect the same standards of conduct from our suppliers, and this section also summarises our approach to supplier compliance. For further information on corporate governance, see pages 57-61 of the 2019 Smurfit Kappa Group Annual Report.

### Lead from the Top

The overall responsibility for ensuring the Group demonstrates leadership within the paper-based packaging sector, promoting an actionable sustainable development agenda, lies with the Board.

During the year, we formed a Sustainability Committee of the Board, which has the responsibility to drive and provide overall strategic guidance of our sustainability strategy for the benefit of all our stakeholders. The sustainability strategy will focus on the three key pillars: People, Planet, and Business. In addition, the development and implementation of the Group's sustainability strategy, objectives and policies are managed by the Group Executive Committee led by the Group CEO.

The Executive Committee is supported in this work by a Sustainability Working Group. This is led by our Group Vice President Development, and includes key representatives from operations in Europe and the Americas. The Working Group primarily monitors the implementation of the Group's sustainability strategy and ensures that targets are met across all material areas. It also promotes sustainability targets among our customers, suppliers and corporate peers.

### Complying with Regulations and Guidelines

It is Group policy to comply, at a minimum, with the relevant laws and regulations in the countries we operate in. We ensure that our employees are aware of relevant guidelines and conduct themselves accordingly.

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 a fine of €124 million by the Italian Competition Authority (ICA). 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. Smurfit Kappa is committed to the highest standards of conduct in its business and does not tolerate any actions that are inconsistent with its values.

During 2019, no other material fines were imposed on the Group for any breaches of such laws and regulations.

To demonstrate our commitment, wherever possible we go beyond minimum compliance with regulations and maintain the highest reporting standards. Information about our voluntary actions in legal and regulatory matters can be found in sections Planet, People and Business on pages 20-69. Our entire Sustainable Development Report is assured by KPMG, in accordance with the 'Comprehensive' level of the GRI Standards.

In addition, each significant business unit is subject to an annual external and independent financial audit conducted by the Group's external Auditor. Most of our business units are subject to local statutory financial audits. The Group also has an Internal Audit function which, during 2019, performed 72 detailed internal financial and IT audits.

### Code of Business Conduct and Corporate Policies

The Smurfit Kappa Group Code of Business Conduct (the Code) applies to the Board of Directors, officers and employees, as well as all individuals, entities, agents or anyone acting on the Group's behalf. The Code, which was updated in 2019, is available in 17 languages to ensure accessibility and worldwide compliance.

The Code takes account of the following international conventions and codes:

- International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work (core conventions)
- UN Declaration on Fundamental Human Rights
- Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
- UN Global Compact

The Code provides accessible and understandable guidance for employees in every jurisdiction. Each Smurfit Kappa Company and its employees are required to apply the Code, as well as abiding by the laws and practices of their industry and the jurisdiction in which they operate. It makes clear that personal and professional integrity is essential to conducting business in an ethical manner. The Code also expects adherence to ethical standards, and commitment to quality and service.

During 2019, there were no material incidents reported, which the Group considered to be non-compliant with the Code of Business Conduct.

The Code is supplemented by policies relating to our operational and managerial practices. These policies cover Environment, Sustainable Forestry and Fibre Sourcing, Sustainable Sourcing, Social Citizenship, and Health and Safety. All our codes and policies are available on our website: [www.smurfitkappa.com](http://www.smurfitkappa.com).

### Respecting Human Rights

As a responsible business, we support global human rights and labour standards, and check that our suppliers do too. Smurfit Kappa Group is committed to the application of the principles expressed in the UN Guiding Principles on Business and Human Rights, and the Fundamental Principles and Rights at Work developed by the ILO in all of the countries in which we have (or will have) a presence. Our Social Citizenship Policy Statement reflects our commitment to upholding internationally recognised human rights.

Our Supplier Code of Conduct demands that those who seek to do business with the Group respect and uphold the rights of workers and prohibit the use of child labour and forced labour of any type. For more information on our engagement with suppliers in this area, see our Sustainable Sourcing Section on pages 68-69.

The Group is subject to the provisions of the UK Modern Slavery Act and publishes an annual Modern Slavery Act Statement, which is available on the Group website at [www.smurfitkappa.com](http://www.smurfitkappa.com). We also expect our suppliers to comply with the Modern Slavery regulations and conduct audits on them to ensure compliance.

In keeping with the UN Guiding Principles on Business and Human Rights, and the Fundamental principles and Rights at Work developed by the ILO, 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 as well. They are maintained in every country in which we have a presence and our principles and policies with respect to our employees and suppliers are updated to ensure compliance.

### Demonstrating Leadership

Our goal is to be the most sustainable paper-based packaging solutions company globally. To achieve this, we believe it is important to share our sustainability experience with our customers, suppliers and the wider industry.

We are involved with selected trade bodies to influence understanding and share knowledge about embedding sustainability throughout operations, including:

- Confederation of European Paper Industries (CEPI) – Group and National level membership. Smurfit Kappa's Group CEO is currently a board member
- European Corrugated Packaging Association (FEFCO) – Group and national level membership. Smurfit Kappa's CEO for Europe is currently a board member
- International Corrugated Case Association (ICCA). Smurfit Kappa's CEO for Europe is currently a board member

- Asociación de Corrugadores del Caribe Centro y Sur América (ACCCSA). Smurfit Kappa's CFO for the Americas is currently a board member

In addition, we are active participants in and signatories to many environmental reporting and sustainability organisations:

- CDP (formerly Carbon Disclosure Project)
- UN Global Compact
- UN Global Compact's CEO Water Mandate
- The Forest Stewardship Council (FSC)
- The Programme for the Endorsement of Forest Certification (PEFC)
- The Supplier Ethical Data Exchange (SEDEX)
- World Business Council for Sustainable Development (WBCSD)

### Influencing Public Policy for Good

Beyond compliance, Smurfit Kappa upholds standards on a variety of matters material to our business, representing them to the parties concerned, either directly or through industry bodies such as CEPI, FEFCO or the European Round Table of Industrialists (ERT). We also work closely with the Irish Business and Employers' Confederation (IBEC) and equivalent bodies in other countries. Our Group CEO is a member of the ERT.

At all times, the people representing the views of Smurfit Kappa do so with reference to the Code of Business Conduct, and the local laws and regulations which apply to the Group's operations. There were no significant criticisms of the Group in this respect in 2019. In line with the Group's Code

of Business Conduct, no financial contributions were made to political parties in 2019. No national government is a direct investor in Smurfit Kappa.

### Safe Products and Satisfied Customers

Ensuring our packaging solutions are safe is an integral part of our business. As our packages are used to deliver and store food products, our products must meet all food safety standards. These include OECD guidelines for Multinational Enterprises and providing statements on food safety and REACH to our customers. These are available on request through our website.

As a highly customer-centric organisation, we put customer experience at the heart of our operating model. We strive to differentiate ourselves with an enhanced buying experience, and to create measurable value for our customers and key stakeholders.

Delivering a great customer experience calls for disciplined execution and consistent service delivery. We use data and analytics-based insights to review customer journeys and pinpoint the operational improvements that can have the biggest effect. We also use tangible methods and tools to measure customer satisfaction and understand what matters to our customers and how we can deliver it. Our Customer Relationship (CRM) tools enable us to follow up on customer feedback and capture insights that can maximise customer satisfaction. This drives customer value and loyalty.

## Copame – Giving Children a Better Life // Brazil

“We are grateful to see our children grow and find permanent homes,” says Derk Lambers, fundraiser for Copame, the Children’s Aid Communitarian Association in Santa Cruz do Sul in Brazil.

Copame’s facility can host 45 orphaned, abandoned or maltreated children, from newborn to age 18. The project is more than just a place to stay, however. Since its foundation in 1984, the charity has found placement homes for 302 of the children who went there. All others, 1,702 of them, were returned to parents, grandparents or family members, or moved on to a facility for older children.

The site includes residential and play facilities as well as an on-site bakery which supplies bread to the area and is an important source of income. Other financial support comes from individual donations, corporations, members’ fees, projects, resources provided by the municipality and overseas donations.

Management and maintenance of the facilities remains a major challenge, however, and is dependent on external funding. The Smurfit Kappa Foundation supported this, to ensure that resident children have the best quality accommodation possible.

The facility also provides for its children’s future well-being by partnering with the local university. University teachers and students offer expertise with medicine, dentistry, psychology and nutrition. Copame employees and volunteer-drivers also commute between three different schools, taking the children to sport, musical and religious events, as well as medical and dental appointments.

“Our 26 permanent and 38 on-call volunteers are indispensable in supporting these young people,” says Derk Lambers. “They help our children get a better start in their lives.”



Impactful Business continued

# Sustainable sourcing

In 2019, we spent €5.3 billion on raw materials, energy, transportation, maintenance/repair, and investment goods. Sourcing materials, goods and services represents the single largest cost item for Smurfit Kappa. As such, sustainable sourcing is an integral part of our sustainability vision and strategy.

We want to sustainably grow our business and value chain. That means our materials, goods and services not only have the right quality and cost, but also should be sourced securely and responsibly. By developing more sustainable supply chains in collaboration with our suppliers, we can manage risks and costs, develop new revenue streams, and add value to our brands.

We have a sustainable sourcing programme, which helps us deliver against our three pillars of sustainability: Planet, People and Business. The programme itself is built on seven pillars. These are: quality, hygiene and safety, business continuity, operations, continual improvement, service and technical support, environmental and sustainable development. Each one has a strong sustainability implication, namely: assessing supplier risks; focusing on relevant supplier processes (especially regarding business continuity); mitigating risks related to environmental, social and equality issues; and reducing waste by meeting food safety requirements.

The sourcing of raw materials, goods and services is governed by international, national and regional regulations. But our approach to sustainable sourcing goes beyond regulatory requirements. To deliver our commitments and those of our

stakeholders, we have a set of sourcing policies, informed by the Smurfit Kappa Suppliers' Code of Conduct, Sustainable Sourcing Policy, Sustainable Forestry and Fibre Sourcing Policy (see: [www.smurfitkappa.com/policies](http://www.smurfitkappa.com/policies)).

We encourage our suppliers to participate in commonly accepted best practice and certification schemes. These include good non-financial reporting under the UN Global Compact, GRI Standards and CDP; reporting social data to SEDEX, and adhering to ISO 9001, ISO 14001 environmental, ISO 50001 energy management systems and OHSAS 18001/ISO 45001 on safety. These standards add to our credibility, as well as that of our suppliers.

### Reducing Supply Chain Risk

To meet the requirements of our vision and strategy, our suppliers must adhere to the Smurfit Kappa Suppliers' Code of Conduct. Those who do not sign up to it must be committed to a compatible code in compliance with the UN Declaration of Human Rights and the ILO Principles and Rights at Work covering: freedom of association, prohibiting child labour and forced labour, treating employees humanely, respecting employee contributions, fair compensation, encouragement of continuous training and development, health and safety at work, non-

discrimination, and promoting community involvement. Suppliers are also required to follow our Sustainable Sourcing Policy, and all other relevant policies which also cover the safeguarding of the natural environment. We monitor our suppliers' compliance through our sustainable sourcing programme.

Our sustainable sourcing programme is founded on risk mapping against our key criteria: overall spend, global presence, technological innovation, excellent service and reputation. Risk mapping considers the sourcing categories with the highest impact on our products, and therefore our stakeholders. The most relevant sourcing category is raw materials.

Sustainable sourcing of wood and recovered paper is vital for our fibre-based products. Wood, pulp, paper and recovered-paper sourcing, as well as our own forestry operations, is controlled by our Forestry and Fibre Sourcing Policy. A more detailed report on these activities can be found in the Forest section on pages 30-31.

We require our key materials, goods and services to be managed sustainably. Since launching our sustainable sourcing programme in 2010, we have been auditing all our preferred and multinational suppliers to ensure they meet our standards.

We also monitor whether suppliers are members of SEDEX or are assessed on their ethical practices by EcoVadis. We believe on-site audits increase competence and commitment in our supplier base, while enhancing our mutual understanding of key requirements. Based on their scoring at the audit, follow-up programmes are established on a supplier-by-supplier basis. This includes further strengthening their understanding of, and compliance to, Smurfit Kappa sustainable sourcing principles and indicators.

Audits result in a rating against each of the seven pillars of our sustainable sourcing programme. If the result is below satisfactory (scoring less than 40%), an improvement programme is devised. Failure to commit to the improvement action list may, ultimately, lead to termination of the business relationship.

Our risk mapping, combined with supplier audit results, show that 81% of our important suppliers of key materials, goods and services audited in 2019, carry moderate to low risk. Our sourcing network includes suppliers ranging from small-scale local companies to large multinationals. In total, an estimated 76% of our suppliers' deliveries can be classified as local. In 2019, supplier improvement opportunities typically included Environmental Management systems (37 times), Health and Safety systems (35 times), Brand Protection (34 times), and Continuity management (31 times). Overall, there were no material findings on our audits that would impact safe and timely deliveries of our products to our customers.

We hold annual global sourcing seminars in which part of the programme is to train and update the knowledge of our sourcing managers on sustainable sourcing. This seminar was also held in 2019. The sustainable sourcing programme on these events covers developments, achievements and challenges in the area of sustainable sourcing. In 2019, in-depth training for local sourcing teams were held in France, Poland, Spain and Sweden.

### Progress in 2019

New developments in the auditing process this year included a special focus on Sweden, Poland, Spain and France. We have implemented the requirements to exclude modern slavery practices by our suppliers in our sourcing programme, and increased supplier screening on human rights. Adding transport to the auditing process supports this, as illegal trafficking is a factor in modern slavery. In addition, we continued adding suppliers of pallets and paper machine clothing audits to the programme to enhance its scope.

As part of our work with the UN SDGs, we have started to include the selected SDGs in our sustainable sourcing programme. This development has been targeted on our multinational and preferred suppliers. We ask our suppliers to support, where material, at least our strategic SDGs: 15 (Forest), 13 and 7 (Climate change), 12 (Waste), 6 (Water), and 3 (People).

In 2019, a total of 112 external supplier audits were performed, and 61 of these were first-time audits, and 106 supplier companies. Of these, 21% were conducted on multinational and preferred suppliers, reflecting our increasing emphasis on large national and regional suppliers (in particular the hauliers). A total of 87% of all suppliers audited during 2019 scored a satisfactory mark (2018: 85%), and the remaining will pass the audit once they complete improvement plans. Following the initial audit, we work with each supplier to identify continual improvement opportunities. 18 suppliers audited in 2019, 13 of which are national or regional suppliers, were included in a close monitoring programme.

In 2019, we changed the classification of suppliers, from preferred/strategic/important, to preferred/multinational/national-regional. For consistency, this new classification has been applied to the data from 2010-2018. Since the start of the programme in 2010, we audited 137 Preferred suppliers, 31 other Multinational suppliers and 155 National suppliers, on top of our internal audits.

The audit results differ per industry sector. The best compliance to our sustainability objectives has been consistently achieved by suppliers of starch, energy, forklifts and chemicals. Furthermore, none of our audited suppliers in these industry sectors score an unsatisfactory mark. Typically, suppliers of external paper, adhesives and inks demonstrate a good compliance. Thirty-four sourcing categories have been identified as being particularly relevant to our sustainable sourcing programme. They are classified into three groups: key materials, goods and services, and commodities needed to operate. We monitor 72% of the relevant spend in these groups, with the best compliance from sourcing categories in the group of key materials.

We have increased the number of external independent auditors affiliated with international certification bodies in Poland, Spain and France to 13.

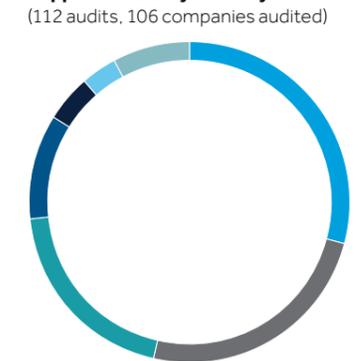
**Total Sourcing Costs**  
(€5.3 billion)



**Key:**

- Raw materials and consumables – 3,003
- Logistics – 732
- Maintenance and repairs – 430
- Energy – 485
- Capital equipment – 620
- SK Europe – 75%
- SK The Americas – 25%

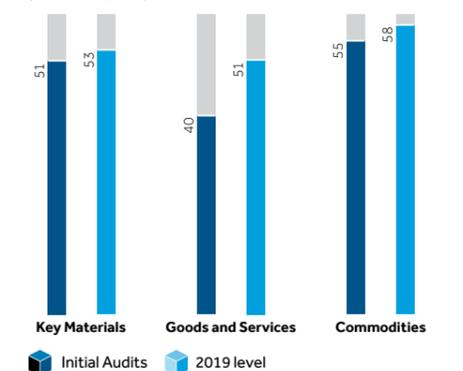
**Supplier Audits by Country**  
(112 audits, 106 companies audited)



**Key:**

- NEE – 31
- DACH – 26
- UK/IR – 21
- BNL – 11
- FR – 5
- ES/PT – 4
- Rest of World – 8

**Average Audit Score**  
(Initial vs 2019)



## Seven Pillar Supplier Audit Programme

