

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).

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.

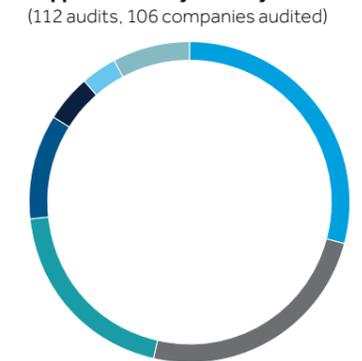
Total Sourcing Costs
(€5.3 billion)



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%

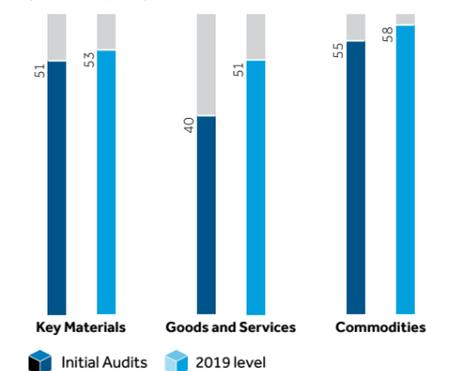
Supplier Audits by Country
(112 audits, 106 companies audited)



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

