

2016



 Smurfit Kappa

# Annual Report 2016



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The Smurfit Kappa Group strives to be a customer-orientated, market led company where the satisfaction of customers, the personal development of employees, and respect for local communities and the environment are seen as being inseparable from the aim of creating value for the shareholders.

## At a Glance

### Sustainable Growth



Corrugated packaging is a valuable merchandising tool as well as the most sustainable, cost effective, environmentally friendly and versatile transport (and merchandising) medium. We are committed to helping our customers grow sales and reduce costs.

### Geographic Diversity



We are a geographically diverse business, with operations spanning three continents and 34 countries. Our diversity means we can serve our 64,000 customers across multiple countries and markets. Diversity also provides us with more stable cashflows through the cycle.

### Integration



Smurfit Kappa is an integrated business. We produce 5.8 million tonnes (over 10.5 billion square metres) of corrugated packaging from the 5.9 million tonnes of containerboard we produce within our own system. Integration provides certainty of quality and supply of paper for our operations and, in turn, our customers.

### Innovation



We are a highly innovative, design-led company. With 700 designers across our business and 6,500 product designs we use cutting edge technology to provide innovative designs in packaging and display for our customers.



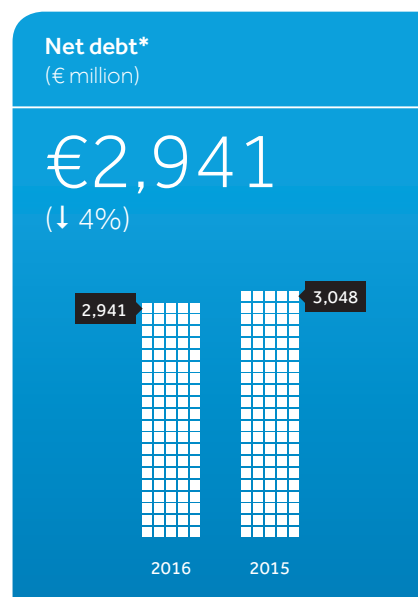
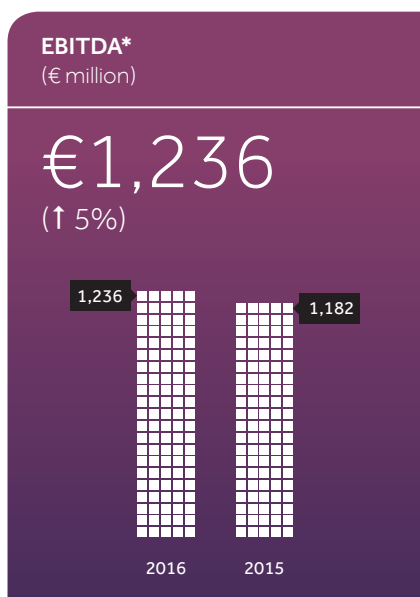
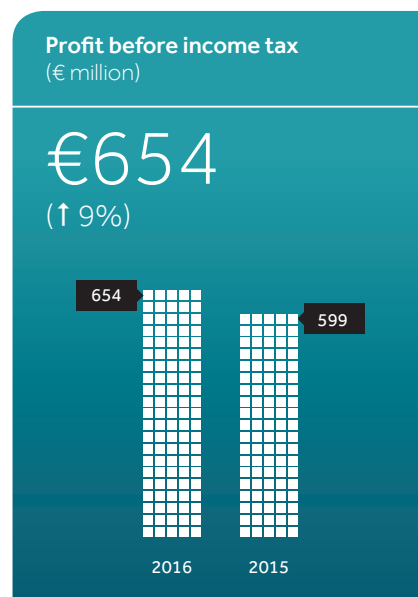
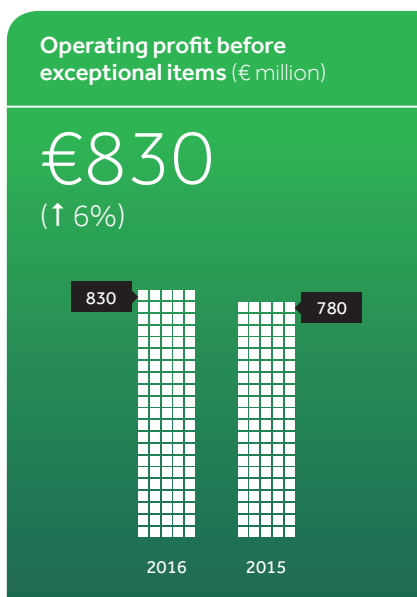
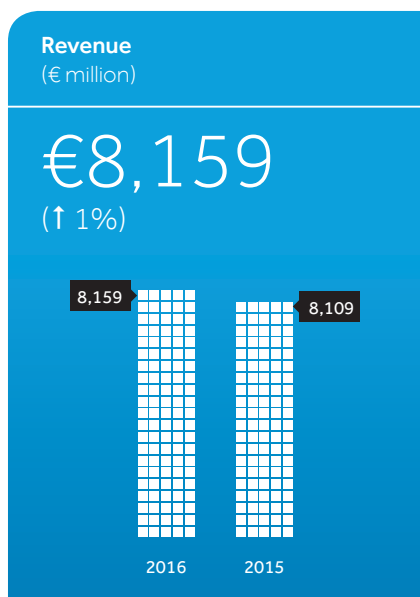


Hailing Meulenberg at our Van Dam Golfkarton corrugated plant in the Netherlands.

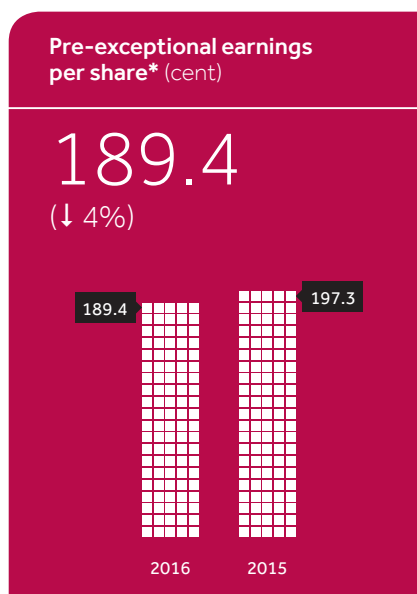
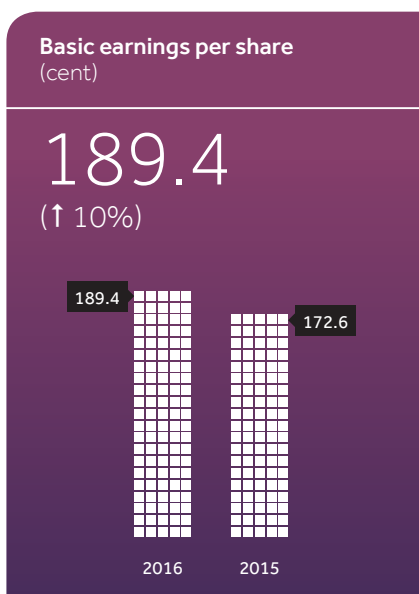
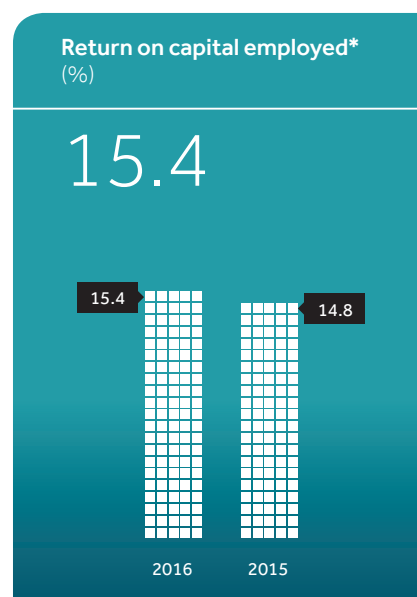
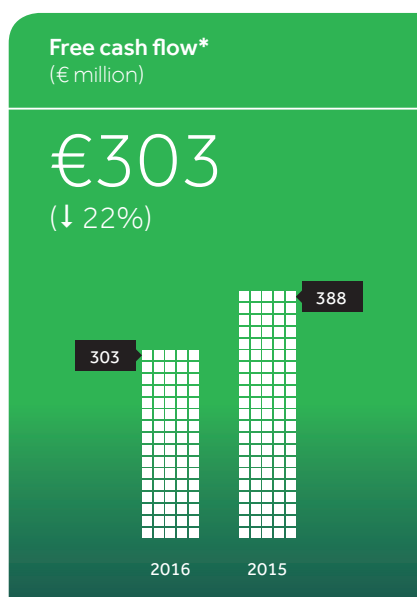
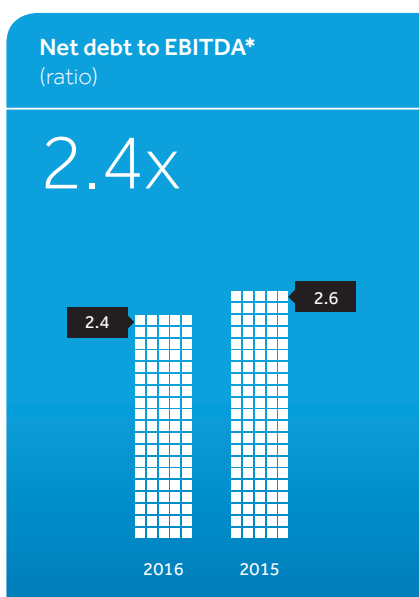
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# A strong financial position, capacity for growth



\* These financial key performance indicators are not defined under International Financial Reporting Standards ('IFRS'). Definitions and an explanation for the use of these Alternative Performance Measures ('APMs') are included in the Finance Review of this Annual Report.





# Expertise

Our expertise in forestry, recovery, paper, packaging and related systems is recognised as industry leading and sets the standard for efficiency, sustainability, quality and innovation. Our focus on training and innovation ensures that our expertise continues to evolve and expand to meet the needs of our customers and the environment. Our customers recognise the difference our expertise makes to their business.







Mariela Palermo at our Global Experience Centre in Amsterdam, the Netherlands.

# A leading provider of paper-based packaging solutions

## Who we are

Smurfit Kappa ('SKG'), a FTSE 100 company, is one of the leading providers of paper-based packaging solutions in the world, with approximately 45,000 employees in 367 production sites across 34 countries and with revenue of €8.2 billion in 2016. We are located in 21 countries in Europe, and 13 in the Americas. We are the only large-scale pan-regional player in Latin America.

We manufacture, distribute and sell containerboard, corrugated containers and other paper-based packaging products such as solidboard, graphicboard and bag-in-box. In Europe our business is highly integrated and includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. Given this high degree of integration, particularly in terms of containerboard, the Group's end customers are primarily in the corrugated packaging market, which uses the packaging for product protection

and product merchandising purposes. In Latin America we are the largest pan-regional producer of containerboard and corrugated containers.

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

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

## Our Values

### 1. Entrepreneurship



We value entrepreneurial spirit and a decentralised management style with staff functions challenging and supporting the operations, with experience, expertise and ingenuity.

### 2. People



Our goal is to attract, engage, develop and retain our 45,000 employees, offering them the opportunity to achieve their full potential in a safe and open work environment.

### 3. Environment



Our objective is to protect the environment and progressively improve our performance on emissions to air, and discharges to water and soil.

### 4. Customers



We provide customers with innovative customer-focused, sustainable and cost efficient packaging and logistics solutions.

### 5. Shareholder Returns



Our vision is to be a globally recognised and respected business delivering secure and superior returns for all stakeholders.

### 6. Meet Stakeholder Commitments



We are determined to meet our commitments and will put in place the necessary resources to support their achievement.

### What we do

#### Paper



We manufacture a wide range of papers mainly used for packaging purposes. Our total global paper and board capacity is approximately 7 million tonnes per annum.



#### Packaging



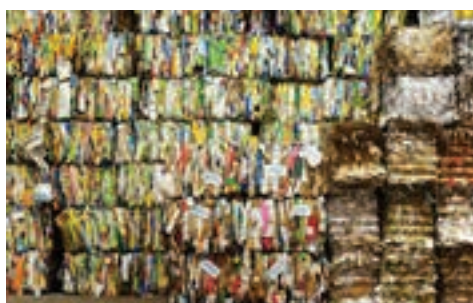
We design, manufacture and supply paper-based packaging to package, promote and protect our customers' products. We manufacture over 10.5 billion square metres of corrugated packaging and have key supply positions in solidboard, folding carton and tube markets.



#### Recycling



We provide recycling solutions to ensure our clients' corrugated packaging and paper is recycled responsibly, efficiently and reliably. We reprocess approximately 6.8 million tonnes of recovered paper across the globe.

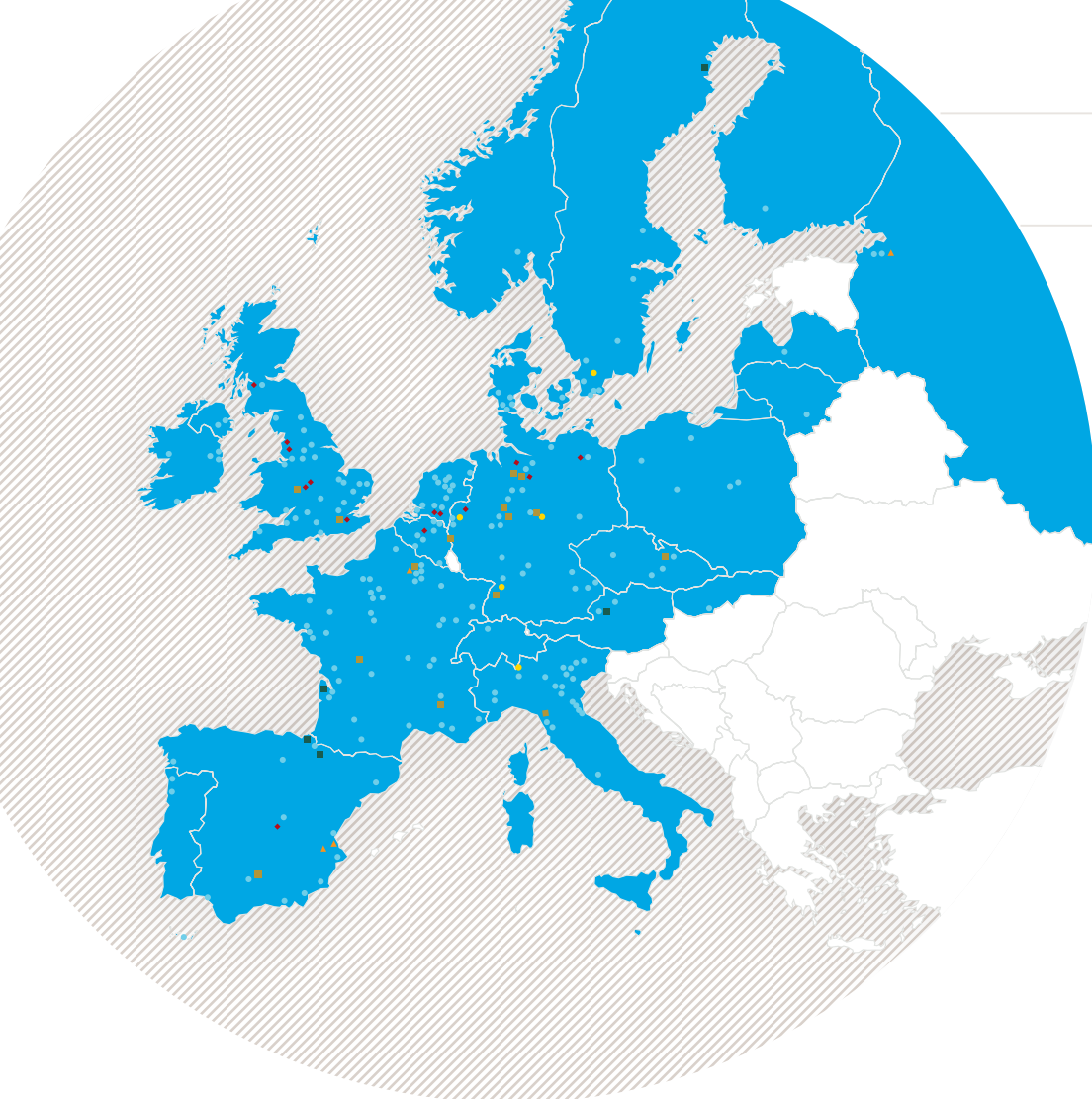


#### Forestry



We own approximately 103,000 hectares of forest globally. Our forest estate management is based on sustainable development principles, promoting economic growth, a responsible use of natural resources and fostering social equity.





## Our global sales

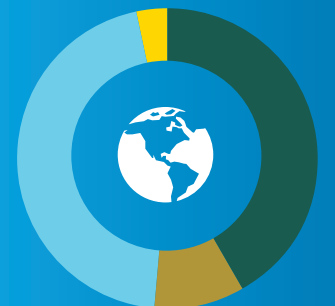
**Sales Europe**  
Volumes (Million Tonnes)



Kraftliner	1.6
Recycled Containerboard	3.0
Other Paper & Board	0.8
Corrugated	4.4
Solidboard Packaging	0.1



**Sales The Americas**  
Volumes (Million Tonnes)



Containerboard	1.3
Other Paper & Board	0.3
Corrugated	1.4
Other Paper-based Packaging	0.1

## Group Operations

- Virgin Mills
- ▲ Paper Sacks
- Recycled Mills
- ▲ Bag-in-box
- Corrugated
- ◆ Recovered Fibre
- Cartons
- ▲ Forestry



# As a world leader in paper-based packaging, we have 367 operations across the globe

## Where we are

Our 367 operations are located in 34 countries across our two operating segments in Europe and the Americas. The Europe segment, which is highly integrated, includes a system of mills and plants that primarily produces a full line of containerboard that is converted into corrugated containers. In addition to other types of paper, such as solidboard and sack kraft paper, and paper-based packaging, such as solidboard packaging and folding cartons, this segment includes the Group's bag-in-box operations. The Americas segment comprises all the Group's forestry, paper, corrugated, paper sack and folding carton activities in a number of Latin American countries and in the United States.

We operate in 21 countries in Europe and are the European leader in corrugated packaging, containerboard and solidboard with key positions in several other packaging and paper market segments. We also have three bag-in-box facilities, located in Argentina, Canada and Mexico, which are managed as part of our European Bag-in-box operations. The Group operates in 13 countries in the Americas and is the largest pan-regional producer of containerboard and corrugated containers in Latin America.

In terms of world market positions, the Group is one of the largest producers of corrugated packaging.

The Group's large manufacturing footprint provides it with a competitive advantage because the corrugated packaging market is a localised market and corrugated box plants need to be close to customers (generally 300 kilometres or less) due to the relatively high cost of transporting the product. Approximately 60% of the Group's corrugated customers are in the fast moving consumer goods ('FMCG') sector, comprising food, beverage, and household consumables, the remainder being split across a wide range of different industries.

In 2016, the Group's Europe and Americas segments accounted for approximately 75% and 25% of revenue respectively.

## Our business in numbers



# Providing innovative solutions to our customers needs

### Retail Ready Packaging



With up to 82% of shoppers deciding which brands to buy when they are in store, leading brands are optimising retail packaging to influence shopper behaviour. The right packaging makes products highly visible and easier to navigate, while reinforcing branding and driving sales.



### Consumer Packaging



Consumer packaging plays a vital role in attracting and communicating a brand's value to shoppers. Our holistic approach to consumer packaging design considers the needs of both marketing and supply chain to ensure we deliver a pack that meets both image and functional requirements.

### Industrial Packaging



Whether packaging small or large, light or heavy components, we use proven scientific methods to optimise our customers' supply chain. We have analysed over 45,000 supply chains globally to ensure products arrive in optimal condition, no matter how demanding the requirements.



### Food Packaging



Our range of paper-based food contact packaging ensures that goods remain fresh and protected whilst meeting all the relevant legislative requirements for food hygiene.



### Standard Packaging



From cases to trays and wraparounds, we supply cost effective and risk-free solutions by applying our unique performance packaging technology. Every year over 16 billion packs use this technology proving the reliability of our insights based on sound scientific data.



### Bag-in-Box Packaging



The shelf life of liquid, or semi-liquid food products, can be extended with one of our innovative Bag-in-Box solutions. We protect every precious drop across the supply chain to the end consumer, ensuring the content stays fresher for longer, preserving the quality for weeks after opening.



### E-commerce Packaging



Customers look forward to their online purchase arriving from the moment they order it. That is why our e-commerce packaging is always optimised across the supply chain, providing the highest levels of protection and delivering the ultimate brand experience from the instant it is opened.

### Point of Sale Displays



In a highly competitive retail environment, influencing consumer behaviour is critical to sales success. Our point of sales displays help brands to attract shopper attention, alert them to new products or promotions and drive increased sales.





# Our approach to innovation demonstrates how we help our customers save more, sell more, perform better and optimise their packaging solutions

## How we Innovate



### Our innovation process starts by understanding our customers' markets

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 product development, process improvement or optimising supply-chain efficiency, our innovation process starts by understanding our customers' markets.

### 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.

### The science of innovation

Innovation should be based on facts rather than intuition. We therefore have a supporting network of laboratories, facilities and tools to help us create fit-for-purpose, cost-effective and sustainable packaging solutions. Our unique tools are based on scientific knowledge of how packaging behaves physically in the supply chain, achieved through analysing over 15 million packages each year.

### Looking beyond our products

We look past our products and go one step further to provide our customers with the best data and analysis to make informed decisions on their packaging.







## Experience Centres



Our worldwide Experience Centres are a way for us to share knowledge with customers and help them gain real business value from hands-on experience.

When people discuss the power of experience in packaging, it's usually in relation to the end consumer. Whether it's the way a product is presented on a shelf, or how a package opens when an online delivery arrives, retailers and marketers focus on impressing consumers to create a 'moment of truth' – driving a purchase or inspiring future brand loyalty.

Of course these are vitally important moments in the packaging lifecycle - but there are countless others occurring throughout the supply chain, such as packing, palletisation and distribution to name a few. And each of these details can mean the difference between a product arriving on time and in perfect condition, or turning up late and damaged.

We created the Smurfit Kappa Experience Centres to give our customers hands-on experience of the impact of packaging at every step of the supply chain, right through to the shopper and consumer. We believe it's incredibly powerful to be able to see the different stages at work in the packaging process, to problem solve in real-time and be inspired by what others have done.

There are 16 Smurfit Kappa packaging Experience Centres around the world. Customers come to explore how packaging can meet their business needs, learn from leading behavioural insights, analyse supply chain trends and observe our advanced packaging and design tools.

Arco Berkenbosch, VP of Innovation and Development at Smurfit Kappa comments "These centres give us the chance to share our global expertise directly with customers at a local level. We've seen that our customers relish the opportunity to work together with us in a refreshingly different space that's very hands-on. Whether they come to evaluate their existing packaging or they're trying to find new ways to innovate and become even more successful, they leave inspired."





Martin Gruber and Hans-Jörg Kroiher at our Nettingsdorf kraftliner mill in Austria.



# Strategic Report

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## Chairman's Statement



**At €1,236 million, EBITDA was a new record for the Group while our ROCE also increased to 15.4%."**

**Liam O'Mahony**  
Chairman



### Year in Review

**Following a record 2015, we are pleased to report a strong result for 2016, delivering further improvement against most performance measures despite significant headwinds. At €1,236 million, EBITDA was a new record for the Group while our ROCE also increased to 15.4%. Corrugated volumes were over 4% higher than in 2015, with growth in both Europe and the Americas.**

The result for 2016 reflects our focus on commercial delivery, cost efficiencies, judicious capital investment, including the 'Quick Win' programme, and accretive acquisitions. Although acquisitions were relatively modest in 2016, progress was made in integrating our earlier acquisitions in Brazil and the United States into the Group. On behalf of the Board, I would like to thank all our employees for their commitment and contribution to the record result this year.

### Governance and Board

The Board and management of SKG support the highest standards of corporate governance and ethical business conduct. We believe that corporate governance is not just a matter for the Board but that a culture of high standards of governance must be promoted from the top and fostered throughout the whole organisation. We believe that effective governance is about ensuring that 1) we have the right strategy to deliver for our shareholders and other stakeholders; 2) the executive team is leading and managing effectively to reach our strategic goals and in doing so they are held accountable and at the same time are fairly remunerated; and 3) the risks to the Group are managed and mitigated and appropriate controls are in place at all levels of the organisation. The key principles and practices designed to achieve these standards are set out in the *Corporate Governance Statement*. I would like to thank all our Directors for their continued support and contribution to the development and effectiveness of the Board and its various Committees during the year.

### Directors

Mr Ian Curley stepped down as a Director and as Group Chief Financial Officer on 31 March 2016. The Board appointed Mr Ken Bowles to succeed Mr Curley as Group Chief Financial Officer on 1 April 2016. Mr Bowles was Group Financial Controller and has been central to the strong performance of the broader corporate and finance team over the last number of years. We were extremely pleased to announce in December 2016 that Mr Bowles was appointed to the Board as an executive Director.

In March 2017, Mr Thomas Brodin and Mr Gary McGann announced that they would not be seeking re-election at the forthcoming AGM. Mr Brodin has been a Director since 2008, being Senior Independent Director for the past two years, and made a substantial contribution during a period of significant growth and development. Mr McGann is our former Group Chief Executive Officer who retired from that role in August 2015, and on whose exceptional leadership and accomplishments during his 13 year tenure I commented in last year's report. The Board would like to extend our sincere appreciation to Thomas and Gary and to wish them well for the future.

We were pleased to announce that Mr Jørgen Buhl Rasmussen was appointed to the Board in March 2017. Mr Rasmussen brings an extensive range of skills and experience to the Board and will make a valuable contribution to the future success of SKG.

### Operational Visits

In July, the Board travelled to the Netherlands where we visited our Roermond mill and our Vandra corrugated operations. The Board was delighted to officially open our newly created Paper Experience Centre at the Roermond mill, and was also pleased to meet and review strategy and performance with the senior paper and corrugated management teams for Europe and the Netherlands. These visits are extremely valuable in giving the members of the Board a deeper first-hand understanding of the strength and extent of our local businesses, their strategic positioning, and the enterprise of our teams at all levels throughout the organisation. During 2016, I made additional visits to facilities in Europe (Ireland, the United Kingdom, the Czech Republic, Denmark, Poland and Sweden) and in the Americas (Costa Rica, the Dominican Republic, El Salvador and Mexico), covering mills, corrugated plants and other operations.

### Differentiation

The Group has a business profile that is unique and sets us apart from our peers, and with operations in Europe, North America and Latin America, our geographic diversity is a key strength. We continue to be the best-positioned supplier of differentiated paper-based packaging solutions in our chosen markets, providing customers with innovative, consumer-focused, sustainable and cost-efficient packaging and logistics solutions that in turn help to drive the sale of their products.



The Group differentiates itself in the market through better insights into customer requirements, through superior service, quality and delivery, and through our strong customer relationships. Our proactive team draws upon our extensive experience and expertise as well as the scale of our operations to open up opportunities for our customers. We collaborate with forward-thinking customers by sharing our superior product knowledge, our market understanding and our insights into packaging trends to help our customers achieve business success in their markets. We have an unrivalled portfolio of paper-packaging solutions, which we constantly update with our market-leading innovations. The benefits of this are enhanced by our strong vertical integration which includes optimal paper design, quality, logistics, timeliness of service, and the fact that our packaging plants source most of their paper from our own mills.

The Group is clearly established as a key partner to many of our customers, working in their industries and in many cases within their operations to define and meet their increasingly complex packaging needs. This is evidenced by the sizeable market share that SKG has with the major international branded companies as well as with local customers in the 34 countries in which we operate. Customer partnering is an area on which we continue to place significant emphasis and which will see important further developments over the next couple of years.

## Sustainability

Environmental responsibility, corporate social responsibility (including our most important responsibility – safety) and circular business models that use resources efficiently are all becoming ever more essential to global business operations. All three of these are at the heart of our sustainable business model and we see them as core values at SKG. We welcome and embrace the challenge to make our products, operations, raw materials and supply chain more environmentally sustainable, more circular and more socially robust year-on-year, and in doing so to make a contribution to tackling climate change. As well as the challenges and business opportunities it provides, we see sustainability as a key platform for differentiation in a competitive market, and I am particularly pleased to acknowledge the third-party recognition of our work in this area, especially the awards we have received from key customers and industry groups. This is covered in greater detail in our ninth annual Sustainable Development Report, for a summary of which see pages 48 to 50 of this Annual Report. The full report is available on the Sustainability page of our corporate website. We are committed to periodically reviewing and updating this report.

## Acquisitions

The Group completed the acquisition of five businesses in 2016 for a total consideration of over €40 million. We acquired two sheet plants in California and a sheet plant and a sheet feeder (subsequently upgraded to an integrated plant) in Arizona, thereby strengthening our presence in the United States corrugated market. Towards the end of the year, we acquired a sheet plant in the United Kingdom, which complements our pre-existing operations there. While the level of acquisitions was lower than in 2015,

the Group continues to evaluate potential acquisitions capable of delivering long-term value and is well positioned to pursue any opportunities that arise. Through suitable disciplined acquisitions, and organic growth supported by our ongoing focused capital investment programme, we remain committed to developing and strengthening our global reach and further improving our packaging offering to multinational customers.

## Capital Structure

On 17 January 2017, the Group accessed the bond markets, taking advantage of the current low interest rate environment to raise €500 million at a historically low coupon for the Group of 2.375%. In doing so, we further extended our debt maturity profile, diversified funding sources and increased liquidity. The proceeds will be used to reduce indebtedness under the Group's senior facilities agreement and existing securitisation facilities and for general corporate purposes.

The Group has a stable financing base with a long-term and well spread maturity profile. The Group's credit rating of Ba1/BB+/BB+ contributes to a lower cost of capital and access to the widest range of financing options available. These positions were achieved as a result of the Group's consistent ability to generate strong free cash flows together with active management of its debt portfolio. The strength of the Group's capital base together with consistent delivery of strong free cash flows provides a solid and cost effective support to the Group's growth agenda over the medium term.

## Stock Exchange Listing

In June 2016, SKG was included as a constituent of the FTSE 250 and of the FTSE All Share Indices. In December 2016, the Group was admitted to the FTSE 100 index, one of the world's leading equity market indices. Admission to the FTSE 100 is consistent with our vision of being a globally recognised and respected business delivering both secure and superior returns for all stakeholders. In parallel with the London listing, the Group continues to retain a euro-denominated Irish Stock Exchange listing.

## Dividends

Reflecting the Board's continued confidence in the strength and capabilities of the business, we are proposing a 20% increase in the final dividend from 48.0 cent to 57.6 cent per share. Combined with an interim dividend of 22.0 cent per share paid in October 2016, this will bring the total dividend to 79.6 cent, a 17% increase year-on-year. Our dividend is a core component of our commitment to driving value for shareholders.

## Outlook

From a demand perspective, 2017 has started well across most areas of our business and, while recently announced paper price increases should translate with the customary time lag into higher box prices, we look forward with confidence to the coming year and beyond.

## Liam O'Mahony

Chairman

# Chief Executive's Review



**I would like to acknowledge the effort and commitment of our approximately 45,000 employees in the 34 countries in which we operate for their significant contribution to the results achieved in 2016."**

**Tony Smurfit,**  
Group Chief Executive Officer



## 2016 Overview

**The Group reported its strongest ever result with EBITDA of €1,236 million in 2016 and an EBITDA margin of 15.1% driven by solid volume growth across our markets, resilient box pricing and the Group's investment in high return capital projects.**

The strong results for the year against most performance measures were delivered despite the significant headwinds experienced in higher raw material input costs and adverse currency impacts. This once again highlights the strength of the Group's integrated business model, the dynamism of our performance-led culture and our geographically diverse portfolio of businesses.

In Europe, EBITDA increased by 3% for the year to €928 million. Box price resilience through the year, along with the benefits of our capital investment programme and good corrugated volume growth were key drivers in this improvement. Total corrugated volumes were up 1% year-on-year, with boxes up approximately 2%. On a constant currency basis, the Group's average corrugated pricing in Europe was up 1% for the year.

In the Americas, EBITDA increased by 11% to €339 million. This result was driven by the impact of our recent acquisitions along with strong underlying<sup>(1)</sup> EBITDA growth of 15%. Volumes in the Americas grew by 20% year-on-year, driven by the positive impact of acquisitions and solid growth. The integration of our Brazilian, Central American and US acquisitions is progressing well notwithstanding some input cost pressures in Brazil. The profile of our Americas business is primarily weighted to the United States, Mexican and Colombian markets, which comprised over 70% of the Americas' EBITDA in 2016. SKG is the largest pan-regional producer of corrugated packaging in Latin America.

In 2016 the Group completed the acquisitions of five businesses, of which four were in the United States and one in the United Kingdom. We invested approximately €500 million in our existing business, building a platform to deliver continued performance and growth. Effective capital spend will enhance operating efficiency, optimise our asset base and continuously improve our market positioning across Europe and the Americas, enabling us to deliver added value to our customers. In 2017, we will continue to realise the benefits of our capital spend, which has averaged more than €450 million over the last three years.

The Group's differentiation programme continues to help our customers succeed in their chosen markets and delivers tangible results with increased sales for our corrugated customers. This has been driven by our unique market insights, tools and expertise. In 2016, the Group's achievements were recognised by both peers and customers, as we garnered over 50 industry awards. Of these, the five Red Dot design awards won in 2016 were a highlight, with SKG being honoured as the most successful corrugated packaging company.

The Group reported a free cash flow of €303 million in 2016 compared to €388 million in 2015, reflecting higher outflows in 2016 mainly in respect of working capital, retirement benefits, tax and cash interest and some one-off inflows in 2015.

## Capital Structure

Following the recent bond issue achieved at a historically low rate for the Group of 2.375%, the average maturity profile of the Group's debt was extended from 3.7 to 4.3 years. Net debt was €2,941 million at the end of the year delivering a net debt to EBITDA ratio of 2.4 times compared to 2.6 times at the end of 2015. The Group's net debt continues to reduce in both absolute and in multiple terms, which gives the Group considerable financial strategic flexibility subject to the stated leverage ratio range of 2.0 to 3.0 times through the cycle and our Ba1/BB+/BB+ credit rating. The Group will continue to balance the maintenance of a strong capital structure with its growth objectives through 2017 and beyond.

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

## Commercial Offering and Innovation

SKG has an unrivalled market offering which helps our customers succeed in their chosen markets. This is underpinned by our unique differentiation and market understanding as well as our market-leading product innovations, all of which are supported by our ongoing capital expenditure programmes and our leading sustainable business practices across all operations.

The scale of our operations, together with our extensive experience and expertise, enable us to open up opportunities for our customers. We work together with our customers as much as possible – sharing product knowledge and market understanding and insights into packaging trends to help bring them tangible success in their markets. We have an unrivalled portfolio of paper-packaging solutions, which we are constantly updating with market-leading innovations. In 2016 the Group was recognised by both our peers and customers, garnering over 50 industry awards, including five Red Dot design awards.

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

## Corporate Social Responsibility

In our ninth annual Sustainable Development Report, released in May 2016, we highlighted the Group's continued progress and commitment to social and environmental best practices. As part of the Group's commitment to the local communities in which we have the privilege to operate, our local operations made, in conjunction with our related foundations, close to €4 million of social investments focused on the education of disadvantaged children and young people.

## Our People

Our key competitive advantage and point of differentiation is our people, both as individuals and as members of cohesive teams. Our continued focus is on recruiting, developing, motivating and retaining skilled employees dedicated to working as a team to support and service our diverse customer base. Following the response to our first global employee engagement survey, 'My Voice', which was launched in 2014, we have implemented over 1,000 actions, focused on local priorities that put our employees' ideas into practice. These actions are in addition to three Group-wide initiatives relating to communication, recognition and career opportunities that address the priority areas identified by the survey. Once successfully implemented, it is expected that these actions will promote the level of engagement. We plan to undertake the next 'My Voice' survey in September 2017.

The safety of every member of the workforce is a key consideration for the Group. While the Health and Safety performance of the Group improved in 2016 with a reduction in the number of accidents, tragically, an employee and a subcontractor sustained fatal injuries in separate accidents during the year, details of which are set out in the Sustainability review.

I would like to acknowledge the effort and commitment of our approximately 45,000 employees in the 34 countries in which we operate for their significant contribution to the results achieved in 2016. We look forward to the challenges and opportunities of 2017 and to continuing our efforts to make SKG the safest and most customer-focused company in which to work in our industry.

### Tony Smurfit

Group Chief Executive Officer

# Operations Review

In 2016, we invested approximately €500 million in our business, building a platform to deliver continued performance improvement and growth. Effective capital spend will enhance operating efficiency, optimise our asset base and continuously improve our market positioning across Europe and the Americas, enabling us to deliver added value to our customers. In 2017, we will continue to realise the benefits of our capital spend, which has averaged more than €450 million over the last three years.

Revenue for 2016 of €8,159 million was €50 million or 1% higher than in 2015. Higher reported revenue in the Americas was partly offset by lower revenue in Europe, predominantly due to negative currency impacts. Allowing for currency movements and the contribution from acquisitions net of disposals, the underlying increase in revenue was €188 million, the equivalent of over 2%, with higher underlying revenue in both Europe and the Americas.

EBITDA for 2016 was €1,236 million compared to €1,182 million in 2015, with higher earnings in both Europe and the Americas offset by slightly higher Group Centre costs. Allowing for currency movements and the contribution from acquisitions net of disposals, underlying earnings in Europe and the Americas were both higher in 2016 – by €39 million in Europe and €47 million in the Americas.

Amount invested in our business in 2016

€500m

Average capital spend over the last three years

€450m

Revenue 2016

€8,159m

EBITDA 2016

€1,236m

## Europe



The Europe segment is the larger of the Group's two segments, accounting for 75% of both revenue and EBITDA in 2016. It comprises primarily our integrated containerboard mills and corrugated operations as well as the bag-in-box and solidboard businesses. Following the sale of the solidboard operations in Belgium, the Netherlands and the United Kingdom in April 2015, the Group continues to produce solidboard and graphicboard at its four mills in Germany and solidboard packaging products at its plants in Germany and Sweden.

The Group has facilities in 21 countries in Europe. These comprise 21 mills (of which 15 produce containerboard), 188 converting plants (the majority of which produce corrugated packaging products) and 27 other production facilities carrying on related activities. The mills are supported by 14 recovered fibre collection facilities and two wood procurement operations.

The Group's European containerboard mill system consists of three kraftliner mills in Sweden, France and Austria, which between them produced approximately 1.6 million tonnes of brown and white kraftliner in 2016 and 12 recycled containerboard mills which produced approximately 3 million tonnes of paper. The containerboard machine at the Sanguesa mill was closed in January 2016 and was converted for the production of machine glazed ('MG') paper. The conversion was completed by the end of March and the mill produced approximately 60,000 tonnes of virgin-based MG paper in 2016.

We also have a sack kraft mill in Spain, which produced approximately 150,000 tonnes of sack kraft paper in 2016. Our four other recycled mills in Germany together produced approximately 490,000 tonnes of solidboard and boxboard and 80,000 tonnes of graphicboard in 2016.

On the conversion side, the operations comprise 54 sheet plants and 104 corrugated plants which produced approximately 4.4 million tonnes (8.3 billion square metres) in 2016. In addition, we have 30 plants which produce high-end differentiated packaging products such as litho-laminated corrugated products, display units and solidboard-based packaging, all of which extend the range of the packaging solutions in our portfolio. Our converting operations are supported by a number of other small plants producing pre-print packaging, fulfilment activities and other packaging related products. Our European-managed bag-in-box operations comprise eight plants located in Europe, Argentina, Canada and Mexico.

Revenue for the Europe segment was €6,146 million in 2016 compared to €6,249 million in 2015, with underlying growth of €39 million which was more than offset by negative currency movements. Although the acquisitions completed in the United Kingdom in 2015 added to our revenue in 2016, the incremental contribution was more than offset by the absence of the solidboard operations that we sold in the



second quarter of 2015. EBITDA for Europe increased by €27 million to €928 million, with an underlying increase of €39 million, the equivalent of 4%.

As reported, our European EBITDA increased by 3% to €928 million despite increased raw material input costs, lower containerboard pricing and adverse currency movements. Box price resilience through the year, along with the benefits of our 'Quick Win' capital investment programme and good corrugated volume growth were the key drivers in this improvement. Total corrugated volumes for the year were up 1%, with boxes up over 2% when adjusted for the impact of our German rationalisation programme. On a constant currency basis, the Group's average corrugated pricing in Europe for the year was up 1%. With the benefit also of our cost reduction programmes, we delivered an improved EBITDA margin of 15.1% compared to 14.4% in 2015.

In 2016, the Group experienced significant cost headwinds in Europe in the form of higher old corrugated container ('OCC') input costs. In the fourth quarter, the price of OCC was up 11% year-on-year, driven by both strong domestic demand and continued export market demand. For the full year 2016, the price of OCC was up over 10%, with a high OCC price providing positive support to the containerboard price and, in turn, to the packaging business in the medium term. With the declining generation of mixed waste coupled with the continued demand both domestically and on export markets for recovered paper, the Group expects the medium-term trend for OCC pricing to remain high.

In recycled containerboard, prices softened through 2016, reducing by €50 per tonne after increases had gone through in the middle of 2015. However, on the back of both good demand and significantly lower containerboard inventories year-on-year, the Group has announced an increase of €60 per tonne on brown recycled containerboard for implementation on 1 February 2017.

Following successful price increases in the second half of 2016, demand for kraftliner containerboard remains robust, and as a result, the Group announced a €60 per tonne price increase on both white and brown kraftliner across Europe for implementation on 1 March 2017. Kraftliner is a vital part of today's global supply chain requirements – with its relative strengths against recycled alternatives, it is positioned as a critical part of our customers' requirements in certain industries and supply chain applications.

Following rationalisations in the corrugated division in 2015, both France and Germany saw recovery in their EBITDA results and this is expected to continue into 2017. Strong volume growth in the Benelux, Spain and Portugal and Eastern Europe helped to drive volume growth in Europe, offsetting lower volumes in Germany, which was impacted by the rationalisation programme in 2015.

## The Americas



The Group's operations in the Americas consist of 15 paper mills in six countries (Argentina, Brazil, Colombia, Mexico, the United States and Venezuela) producing containerboard, boxboard and sack paper with a combined production of 1.6 million tonnes in 2016. The mills are supported by 33 recovered fibre plants in eight countries and forestry operations in Colombia and Venezuela. We have 48 corrugated plants in 10 countries with a 2016 production of approximately 1.4 million tonnes (2.3 billion square metres). We also have 13 other converting plants in seven countries producing mainly paper sacks or folding cartons, a preprint facility and three foam packaging plants in Mexico, and two flexible packaging plants, one in the United States and one in El Salvador.

The Group's Americas business continues to provide geographic diversification and growth opportunities. Revenue of €2,013 million in 2016 was €153 million higher than in 2015, with underlying growth and the contribution from acquisitions, including the presence of the Brazilian operations for a full year, more than offsetting net negative currency movements. EBITDA for the Americas increased by €33 million to €339 million in 2016, with an underlying increase of €47 million, the equivalent of 15%. The EBITDA margin increased to 16.8% from 16.4% in 2015 with both Mexico and Chile delivering record EBITDA performance.

These results were delivered against a backdrop of adverse currency impacts that amounted to approximately €42 million year-on-year. This currency impact was offset by the positive contributions of acquisitions in the region, continued pricing initiatives in most markets, strong underlying volume growth and the accrued benefits of our capital investment programme.

Year-on-year corrugated volumes increased by over 20%, driven by our acquisitions in the region together with strong growth in the larger economies in which we operate, specifically the three major markets of the United States, Mexico and Colombia. In the United States, corrugated volumes were up 14% year-on-year while volumes in both our Mexican and Colombian operations were up 6% year-on-year. Overall underlying volume growth in the region, excluding the impact of Venezuela and acquisitions, was 2%.

Pan-American Sales (PAS) continue to deliver above market growth for the Group, with customers enjoying the ability to partner with SKG on a regional basis. In 2016 PAS volumes were up 6% year-on-year, excluding Venezuela. Growth in Brazil was seen in PAS on the back of SKG's entry into the market in December 2015.

## Operations Review

(continued)

In Mexico, the business delivered a record EBITDA with strong volumes throughout the country. The negative currency impact in the year was offset by volume growth and productivity gains. Box price increases are under way in the first quarter of 2017 – to recover increased input cost pressures. The previously announced project to increase capacity at the Los Reyes mill near Mexico City is expected to be completed in 2017.

In Colombia, we continue to see very strong volume growth in corrugated with volumes up 6% in 2016 and by 7% in the fourth quarter year-on-year. The Group's recent capital investment programme has allowed the country to keep pace with the growth in demand. Price increases for boxes are under way in the first quarter of 2017. Our recent acquisitions in Central America and the Caribbean region are performing in line with expectations.

In the United States, volume growth of 14% has been predominantly due to acquisitions. A successful containerboard price increase of US\$40 per tonne towards the end of 2016 has been implemented with box price increases being processed in the first half of 2017. Domestic OCC prices increased throughout the year and into January 2017 against a backdrop of an improving climate for containerboard. Containerboard price increases achieved in late 2016 should be supportive going into 2017.

The Brazilian operations are integrating successfully and are ahead of expectations net of OCC input cost pressures. Volume growth in 2016 was ahead of the market, albeit with a flat volume evolution year-on-year against a market that was down 2%. Recent industry publications indicate some softening of OCC prices in January.

In volume terms, the Group's Argentinian operations performed ahead of the market but remained down year-on-year as the country adjusts to local government reforms. Volume growth is expected as we enter the second quarter of 2017. The Group also implemented significant price increases in the year to December 2016, helping to offset inflationary pressures.

The Group's Venezuelan business performed well in a very challenging environment. Despite a drop in domestic corrugated shipments of 48% in 2016, our operations continue to perform; this is due to a stronger export performance and our ability to supply Group containerboard needs in the Americas. In the year to December 2016, Venezuela accounted for approximately 3% of Group EBITDA. Local management and our people continue to do an outstanding job under difficult circumstances. In Venezuela, we expect a similar EBITDA performance in 2017. However, the Group is aware that the macro situation in Venezuela remains uncertain. The effect of high inflation without a corresponding currency devaluation would result in a net monetary loss, which may distort some of the Group's key metrics. We will continue to monitor events as they unfold. Net assets in Venezuela amounted to €91 million at year-end.

### Cost Take-out Programme

The Group delivered €74 million of cost take-out in 2016, €25 million of which occurred in the fourth quarter. Since the programme's inception in 2008, the Group has achieved cost savings of over €850 million and the Group continues to view these projects as a key element in combatting cost inflation throughout the business.

### 'Quick Win' Capital Expenditure Programme

In 2016, the Group continued its investment stage of the current 'Quick Win' capital expenditure programme. The benefits of these high-return investments have been delivered since 2014 and are expected to deliver a total incremental EBITDA of €75 million by the end of 2017. Of this, €25 million was delivered in 2016 with an expected balance of approximately €30 million to be delivered in 2017.



Helmut Penninger at our Interwell corrugated plant in Austria.

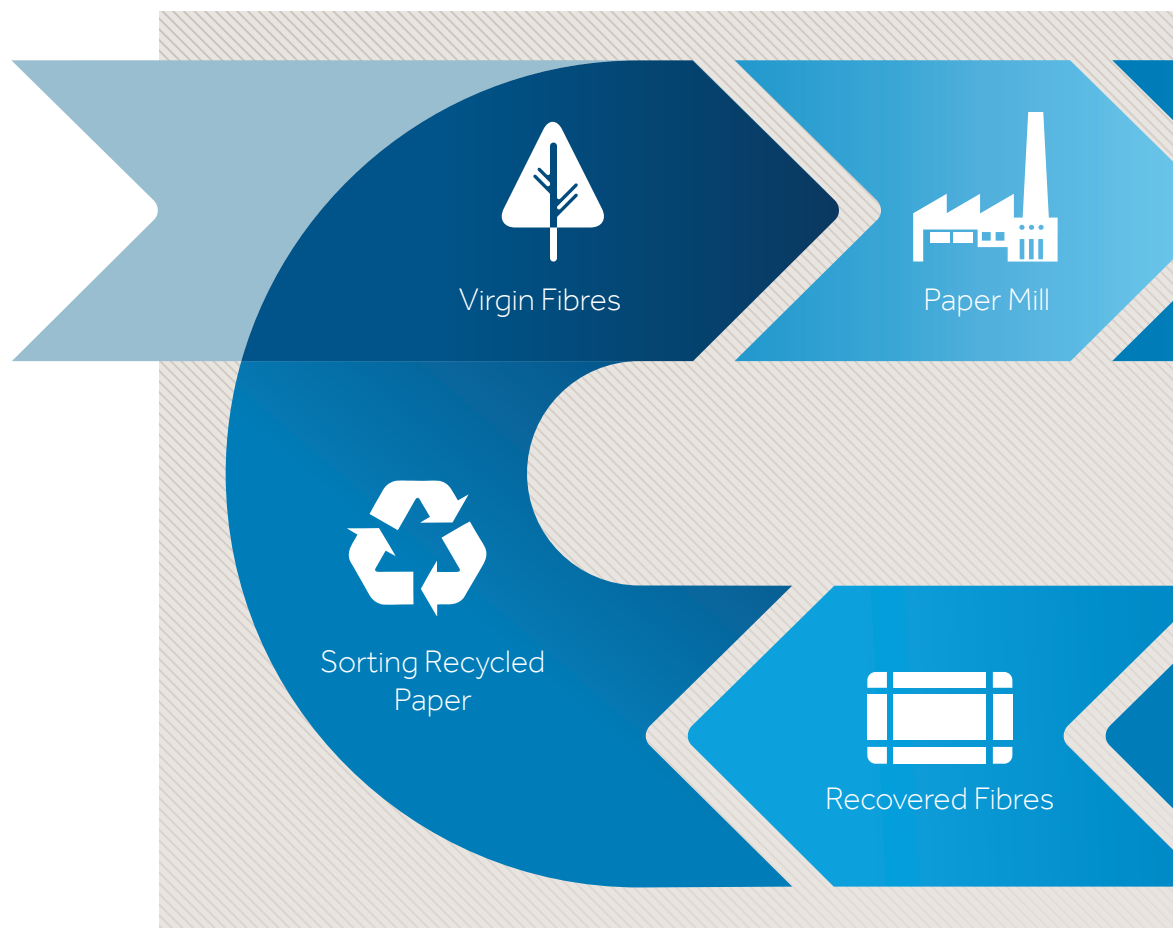


# An integrated model providing cost efficiencies and innovation

### Smurfit Kappa Business Model

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 the Group's customers.

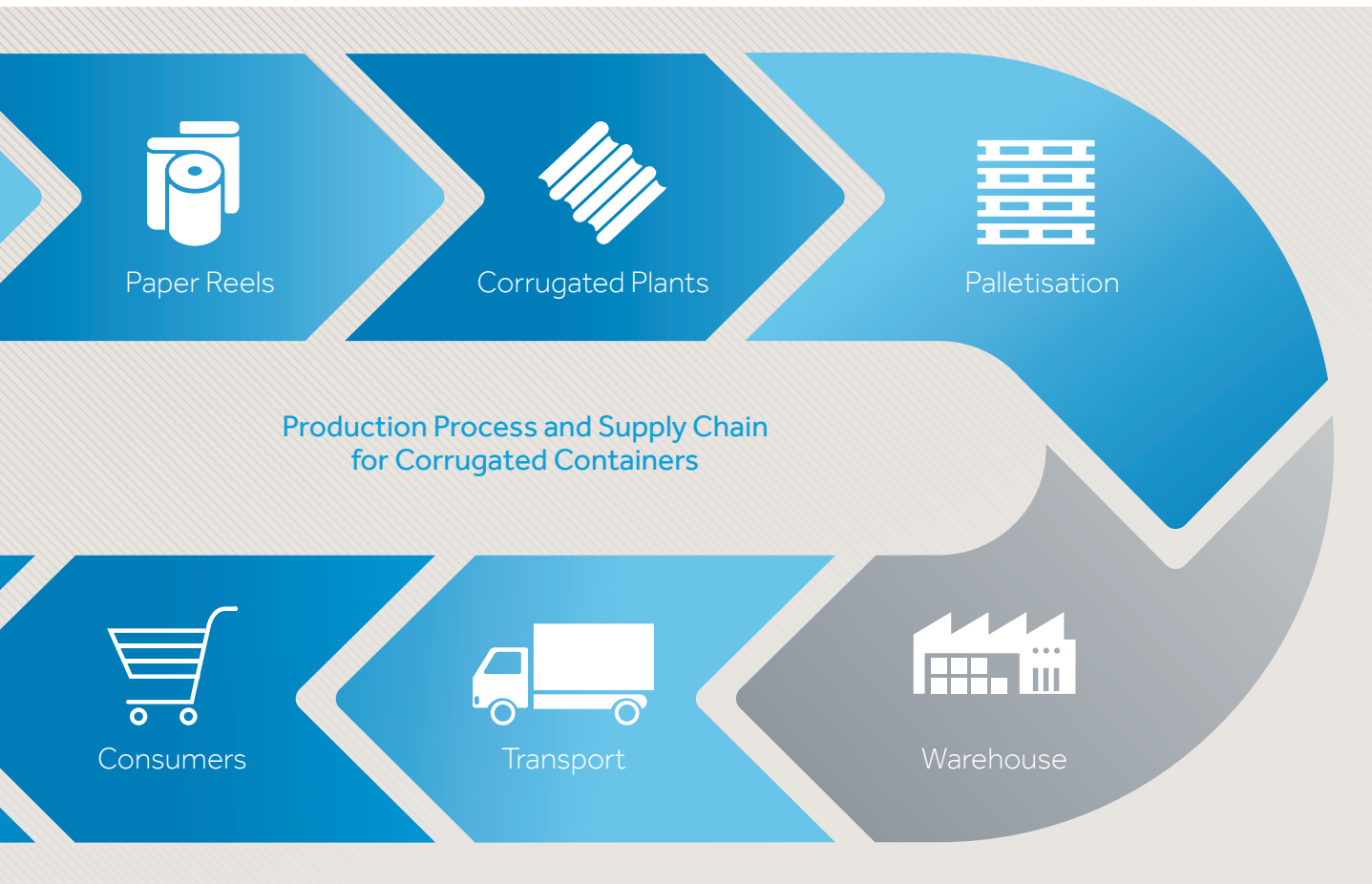
The Group's recycling, wood procurement and forestry operations provide raw material to our mills which is processed into paper primarily for our corrugated converting plants. Similarly, the Group's solidboard, recycled boxboard and sack kraft mills are integrated with our respective solidboard packaging, folding carton and paper sack operations.



**The benefits of this integration in the Group's main business area include:**

- ✓ security of paper supply during periods of market fluctuation where major producers decrease utilisation or implement closures;
- ✓ the ability to offer products tailored to the requirements of end customers (such as quality, grades and innovation) through the Group's control of the supply chain;
- ✓ the capability to innovate in a sustainable manner through the whole supply chain in areas such as original fibre, paper recipes, technology advances, structural and graphic design;
- ✓ lower exposure to volatility in containerboard prices and, in regions in which SKG owns forests, to recovered paper prices;
- ✓ achieving efficiencies in the supply chain, including through paper machine optimisation, management of logistics; and
- ✓ the ability to provide better service to corrugated container customers through innovation and tailored services.

The Group generates a significant portion of its revenue from packaging products for FMCG (including food, beverages and household consumables). Demand for consumer staples, and by extension demand for SKG's products, is resilient especially during periods of economic downturn. While the Group is involved at all levels of the supply chain, the Group's final products are designed to protect, transport and assist in the promotion and marketing of the Group's customers' products to their end consumers.



# Delivering an increasingly strong return on capital

### Strategic Objective

The Group's objective is to develop long-term customer relationships by providing customers with differentiated packaging solutions that enhance the customers' prospects of success in their end markets.

The Group's objectives and strategies are:

Expand our market positions in Europe and the Americas through selective focused growth



- organic growth from increased market share through consolidating, and where appropriate, extending our leadership position; and
- pursuit of accretive acquisitions in higher growth markets such as Eastern Europe and Latin America.

Become the supplier/partner of choice



- deepening SKG's understanding of our customers' world and developing proactive initiatives to improve their offering;
- constantly innovating our products, service, quality and delivery in order to develop and/or maintain preferred supplier status; and
- pursuing superior performance measured against clearly defined metrics in all aspects of our business and at all levels in our organisation.



**Our ambition is to maintain our premier position by delivering:**

- ✓ Superior customer satisfaction;
- ✓ Cost and operating efficiencies;
- ✓ Maintaining proactive environmental awareness;
- ✓ Continuous improvement in the areas of health and safety and corporate social responsibility.

Enhance our operational excellence through the continuous upgrade of our customer offering



- improving the output from the Group's high quality asset base through judicious capital investment, continuous improvement programmes, transfer of best practice, industrial engineering, and other progressive initiatives;
- increasing the proportion of differentiated ideas, products and services on offer to our customers through the use of the Group's development and technology centres and our innovation tools, and delivering the results to customers; and
- ensuring that the driving force behind all our operations is one of customer satisfaction and excellence in the marketplace.

Recruit, retain, develop, and motivate the best people



- high quality graduate and other recruitment initiatives, progressive goal setting, and performance appraisal programmes;
- focused job training and coaching;
- cross divisional in-house development programmes; and
- selective executive development programmes.

Maintain a disciplined approach to capital allocation and maintain the focus on cash generation



- preserving our credit rating and our position as a strong crossover credit;
- capital spending to optimise our asset base and enhance operating efficiency;
- acquiring strategically attractive and accretive assets; and
- progressive dividend supported by strong free cash flow.

The Board determines the nature and extent of the principal risks it is willing to take to achieve its strategic objectives. Risks are identified and evaluated and appropriate risk management strategies are implemented at each level in the organisation.

## Risk Management and Internal Control

The Board has overall responsibility for the Group's system of risk management and internal control and for monitoring and reviewing its effectiveness, in order to safeguard shareholders' investments and the Group's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Board carries out a review of the effectiveness of the Group's risk management and internal control systems at least annually.

Group executive management is responsible for implementing strategy and for the continued development of the Group's operations within parameters set down by the Board. Day-to-day management of the Group's operations is devolved to operational management within clearly defined authority limits and subject to tight reporting of financial performance. Management at all levels is responsible for internal control over the respective operations that have been delegated to them. As such, the system of internal control throughout the Group's operations ensures that the organisation is capable of responding quickly to evolving operational and business risks and that significant internal control issues should they arise are reported promptly to appropriate levels of management.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives. Risk assessment and evaluation is an integral part of the management process throughout the Group. Risks are identified and evaluated, and appropriate risk management strategies are implemented at each level. The key business risks are identified by the senior management team. The Audit Committee and the Board in conjunction with senior management review the key business risks faced by the Group and determine the appropriate course of action to manage these risks. The Internal Audit function monitors compliance and considers the effectiveness of internal control throughout the Group. The Audit Committee meets with the Group Compliance Manager and the Group Internal Auditor at least quarterly in order to satisfy itself on the adequacy of the Group's internal control system. The Chairman of the Audit Committee reports to the Board on all significant issues considered by the Committee.

## Going Concern

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

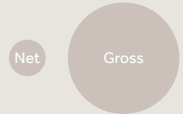
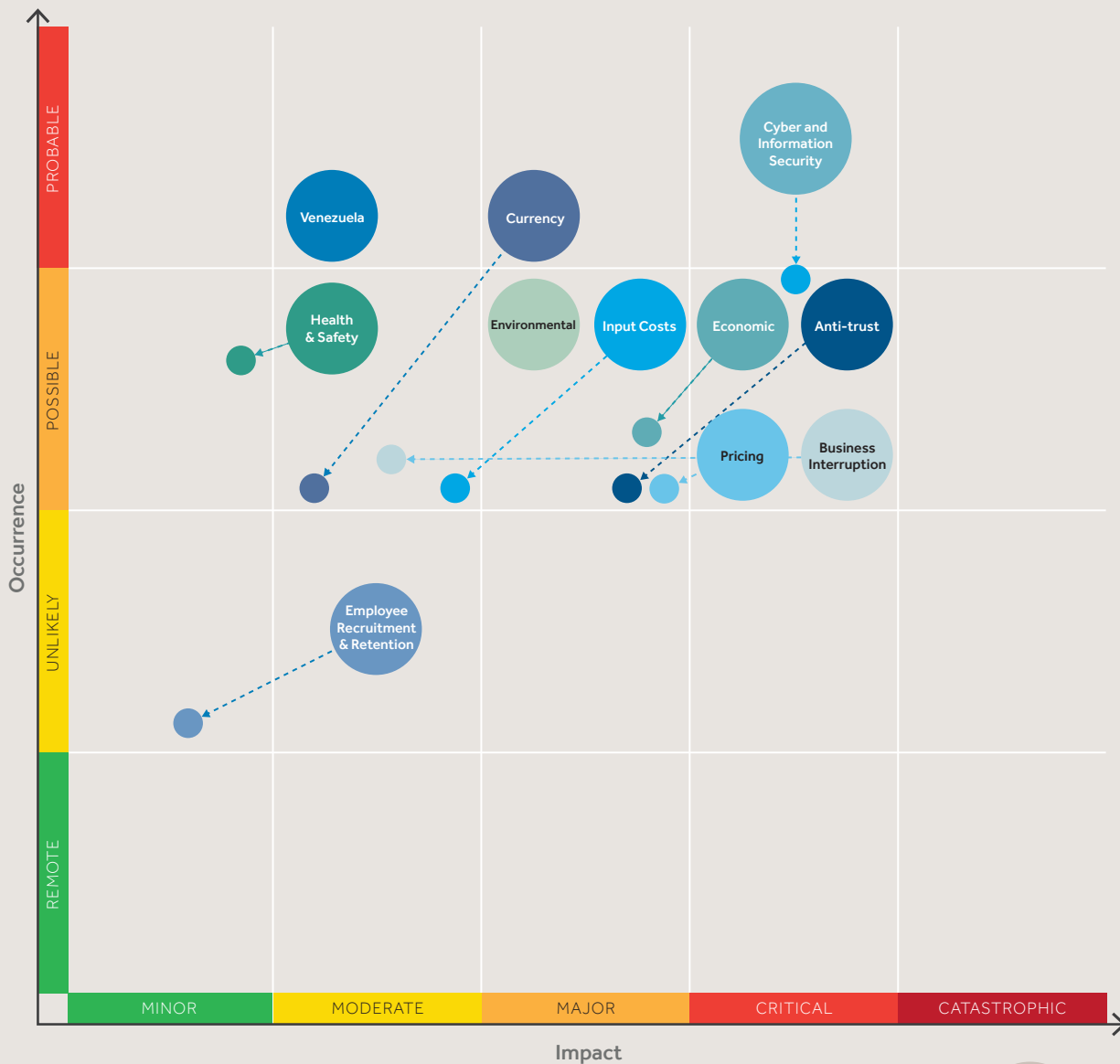
## Viability Statement

The Directors have assessed the prospects of the Group over a three-year period. The Directors consider this period to be appropriate as the Group's strategic business plan is devised and assessed over a three-year period in line with the cyclical nature of the business in which the Group operates. A three-year consolidated financial model was built using a bottom up approach reflecting the Group's current position and including management's estimates of future profitability and assumptions for the Income Statement, Cash Flows and Balance Sheet. The model incorporates and considers the important indicators of underlying performance of the operations of the Group, EBITDA, EBITDA margin, Free Cash Flow, Net Debt to EBITDA, Return on Capital Employed and Earnings per Share.

The Directors have undertaken a robust assessment of the principal risks facing the Group, as detailed in this section, which would threaten the Group's business model, future performance, solvency or liquidity. Using the principal risks identified, stress test scenario analysis has been applied to the Group's consolidated financial model to assess the effect on the Group's key indicators of underlying performance.

Based on the results of this analysis, the Directors confirm they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.






### Risk heat map





## Risk Area

## Risk Description

<p><b>Economic</b></p> 	<p>If the current economic climate were to deteriorate, for example following Brexit or changes in world trade agreements, and result in a continued 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 and intensify, it could adversely affect the Group's financial position and results of operations.</p>
<p><b>Pricing</b></p> 	<p>The cyclical nature of the packaging industry could result in overcapacity and consequently threaten the Group's pricing structure.</p>
<p><b>Business interruption</b></p> 	<p>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.</p>
<p><b>Raw materials and other input costs</b></p> 	<p>Price fluctuations in raw materials and energy costs could adversely affect the Group's manufacturing costs.</p>
<p><b>Currency</b></p> 	<p>The Group is exposed to currency exchange rate fluctuations.</p>

**Key to Strategic Objectives**



Market position



Partner of choice



Operational excellence



People




Capital allocation

## Mitigation

- The Group supplies 60% of its packaging to FMCG customers whose consumption volumes remain relatively stable through market downturns.
  - The Group's customer base is spread across Europe and the Americas spanning 34 countries across multiple industries.
  - The Group could significantly curtail capital expenditure and take additional cost cutting measures within a relatively short period as required.
  - Stress testing for the viability statement indicates we will continue to have significant headroom on our covenants even in a sustained downturn.
- 
- As a highly integrated player we are better able to cope with the effects of cyclicality and capacity additions than a pure paper or corrugated producer.
  - Our differentiation programmes ensure we are at the forefront of the industry in developing cost efficient solutions for our customers through performance packaging, quality management, supply chain optimisation and strong sustainability credentials. This service offering distinguishes the Group from pure commodity suppliers, providing a support for more stable pricing.
  - Our continuous investment programmes in our operations ensure we remain competitive and have low cost mill systems. In an environment of overcapacity, our well invested, low cost mill system will enable the Group to continue economic production through a period of lower prices while higher cost mills will be forced to shut.
- 
- The Group ensures that all facilities have adequate insurance to mitigate the impact of significant interruption.
  - Operational contingency plans are in place for all mills and plants in the event of a shutdown, which have been demonstrated to work during shorter interruptions in the past.
  - In Europe, the Group has a network of operations which can facilitate the transfer of significant volume to other mills in the event of a shutdown. Furthermore, our European Paper Sourcing operation centrally coordinates all external paper purchases for the European operations.
  - There is continuous investment in a rigorous programme of preventative maintenance for all key mills and other plants.
- 
- The Group maintains a dedicated purchasing function which has responsibility for all input costs and ongoing cost reduction programmes.
  - The Group maintains a strong supply arrangement on approximately 78% of its recovered fibre requirements which provides it with security of supply for its primary raw material while maintaining an optimum level of flexibility with respect to pricing.
  - In line with the usual time lag, the Group would expect implemented containerboard price increases to support corrugated price recovery of increased input cost.
  - A proactive policy of forward pricing is in place which is designed to minimise where possible material short-term volatility in energy price risk within approved parameters.
  - The Group continually invests in a range of cost reduction projects, primarily in the areas of energy and raw material efficiency that can deliver demonstrable economic returns.
- 
- The Group ensures that short-term trading exposures are hedged and where practical are financed as much as possible in local currency.
  - The Group continually monitors and manages its foreign currency exposures for all countries and constantly seeks opportunities to reduce these exposures. The Group Treasury Policy sets out rules and guidance for managing this area.

## Risk Area

## Risk Description

<p><b>Employee recruitment and retention</b></p> 	<p>The Group may not be able to attract and retain suitably qualified employees as required for its business.</p>
<p><b>Health and Safety</b></p> 	<p>Failure to maintain good health and safety practices may have an adverse effect on our business.</p>
<p><b>Legislation &amp; regulation</b> Environmental</p> 	<p>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.</p>
<p><b>Anti-trust</b></p> 	<p>The Group is subject to anti-trust and similar legislation in the jurisdictions in which it operates.</p>
<p><b>Cyber and information security</b></p> 	<p>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.</p>
<p><b>Venezuela</b></p> 	<p>The Group is exposed to potential risks in relation to political instability in Venezuela.</p>



## Mitigation

- Continuous development by our HR department of a People Strategy to attract, engage, train, motivate and retain our people.
  - My Voice survey was completed in 2014 to measure employee engagement and set future priorities as well as programmes to increase engagement. The next survey will take place in 2017.
  - Processes in place to identify and develop our high potential people together with a continuous focus on leadership training and succession planning.
  - Development of our existing competitive remuneration packages and review processes.
  - Reinforcement of our talent recruitment strategy (universities, graduate programmes etc.), to attract highly talented people with the potential to become the future leaders of the Group.
- 
- Health and Safety is a core consideration in all management reviews. The protection of the health and safety of the workforce is a continual focus in an industry with a broad profile of hazards.
  - Increased focus is given to the strict adoption of good management, employee practices and a mind-set that complements existing risk mitigation measures.
  - The Group has an established formal practice of investigating accidents and preparing safety bulletins which are shared across divisions.
- 
- The Group's environmental structure ensures each mill has a manager who is responsible for environmental issues including monitoring air, noise and water emissions and ensuring that the mill is running within its permits.
  - The Group's environmental management is in contact with appropriate local authorities and environmental upgrades are made in consultation with them.
  - All our paper and board mills with the exception of our newly acquired mills in Brazil are operated under an EMS (Environmental Management System) (ISO 14001).
  - The Group has an IT reporting system in over 300 sites ensuring environmental data is reported on a regular basis.
  - The Group have a centralised co-ordination of all environmental activity providing a key interface to the EU, supported by a committee of senior executives who meet regularly to review such issues, and report directly to the CEO.
- 
- Group Competition Law Compliance policy is in place and communicated to all employees. All senior management are required to formally confirm adherence to the policy by signing a Competition Law Compliance Certificate on an annual basis.
  - Group General Counsel advises and supports employees and management in this area.
  - Regular communication and promotion of Competition Law Compliance and other similar legislation to staff and local management.
  - Continuous process to ensure understanding of issues and implications of regulatory and legislative amendments.
- 
- Formally documented policies in relation to information security including cyber security are in place.
  - The Group maintains a framework to ensure awareness at each level of the organisation with regard to the implementation of cyber security. This framework is regularly audited.
  - Specific controls are in place to prevent and detect security issues relating to business critical systems.
  - Defined business continuity and IT disaster recovery plans are in place and are frequently tested.
  - The Group is committed to ongoing capital expenditure as appropriate to continually enhance the IT infrastructure.
- 
- The Group's Venezuelan operations have mitigated to some extent the loss of revenue due to the drop in corrugated volumes in the country by exporting paper to its operations in the United States and other Latin American countries. This export of paper is subject to: the availability of local raw materials to produce the paper; the quality of the paper being maintained to a satisfactory standard for our end markets; and the renewal of an export licence by the Government every five months. There is a risk that if the quality of paper materially deteriorated due to a lack of raw materials or otherwise, or if the Group were unable to renew the export licence, it would have an adverse effect on its results of operations.
  - Net assets in Venezuela amounted to €91 million at year end.
  - Strong local management who are continually improving awareness at local and national level of the contribution the Group makes to communities and the country from a business, employment and social activity perspective.

# Ingenuity

Ingenuity is defined as 'the quality of being original and inventive'. Smurfit Kappa's success is built on constantly delivering original and inventive solutions that unlock opportunities for our forward-thinking customers. Applying our ingenuity requires that we approach every challenge and opportunity from multiple perspectives and apply our best thinking. In a world that is constantly changing, our customers will continue to look to us to be original and inventive.





Anne Slabbers and Ed Halmans at the Experience Centre located in our Roermond containerboard mill in the Netherlands.





**The Group will continue to balance the maintenance of a strong capital structure with its growth objectives through 2017 and beyond."**

**Ken Bowles**

Group Chief Financial Officer



**Following the recent bond issue achieved at a historically low rate for the Group of 2.375%, the average maturity profile of the Group's debt was extended from 3.7 to 4.3 years and we improved our net debt to EBITDA ratio to 2.4 times. These metrics, along with an EBITDA to cash interest ratio of 8.35 times at the end of 2016, show that the Group remains well positioned within its Ba1/BB+/BB+ rating category. With our balance sheet strengthened by the strong growth in earnings and the reduction in net debt, our ROCE increased to 15.4% from 14.8% in 2015.**

### Results

At €8.2 billion, revenue in 2016 was 1% higher than in 2015. Higher revenue in the Americas was partly offset by a reduction in Europe, which was largely caused by negative currency movements. Currency movements also reduced revenue in the Americas, but there the impact was mostly offset by the contribution from acquisitions and a hyperinflationary adjustment in Venezuela. Allowing for net negative currency movements, the hyperinflationary adjustment in Venezuela and the contribution from acquisitions net of disposals, the underlying year-on-year move in revenue was an increase of €188 million, the equivalent of over 2%, with higher underlying revenue in both Europe and the Americas.

European revenue fell by €103 million year-on-year, with underlying growth of €39 million and the contribution from net acquisitions, mainly Inspirepac, more than offset by negative currency movements of €114 million and the absence of the revenue of the solidboard operations sold in April 2015. The increase in underlying revenue equated to 1% and arose on the corrugated side with an offsetting decrease in the mill operations.

Although average box prices were slightly lower year-on-year, higher volume drove revenue growth with corrugated shipments almost 1% higher than in 2015. On a constant currency basis, average corrugated pricing in Europe was up 1% year-on-year. On the mill side, despite a 1% increase in containerboard shipments, underlying revenue was lower as a result of weaker pricing.

Reported revenue in the Americas was €153 million higher than in 2015, with underlying growth together with the contribution for the full year of the acquisitions made in 2015 and the hyperinflationary adjustment in Venezuela partly offset by negative currency movements of €273 million across our main Latin American countries.

The underlying year-on-year move in revenue was an increase of €149 million (the equivalent of 8%) with generally higher revenue across the region. Comparable corrugated volumes were generally higher across the region, the main exception being Venezuela where shipments were 48% lower than in 2015. Despite the significant drop in shipments, revenue in Venezuela was higher in 2016 with inflationary pressures supporting pricing. Excluding Venezuela, comparable corrugated volumes in the Americas were over 2% higher in 2016. Including acquisitions, primarily the Brazilian operations acquired in late 2015 and the plants in the United States acquired in early 2016, corrugated volumes were 20% higher year-on-year.

At €1,236 million in 2016 compared to €1,182 million in 2015, EBITDA was up €54 million with earnings growth in both Europe and the Americas partly offset by an increase in Group Centre costs.

At €928 million, reported EBITDA in Europe was €27 million higher than in 2015, with higher earnings in the corrugated operations, partly offset by lower earnings in the mills. With a net negative currency movement of €11 million and the contribution from acquisitions offset by the absence of the solidboard operations, underlying earnings were €39 million (equating to 4%) higher than in 2015. While higher OCC costs and lower average selling prices impacted the profitability of the mills, the corrugated operations benefited from raw material costs savings together with volume growth and slightly higher average box prices on a constant currency basis.

At €339 million, reported EBITDA in the Americas was €33 million higher than in 2015 with higher earnings generally across the region. With a net negative currency movement of €42 million partly offset by the contribution from acquisitions and a hyperinflationary adjustment, underlying earnings were €47 million (equating to 15%) higher than in 2015. The year-on-year improvement reflected continued pricing initiatives, strong volume growth and the benefits of our capital investment programme.

Allowing for currency movements, hyperinflation and acquisitions net of disposals, the underlying year-on-year increase in EBITDA for the Group overall was €80 million, equating to 7%.

The year-on-year growth of €54 million in EBITDA was complemented by a reduction of €21 million in the share-based payment expense and was offset by an

increase of €25 million in the overall charge for depreciation, depletion and amortisation. As a result, the Group's pre-exceptional operating profit increased by €50 million to €830 million in 2016 compared to €780 million in 2015.

With increases in both cash and non-cash interest costs, the Group's pre-exceptional net finance costs amounted to €175 million (costs of €215 million less income of €40 million) in 2016 compared to €129 million in 2015. The increase of €25 million in cash interest reflects the higher level of debt following our acquisition activity in 2015 and into early 2016 and a slight increase in our average interest rate, partly as a result of our exposure to the relatively high local interest rates in Brazil. In addition, our cash interest income fell year-on-year as deposit rates progressively turned negative during 2016. Non-cash interest was €21 million higher mainly because of an €11 million decrease in the hyperinflation-related net monetary gain and an increase of €15 million in the fair value loss on derivatives, primarily currency swaps in Brazil, not designated as hedges. The loss is driven by the relative strengthening of the Brazilian real against the euro and this, in turn, is reflected in the €10 million year-on-year increase in the net foreign currency translation gain on debt.

With the increase of €50 million in operating profit largely offset by higher net finance costs and by a decrease of €1 million in our share of associates' profit, the pre-exceptional profit before tax was €3 million higher year-on-year at €657 million in 2016 compared to €654 million in 2015.

### Exceptional Items

Exceptional items charged within operating profit in 2016 amounted to €15 million, and was related to reorganisation and restructuring costs in Venezuela. The exceptional finance income of €12 million represented the profit on the sale of our 16.7% shareholding in the Swedish company, IL Recycling. This unlisted investment was held within available-for-sale financial assets.

Exceptional items charged within operating profit in 2015 amounted to €69 million in total, primarily relating to a charge of €69 million (with other offsetting amounts), which represented the higher cost to our Venezuelan operations of discharging their non-Bolivar denominated payables following our adoption of the Simadi rate on 31 March 2015. At the time, the Simadi rate was VEF193 per US dollar compared to the Sicad rate of VEF12 per US dollar with the large loss reflecting the very different rates. The charge comprised €33 million booked in the first quarter and a subsequent adjustment of €36 million, mainly in the fourth quarter, for hyperinflation and re-translation at the 31 December 2015 exchange rate.

The remaining offsetting amounts in 2015 comprised a charge of €12 million relating to the solidboard operations (including an impairment loss of €8 million reported within cost of sales) and €1 million in reorganisation and restructuring costs less the gain of €13 million on the sale of the site of our former Nanterre mill, near Paris.

The net exceptional finance income of €14 million in 2015 comprised a gain of €16 million in Venezuela on their US dollar denominated intra-group loans as a result of our adoption of the Simadi rate. This gain was partly offset by an exceptional finance cost of €2 million, representing the accelerated amortisation of the issue costs relating to the debt within our senior credit facility paid down with the proceeds of the €250 million bond issue in February 2015.

### Profit before Income Tax

After exceptional items, the Group's total profit before income tax amounted to €654 million in 2016, comprising the pre-exceptional profit of €657 million and a net exceptional charge of €3 million. In 2015, the total profit before income tax was €599 million, comprising the pre-exceptional profit of €654 million and a net exceptional charge of €55 million. With an increase of only €3 million in the pre-exceptional profit, the year-on-year increase of €55 million reflected mainly the reduction of €52 million in the net charge for exceptional items.

### Income Tax Expense

The income tax expense in 2016 was €196 million (comprising a current tax charge of €156 million and a deferred tax charge of €40 million) compared to €186 million (comprising a current tax charge of €146 million and a deferred tax charge of €40 million) in 2015, with a higher expense in both Europe and the Americas.

In Europe, the income tax expense is higher by €6 million in 2016 than in 2015. This reflects the tax effects of increased profitability and a tax rate change on deferred tax assets recorded in prior periods. In the Americas, the income tax expense is €4 million higher and includes the effects of a change in the profitability mix, the impact of a tax rate change on deferred tax liabilities recorded in prior periods and foreign currency.

The deferred tax expense in 2016 is the same as in 2015. However, there is an increase in the deferred tax expense from the impact of tax rate changes in both Europe and the Americas which is as offset by a decrease in the deferred tax expense arising on other timing differences and credits.

The income tax expense includes a €3 million tax credit in respect of exceptional items compared to a €3 million charge in 2015.

### Earnings per Share

The basic earnings per share amounted to 189.4 cent in 2016 compared to 172.6 cent in 2015. On a diluted basis, our earnings per share in 2016 amounted to 187.5 cent compared to 169.4 cent in 2015.

The year-on-year increase in the Group's basic earnings per share equated to 10% and was driven mainly by a reduced net exceptional charge, partly offset by the higher income tax expense. Consequently, on a pre-exceptional basis, our earnings per share in 2016 decreased by 4% from 197.3 cent in 2015 to 189.4 cent.

The earnings per share figures are calculated on the basis of the weighted average number of shares in issue during the year, which was 234,505,000 in 2016 compared to 231,756,000 in 2015.

## Financial Key Performance Indicators

Certain financial measures set out below, are not defined under IFRS. These APMs are presented because we believe that they, and similar measures, are widely used in the paper and packaging manufacturing industry as a means of evaluating a company's operating performance and financing structure.

These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, and they should not be considered as substitutes for the information contained in our Financial Statements. These APMs have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our operating income or cash flows as reported under IFRS.

We consider the following measures to be important indicators of the underlying performance of our operations:

### ■ EBITDA

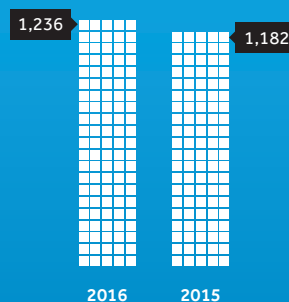
#### Definition

EBITDA is earnings before exceptional items, share-based payment expense, share of associates' profit (after tax), net finance costs, income tax expense, depreciation and depletion (net) and intangible assets amortisation. It is an appropriate and useful measure used to compare recurring financial performance between periods. A reconciliation of profit to EBITDA is included below.

#### Performance

EBITDA increased by €54 million to €1,236 million in 2016 from €1,182 million in 2015. Allowing for currency movements, hyperinflation accounting and the contribution from acquisitions, underlying EBITDA increased by €80 million, the equivalent of 7%. This increase reflected earnings growth in both Europe and the Americas and slightly higher Group Centre costs. Excluding acquisitions, corrugated shipments in Europe were 1% higher year-on-year while average box prices were 1% lower. In the Americas, the strong underlying performance was driven by corrugated volume growth of 2% overall, excluding Venezuela where volumes were significantly lower in 2016. With the drop in Venezuela more than offset by the contribution from acquisitions, absolute corrugated volumes in the Americas were 20% higher than in 2015. For the Group as a whole, absolute corrugated volumes were 4% higher year-on-year.

EBITDA (€ million)



### Reconciliation of Profit to EBITDA

	2016	2015
	€m	€m
<b>Profit for the financial year</b>	<b>458</b>	413
Income tax expense	<b>196</b>	186
Exceptional items charged in operating profit	<b>15</b>	69
Share of associates' profit (after tax)	<b>(2)</b>	(3)
Net finance costs (after exceptional items)	<b>163</b>	115
Depreciation, depletion (net) and amortisation	<b>393</b>	368
Share-based payment expense	<b>13</b>	34
<b>EBITDA</b>	<b>1,236</b>	1,182



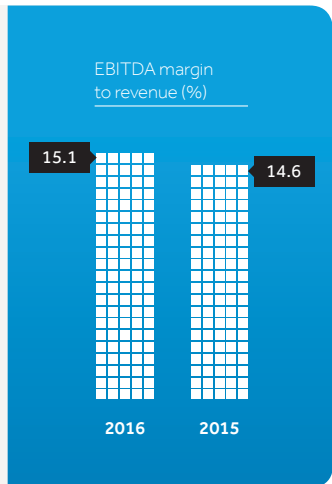
■ **EBITDA margin to Revenue**

**Definition**

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

**Performance**

With a stronger increase in EBITDA than in revenue, our EBITDA margin increased from 14.6% in 2015 to 15.1% in 2016, with higher margins in both Europe and the Americas. This result once again highlights the strength of our integrated business model, our geographically diverse portfolio of businesses and our performance-based culture.



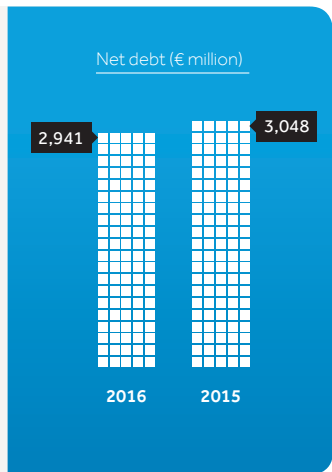
■ **Net Debt**

**Definition**

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

**Performance**

Net debt amounted to €2,941 million at December 2016 compared to €3,048 million at December 2015. The year-on-year decrease of €107 million mainly reflected the free cash flow for the year and, compared to 2015, a lower outflow for acquisitions (including acquired debt) and a modest net positive currency translation adjustment.



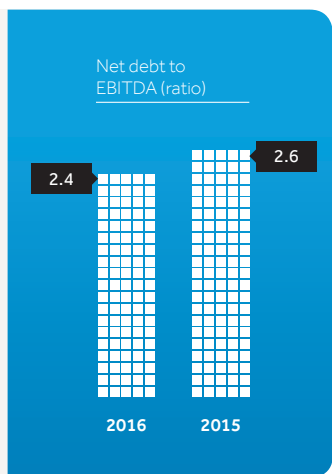
■ **Net Debt to EBITDA**

**Definition**

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

**Performance**

With the benefit of both EBITDA growth and lower net debt, our leverage was 2.4 times at December 2016 compared to 2.6 times at December 2015.



■ **Free Cash Flow ('FCF')**

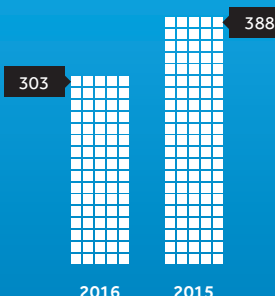
**Definition**

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. We use free cash flow to assess and understand the total operating performance of the business and to identify underlying trends. A reconciliation of free cash flow (APM) to cash generated from operations (IFRS) is included in the cash generation section below.

**Performance**

Our free cash flow of €303 million in 2016 was €85 million lower than the €388 million reported in 2015. The year-on-year decrease reflected higher outflows mainly in respect of working capital, retirement benefits, tax and cash interest. In addition, our free cash flow in 2015 included the proceeds of the Nanterre site sale.

Free cash flow  
(€ million)



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

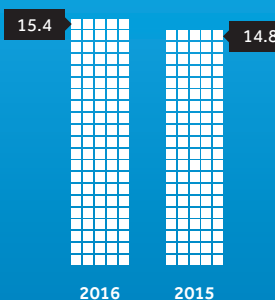
**Definition**

ROCE is an effective measure in ensuring that we are generating profit from the capital employed. It is calculated as pre-exceptional operating profit plus share of associates' profit (after tax) divided by the average capital employed (where average capital employed is the average of total equity and net debt at the beginning and end of the year). Capital employed at 31 December 2016 was €5,444 million, (2015: €5,376 million, 2014: €5,178 million).

**Performance**

With an increased level of operating profit partly offset by the impact of a higher level of average capital employed, our ROCE at December 2016 improved to 15.4% from 14.8% at December 2015. With adjustment to exclude the Brazilian acquisitions, our ROCE at December 2015 would increase to a more comparable 15.1%.

Return on capital  
employed (%)



■ **Earnings per Share ('EPS')**

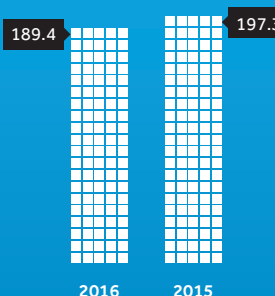
**Definition**

Pre-exceptional EPS serves as an effective indicator of a company's profitability as it excludes exceptional one off items and, in conjunction with other metrics such as ROCE, is a measure of the company's financial strength. Given the fundamental repositioning of the Group through debt pay down and interest savings and, consequently, earnings growth and lower leverage, pre-exceptional EPS is an important measure for us. Pre-exceptional EPS is calculated by dividing profit attributable to owners of the parent, adjusted for exceptional items included in profit before tax and income tax on exceptional items by the weighted average number of ordinary shares in issue. The calculation of pre-exceptional EPS is shown in Note 10 to the Consolidated Financial Statements.

**Performance**

Our basic EPS in 2016 of 189.4 cent was 10% higher than 2015's 172.6 cent, reflecting a €44 million increase in the profit attributable to owners, and partly offset by a slightly higher income tax expense. Our basic EPS in 2015 was impacted by a significantly higher net exceptional charge than in 2016. With a net exceptional charge of only €3 million in 2016, compared to €55 million in 2015, our pre-exceptional EPS was 4% lower year-on-year at 189.4 cent compared to 197.3 cent in 2015. After income tax, our net exceptional items in 2016 were not material, resulting in our basic EPS being unchanged on a pre-exceptional basis.

Pre-exceptional  
EPS



## Cash Generation

At €303 million compared to €388 million in 2015, our free cash flow for 2016 was €85 million lower, despite EBITDA growth and a much lower level of exceptional items. The year-on-year decrease reflected higher outflows mainly in respect of working capital, retirement benefits, tax and cash interest. In addition to the proceeds from the Nanterre site sale, our free cash flow for 2015 also included a large inflow for hyperinflationary adjustments.

### Summary Cash Flow<sup>(1)</sup>

	2016	2015
	€m	€m
<b>EBITDA</b>	<b>1,236</b>	1,182
Exceptional items	<b>(15)</b>	(69)
Cash interest expense	<b>(148)</b>	(123)
Working capital change	<b>(95)</b>	(24)
Current provisions	<b>(8)</b>	(28)
Capital expenditure	<b>(499)</b>	(451)
Change in capital creditors	<b>49</b>	12
Tax paid	<b>(151)</b>	(131)
Sale of fixed assets	<b>3</b>	33
Other	<b>(69)</b>	(13)
<b>Free cash flow</b>	<b>303</b>	388
Share issues	<b>-</b>	2
Purchase of own shares (net)	<b>(10)</b>	(13)
Sale of businesses and investments	<b>17</b>	29
Purchase of businesses and investments	<b>(44)</b>	(321)
Dividends	<b>(170)</b>	(145)
Derivative termination receipts / (payments)	<b>13</b>	(2)
<b>Net cash inflow/(outflow)</b>	<b>109</b>	(62)
Net debt acquired	<b>(1)</b>	(62)
Deferred debt issue costs amortised	<b>(10)</b>	(11)
Currency translation adjustments	<b>9</b>	(154)
<b>Decrease/(increase) in net debt</b>	<b>107</b>	(289)

(1) The summary cash flow is prepared on a different basis to the Consolidated Statement of Cash Flows under IFRS ('IFRS cash flow') and as such the reconciling items between EBITDA and 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 below. 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

	2016	2015
	€m	€m
<b>Free cash flow</b>	<b>303</b>	388
Add back:		
Cash interest	<b>148</b>	123
Capital expenditure (net of change in capital creditors)	<b>450</b>	439
Tax payments	<b>151</b>	131
Less:		
Sale of fixed assets	<b>(3)</b>	(33)
Profit on sale of assets and businesses – non-exceptional	<b>(9)</b>	(7)
Receipt of capital grants (in 'Other' per summary cash flow)	<b>(3)</b>	(2)
Dividends received from associates (in 'Other' per summary cash flow)	<b>(1)</b>	(1)
<b>Cash generated from operations</b>	<b>1,036</b>	1,038

The outflow of €15 million for exceptional items in 2016 related to reorganisation and restructuring costs in Venezuela. The €69 million for exceptional items in 2015 related primarily to the currency losses in Venezuela reflecting the higher cost of discharging their non-Bolivar denominated payables following our adoption of the Simadi exchange rate.

At €148 million in 2016, cash interest was €25 million higher than in 2015, reflecting the increased level of net debt following our acquisition activity in 2015 and early 2016. Our average interest rate is also slightly higher year-on-year given our exposure now to the relatively high local interest rates in Brazil.

The working capital move in 2016 was an outflow of €95 million compared to €24 million in 2015. The outflow in 2016 was the combination of an increase in debtors and stocks partly offset by an increase in creditors. Working capital amounted to €573 million at December 2016, representing 7.0% of annualised revenue compared to 6.6% at December 2015.

Capital expenditure (fixed asset additions) amounted to €499 million in 2016 and equated to 127% of depreciation compared to 123% in 2015. The relatively large inflow of €49 million in respect of capital creditors arose across the European operations, primarily in the corrugated plants and the kraft mills. In total, net capital outflows amounted to €450 million in 2016 compared to €439 million in 2015.

The Group made tax payments of €151 million in 2016, €20 million higher than 2015, reflecting the impact of higher profitability and the timing of tax payments.

Other net outflows of €69 million in 2016 related mainly to employee benefits with the year-on-year increase reflecting a number of one-off gains during the year, such as the elimination of a deficit in one of our Dutch pension funds. While the outflow in respect of retirement benefits was consequently higher year-on-year, the inflow for hyperinflationary adjustments was lower than in 2015.

Investment and financing cash outflows in 2016 amounted to €194 million compared to €450 million in 2015. The year-on-year decrease of €256 million reflected mainly a lower outflow for investments partly offset by lower disposal proceeds and an increased dividend to Group shareholders. Investment outflows in 2016 of €44 million related to Sound, Corrugated Professionals, Empire and Scope in the United States and

Saxon Packaging in the United Kingdom, together with some deferred consideration for previous acquisitions.

The higher outflow in 2015 related mainly to Inpa and Paema in December and the acquisitions completed earlier in the year, Beacon, Inspirepac, Hexacomb, Cybsa and Nigua. Proceeds from the sale of businesses and investments amounted to €17 million in 2016 which was comprised of €13 million in respect of our shareholding in IL Recycling and deferred consideration of €4 million relating to the solidboard operations. The proceeds of €29 million in 2015 related primarily to the solidboard operations.

Dividend payments of €170 million in 2016 were €25 million higher than in 2015, reflecting the significant increases in the Group dividend in recent years. Other investment and financing cash flows were modest apart from the outflow of €10 million in respect of share purchases under the Deferred Annual Bonus Plan ('DABP') and derivative termination receipts of €13 million, which arose on the maturity of certain cross-currency swaps.

With our free cash flow partly offset by the net investment and financing outflows, the net inflow for 2016 was €109 million compared to an outflow of €62 million in 2015. In addition to net debt acquired of €1 million, the reconciliation of the net cash inflow to the decrease in net debt included certain non-cash items. For 2016, these amounted to a net negative €1 million and comprised €10 million in respect of the amortisation of debt issue costs less positive currency translation adjustments on net debt of €9 million. As a result, the Group's net debt decreased by €107 million to €2,941 million at December 2016 from €3,048 million at December 2015.

The net positive currency translation adjustments of €9 million in 2016 related mainly to Sterling, with the relative strengthening of the euro reducing the value of our Sterling denominated debt, with offsetting negative adjustments, mainly in respect of the US dollar.

In 2015, in addition to net debt acquired of €62 million, the reconciliation of the net cash outflow of €62 million to the increase in net debt included the non-cash amounts for debt issue cost amortisation and currency translation adjustments. The amortisation of debt issue costs amounted to €11 million (€2 million of which was accelerated by the pay down of the relevant debt) while net negative currency translation adjustments amounted to €154 million. As a result, the Group's net debt increased by €289 million from



€2,759 million at December 2014 to €3,048 million at December 2015.

The currency adjustments in 2015 related primarily to the Venezuelan Bolivar and the US dollar. The adoption of the Simadi rate reduced the value of our Bolivar denominated cash by €78 million. The relative strength of the US dollar over the course of 2015 increased the value of our US dollar denominated debt by €70 million, while in addition the relative strength of Sterling increased the value of our Sterling denominated debt by €15 million.

With net debt of €2,941 million and EBITDA of €1,236 million, our leverage ratio was 2.4 times at December 2016 compared to 2.6 times at December 2015. The improvement in our leverage is driven by the combination of EBITDA growth and a lower level of net debt year-on-year. The acquisitions made in 2015, primarily those in Brazil, had a distorting effect on the leverage ratio in that year – their full cost was included, but they contributed to EBITDA for only a few months. Adjusting to exclude the Brazilian acquisitions, our leverage ratio at December 2015 would fall to 2.4 times.

### Capital Resources and Liquidity

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,007 million (2015: €3,901 million) of which €3,278 million (2015: €3,285 million) was utilised at 31 December 2016. The weighted average period until maturity of undrawn committed facilities is 3.0 years (2015: 4.1 years).

The Group's net debt continues to reduce in both absolute and in multiple terms, positioning the Group with considerable financial strategic flexibility subject to the stated leverage ratio range of 2.0 times to 3.0 times through the cycle and SKG's Ba1/BB+/BB+ credit rating.

At 31 December 2016, the Group's average interest rate was 4.3%, slightly higher year-on-year, primarily as a result of the local currency Brazilian debt associated with the acquisitions of INPA and Paema in December 2015. The Group's diversified funding base and long dated maturity profile at 3.7 years provide a stable funding outlook. In terms of liquidity, the Group held cash on the balance sheet of €443 million at the end of the year that was further supplemented by available commitments under its revolving credit facility of approximately €613 million.

On 17 January 2017, the Group took the opportunity to access the bond markets, taking advantage of the current low interest rate environment, and in doing so to further extend our debt maturity profile, to diversify funding sources and to increase liquidity at a historically low coupon for the Group. The proceeds will be used to reduce indebtedness under the Group's senior facilities agreement and existing securitisation facilities and for general corporate purposes. The funding will significantly enhance the Group's liquidity and position us very strongly from the perspective of our refinancing programme over the next couple of years as we replace more expensive debt.

The Group has a stable financing base with a long term and well spread maturity profile. The Group's credit rating of Ba1/BB+/BB+ contributes to a lower cost of capital and access to the widest range of financing options available. These positions were achieved as a result of the Group's consistent ability to generate strong free cash flows together with active management of its debt portfolio.

The strength of the Group's capital base together with consistent delivery of strong free cash flows provides a solid and cost effective support to the Group's growth agenda over the medium term.

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.

### Market Risk and Risk Management Policies

The Board of Directors sets the Group's treasury policies and objectives, which include controls over the procedures used to manage financial market risks. These are set out in detail in Note 28 to the Consolidated Financial Statements.

The Group is exposed to the impact of interest rate changes and foreign currency fluctuations arising from its investing and funding activities and its operations in different foreign currencies. Interest rate risk exposure is managed by achieving an appropriate balance of fixed and variable rate funding. As at 31 December 2016, the Group had fixed an average of 68% of its interest cost on borrowings over the following twelve months.

At 31 December 2016, the Group's fixed rate debt comprised €200 million 5.125% senior notes due 2018, US\$300 million 4.875% senior notes due 2018 (US\$50 million swapped to floating), €400 million 4.125% senior notes due 2020, €500 million 3.25% senior notes due 2021, €250 million 2.75% senior notes due 2025 and US\$292.3 million 7.50% senior debentures due 2025. 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. For each one per cent increase in LIBOR/EURIBOR interest rates on these borrowings, the Group's interest expense would increase, and income before taxes would decrease, by approximately €12 million over the following twelve months. Interest income on the Group's cash balances would increase by approximately €4 million assuming a one per cent increase in interest rates earned on such balances over the following twelve months.

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

### Conclusion

In recent years, our ROCE has improved, primarily as a result of improving operating profit. This in turn is driven by growth in our business base, a continued focus on cost efficiencies, judicious capital investment and accretive acquisitions. The progress achieved supports our objective of continuing to deliver on our ROCE target of 15% through the cycle, reflecting our focus on maximising returns to shareholders. We are excited about the significant number of opportunities that exist within the Group – these will continue to drive business improvement and we believe the Group is also well positioned to make acquisitions that can deliver long-term value.

### Ken Bowles

Group Chief Financial Officer

# Experience

Our customers recognise that Smurfit Kappa has a depth of knowledge that can only be achieved through practical and dedicated experience. A collective experience that reaches across generations and across the world. Our experiences have helped us refine our skills and build a strong and respected reputation. Our experience lets us approach each new challenge with confidence and offers our customers the reassurance they need to move forward.







Jose R. Mercado, Pilar Narvaez, Carlos A. González at the Cali Mill in Colombia.

## Sustainable Development Report

SKG regards sustainability as a central part of its business strategy. SKG's mission is to be a customer oriented, market-led company where the satisfaction of customers, the personal development of employees and respect for local communities and the environment are seen as being inseparable from the aim of creating value for the shareholders.

Sustainability is concerned with ensuring that the human and natural environment with which SKG interacts are protected both today and into the future as it continues to use a wide range of such resources in meeting its business objectives. Operating in a sustainable manner is critical to promoting and protecting long-term value creation for shareholders. SKG is determined to manage its business in a way which recognises its responsibilities in all aspects of corporate social responsibility and the wider environment.

SKG published its ninth annual Sustainable Development Report in May 2016 and it is available on the Group's website: [smurfitkappa.com](http://smurfitkappa.com). It includes details of the principles by which the Group abides in its interaction with key areas of the environment, social development (including health and safety) and business development. An overview of the Group's performance in 2015 was included in the report. Also, an overview of SKG's long-term sustainability commitments were included outlining the Group's commitment to continued progress and performance improvement in the areas which we have identified as specifically underpinning the concept of sustainability. Using the guidelines issued by the Global Reporting Initiative ('GRI') we maintained the transparency of the Group's reporting with the application level of its reporting set to GRI G4 Comprehensive level. We also engaged KPMG for the seventh consecutive year to undertake an external overview and to provide limited assurance on the data and text of the report. SKG will continue to drive the sustainability agenda and its objective is to improve its performance every year. A further Sustainable Development Report will be issued in May 2017, which will advance SKG's commitments in this area.

SKG has specific policy statements on key areas of sustainability and they are integral in the drive to improve the Group's performance going forward. These policy statements cover the Environment, Sustainable Forestry, Social Citizenship and Health and Safety. These policies have been added to those already in place covering Good Faith Reporting, a Code of Business Conduct, a Code of Ethics for Senior Financial Officers, a Group Financial Reporting Guide, a Group Treasury Policy, a Financial Monitoring Policy, a Treasury Compliance Programme and a Competition Compliance Programme.

A report on Corporate Governance is detailed on pages 60 to 64 of this Annual Report and a short overview on SKG's performance in the other key areas now follows.

### Social Citizenship

SKG conducts a large part of its commitment to corporate social responsibility under the heading of Social Citizenship. SKG is committed to managing its business in accordance with its declared values which recognise that good social citizenship, reflected in the manner in which it interacts with its employees, business partners and local communities, is an essential ingredient in creating and maintaining a sustainable future.

SKG applies the principles of respect for human rights, freedom of association, fair compensation, and diversity regardless of age, gender, sexual orientation, ethnic origin, disability or nationality. Merit is the key determinant in recruitment and promotion.

SKG values open, constructive, regular and timely dialogue with its employees and their representatives, particularly in all matters affecting the business including safety, working conditions, profitability, business outlook, investment decisions or the terms and conditions of employment.

Implementing SKG's Social Citizenship Policy is the responsibility of line management who are supported by the Human Resource Managers at country, segment and Group level.

SKG trains and develops its employees through various programmes that vary from language skills training to horizontal knowledge sharing and from sales training to advanced management development programmes.

Community participation is encouraged by SKG and this very important element of social citizenship is practiced at local plant level where managers are best positioned to positively contribute and support worthy local causes.

The European Works Council ('EWC'), which was created to assist in the development of an open two way communication process for all employees and Unions on all such matters, had two meetings during the year, with an additional three meetings with the Select Committee of the EWC. Matters typically discussed at the EWC include employment opportunities, financial status, projected



developments, business conditions, relocation, curtailment or business closures and health and safety.

### Modern Slavery Act

SKG is subject to the provisions of the UK Modern Slavery Act. In keeping with the United Nations Guiding Principles on Business and Human Rights and the Fundamental principles and Rights at Work developed by the International Labour Organisation, we are committed to the principles of respect, diversity, working fairly, fair pay, compensation and benefits and acquisition practices. They are maintained in every country in which we have a presence and are set out in our Code of Business Conduct, our Social Citizenship Policy Statement and our Sustainability Report.

SKG has thousands of suppliers globally and we believe that our suppliers are an integral part of the value chain of our business. We are committed to working with our suppliers in accordance with our sustainability principles and objectives whereby we distinguish the areas of compliance, performance risk, management, social responsibility and governance. Maintaining transparent and long term relationships with suppliers is essential for our business. This partnership approach ensures we can audit suppliers on their compliance and our sustainable supply chain standards and, where they fall short, work with them to improve sustainability in their business.

In recognition of the nature and concern about modern slavery we are currently updating our principles and policies with respect to our employees and our suppliers to ensure compliance with the Modern Slavery Act.

### Health and Safety

SKG has made the health and safety of its workforce an overriding consideration. It adopts a structured and systematic approach to the management of health and safety considerations in the workplace.

The SKG Health and Safety Policy statement states that:

"At Smurfit Kappa, we promote a health and safety culture founded on understanding, responsibility and accountability. We aim to continually improve our performance by adopting a structured systematic approach to the management of health and safety aspects supported by continual improvement of our systems".

"It is Smurfit Kappa policy to implement good health and safety practice by adopting proven industry practice across the organisation" and "foster a work environment where every member of the workforce has an individual responsibility to execute their tasks in a safe, diligent and professional manner."

The commitments within the revised Group health and safety policies are consistent with those of the internationally recognised OHSAS18001 occupational health and safety system specification.

Every facility within SKG adopts a suite of good health and safety management systems designed to protect employees, visitors to its sites, contractors and the public at large from injury and ill-health.

All performance reviews at plant, country, division and regional level include a review of recent health and safety performance. On a quarterly basis the Board receive a progress report outlining key health and safety developments.

SKG promotes the development and implementation of technical and engineering improvements through continual internal benchmarking of health and safety performance and promotes the introduction of innovative solutions through its annual health and safety awards programme.

SKG recognises the importance of strong leadership, continual employee involvement, and representation in the development and maintenance of a positive safety culture. To that extent, it maintains an interconnected and collaborative health and safety "expert community" that supports the operations management teams as they take steps, both locally and regionally, to address common and unique challenges. This expert network leverages the rich knowledge of employees in areas such as human resources, production, industrial design, and process control. This network positions SKG to deliver innovative solutions based on proven principles.

The safety of every member of the workforce is a key consideration for the Group. SKG devotes considerable time and effort to the management of health and safety aspects so that employees and subcontracted workers are aware of and follow the appropriate protective procedures. Regrettably, in November 2016 an employee sustained fatal injuries when he was struck by falling bales in our Los Reyes mill in Mexico. In January 2016, a subcontractor sustained fatal crush injuries in our Bag-in-box plant in Ibi, Spain. The prevention of every accident is and will remain a key priority for the Group.

SKG is committed to making continual advances in its health and safety management processes. It has recently established a comprehensive health and safety verification and audit process tailored specifically to its global operations. Based on its internal health and safety operating standards, this audit process verifies the presence of the appropriate protective measures.



### Environment

The principles SKG applies in terms of the environment include:

- Complying with national and international environmental legislation and seeking to achieve best practice through benchmarking and the promotion of continuous improvement programmes.
- Developing appropriate environmental management systems that continue to question the status quo thereby helping to reduce any negative impacts on the environment.
- Continuing focus on the efficient use of natural resources.
- Meeting stakeholders' reasonable expectations on environmental performance in forestry, product manufacture, distribution and end use.

The Sustainable Development Report also discusses what we consider to be the key environmental challenges and risks for the Group and its industry. These concerns focus on several subjects including fibre availability, energy, water and waste. All four areas are fundamental to the Group's processes/products and we strongly support the sustainable deployment of these scarce resources provided a resource hierarchy and a global level playing field are guaranteed.

Our forest nursery, Restrepo, Colombia.



# People

As part of our overall business vision and strategy, we have developed a People Strategy to attract, engage, develop and retain talented people in SKG, offering both employees and potential employees the opportunities and conditions to become high-performers and to achieve their full potential.

The People Strategy is a key facilitator for achieving SKG's short and long-term business targets, and is based on six major pillars:



Each of these pillars is described in more detail below.

## Talent Attraction

**SKG aims at all times to match the right person to the right role. The underlying process is two-fold: ensuring that our existing talent is properly developed and that we are attracting new talent with the correct skill set.**

The Group offers a number of graduate programmes which typically last two years and offer a number of challenging assignments and opportunities. The aim is to attract top talent in various disciplines and offer the candidates the prospect of a successful career at SKG.

Following the company branding strategy 'Open the Future', there is now an opportunity to calibrate all of our talent attraction programmes, and approach the employee recruitment market with a clear Global Employer Brand. By joining Smurfit Kappa, talented people are offered many career opportunities and we develop our people in line with their strengths and nurture talent.

## Employee Engagement

**We believe that a company with engaged employees shows better results, higher growth, faster innovation and greater customer satisfaction, and that employees thrive in a better working environment. For the above reasons, in 2014, we launched our first global employee engagement survey (My Voice) building on similar surveys already in place across the Group.**

## MyVoice

With a response rate of 80%, My Voice was very well received by our employees with over 34,000 voicing their opinions on their work experience, their managers and working environment and on the potential areas for improvement.

From the information gathered through the survey, we have designed and implemented over 1,200 actions across the Group.

In addition, three Group-wide initiatives undertaken in response to the survey were:

- **Communication:** regular communication meetings with employees on the overall performance of the organisation and any other relevant issues.
- **Recognition:** recognition given to individual employees or teams at various levels of the organisation for excellent performance above and beyond their daily role.
- **Career Opportunities:** career progression opportunities for all employees through internal employment opportunities across the Group.

The next My Voice survey will take place in September 2017 as part of a continuous effort to make SKG an even more engaging work environment.

## Training and Leadership Development

**Development of our employees is a key objective for the Group. We encourage our employees to reach their potential through continuous training and personal development. We support several learning and development programmes at all levels in the organisation and promote opportunities for individual progression and learning activities.**

The Group offers a wide range of learning and development initiatives, including:

- Graduate Workshop
- Advanced Management Development Programme
- General Manager and Mill Manager Programme
- Business Economics Training
- Management for Continuous Improvement
- Value Selling Process
- English Immersion Programme.



In addition, across our operations, a wide range of training programmes are being delivered locally for both teams and individual employees, according to local needs and local development strategies. The Company believes that learning never stops and we seek to ensure that all employees in the organisation receive appropriate training.

#### Leadership Development

**During 2016 we launched a new leadership model, 'Open Leadership', helping to identify the leadership qualities we expect our managers to develop so that we can continue to improve performance, anticipate and meet the changing demands of the markets we serve.**

The 'Open Leadership' model is based on four main areas: Leading Self, Leading People, Leading the Organisation and Leading the Market. A total of nine key capabilities are identified as key components of the open leadership style we wish to foster in our managers and enable them to become true leaders and to promote employee engagement.

Open Leadership training programmes were initiated in partnership with INSEAD, the business school based in Fontainebleau, France.

More than 60 SKG managers participated in the programme during 2016 and two new cohorts will join in 2017. The programme will continue until we achieve coverage of our entire management population.

A number of countries are also designing and implementing similar leadership programmes for local middle managers, supervisors and shift leaders.

We are confident that this programme will help align our leadership development practice to the highest international standards and that we will meet and exceed the development needs of our diverse SKG leaders.

#### Safety and Wellbeing

**SKG has made the health and safety of its workforce an overriding consideration. We promote a health and safety culture founded on understanding, responsibility and accountability.**

The Group Health and Safety performance improved in 2016 with a reduction in the number of accidents compared to previous years due to a number of health and safety actions and initiatives implemented across the Group.

In 2016 we conducted our bi-annual health and safety global survey, which took place across all sites worldwide. Areas where progress was achieved, new areas for improvement and future targets were identified.

Employee health and wellbeing has become a key focus with the implementation of a number of initiatives across the Group for example the participation in the 'Global Challenge', a walking challenge with the goal for every participant to walk a minimum of 10,000 steps per day over a period of 100 days. The company will continue to encourage these types of engaging team activities focused on health and well-being.

#### Performance Management

**SKG is committed to the continuous personal and professional development of all its people. To deliver on this commitment a continuous dialogue between employees and their managers is conducted focusing on the skills, capabilities, strengths and areas of improvement of each employee.**

We recently reviewed our Performance Appraisal practices, renaming them as 'Performance Dialogue' and stressing the two-way nature of this communication between managers and employees.





The nine leadership capabilities of the SKG Open Leadership Model

Performance Dialogue focuses not only on the employee's performance but also on the employees' objectives, their individual strengths and areas of improvement. Among the outcomes is an agreed development plan for employee progression.

This appraisal practice is a key element of the SKG performance management process and its main objective is to enable every employee not only to reach their own individual performance potential, but also to contribute to their team and to meeting the Company's overall objectives.

We aim to continuously increase the number of employees engaging in performance dialogue. Currently a number of sites in both Europe and the Americas engage in a form of performance dialogue on an annual basis. Our long-term goal is for all of our employees to take part in performance dialogue.

To participants in our leadership training programme, we also offer the opportunity to be part of a 360-degree feedback exercise, where the assessment of leadership styles and the identification of areas for improvement come not just from their managers, but also from their colleagues and peers.

### Diversity

**SKG promotes all forms of diversity at all levels of the organization enriching the company's perspective, improving corporate performance, increasing shareholder value and enhancing the probability of achieving the Group's objectives.**

Focus is given to three main areas in relation to diversity:

- Attracting and retaining people who enrich diversity within the company
- Ensuring the company's culture and management systems are aligned with, and promote the achievement of diversity
- Monitoring, reviewing and reporting on the achievement of diversity within the company, with a specific focus on gender diversity.

Diversity is now embedded in the company's 'Open Leadership' model as one of the nine leadership capabilities: 'Open up and make the most of diversity'. Our leaders value diversity and utilize the new and different ideas that come from a diverse team.

Through our company's engagement survey, My Voice, we are able to monitor the perception of our 45,000 employees on diversity and inclusion, with specific questions set on this particular subject.

*Our overall People mission is to be recognised as a 'great place to work' from all our 45,000 employees and as an 'employer of choice' from our targeted external candidates. We apply modern and successful programmes and processes to attract, engage, develop and retain talented people, offering them the opportunity and conditions to become high-performers and to achieve their full potential. We continue to foster meritocracy and promote diversity, equity and respect in a safe and open work environment.*

**Gianluca Castellini**, Group VP Human Resources



Chico Aertsen and Bart de Groot at our Van Dam Golfkarton corrugated plant in the Netherlands.



# Governance

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## Board of Directors



**Liam O'Mahony**  
Chairman



Age: 70 | Nationality: Irish

Liam O'Mahony joined the Board upon the Company being admitted to trading on the Irish Stock Exchange and the London Stock Exchange in March 2007. He was appointed Chairman in December 2008. He is a Director of Project Management Limited and was previously Chairman of IDA Ireland. He was the Chief Executive Officer of CRH plc from January 2000 until his retirement in December 2008, prior to which in a 37 year executive career within the CRH Group he held a number of senior management positions including Chief Executive of its US operations and Managing Director, Republic of Ireland and UK companies. He retired from the Board of CRH plc in 2011.



**Anthony Smurfit**  
Group Chief Executive Officer



Age: 53 | Nationality: Irish

Anthony Smurfit has served as a Director of the Group since 1989 and was appointed Group Chief Executive Officer in September 2015. He has worked in various parts of the Smurfit Group both in Europe and the United States since he joined the Group. He was Group Chief Operations Officer from November 2002 to September 2015 and Chief Executive of Smurfit Europe from October 1999 to 2002 prior to which he was Deputy Chief Executive of Smurfit Europe and previously Chief Executive Officer of Smurfit France.



**Ken Bowles**  
Group Chief Financial Officer



Age: 45 | Nationality: Irish

Ken Bowles was appointed Group Chief Financial Officer in April 2016 and was appointed a Director in December 2016. He joined the Group in 1994 and has occupied a number of finance roles in various parts of the Group. In 2004 he was appointed as the Group's first Head of Compliance, in 2007 he became the Group's Head of Tax and in 2010 he was appointed Group Financial Controller. Mr Bowles is an associate member of the Institute of Chartered Management Accountants and holds a first class MBA from the UCD Graduate School of Business.

### BOARD COMMITTEES

● Audit ● Compensation ● Nomination

- (1) Joined the Committee on IPO in 2007 or appointment date if later (See page 61)
- (2) Joined the Nomination Committee in 2013
- (3) Joined the Nomination Committee in 2015
- (4) Joined the Audit Committee in 2014 and the Compensation Committee in 2015





### Frits Beurskens

Age: 69 | Nationality: Dutch



Frits Beurskens has served as a Director of the Group since December 2005. He joined the Kappa Group in 1990 and held various Managing Director positions until his appointment as its President in 1996 which he held until the merger with Smurfit. He is a member of the Board of Sappi Limited. He is a former Chairman of both the Confederation of European Paper Industries and the International Corrugated Cases Association. In December 2007 he was knighted and appointed by the Dutch Queen as Officer in the Order of Oranje Nassau.



### Christel Bories

Age: 52 | Nationality: French



Christel Bories joined the Board in November 2012. Ms Bories was appointed Deputy Chief Executive Officer of Eramet SA in February 2017. Ms Bories was previously Deputy Chief Executive Officer of Ipsen SA from March 2013 to March 2016. She was President and Chief Executive Officer of Constellium (formerly Engineered products, Rio Tinto) from 2007 to the end of 2011 prior to which she was a senior executive in both Pechiney Packaging and Alcan for fourteen years of which eight years was as the General Manager of the Packaging business. Ms Bories spent seven years in strategic consulting prior to her industrial experience. She is a non-executive Director of Legrand SA.



### Thomas Brodin

Senior Independent Director

Age: 53 | Nationality: Swedish



Thomas Brodin joined the Board in April 2008. He is a partner at Swedish investment management firm Cliens Kapitalförvaltning since November 2013. He was Head of Equities and Head of Equity Research and a member of the executive management team at Erik Penser Bankaktiebolag, a privately owned Swedish bank from 2007 to 2011. He was previously a European paper and packaging research analyst and Managing Director at Citigroup between 1995 and 2007. Prior to that, he was a paper and packaging research analyst at Credit Suisse First Boston from 1992 to 1995 and at Svenska Handelsbanken from 1990 to 1992. Between 1998 and 2007 Mr Brodin was ranked as the leading European analyst covering the paper and packaging sector by Extel and Institutional Investor Surveys. Mr Brodin has decided not to seek re-election at the forthcoming AGM.



### Irial Finan

Age: 59 | Nationality: Irish



Irial Finan joined the Board in February 2012. He is currently Executive Vice President of The Coca-Cola Company and President of the Bottling Investments Group. He is also responsible for the stewardship of The Coca-Cola Company's Equity Investments. He joined the Coca-Cola System in 1981. Prior to his appointment to his current role in 2004, Mr Finan served as Chief Executive Officer of Coca-Cola Hellenic Bottling Company SA. Mr Finan is a Fellow of the Institute of Chartered Management Accountants.



### James Lawrence

Age: 64 | Nationality: American



James Lawrence joined the Board in October 2015. He is currently Chairman of Great North Star LLC, an investment and advisory firm. He served as Chairman of Rothschild North America from 2012 to 2015 and previously served as Chief Executive Officer of Rothschild North America from 2010 to 2012. Prior to this, Mr Lawrence served as Chief Financial Officer and an executive Director of Unilever plc. Mr Lawrence joined Unilever from General Mills where he was Vice-Chairman and Chief Financial Officer. He previously also held senior positions with Northwest Airlines and Pepsico Inc. He is a non-executive Director of Avnet, Inc. and International Consolidated Airlines Group S.A.

## Board of Directors (continued)



### Gary McGann

Age: 66 | Nationality: Irish



Gary McGann has served as a Director of the Group since 2000. He was previously Group Chief Executive Officer from November 2002 until his retirement in August 2015 and President and Group Chief Operations Officer from 2000 to 2002. He joined the Smurfit Group in 1998 as Chief Financial Officer. He had held a number of senior positions in both the private and public sectors over the previous 20 years, including Chief Executive of Gilbeys of Ireland and Aer Lingus Group. He is Chairman of Paddy Power Betfair plc, Arytza AG, Aon Ireland and Sicon Ltd (Sisk Group). He is a non-executive Director of MPS Ltd (Multi-Packaging Solutions) and Green REIT plc. Mr McGann has decided not to seek re-election at the forthcoming AGM.



### John Moloney

Age: 62 | Nationality: Irish



John Moloney joined the Board in December 2013. He is the former Group Managing Director of Glanbia plc, a global performance nutrition and ingredients company. He served as Group Managing Director of Glanbia plc from 2001 until he retired from this position in November 2013. He joined Glanbia plc in 1987 and held a number of senior management positions before he was appointed Deputy Group Managing Director in 2000. He is Chairman of Coillte Teo and Chairman of DCC plc and a non-executive Director of Greencore Group plc.



### Roberto Newell

Age: 69 | Nationality: Mexican



Roberto Newell joined the Board in June 2010. He is Vice Chairman of the Board of the Instituto Mexicano para la Competitividad, A.C. ('IMCO'), an independent think-tank in Mexico, established to develop policies to enhance Mexico's competitiveness. Prior to joining IMCO, Mr Newell served Mexico's Federal Government, most recently as Deputy Secretary for Agriculture. Between 1984 and 2001, Mr Newell worked for McKinsey & Co., where he served clients in North America and Latin America. At McKinsey, Mr Newell advised large corporations and national governments with a focus on the financial and telecommunications sectors. Mr Newell serves on the Board of a number of institutions in Mexico.



### Jørgen Buhl Rasmussen

Age: 61 | Nationality: Danish



Jørgen Buhl Rasmussen joined the Board in March 2017. He is the former Chief Executive Officer of Carlsberg AS. He served as the Chief Executive Officer of Carlsberg AS from 2007 until he retired from this position in 2015 having joined the company in 2006. He previously held senior positions in several global FMCG companies, including Gillette Group, Duracell, Mars and Unilever over the previous 28 years. He is Chairman of Novozymes AS and Unhreholt AS.



### Gonzalo Restrepo

Age: 66 | Nationality: Colombian



Gonzalo Restrepo joined the Board in June 2015. He is the former Chief Executive Officer of Almacenes Exito SA, a leading retail company in Latin America and a subsidiary of the French company, Casino Group. He served as the Chief Executive Officer of Almacenes Exito from 1990 until he retired from this position in 2013. He is a non-executive Director of Cardif Colombia Seguros Generales SA. He is a member of the Entrepreneurs Council of Proantioquia in Colombia.



### Rosemary Thorne

Age: 65 | Nationality: British



Rosemary Thorne joined the Board in March 2008. During her executive career she was Group Finance Director for Ladbroke's plc from 2006 to 2007, Bradford and Bingley plc from 1999 to 2005 and at J Sainsbury plc from 1992 to 1999. Ms Thorne has extensive experience as a non-executive Director and currently serves as a non-executive Director of Solvay S.A. Ms Thorne is a Fellow of the Institute of Chartered Management Accountants and a Fellow of the Association of Corporate Treasurers.





Paul Saunders, Mark Price and Andy Gills, at the newly rebuilt machine at our Townsend Hook containerboard mill in the UK.

# Corporate Governance Statement

The Directors are committed to maintaining the highest standards of corporate governance. This Corporate Governance Statement describes how throughout the financial year ended 31 December 2016 Smurfit Kappa Group plc applied the principles of the UK Corporate Governance Code published by the Financial Reporting Council ('FRC') in September 2014 ('the Code') as adopted by the London Stock Exchange ('LSE') and Irish Stock Exchange ('ISE'). The Directors believe that the Group has complied with the provisions of the Code throughout the year under review.

A copy of the Code can be obtained from the FRC's website: [frc.org.uk](http://frc.org.uk).

## Board of Directors

The Board is primarily responsible for the long-term success of the Group, for setting the Group's strategic aims, for the leadership and control of the Group and for reviewing the Group's system of internal control and risk management. There is a clear division of responsibilities within the Group between the Board and executive management, with the Board retaining control of strategic and other major decisions under a formal schedule of matters reserved to it which includes:

- Approval of the Group's strategy which is set out on page 28
- Board appointments including those of the Chairman and Group Chief Executive Officer
- Agreement of terms of appointment of the Chairman, Group Chief Executive Officer and other executive Directors
- Agreement of any fundamental changes to the Group management and control structure
- Approval of the annual financial budgets
- Approval of capital expenditure above fixed limits
- Approval of material acquisitions and disposals of businesses
- Approval of the Interim Management Statements, the Interim Report, the Preliminary Results Release and the Annual Report
- Establishment and review of corporate governance policy and practice
- Monitoring of the Group's risk management and internal control systems
- Confirming that the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance of the Group, its business model and strategy.

As recommended by the Code, the roles of Chairman and Group Chief Executive Officer are held by separate individuals and the division of responsibilities between them is clearly established and has been set out in writing and approved by the Board. The Board has delegated responsibility for the day-to-day management of the Group, through the Group Chief Executive Officer, to executive management. The Group Chief Executive Officer is responsible for implementing strategy and policy as approved by the Board. As discussed below, the Board has also delegated some of its responsibilities to Committees of the Board. The powers of Directors are determined by Irish legislation and the Articles of Association of the Company. The Directors have access to independent professional advice at the Group's expense, if and when required. No such advice was sought by any Director during the year. The Board Committees are provided with sufficient resources to undertake their duties.

## Membership, Board Size and Independence

Following the appointment of Mr Rasmussen there are fourteen Directors on the Board, comprising: a non-executive Chairman, two executive Directors and eleven non-executive Directors. A list of Directors is set out on page 61 and biographical details are set out on pages 56 to 58. The Board considers that the Board comprising fourteen Directors is not so large as to be unwieldy and that the Directors with a broad spread of nationalities, backgrounds and expertise bring the breadth and depth of skills, knowledge and experience that are required to effectively lead the Group.

The Code recommends that, apart from the Chairman, at least half of the Board of Directors of a listed company should comprise non-executive Directors determined by the Board to be independent. During the year under review the Company complied with the Code recommendation on Board independence. The Chairman was independent on appointment.

The Group has in place an effective Board which provides the highest standards of governance to an internationally diverse business with interests spanning three continents and 34 individual countries. Each of the Group's non-executive Directors has broad-based international business expertise and many have gained significant and relevant industry specific expertise over a number of years. The composition of the Board reflects the need, as outlined by the Code, for an effective Board to maintain a balance of "skills, knowledge and experience". The experience of each Director is set out in their biographies which are detailed on pages 56 to 58.

The Board through the Nomination Committee reviews the composition of the Board on an annual basis. This includes a review of refreshment and renewal policies, Board diversity, including gender diversity and the skills, knowledge and experience of the Directors.

The Board reviewed the composition of the Board and determined that Ms Bories, Mr Brodin, Mr Finan, Mr Lawrence, Mr Moloney, Mr Newell, Mr Rasmussen, Mr Restrepo and Ms Thorne are independent. In reaching that conclusion the Board took into account the principles relating to independence contained in the Code and specifically whether any non-executive Director:

- has been an employee of the Group;
- has or had within the last three years, a material business relationship with the Group;
- receives remuneration from the Group other than a Director's fee;
- has close family ties with any of the Group's advisers, Directors or senior employees;
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the Board for more than nine years from the date of their first election.

The Board is satisfied that the independence of the relevant Directors is not compromised by these or any other factors.

While Mr Beurskens and Mr McGann were employees of the Group, and at the conclusion of the 2017 AGM, Ms Thorne will have served for more than nine years on the Board, the Board does not believe these facts compromise their independence of judgement, their contribution to the Board or the quality of their oversight.



Director	Role	Independent	Appointment Date *
<b>Liam O'Mahony</b>	Non-executive Chairman	**	2007
<b>Anthony Smurfit</b>	Group Chief Executive Officer	No	1989
<b>Ken Bowles</b>	Group Chief Financial Officer	No	2016
<b>Frits Beurskens</b>	Non-executive Director – former Executive	No	2005
<b>Christel Bories</b>	Non-executive Director	Yes	2012
<b>Thomas Brodin</b>	Non-executive Director	Yes	2008
<b>Irial Finan</b>	Non-executive Director	Yes	2012
<b>James Lawrence</b>	Non-executive Director	Yes	2015
<b>Gary McGann</b>	Non-executive Director – former Executive	No	2000
<b>John Moloney</b>	Non-executive Director	Yes	2013
<b>Roberto Newell</b>	Non-executive Director	Yes	2010
<b>Jørgen Buhl Rasmussen</b>	Non-executive Director	Yes	2017
<b>Gonzalo Restrepo</b>	Non-executive Director	Yes	2015
<b>Rosemary Thorne</b>	Non-executive Director	Yes	2008

\* For Smurfit Kappa Group plc and predecessor companies. SKG returned to the ISE and LSE in March 2007

\*\* On his appointment as Chairman in December 2008 Mr O'Mahony was independent

## Executive and Non-executive Directors - Experience and Skills

Each of the executive Directors has extensive experience of the paper-based packaging industry. Their knowledge is backed up by the general business skills of the individuals involved and previous relevant experience. The non-executive Directors use their broad based skills, their diverse range of business and financial experiences and their international backgrounds in reviewing and assessing any opportunities or challenges facing the Group and play an important role in developing the Group's strategy and scrutinising the performance of management in meeting the Group's goals and objectives. Four of the non-executive Directors have the additional benefit of many years exposure to paper-based packaging companies either as employees, directors or stakeholders which complements the experiences of the executive Directors.

## Appointments, Retirement and Re-election to the Board

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first Annual General Meeting ('AGM') after their appointment and, pursuant to the Articles of Association of the Company, all Directors are subject to re-election at intervals of no more than three years. However, in accordance with the Code, the Directors individually retire at each AGM and submit themselves for re-election if appropriate.

The procedures governing the appointment and replacement of Directors are contained in the Company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with Irish company law.

The standard letter of appointment of non-executive Directors will be available for inspection at the AGM and is available on request, from the Company Secretary.

Each of the Directors, other than Mr Brodin and Mr McGann, are offering themselves for re-election at the 2017 AGM.

## External Directorships

The Board believes that there is benefit for the Group if executive Directors hold non-executive directorships with other companies as it enhances their overall business experience. Consequently, the executive Directors are encouraged to accept a small number of external

appointments as non-executive Directors or on industry associations. Directors are permitted to retain any payments received in respect of such appointments.

## Remuneration

Details of remuneration paid to Directors (executive and non-executive) are set out in the Remuneration Report on pages 71 to 84. Non-executive Directors are paid fees for their services and none of their remuneration is performance related. They are not eligible to participate in the Group's annual bonus scheme or long-term incentive plans ('LTIP'). Non-executive Directors' fees are not pensionable. The Remuneration Policy and the Remuneration Report will be presented to shareholders for the purposes of a non-binding advisory vote at the AGM on 5 May 2017.

## Chairman

Mr Liam O'Mahony who joined the Board upon the Company being admitted to trading on the ISE and the LSE in March 2007 was appointed Chairman in December 2008. As recommended by the Code, the Chairman was independent at his time of appointment. The Chairman is responsible for the leadership of the Board and the efficient and effective working of the Board. He sets and manages the Board agenda in order that at appropriate times it addresses all matters reserved to the Board and ensures that adequate time is available for discussion on strategy and the strategic issues facing the Group. He ensures that the Directors receive accurate, timely and clear information, and that the Directors are updated periodically on the views or concerns of the major investors. He also ensures that a culture of openness and debate is fostered to facilitate the effective contribution of the non-executive Directors to the Board.

## Senior Independent Director

Mr Thomas Brodin was appointed the Group's Senior Independent Director in April 2015. His duties include being available to shareholders if they have concerns which cannot be resolved through the Chairman or Group Chief Executive Officer. He is available to serve as an intermediary for other Directors where necessary. The Senior Independent Director also conducts an annual evaluation of corporate governance compliance, the operation and performance of the Board, the Directors, its Committees and the Chairman's performance in conjunction with the other non-executive Directors on an annual basis except in the year when an external evaluation takes place.

### Group Secretary

The Directors have access to the advice and services of the Group Secretary who is responsible to the Board for ensuring that Board procedures are followed, applicable rules and regulations are complied with and that the Board is advised on its corporate governance obligations and developments in best practice. The Group Secretary is responsible for formal minuting of any unresolved concerns that any Director may have with the operation of the Company. During the year there were no such unresolved issues. The Group Secretary also acts as secretary to all of the Board Committees.

### Board Meetings

The Board meets at least five times each year with additional meetings as required. The Board met six times in 2016. Details of the meetings held during the period are contained in the schedule on page 64, which also includes information on individual attendance. The Board holds at least one of its meetings each year at a Group operation to give the Directors an opportunity to meet with a wider range of management and to see and remain familiar with the Group's operating activities. In 2016 the July Board meeting was held in the Netherlands at our Roermond Mill. The Board is supplied on a timely basis in advance of Board meetings with a Board Report comprising strategic updates, operational, financial, health and safety, and investor relations information together with Board papers on key issues in a form and of a quality to enable it to discharge its duties effectively. The Board papers also include the minutes of all Board Committee meetings and at each Board meeting the Chairman of each Committee gives a report on major agenda items discussed at Committee meetings held since the last Board meeting.

When Directors are unable to attend a meeting having been advised in the Board papers circulated prior to the meeting of the matters to be discussed they are given an opportunity to make their views known to the Chairman or the Group Chief Executive Officer prior to the meeting.

### Induction and Development

On appointment, all non-executive Directors receive comprehensive briefing documents on the Group, its operations and their duties as a Director. They are also given presentations by the senior management team and are given the opportunity to visit sites and meet with the local management. During the year Directors meet with senior management at Board meetings, on individual site visits and at the annual visit by the Board to a Group operation. Directors also receive regular briefings and presentations on a wide range of the Group's activities together with all significant analyst and rating reports. All Directors are encouraged to go for training to ensure they are kept up to date on relevant legal developments or changes in best practice.

### Succession Planning and Diversity

The Board believes that appointing the best people to the Group's Board is critical to the success of the Company and as a result all appointments are made purely on merit regardless of gender, race, religion, age or disability. The Board believes diversity is an essential cornerstone for building long-term business success and ensures different perspectives are introduced into Board discussion. The Board considers gender and a wide geographical experience base to be essential aspects of diversity for a company with business in 34 countries worldwide. This policy plays a key role in the Group's succession planning when considering new appointments to the Board.

### External Board Evaluation

An independent external Board evaluation was carried out during the year by ICSA Board Evaluation ('ICSA'), a division of the Institute of Chartered Secretaries and Administrators who also carried out the previous evaluation in 2013. ICSA is part of an organisation that supplies some IT services to the Group; however the annual value of the contract is not material to either party.

During the year ICSA conducted one-on-one interviews with all Board members. The discussion during the interviews focused on the following aspects of Board performance:

- Board responsibilities
- Oversight
- Board meetings
- Support for the Board
- Board composition
- Working together
- Outcome and achievements

The findings were presented at the December Board meeting by ICSA. Similar to 2013, the overall outcome was positive and indicated that the Board is operating effectively and cohesively with performance being rated "very good" and in the upper quartile of a six point scale ranging from poor to excellent. The recommendations which were of a minor nature will be implemented during the current year. These included the extraction of greater value from the internal evaluation of the Committees, the structure of non-routine Board papers, and the development of the risk map.

### Internal Board Evaluation

The Senior Independent Director co-ordinates an annual evaluation of corporate governance compliance, the operation and performance of the Board, the Directors, its Committees and the performance of the Chairman except in years when an external evaluation is carried out. This is achieved through the completion of a detailed questionnaire by each Director and separate discussions with each Director. The Chairman conducts an annual evaluation of the performance of the Directors. The Committees undertake an annual evaluation of their performance and report back to the Board. At least once a year the Chairman meets with the non-executive Directors without the executive Directors to review the Board's performance. The Board discusses the results of its evaluations in order to identify and address areas in which the effectiveness of the Board might be improved.

### Share Ownership and Dealing

Details of Directors' shareholdings are set out on page 82. The Group has a policy on dealing in shares that applies to restricted persons comprising all Directors, and senior management and certain other employees. Under the policy, restricted persons are required to obtain clearance from prescribed persons before dealing. Restricted persons are prohibited from dealing in SKG securities during designated closed periods and at any other time when the individual is in possession of Inside Information (as defined by the Market Abuse Regulation (EU 596/2014)).

### Board Committees

As recommended by the Code, the Board has established three Committees to assist in the execution of specific matters within its responsibility. These are the Audit Committee, the Compensation Committee and the Nomination Committee. The responsibilities of each of these Committees are set out

clearly in written terms of reference, which are reviewed annually and are available on the Group's website. The Chairman of each Committee reports to the Board on the major agenda items discussed since the last Board meeting and the minutes of all Committee meetings are circulated to all of the Directors.

The current membership of each Committee, details of attendance and each member's tenure are set out in the individual Committee reports on pages 67 to 85.

## Stock Exchange Listings

SKG, which is incorporated in Ireland and subject to Irish company law, has a premium listing on the London Stock Exchange and a secondary listing on the Irish Stock Exchange.

## Communication with Shareholders

The Board gives a high priority to effective communications with shareholders and recognises the need to understand the views of major investors. On a day-to-day basis, contact with institutional shareholders is the responsibility of the Group Chief Executive Officer, the Group Chief Financial Officer and the Head of Investor Relations.

There is regular dialogue with individual shareholders, as well as general presentations, plant visits, attendance at relevant conferences and conference calls and presentations at the time of the release of the annual and quarterly results. Investors and analysts also attend the Group's Innovation and Sustainability Awards exhibition which is held every 18 months. The Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Chief Executive Officer Europe and the Chief Executive Officer the Americas also participate in these events. The Chairman, Senior Independent Director and any other member of the Board are available to meet major investors if required. The Chairman also had a number of meetings with major shareholders during the year.

The papers for each Board meeting include a comprehensive report summarising investor relations activity during the preceding period including contacts between executive management and current and prospective institutional shareholders. The views and issues highlighted by shareholders are also included in the report.

The Group issues its annual and quarterly results promptly to shareholders and also publishes them on the Group's website: [smurfitkappa.com](http://smurfitkappa.com). The Group operates an investor relations section on the website, which in addition to the annual and quarterly reports, contains investor presentations and all press releases immediately after their release to the Stock Exchange.

The Group also has an Investor Relations web app which makes it easier for investors to learn about the Group and keep in touch with relevant corporate activity.

The Group's AGM affords each shareholder the opportunity to question the Chairman of the Board, the Chairmen of all Committees and all other Board members. The Notice of the AGM and related papers together with the Annual Report are sent to shareholders at least 20 working days before the meeting. In addition, the Group responds throughout the year to numerous queries from shareholders on a broad range of issues.

## Shareholder Meetings and Shareholder Rights

Shareholders' meetings are governed by the Articles of Association of the Company and the Companies Acts 2014 (the 'Companies Act').

The Company must hold an AGM each year in addition to any other shareholder meeting in that year and must specify that meeting as such in the notices calling it. The Directors may convene general meetings. Extraordinary general meetings may also be convened as provided by the Companies Act. Notice of a general meeting must be provided as required by the Companies Act.

At its general meetings the Company proposes a separate resolution on each substantially separate issue and does not bundle resolutions together inappropriately. Resolutions on the receipt of the Annual Report and the approval of the Directors' Remuneration Report and Remuneration Policy are put to shareholders at the AGM.

The Chairman of the Board of Directors or, in his absence, another Director nominated by the Directors will preside as chairman of a general meeting. Ordinary Shares carry voting rights. Three members entitled to vote at the meeting present either in person or by proxy constitute a quorum. Votes may be given either personally or by proxy. On a show of hands, every member present in person and every proxy will have one vote and on a poll, every member present in person or by proxy, shall have one vote for every share carrying voting rights of which he is the holder. The following persons may demand a poll: the Chairman of a general meeting, at least five members present in person or by proxy having the right to vote at the meeting, any member(s) present in person or by proxy representing at least one-tenth of the total voting rights of all the members having the right to vote at the meeting, or, a member(s) present in person or by proxy holding shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The Companies Act provides for a number of key powers of general meetings, including the right to elect or re-elect a Director, the right to give authority to the Company to disapply pre-emption rights, the right to give authority to the Company to buy back shares and the right to amend the Memorandum and Articles of Association of the Company.

The Companies Act also provides for a number of shareholder rights in respect of the general meeting and the methods of exercising of those rights, which are set out in the notes to the Notice of the AGM, including the right a) to table agenda items and resolutions for inclusion on the agenda of an annual general meeting b) to table a draft resolution in respect of an item already on the agenda of the general meeting c) to ask questions in relation to an item on the agenda of a general meeting and d) to appoint a proxy electronically.

## Code of Business Conduct

The Smurfit Kappa Code of Business Conduct includes principles of best practice in this area which apply to the Group's Board of Directors, officers and employees worldwide. We also require individuals, entities, agents or anyone acting on the Group's behalf to comply with its Code. The Code is available on the Group's website: [smurfitkappa.com](http://smurfitkappa.com) and is translated into 17 languages.

## Sustainability

Sustainability is concerned with ensuring that the human and natural environment remains intact both today and into the future as we continue to use natural resources. SKG manages its business in a way which recognises its key responsibilities in all aspects of its corporate social responsibility especially in the areas of Environment, Sustainable Forestry, Social Citizenship and Health and Safety. The Group's principles are summarised on pages 48 to 50 and are described in detail in the Sustainable



Development Report for 2015 which is available on the Group's website. The Sustainable Development Report for 2016 will be published in May 2017.

### Risk Management and Internal Control

The Board has overall responsibility for the Group's system of risk management and internal control and for monitoring and reviewing its effectiveness, in order to safeguard shareholders' investments and the Group's assets. Details in relation to Risk Management and Internal Control are included in the Risk Report on page 30.

The Directors confirm there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group which is in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. This process has been in place throughout the accounting period and up to the date of approval of the Annual Report and Consolidated Financial Statements and is subject to regular review by the Board.

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group's business model, future performance, solvency and liquidity. The Directors also confirm they have conducted an annual review of the effectiveness of the Group's risk management and system of internal control up to and including the date of approval of the Annual Report and Consolidated Financial Statements. This had regard to the principal risks that could affect the Group's business (as outlined on pages 30 to 35), the methods of managing those risks, the controls that are in place to contain them and the procedures to monitor them.

### Financial Reporting

As part of its overall system of internal control the Group has in place control and risk management systems to govern the Group's financial reporting process and the process for the preparation of the Group's Consolidated Financial Statements. The requirements for producing financial information are governed by the Group's Financial Reporting Guide and Financial Monitoring Policy which gives guidance on the maintenance of records that accurately and fairly reflect transactions, provide reasonable assurance that transactions are recorded correctly to permit the preparation of Consolidated Financial Statements in accordance with International Financial Reporting Standards and that require reported data to be reviewed and reconciled. These systems include the following financial reporting controls: access controls, reconciliations, verification controls, asset security controls and segregation of duties. Segment management and the Group's executive management team review the results of the operations on a monthly basis. The Group's executive management team receive detailed monthly reports from all operations and meet with the segment management at least on a quarterly basis to review the year to date results against budget and rolling forecasts enabling them to monitor and challenge any variance against the expected financial outcome for the period. Internal Audit review financial controls in different locations on a test basis each year and report quarterly to the Audit Committee. Each operation through to segment level is required to self-assess on the effectiveness of its financial control environment.

This includes the completion of an Internal Control Questionnaire which is reviewed by the Group Financial Controller and audited on a test basis by Internal Audit. Senior management representations with respect to the Group Consolidated Financial Statements showing a true and fair view are also required and supplied at year-end.

### Directors' Report

The Change of Control, Capital Structure and Purchase of Own Shares information are set out on pages 65 and 66 in the Directors' Report and form part of this Corporate Governance Statement.

### Attendance at Board Meetings during the Year to 31 December 2016

	A*	B*
<b>L. O'Mahony</b>	6	6
<b>F. Beurskens</b>	6	6
<b>C. Bories</b>	6	6
<b>T. Brodin</b>	6	6
<b>I. Finan</b>	6	6
<b>J. Lawrence</b>	6	6
<b>G. McGann</b>	6	6
<b>J. Moloney</b>	6	6
<b>R. Newell</b>	6	6
<b>G. Restrepo</b>	6	6
<b>R. Thorne</b>	6	6
<b>A. Smurfit</b>	6	6
<b>K. Bowles **</b>	1	1
<b>I. Curley **</b>	2	2

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

\*\* Mr Bowles joined the Board in December 2016. Mr Curley retired from the Board in March 2016.

*Smurfit Kappa Group plc has a secondary listing on the Irish Stock Exchange. For this reason, Smurfit Kappa Group plc is not subject to the same ongoing listing requirements as those which would apply to an Irish company with a primary listing on the Irish Stock Exchange including the requirement that certain transactions require the approval of shareholders. For further information, shareholders should consult their own financial adviser.*

# Directors' Report

## Report of the Directors

The Directors submit their Report and Financial Statements for the financial year ended 31 December 2016.

## Principal Activity and Business Review

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

The Chairman's Statement, the Chief Executive Review, the Operations Review, the Strategy Statement and the Finance Review (including financial risk management policies) on pages 18 to 29 and 38 to 45 report on the performance of the Group during the year and on future developments.

## Results for the Year

The results for the year are set out in the Consolidated Income Statement on page 94. The profit attributable to the owners of the parent amounted to €444 million (2015: €400 million).

Financial key performance indicators are set out in the Finance Review on pages 40 to 42. The Consolidated Financial Statements for the financial year ended 31 December 2016 are set out in detail on pages 94 to 158.

## Dividends

In October 2016, an interim dividend of 22.0 cent per share was paid to holders of ordinary shares. The Board is recommending a final dividend of 57.6 cent per share for 2016. Subject to shareholders' approval at the AGM on 5 May 2017, it is proposed to pay the final dividend on 12 May 2017 to all holders of ordinary shares on the share register at the close of business on 21 April 2017.

## Research and Development

The Company's subsidiaries are engaged in ongoing research and development aimed at providing innovative paper-based packaging solutions and improving products and processes and expanding product ranges. Expenditure on research and development in the year amounted to €7 million.

## Accounting Records

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

## Directors

The members of the current Board of Directors are named on pages 56 to 58 together with a short biographical note on each Director.

Mr Ken Bowles and Mr Jørgen Buhl Rasmussen were appointed to the Board on 8 December 2016 and 2 March 2017 respectively.

Mr Thomas Brodin and Mr Gary McGann have indicated they will not seek re-election at the forthcoming AGM.

Any Director co-opted to the Board by the Directors is subject to election by the shareholders at the first AGM after their appointment and, pursuant to the Articles of Association of the Company, all Directors are subject to re-election at intervals of no more than three years. However, in compliance with the Code, all Directors will retire at the 2016 AGM and other than Mr Brodin and Mr McGann will offer themselves for re-election.

To enable shareholders to make an informed decision, reference should be made to pages 56 to 58 which contains a biographical note on each Director offering themselves for re-election and to the Notice of the AGM which explains why the Board believes the relevant Directors should be re-elected. The Directors intend to confirm at the AGM that the performance of each individual seeking re-election continues to be effective and demonstrates commitment to the role.

Shareholders are referred to the information contained in the Corporate Governance Statement on pages 60 to 64 concerning the operation of the Board and the composition and functions of the Committees of the Board.

## Directors' and Secretary's Interests

Details of the Directors' and Company Secretary's interests in the share capital are set out in the Remuneration Report on pages 82 and 83 and are incorporated into this Directors' Report.

## Principal Risks and Uncertainties

Under Irish company law (Section 327 of the Companies Act), the Directors are required to give a description of the principal risks and uncertainties which it faces. These principal risks and uncertainties are set out on pages 32 to 35, and form part of this report as required by Section 327 of the Companies Act.

## Corporate Governance

Under Section 1373 of the Companies Act, the Directors' Report is required to include a Corporate Governance Statement. The Directors' Corporate Governance Statement is set out on pages 60 to 64 and forms part of this report. The Audit Committee Report, the Remuneration Report and the Nomination Committee Report are set out on pages 67 to 85.

## Purchase of Own Shares

Special resolutions will be proposed at the AGM to renew the authority of the Company, or any of its subsidiaries, to purchase up to 10% of the Company's ordinary shares in issue at the date of the AGM and in relation to the maximum and minimum prices at which treasury shares (effectively shares purchased by the Company and not cancelled) may be re-issued off-market by the Company. If granted, the authority will expire on the earlier of the date of the AGM in 2018 or 4 August 2018.

A similar authority was granted at the AGM in 2016, which is due to expire on the earlier of the date of the AGM in 2017 or 6 August 2017.

Information on own shares is set out in Note 22 to the Consolidated Financial Statements.

## Change of Control

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

	31 December 2016		9 March 2017	
	Number of shares	% of issued ordinary share capital	Number of shares	% of issued ordinary share capital
Norges Bank	20,025,712	8.47%	20,025,712	8.46%
BlackRock,Inc	11,813,996	5.00%	10,499,067	4.43%
Schroders plc	9,364,138	3.96%	*	*

\*Shareholding was below 3% at 9 March 2017.

### Subsidiary and Associated Undertakings

A list of the Group's principal subsidiaries and associates as at 31 December 2016 is set out in Note 35 to the Consolidated Financial Statements.

### Capital Structure

Details of the structure of the Company's capital are set out in Note 22 to the Consolidated Financial Statements and are deemed to form part of this Directors' Report. Details of the Group's long-term incentive plans are set out in the Remuneration Report and Note 25 to the Consolidated Financial Statements and are incorporated into this Directors' Report.

### Substantial Holdings

The table above shows all notified shareholdings in excess of 3% of the issued ordinary share capital of the Company as at 31 December 2016 and 9 March 2017.

### Directors Compliance Statement

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

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

The Directors also confirm that appropriate arrangements and structures are in place which, in the Directors' opinion, are designed to secure material compliance with the Company's Relevant Obligations. For the year ended 31 December 2016, the Directors, with the assistance of the Audit Committee, have conducted a review of the arrangements and structures in place. In discharging their responsibilities under Section 225 of the Companies Act, the Directors relied on the advice of persons who the Directors believe have the requisite knowledge and experience to advise the Company on compliance with its Relevant Obligations.

### Disclosure of Information to the Statutory Auditor

Each of the Directors individually confirm that:

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

### Statutory Auditor

The Statutory Auditor, PricewaterhouseCoopers ('PwC'), is willing to continue in office and a resolution authorising the Directors to fix their remuneration will be submitted to the AGM.

**A. Smurfit**  
**K. Bowles**

Directors  
9 March 2017



# Audit Committee Report



**Rosemary Thorne**  
Chairman of the Audit Committee

As Chairman of the Audit Committee it is my pleasure to report to you on our activities in relation to the financial year ended 31 December 2016.

## Role of the Audit Committee

The Audit Committee ('the Committee') is responsible for providing oversight and assurance to the Board regarding: the integrity of the Group's financial reporting; risk management and internal control processes; the internal audit function; the Statutory Audit arrangements; the governance framework and; whether the Annual Report and Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The role and responsibilities of the Committee are set out in its Terms of Reference which is available on the Group's website: [smurfitkappa.com](http://smurfitkappa.com). The Terms of Reference and the performance of the Committee were reviewed and the Committee is considered to be operating effectively and efficiently.

## Membership of the Committee

The Board has reviewed the composition of the Committee during the year and is satisfied that the mix of business and financial experience enables the Committee to effectively fulfil its responsibilities. The Committee is currently comprised of eight independent non-executive Directors. Of these Mr Irial Finan, Mr James Lawrence, and I, the Committee Chairman, have recent and relevant financial experience. The Committee met five times during the year under review. Details of the Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer, the Group Chief Financial Officer, the Group Internal Auditor, the Group Compliance Manager, and senior members of the Group finance team normally attend meetings of the Committee. The Statutory Auditor also attends all meetings and together with the Group Internal Auditor have direct access to the Committee Chairman at all times. In advance of every meeting, the Committee Chairman meets individually with the Group finance team, the Group Compliance Manager, the Group Internal Auditor and the Statutory Auditor.

Attendance record	A*	B*	Appointment date
<b>R. Thorne (Chairman)</b>	5	5	2008
<b>C. Bories</b>	5	5	2012
<b>T. Brodin</b>	5	5	2008
<b>I. Finan</b>	5	5	2012
<b>J. Lawrence</b>	5	5	2015
<b>J. Moloney</b>	5	5	2014
<b>R. Newell</b>	5	5	2010
<b>G. Restrepo</b>	5	5	2015

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

## Financial Reporting and Significant Financial Issues

The Group's Consolidated Financial Statements are prepared by finance personnel with the appropriate level of qualifications and expertise. The Committee reviews any published financial information including the Annual Report and quarterly financial reports, and any other published information for statutory and regulatory compliance. The Committee reports its views to the Board to assist in the Board's approval of the results announcements and the Annual Report.

The Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements. For example, in the current year the Committee considered a number of accounting papers in relation to developing matters in Venezuela and the impact of the increasingly difficult operating environment on the Group's ability to control and direct the operational and strategic policies of its operations in the country.

The Committee also reviews reports by the Statutory Auditor on the hard-close and year-end audit procedures which highlight any issues identified from the work undertaken on the audit.

The significant issues that the Committee considered in relation to the Financial Statements are detailed below:

### 1. Goodwill Impairment Review

The Committee considered the risk of impairment in respect of the carrying value of goodwill held by the Group and reviewed the annual impairment test prepared by management. In particular it considered the judgements around the assumptions underlying the calculation of the value-in-use of the businesses being tested; including the reasonableness of the business plan and the overall macroeconomic assumptions underlying the valuation process and also the determination of an appropriate discount rate and terminal value.

Management have developed what the Committee considers to be an extensive, detailed and robust process to identify any potential impairment of goodwill at a cash-generating unit ('CGU') level. This is performed annually or where an impairment indicator has been separately identified. The business plan used in the impairment review was approved by the Board. The annual impairment test includes the engagement of independent experts to assist management with the development of an appropriate discount rate. They also consider other macroeconomic assumptions included in the forecasts as well as the terminal value multiple used.

The Committee addressed these matters using reports received from management outlining the basis for assumptions used and by reviewing the independent expert's report. The Committee reviewed the methodology applied including ensuring the discount rate used was within an acceptable range and that the terminal value multiple used was appropriate. The Committee also considered a number of different scenarios to test the sensitivity of the model to changes in its key drivers and to understand the level of headroom available at a CGU level. The Committee noted that headroom in the French CGU had been materially maintained on the prior year and recent improved performance is forecast to continue. The Committee also noted that headroom in Brazil is tight due to a challenging first year of operations. It will remain on watch and be monitored throughout 2017.

Following this process the Committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the Consolidated Financial Statements. The Committee concluded that the goodwill is not impaired and approved the disclosures in Note 13 to the Consolidated Financial Statements.

### 2. Venezuela

The Committee has considered the recent developments in Venezuela and their potential impact on the Group's Consolidated Financial Statements as follows:

#### Exchange control

The Committee has discussed the exchange control developments during the year, including the establishment of the DICOM exchange rate. Based on the facts and circumstances, the Committee considered that the DICOM rate was the appropriate rate at which to consolidate the Venezuelan operations for the financial year ended 31 December 2016. The Committee also considered the impact of exchange control on the net assets of its operations and its cash balances in Venezuela. The Committee consider the disclosures in Note 3 to the Consolidated Financial Statements to be appropriate.

#### Control

The Committee has reviewed accounting papers prepared by management which consider the Group's ability to control and direct the operational and strategic policies of its operations in

Venezuela in an increasingly difficult operating and political environment. After due consideration and discussion with management and our Statutory Auditor, the Committee is satisfied that the Group continues to control its operations in Venezuela and, as a result, continues to consolidate the results and net assets of these operations at year-end in accordance with the requirements of IFRS 10, *Consolidated Financial Statements*.

#### Inflation rate

During 2016, no official inflation statistics were published by the Central Bank of Venezuela. In the absence of such information, management engaged an independent expert to determine an estimate of the annual inflation rate, for the purposes of recording the hyperinflationary adjustments required by IAS 29. After due consideration and discussion with management, the Committee is satisfied that this inflation rate fairly reflects the inflationary environment in Venezuela in 2016.

#### Price control

The Committee has previously considered the law enacted in 2014 by the Venezuelan government that companies in Venezuela can only seek price increases if they have clearance that their margins are within certain guidelines. The Committee has considered the risk that if its Venezuelan operations cannot implement price increases in a timely manner to cover the increasing costs of raw material and labour as a result of inflation, that this may have an adverse impact on the results of the operations. Based on discussions with management and our consideration of these matters, the Committee is satisfied that these developments do not have an impact on the Group's operations at 31 December 2016. The Committee will continue to monitor developments in this area with management.

### 3. Taxation – Valuation of Deferred Tax Assets

In conjunction with their goodwill impairment review the Committee also assessed the recoverability of deferred tax assets. The value of deferred tax assets at 31 December 2016 was €190 million. The Committee reviewed the estimates of future profitability, which management provided and relied on the management's work with local tax specialists who considered any regulatory changes which would impact the recoverability of deferred tax assets.

The Committee concluded that the deferred tax asset recognised on the Group Consolidated Balance Sheet at 31 December 2016 was appropriate.

### 4. Employee Benefits

The Committee noted that the liability for post-retirement and other long-term employee benefits had increased during 2016. The Group Compensation and Benefits Manager informed the Committee that the key driver was falling bond yields in the first nine months partly offset by a better than expected return on assets.

The Committee concluded that the assumptions used to calculate the pension liabilities are appropriate and consistent with market practice at the balance sheet date.

### 5. Exceptional Items

The Committee noted that the exceptional items for the Group in 2016 were €3 million. Management presented the Committee with detailed assumptions and calculations in relation to the proposed exceptional items and discussed them in the context of the Group's accounting policy for such matters and prior years' disclosure of similar items.

The Committee concluded that the size and nature of the items disclosed as exceptional items complied with the Group's accounting policy to be separately disclosed as exceptional items.

## 6. Treasury

The Committee noted that the Group had completed a new Senior Notes issue with a seven-year maturity at a coupon of 2.375% on 24 January 2017.

The Committee also discussed management's processes, procedures and controls in respect of the Group's Treasury function.

The Committee concluded that the disclosure of financial instruments and key financial risks was appropriate at 31 December 2016.

## Developments in IFRS

The Committee has received reports from management and discussed future accounting developments which are likely to affect the presentation of the Group's Consolidated Financial Statements.

## Review of Annual Report

The Committee reviewed the Annual Report and Consolidated Financial Statements and were able to confirm to the Board that, in its view, taken as a whole, they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's performance, business model and strategy.

## Risk Management and Internal Control

The Committee has processes in place to satisfy itself on the adequacy of the Group's risk management and internal control systems. For further details on the Group's Risk Management and Internal Control please see the Risk Report on page 30.

## Whistleblowing

In line with best practice, the Group has an independent and confidential whistleblowing procedure which allows all employees through anonymous submissions to raise concerns regarding accounting or auditing matters or questionable business practice. The Committee ensures through the Group Compliance Manager that arrangements are in place for a proportionate, independent investigation and appropriate follow up of such matters. It receives reports from the Group Compliance Manager on the follow up to all whistleblowing concerns received by the Company.

## Internal Audit

The Group operates an internally resourced Internal Audit function which reports directly to the Committee. The Committee reviews internal audit, including its plan and performance and monitors its relationship with the Statutory Auditor. It reviews and assesses the quarterly Internal Audit reports together with management's actions on findings to gain assurance as to the effectiveness of the internal control framework throughout the Group. A third party review of the effectiveness of the Internal Audit function was carried out in 2015 and the recommendations are being implemented.

## Statutory Auditor

The Committee is responsible to the Board for recommendations on the appointment, re-appointment and removal of the Statutory Auditor. As part of this process the Committee assesses annually the independence and objectivity of the Statutory Auditor taking into account relevant

professional and regulatory requirements and the relationship with the Statutory Auditor as a whole, including the provision of any non-audit services. The Committee monitors the Statutory Auditor's performance, behaviour and effectiveness during the exercise of their duties, which informs the Committee's decision to recommend re-appointment on an annual basis.

The Committee continues to be satisfied with the work of PwC and that they continue to remain objective and independent. The Committee has therefore recommended to the Board that a resolution be put to shareholders for the re-appointment of the Statutory Auditor, and their remuneration and terms of engagement, at the AGM of the Company.

The Statutory Auditor attends all meetings of the Committee. The Committee discusses and agrees the scope of the annual audit plan with the Statutory Auditor before they commence. The Statutory Auditor provides reports at each Committee meeting on topics such as the control environment, key accounting matters and mandatory communications. It is standard practice for the Statutory Auditor to meet privately with the Committee without any member of management or the executive Directors being present so as to provide a forum to raise any matters of concern in confidence.

## Audit Tendering

The Committee has closely monitored the developments in relation to mandatory audit tendering and as a result of the European Union (Statutory Audits)(Directive 2006/43/EC, as amended by Directive 2014/56/EU, and Regulation (EU) No. 537/2014) Regulations 2016 (S.I. No. 312/2016) being signed into law in June 2016 have approved the commencement of a formal audit tender process to select a new external Statutory Auditor for the year ending 31 December 2018. The Committee has agreed that the Committee Chairman will oversee the process with the Group Financial Controller responsible for operational tender matters. Due to the new regulations the incumbent Statutory Auditor, PwC, will not be invited to tender and will resign at the AGM in May 2018. The formal tender process will commence in March 2017, with final selection being made by the Board, on the recommendation of the Committee in July 2017.

## Statutory Auditor Non-audit Services

The Committee has agreed the types of permitted and non-permitted non-audit services and those which require explicit prior approval.

The Group has a policy governing the conduct of non-audit work by the Statutory Auditor. All contracts for non-audit services in excess of €50,000 must be notified to and approved by the Chairman of the Committee. The engagement of the Statutory Auditor to provide any non-audit services must be pre-approved by the Committee or entered into pursuant to pre-approval policies and procedures established by the Committee. The policy exists to ensure that the Statutory Auditor does not audit their own work, participate in activities that would normally be undertaken by management, have a mutuality of financial interest with the Group or act in an advocacy role for the Group. Details of the amounts paid to the Statutory Auditor during the year for audit and other services are set out in Note 5 on page 115. The value of non-audit services provided by PwC in 2016 amounted to €0.5 million (2015: €0.6 million). Non-audit services relates to the provision of tax advisory and other non-audit services. These services provided by the Group Statutory Auditor are considered by the Committee to be necessary in the interests of the business and, by their nature,



## Audit Committee Report

(continued)

these services could not easily be provided by another professional auditing firm.

The provision of tax advisory services and due diligence/ transaction services may be permitted with the Committee's prior approval. The provision of internal audit services, valuation work and any other activity that may give rise to any possibility of self-review are not permitted under any circumstance.

During the year there were no circumstances where PwC was engaged to provide services which might have led to a conflict of interests.

### How the Committee has Addressed its Responsibilities

In order to discharge the responsibilities set out in the Terms of Reference, the Committee in 2016:

- Reviewed with management the Group's 2015 preliminary results announcement, its 2015 Annual Report, the 2016 first and third quarter results, the 2016 interim report and management's annual going concern report and viability statement
- Reviewed the Statutory Auditor's year-end audit report for December 2015, the limited procedures reports on the 2016 first and third quarter results and the limited procedures report on the 2016 interim report
- Reviewed the Statutory Auditor's report on its review of the nine months to September 2016 and 2015 for inclusion in a Offering Memorandum for a senior note offering completed in January 2017
- Reviewed the Statutory Auditor's plan for the audit of the Group's 2016 Consolidated Financial Statements, which included consideration of the scope of the audit, key risks to the Consolidated Financial Statements, the proposed audit fee and approval of the terms of engagement for the audit
- Addressed the annual fraud enquiries carried out by the Statutory Auditor as part of its year-end audit
- Reviewed on a quarterly basis the Statutory Auditor services and fees
- Reviewed on a quarterly basis cyber-attack reports
- Reviewed tax and accounting services and fees from firms other than the Statutory Auditor
- Reviewed the quarterly internal audit reports with the Group Internal Auditor and management and any consequent actions
- Approved the internal audit plan and the related resourcing of the function required to meet that plan
- Approved changes proposed to the Group Internal Audit Charter by the Group Internal Auditor and management
- Reviewed all reports submitted by the Group Compliance Manager which comprised an Internal Control Effectiveness Report, an Internal Control Questionnaire update for 2016, the Treasury Compliance Certifications, the Competition Law Policy Compliance Certification results and various Whistleblower and Code of Conduct updates
- Reviewed the control environment and ensured that the Code of Business Conduct, the Code of Ethics for Senior Financial Officers, the Good Faith Reporting Policy, the Group Financial Reporting Guide, the Group Treasury Policy, the Financial Monitoring Policy, the Treasury Compliance Programme and the Competition Compliance Programme are up to date and embedded in the Group's processes
- Had a presentation from and discussion with the Group Information Security Manager on the Group procedures to protect the organisation from cyber attacks
- Reviewed and approved the Group's risk assessment framework (see Risk Management and Internal Control - page 64)
- Reviewed and approved each significant risk facing the Group together with the actions proposed by management to accept, avoid or mitigate risk
- Reviewed stress test scenarios applied to the three-year financial model based on the principal risks for the purpose of the Viability statement
- Reviewed the Group's monitoring processes over internal control
- Reviewed the Statutory Auditor's report on the 2016 hard-close audit procedures and the 2016 year-end audit and also reviewed the confirmation of Statutory Auditor independence
- Reviewed the Committee's performance and its Terms of Reference.

#### Rosemary Thorne

Chairman of the Audit Committee

9 March 2017

# Remuneration Report



**Irial Finan**

Chairman of the Compensation Committee

## Dear Shareholder

As Chairman of SKG's Compensation Committee, I am pleased to present our Remuneration Report for the financial year ended 31 December 2016.

In order to maintain the highest standards of good corporate governance practice, although not a legal requirement for SKG which is an Irish incorporated company, the Compensation Committee ('the Committee') continues to report in accordance with the main elements of the disclosure requirements relating to remuneration reports issued by the UK Department for Business, Energy and Industrial Strategy ('BEIS') as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. In addition to the proposed resolution on Directors' remuneration at the forthcoming AGM on 5 May 2017 it is proposed to put a further resolution to consider the Remuneration Policy to the AGM and both will be subject to advisory shareholder votes. The main features of the Remuneration Policy remain unchanged.

## Remuneration Policy and Strategy

The Compensation Committee has responsibility for setting the Group's overall remuneration policy and strategy, determining the level and structure of remuneration of all executive Directors and the Chairman and monitoring the level and structure of remuneration for senior management. The operation of each of the individual remuneration components is reviewed on an ongoing basis to ensure they are aligned with the strategic direction of the business, that performance targets are appropriate and stretching and that they continue to promote the long-term success of the business.

The financial key performance indicators for the Group are set out on pages 40 to 42. Those areas of performance are, in so far as is practicable, reflected in both the short and long-term incentive arrangements.

The Committee receives independent advice from leading external remuneration consultants as appropriate. The Group Chief Executive Officer attends meetings except when his own remuneration is being discussed and the Group V.P. Human Resources attends when appropriate.

During 2016, the Company operated in line with the Remuneration Policy which was approved at the AGM on 2 May 2014.

## Group Performance

In 2016 the Group delivered continued earnings growth with EBITDA of €1,236 million a 5% increase from €1,182 million in 2015 and a new record for the Group. The Group also delivered improved ROCE at 15.4%, strong free cash flow at €303 million and we invested approximately €500 million in our business to build a platform to deliver continued performance and growth.

In June 2016, SKG was included as a constituent of the FTSE 250 and of the FTSE All Share Indices. In December 2016, the Group was admitted to the FTSE 100 index, one of the world's leading equity market indices.

## 2016 Review

During the period the Committee, given the increasing international scale and complexity of the Group, reviewed fees paid to non-executive Directors. Following advice from external remuneration consultants the Committee recommended to the Board that with effect from 1 January 2017 the base fee for non-executive Directors be increased by €10,000 per annum and that the total fee for the Chairman be increased by €50,000 per annum. No change had occurred in the non-executive Director base fee since 2013 or the Chairman's total fee since 2007.

As set out above the executive Directors and the broader SKG management team reported a strong result against most performance metrics. In February 2017 the Committee reviewed the performance metrics against the targets under the annual bonus plan for 2016 as set out on page 75 and 76. Following this review the Committee approved the awards under the annual bonus plan for the executive Directors as set out on page 78.

As explained in more detail on page 76 and 77, the Deferred Annual Bonus Plan ('DABP') is a long-term incentive arrangement which is intended to align the interests of executive Directors and senior management with shareholders and focus on the creation of value over a medium to long-term time horizon. Over the past three years, the management team has generated an EBITDA of over €1 billion annually with a record €1,236 million in 2016. ROCE and free cash flow for the three-year period to December 2016 amounted to 45.2% and €1.07 billion respectively and as a result the Matching Shares which were awarded in 2014 under the DABP resulted in a 1 times match from a possible 2.25 times match and was approved by the Committee in February 2017.

## Board Changes

On 31 March 2016 Ian Curley stepped down as Group Chief Financial Officer and Director and was replaced by Ken Bowles who was appointed Group Chief Financial Officer in April 2016 and a Director in December 2016.

Mr Bowles salary for the role of Group Chief Financial Officer, taking into account advice from external advisors, was set at €500,000 on appointment and increased to €600,000 with effect from 1 January 2017. Mr. Bowles salary remains below the level paid to his predecessor.

Mr Curley on stepping down from his role as Group Chief Financial Officer received a payment in lieu of notice in accordance with his contract which is set out on page 82.

## Conclusion

On behalf of the Compensation Committee, I would strongly recommend that shareholders vote in favour of the Remuneration Policy and the 2016 Directors Remuneration Report.

**Irial Finan**

Chairman of the Compensation Committee

9 March 2017

### The Compensation Committee

The Compensation Committee chaired by Mr Irial Finan currently comprises six non-executive Directors. The Directors' biographical details on pages 56 to 58 demonstrate that the members of the Committee bring to it a wide range of experience in the area of senior executive remuneration in comparable companies. The Committee receives advice from independent remuneration consultants, as appropriate, to supplement their own knowledge and to keep the Committee updated on current trends and practices. In 2016, the Committee and management received advice from its independent advisors, Hay Group, on the salaries of the executive Directors and the senior management team and from Deloitte LLP on non-executive director's fees. The Committee considers that the advice provided by Hay Group and Deloitte LLP, who do not have any other affiliation with the Group, is objective and independent.

The role and responsibilities of the Committee are set out in its Terms of Reference which is available on the Group's website: [smurfitkappa.com](http://smurfitkappa.com). The Terms of Reference and the performance of the Committee was reviewed and the Committee is considered to be operating effectively and efficiently. The Terms of Reference are reviewed each year by the Committee.

The Committee met four times during the year. Details of Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer normally attends the meetings and the Group V.P. Human Resources attends when appropriate.

### Remuneration Policy

The Remuneration Policy is designed to attract, retain and motivate Directors and senior management of the highest calibre who are expected to deliver superior performance and to provide strong leadership to the Group. In return the Group aims to provide an attractive compensation package which ensures that management are focused on those corporate metrics which support the Group's business strategy and which support the objective of developing superior sustainable returns and value at acceptable levels of risk but with a clear and intelligible link to performance and the financial prosperity of the Group and consequently its shareholders. The key elements of the package comprise salary and benefits, a performance related annual bonus, a long-term equity based incentive plan and provision of pension benefits. As set out below, the performance related annual bonus forms a key part of executive Director Remuneration. As the Group is multinational, remuneration packages in each geographical location must be competitive for that location and at a most senior level, on an international basis.

It is intended that the Remuneration Policy set out in this report will cover the three years from 1 January 2017.

Attendance record	A*	B*	Appointment date
<b>I. Finan (Chairman)</b>	4	4	2012
<b>C. Bories</b>	4	4	2012
<b>J. Moloney</b>	4	4	2015
<b>R. Newell</b>	4	4	2010
<b>L. O'Mahony</b>	4	4	2007
<b>G. Restrepo</b>	4	4	2015

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

## Remuneration policy

Component	Purpose and link to strategy	Operation	Metrics	Opportunity
<b>(i) Basic Salary</b>	Competitive salaries and benefits are set to attract, retain and motivate executives to deliver superior performance in line with the Group's business strategy.	Reviewed annually; changes are generally effective on 1 January.  Set by reference to competitive market practice and prevailing market conditions.	Consideration is given to: i. scope of role and responsibility; ii. personal performance; iii. Group performance; iv. step changes in responsibilities; v. remuneration trends across the Group; and vi. competitive market practice.	Set at a level which will be sufficient to attract, retain and motivate Executives of the required quality and which the Committee considers appropriate taking into consideration both the individual's skills, experience, performance and the position against peers.
<b>(ii) Benefits</b>	Competitive benefits taking into account market value of role.	Benefits relate principally to the use of company cars.	Not applicable.	The level of benefit provision is fixed.
<b>(iii) Annual Bonus Plan</b>	To incentivise the executives to achieve clearly defined stretching annual targets which are aligned with the Group strategy.  A deferral element in shares provides a retention element and aligns executives with shareholder interests.	Targets and weighting of targets are reviewed each year by the Committee to ensure continued alignment with the Group strategy.  Payouts are determined by the Committee after the year-end based on performance against targets.	The key target metrics are KPI's, Peer Comparison, Health and Safety, and strategic/personal objectives. A maximum potential of 20% will be based on strategic/ personal objectives.  See table on page 76 for prior year weightings.  This plan covers the top 400 managers within the Group with the target metrics covering divisional and plant performance.	Maximum payout of 150% of basic salary, half of which is deferred (see DABP below).
<b>(iv) DABP</b>	To incentivise executives to achieve certain targets over a three-year time frame which are aligned with the Group Strategy, to help attract and retain key executives and to further align executives with shareholder interests.	Involves half of the annual bonus earned being deferred into SKG plc shares ('Deferred Share Award').  At the same time a Matching Share Award can be granted up to the level of the Deferred Share Award.  The vesting period for the DABP awards is three years.  Awards are made annually after the final results announcement.  Clawback provisions are in place.  The percentage of share capital which can be issued complies with institutional guidelines.	The Deferred Share Award is based on continuity of employment over three years.  The Matching Share Award vests based on achievement of cumulative targets for FCF and ROCE over the three-year period. In addition ROCE and Total Shareholder Return ('TSR') must be competitive against peers.  This plan covers approximately the top 200 managers within the Group.	The Matching Share Award may vest up to a maximum of 3 times the level of the Deferred Share Award.
<b>(v) Pension</b>	To provide a market competitive package to attract and retain executives.	Executive Directors now participate in a defined contribution pension plan. The defined benefit plan was closed to future accrual with effect from 30 June 2016 and was replaced by a defined contribution plan.	Not applicable.	Cash in lieu of pension accrual calculated by actuaries and fixed at 30 June 2016 or defined contribution amount.



### Share Ownership Requirements

The Group Chief Executive Officer is required to build a shareholding equivalent to 150% of base salary, and other executive Directors a shareholding equivalent to at least 100% of base salary, over a period of not more than three years from the date of appointment.

The table below sets out the percentage of base salary held in shares in the Company by each executive Director as at 31 December 2016.

	Shareholding as % of base salary
A. Smurfit	2,225%
K. Bowles *	77% *

\* Mr Bowles was appointed as an executive Director in December 2016 and he has three years to December 2019 to meet the requirement.

### Executive Directors' Service Contracts

Details of the service contracts of the executive Directors are as follows:

	Effective date of contract	Notice period
A. Smurfit	9 March 2007 (Amended 1 September 2015)	12 months notice
K. Bowles	1 April 2016	12 months notice

In the event of early termination the payment in lieu of notice for Mr Smurfit would equal annual salary, the highest annual bonus for the most recent three years, the regular pension contribution in respect of the annual salary and the cash value of any benefits.

In the event of early termination the payment in lieu of notice for Mr Bowles would equal annual salary, the regular pension contribution in respect of the annual salary and the cash value of any benefits.

Consistent with best practice, for any new executive Director payment in lieu of notice would solely include salary, pension and other benefits, but not annual bonus.

### Non-executive Directors and the Chairman

All non-executive Directors have letters of appointment for a period of three years which are renewable but generally for no more than three terms in aggregate. However, in compliance with the Code, all Directors will retire at each AGM and offer themselves for re-election. A copy of the letter of appointment is available for inspection at the registered office and prior to and during the AGM. Non-executive Directors are not eligible to participate in the annual bonus plan or the long-term incentive plans and their service as a non-executive Director is not pensionable.

There were no changes in the non-executive Directors' fees in 2016 or 2015.

A summary of the non-executive Directors' fees as at 31 December 2016 was as follows:

	Annual fee
Chairman	€300,000
Non-executive Director base fee	€60,000

#### Additional fees:

Senior Independent Director fee	€75,000
Audit Committee Chairman fee	€60,000
Remuneration Committee Chairman fee	€60,000
Committee fee	€20,000

Following a recommendation by the Committee to the Board subsequent to the receipt of advice from external remuneration consultant Deloitte LLP, the non-executive director base fee was increased by €10,000 per annum and the Chairman's total fee was increased by €50,000 per annum with effect from 1 January 2017. No change had occurred in the non-executive Director base fee since 2013 or the Chairman's total fee since 2007.

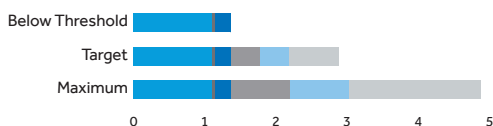
Executive Directors do not receive any Directors fees. The remuneration of the non-executive Directors is determined by the Board within the limits set out in the Articles of Association.

## Value and Composition of Remuneration Packages

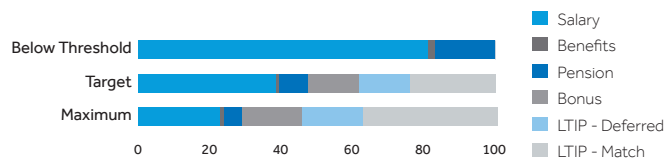
The Committee believes it is important for executive Directors and the senior management that a significant portion of the package is performance related and a significant portion is delivered in shares to align their interests with shareholders. The potential value and composition of the executive Directors' remuneration packages at below threshold, target and maximum scenarios under the SKG Remuneration Policy are set out in the charts below.

### A. Smurfit

VALUE OF PACKAGE (€m)

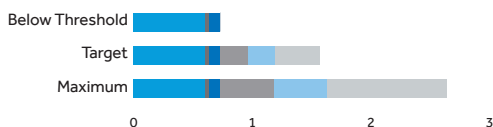


COMPOSITION OF OVERALL PACKAGE (%)

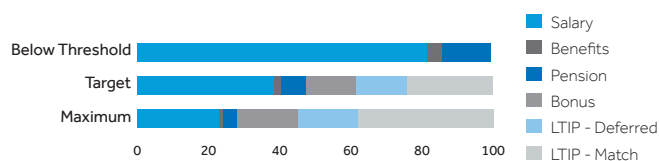


### K. Bowles

VALUE OF PACKAGE (€m)



COMPOSITION OF OVERALL PACKAGE (%)



In developing the scenarios the following assumptions have been made and exclude the effect of share price movements:

**Salary:** Salary at 1 January 2017.

**Benefits:** Estimate based on benefits received in 2016.

**Pension:** Cash in lieu rate or contribution rate applied to salary.

**Below Threshold:** No pay-outs under any incentive plan.

**Target:** 50% of the maximum potential under the annual bonus plan and Deferred Share Award is earned and a multiplier of 1.6875 times is applied to the Matching Share Awards.

**Maximum:** The maximum potential under the incentive plans is earned.

*End of Remuneration Policy.*

## Salary and Benefits

The base salaries for executive Directors are reviewed annually by the Compensation Committee taking into account the metrics set out in the Remuneration Policy on page 73. The remuneration of executive Directors and other senior executives is set after taking appropriate account of trends of other employees around the Group. At the first meeting each year the Committee receives a report from management on pay practices across the Group, including salary levels and trends, proposed bonus participation and payments and the proposal for general staff increases in all locations.

The outcome of the reviews in early 2017 and 2016 are set out below.

	From 1 January 2017	From 1 January 2016
A. Smurfit	0.0%	0.0%
K. Bowles	20%	N/A*
I. Curley	N/A**	0.0%

\* Mr Bowles' salary was set at €500,000 on his appointment as Group Chief Financial Officer on 1 April 2016 and was increased to €600,000 with effect from 1 January 2017.

\*\* Mr Curley stepped down as Group Chief Financial Officer on 31 March 2016.

The executive Directors are encouraged to accept a small number of external appointments as non-executive Directors or on industry associations. They are permitted to retain any payments received in respect of such appointments.

## Annual Bonus

Executive Directors participate in an annual bonus scheme which is based on the achievement of clearly defined stretching annual financial targets for some of the Group's Financial Key Performance Indicators ('KPI'), together with targets for Health and Safety, a comparison of the Group's financial performance compared to that of its peer group and strategic/personal objectives.

## Remuneration Report (continued)

The annual bonus calculated over the key target areas was as follows:

	2016		2015	
	Potential %	Outcome %	Potential %	Outcome %
EPS	25.0	9.2	25.0	10.9
FCF	20.0	-	20.0	3.5
ROCE	25.0	8.7	25.0	10.9
Peer Comparison	20.0	6.7	20.0	6.7
Health and Safety	10.0	10.0	10.0	10.0
	100.0	34.6	100.0	42.0

Targets and the weighting of targets are reviewed each year by the Compensation Committee in the context of the prior year performance, the position in the cycle, the annual budget and the strategic goals of the Group. EPS, FCF and ROCE (see Finance Review page 42) were the KPIs selected by the Committee for 2016. The peer comparison ensures that results, especially in a cyclical industry, while market driven, are as a result of the ongoing relative performance of the Group's operations and management teams rather than some windfall benefits. The peer group used for the annual bonus comprises the companies as set out on page 77. The Health and Safety targets ensure a continuing awareness that while driving the business, we continue to promote safe and healthy working conditions and conduct within the working environment throughout the organisation. Strategic/personal objectives which will have a maximum potential of 20% will ensure increased alignment with the strategic goals of the Group.

Specific targets for the 2016 Annual Bonus plan have not been disclosed in this report as they are considered to be commercially sensitive. The Committee recognises the continued focus on executive remuneration and is committed to providing additional transparency around remuneration payments. As such, going forward, we will disclose the target ranges that apply to bonuses when they are no longer considered commercially sensitive. It is currently intended that target ranges for 2016 bonuses will be disclosed in the 2017 Directors remuneration report subject to the information being no longer commercially sensitive at that time.

For members of the DABP (see below) the maximum bonus is 1.5 times the bonus percentages in the schedule above, with half of the bonus paid in cash and the balance deferred into Company shares which vest after three years subject to the continuity of employment of the executive or in certain circumstances based on normal good leaver provisions.

### Long-term Incentive Plans

In May 2011, the SKG AGM approved the adoption of the 2011 DABP.

#### Deferred Annual Bonus Plan

The size of award to each participant under the DABP is subject to the level of annual bonus outcome in any year. The maximum annual bonus potential for participants in the DABP is 150% of salary. The actual bonus in any financial year is based on the achievement of clearly defined stretching annual financial targets for some of the Group's KPIs as set out above. The structure of the plan is that 50% of any annual bonus earned for a financial year will be deferred into SKG plc shares ('Deferred Shares') to be granted in the form of a Deferred Share Award. The Deferred Shares will vest (i.e. become unconditional) after a three-year holding period based on continuity of employment or in certain circumstances based on normal good leaver provisions.

At the same time as the grant of a Deferred Share Award, a Matching Share Award can be granted up to the level of the Deferred Share Award. Following a three-year performance period, the Matching Shares could vest up to a maximum of 3 times the level of the Deferred Share Award. The maximum match was reduced to 2.25 times by the Committee for the awards for the 2015-2017 and the 2016-2018 performance periods. Matching Share Awards will vest provided the Compensation Committee consider that the Group's ROCE and TSR are competitive against the constituents of a comparator group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Share Awards will be dependent on the achievement of the Group's cumulative FCF<sup>(1)</sup> and ROCE targets measured over the same three-year performance period on an inter-conditional basis and the multiplier will be calculated by interpolation.

The actual performance targets assigned to the Matching Awards are set by the Compensation Committee on the granting of awards at the start of each three-year cycle. The Group is required to lodge the actual targets with the Group's Statutory Auditor prior to the grant of any awards under the DABP. In the event of an acquisition/disposal in the three year performance period the Committee will assess whether the financial performance of the acquired/disposed business should be included/excluded and targets adjusted accordingly.

The Compensation Committee is entitled to claw back some or all of the shares which are the subject of a participant's Deferred Share Award or Matching Share Award at any time if, in the opinion of the Committee (acting fairly and reasonably) either the underlying performance of the Group or the occurrence of an event that causes or is likely to cause reputational damage to the Group, or serious misconduct by the participant warrants this.

In 2014, Matching Share Awards totalling 403,645 SKG shares were granted to eligible employees which gave a potential maximum of 1,076,095 SKG shares that could vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2016.

<sup>(1)</sup> In calculating FCF, capital expenditure will be set at a minimum of 90% of depreciation for the three-year performance cycle.

The targets for the three-year period ending on December 2016 which were set in 2014, were as follows:

## Targets and Match Matrix

		Three-year performance period 2014 - 2016			
		ROCE			
		Below Threshold	Threshold	Target	Stretch
	<i>Level of performance attained over three-year period</i>				
	<b>Below Threshold</b>	0	0	0	0.5
<b>FCF (€m)</b>	<b>1,068</b>	<b>Threshold</b>	0	1	1.125
	<b>1,225</b>	<b>Target</b>	0	1.125	1.6875
	<b>1,388</b>	<b>Stretch</b>	0.5	1.5	1.875
					2.25

Over the past three years, the management team has generated an EBITDA of over €1 billion annually with a record €1,236 million in 2016, reduced the leverage and successfully repositioned the Group's capital structure. ROCE and FCF for the three-year period to December 2016 amounted to 45.2% and €1.07 billion respectively (adjusted to exclude effect of acquisitions in the three year period and targets were adjusted to reflect disposals in the three year period) and as a result the Matching Shares which were awarded in 2014 under the DABP resulted in a 1.02 times match from a maximum 2.25 times which was approved by the Committee in February 2017.

In March 2016, Deferred Share Awards totalling 447,514 SKG shares were granted to eligible employees in respect of the financial year ended 31 December 2015. Matching Share Awards totalling 261,501 SKG shares were also granted which give a potential maximum of 708,006 SKG shares that may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2018.

Deferred Share Awards and Matching Share Awards will be granted in 2017 to eligible employees in respect of the financial year ended 31 December 2016. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2019.

Details of the executive Directors' awards are set out on page 83.

## 2007 Share Incentive Plan

This scheme expired for the purpose of issuing invitations to subscribe for convertible shares, however a number of earlier convertible shares remain extant.

Invitations to subscribe under the 2007 Share Incentive Plan were in the form of new class B convertible shares and new class C convertible shares for which executives were invited to subscribe at a nominal value of €0.001 per share.

The maximum aggregate market value of the new class B and new class C convertible shares that could be issued in any year to an executive under the plan was 150% of basic salary divided equally into new class B and new class C convertible shares. On satisfaction of specified performance conditions, the new class B convertible shares and the new class C convertible shares automatically converted on a one-for-one basis into D convertible shares. The performance condition was based on the Group's total shareholder return over a three-year period relative to the total shareholder return of a peer group of companies ('TSR condition') with the Compensation Committee retaining an overriding discretion to disallow the vesting of the award in full or in part if, in its opinion the Group's underlying financial performance or total shareholder return (or both) was unsatisfactory during the performance period. The peer group of companies are as set out below. The D convertible shares may be converted by the holder on a one-for-one basis into ordinary shares, upon payment of a conversion price. The conversion price for each D convertible share was the average of the market value of an ordinary share for the three consecutive dealing days immediately prior to the date the executive was invited to subscribe for the new class B or new class C convertible shares, less the nominal subscription price paid per share. The performance period for the new class B and new class C convertible shares was three financial years.

Details of restrictions on transfer of shares are set out in Note 22 on page 128. Details of the executive Directors' holdings of convertible shares are set out on page 83.

## Peer Group of Companies

	Company	Region
1	Billerud	Europe
2	Mondi	Europe
3	Metsa Board	Europe
4	Norske Skog	Europe
5	Stora Enso	Europe
6	UPM-Kymmene	Europe
7	DS Smith plc	Europe
8	Cascades/Norampac	North America
9	International Paper	North America
10	Packaging Corporation of America	North America
11	West Rock	North America
12	Bio-PAPPEL	Latin America
13	Klabin	Latin America



## Pensions

Mr Smurfit, Mr Bowles and Mr Curley (until he stepped down on 31 March 2016) participated in a Group contributory defined benefit pension plan based on an accrual rate of 1/60th of pensionable salary for each year of pensionable service and was designed to provide two thirds of salary at retirement for full service. The defined benefit plan which Mr Smurfit and Mr Bowles are members of closed to future accrual with effect from 30 June 2016 and was replaced by a defined contribution plan.

Mr McGann was a member of a defined contribution pension plan.

All pension benefits are determined solely in relation to basic salary. Fees paid to non-executive Directors are not pensionable.

The Irish Finance Act 2006 effectively established a cap on pension provision by introducing a penalty tax charge on pension assets in excess of the higher of €5 million or the value of individual prospective pension entitlements as at 7 December 2005. As a result of these legislative changes, the Compensation Committee of SKG decided that Irish based executive Directors should have the option once they reached the cap of continuing to accrue pension benefits as previously, or of choosing an alternative arrangement with a similar overall cost to the Group.

Mr Smurfit (in 2016 and 2015) chose an alternative arrangement which involved capping his individual pension in line with the provisions of the Finance Act and receiving a supplementary taxable non-pensionable cash allowance, in lieu of prospective pension foregone. This was calculated based on actuarial advice as the equivalent of the reduction in SKG's liability to the individual and spread over the term to retirement as annual compensation allowances and was fixed at 30 June 2016 on the closure of the defined benefit plan to future accrual.

## Total Executive Directors' Remuneration in 2016

The following table shows a single figure of total remuneration for each executive Director for the year 2016 calculated under the BEIS disclosure rules. The individual remuneration in the tables below is also set out on page 81. The LTIP columns reflect LTIP awards received or receivable for periods of more than one financial year where the final vesting was determined as a result of performance measures that ended in 2016, the year being reported on, and are not subject to achievement of performance measures or targets in a future financial year.

	Basic salary €'000	Annual cash bonus €'000	Pension €'000	Benefits €'000	Individual remuneration €'000	LTIP			Total €'000
						Deferred shares €'000	Performance element <sup>1</sup> €'000	Share price appreciation element <sup>2</sup> €'000	
<b>Directors*</b>									
A. Smurfit	1,100	285	253	25	<b>1,663</b>	285	366	93	<b>2,407</b>
K. Bowles**	42	11	7	2	<b>62</b>	14	-	-	<b>76</b>
I. Curley***	191	66	25	15	<b>297</b>	-	-	-	<b>297</b>

1 Performance element - matching shares that vested in February 2017 at the grant price in 2014. They vested as a result of the achievement of the relevant performance targets for the three-year period ended 31 December 2016.

2 Share price appreciation element - the estimated additional value generated through share price growth over the grant price in 2014. The share price used is €25.39 compared to the grant price of €20.23 per share.

\* Mr McGann, who retired as Group Chief Executive Officer and became a non-executive Director on 31 August 2015 had an LTIP performance element of €288,014 and a share price appreciation element of €73,463 resulting from awards he retained as set out on page 83.

\*\* Mr Bowles was appointed Group Chief Financial Officer on 1 April 2016 and a Director on 8 December 2016.

\*\*\* Mr Curley stepped down as Group Chief Financial Officer and Director on 31 March 2016.

## Total Executive Directors' Remuneration in 2015

	Basic salary €'000	Annual cash bonus €'000	Pension €'000	Benefits €'000	Individual remuneration €'000	LTIP			Total €'000
						Deferred shares €'000	Performance element €'000	Share price appreciation element <sup>1</sup> €'000	
<b>Directors</b>									
A. Smurfit*	963	303	240	25	1,531	303	785	705	3,324
I. Curley	764	241	163	48	1,216	241	727	652	2,836
G. McGann*	842	530**	300	12	1,684	-**	1,135	1,018	3,837

1 Share price appreciation element - the estimated additional value generated through share price growth over the grant price in 2013. The share price used is €22.56 compared to the grant price of €11.89 per share.

\* Mr Smurfit was appointed Group Chief Executive Officer on 1 September 2015. Mr McGann retired as Group Chief Executive Officer on 31 August 2015.

\*\* None of Mr McGann's annual bonus was deferred as he had retired at the date of receipt.

## Percentage Change in Group Chief Executive Officer Remuneration

Details of the salary, annual bonus and benefits of the Group Chief Executive Officer are set out below:

		Basic salary €'000	Annual cash bonus €'000	Benefits €'000
Group Chief Executive Officer	2016	1,100	285	25
	2015*	1,208**	645**	20**
	% change	(8)	(56)	25

\* Mr Smurfit was appointed Group Chief Executive Officer on 1 September 2015. Mr McGann retired as Group Chief Executive Officer on 31 August 2015.

\*\* Represents amounts corresponding to Mr McGann's eight months in office and Mr Smurfit's four months in office.

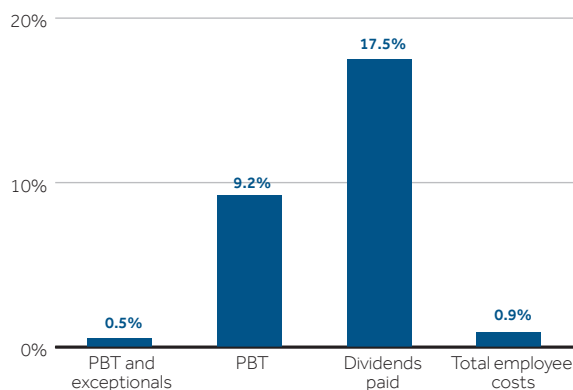
## Relative Importance of Spend on Pay

The following tables set out the amounts and percentage change in profit, dividends and total employee costs for the financial years ended 31 December 2016 against 2015.

	2016 €m	2015 €m
Profit before income tax and exceptional items	657	654
Profit before income tax ('PBT')	654	599
Dividends paid to shareholders	166	141
Total employee costs <sup>1</sup>	1,972	1,955

<sup>1</sup> Total employee costs for continuing operations, includes wages and salaries, social security costs, share-based payment expense, pension costs and redundancy costs for all employees, including Directors. The average full time equivalent number of employees, including Directors and part-time employees in continuing operations was 45,524 (2015: 43,354) with the increase being mainly due to the acquisitions made during the year.

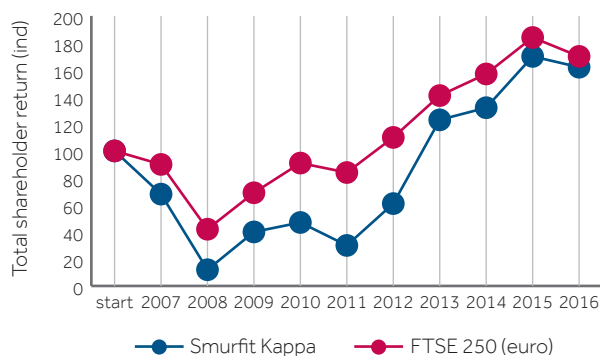
## Percentage Change of Spend on Pay 2016 vs 2015



## Total Shareholder Return Performance

The performance graph below shows the Group TSR performance since IPO in March 2007 to December 2016 against the performance of the FTSE 250 over the same period. The FTSE 250 has been chosen as it is a broad equity market index.

### Total Return Indices - Smurfit Kappa vs FTSE 250



### Group Chief Executive Officer Performance

The table below summarises the single figure of total remuneration for the Group Chief Executive Officer for the past eight years as well as how the actual awards under the annual bonus and LTIP compare to the maximum opportunity.

		Single figure of total remuneration	Annual bonus award against maximum opportunity	LTIP award against maximum opportunity
	<b>Group Chief Executive Officer</b>	€'000		
2016	A. Smurfit	2,408	35%*	45% <sup>1</sup>
2015	A. Smurfit (appointed 1 September)	1,180	42%*	67% <sup>1</sup>
2015	G. McGann (retired 31 August)	3,837	42%*	67% <sup>1</sup>
2014	G. McGann	7,203	55%*	75% <sup>1</sup>
2013	G. McGann	5,278	54%*	93% <sup>1</sup>
2012	G. McGann	3,169	60%*	30% <sup>2</sup>
2011	G. McGann	3,358	65%*	100% <sup>3</sup>
2010	G. McGann	2,641	55%	- <sup>4</sup>
2009	G. McGann	2,231	23%	- <sup>4</sup>

<sup>1</sup> The Matching and Conditional Matching Awards (see page 83) granted in 2014, 2013, 2012 and 2011 vested in February 2017, 2016, 2015 and 2014 respectively based on the achievement of the relevant performance targets for the three-year periods ending on 31 December 2016, 2015, 2014 and 2013.

<sup>2</sup> The awards under the 2007 Share Incentive Plan ('SIP') vested 30% in February 2013 with the TSR condition being at the median.

<sup>3</sup> The SIP awards vested 100% in February 2012 with the TSR condition being in the upper quartile of the peer group.

<sup>4</sup> The SIP awards lapsed in March 2010 and March 2011 respectively having failed to meet the required performance conditions.

\* The annual bonus award for 2016, 2015, 2014, 2013, 2012 and 2011 was paid 50% in cash and 50% in Deferred Share Awards.

The information below forms an integral part of the audited Consolidated Financial Statements as described in the Basis of Preparation on page 102.

### Directors' Remuneration

	2016 €'000	2015 €'000
<b>Executive Directors</b>		
Basic salary	1,333	2,569
Annual cash bonus	362	1,074
Pension	285	703
Benefits	42	85
Executive Directors' remuneration	2,022	4,431
Average number of executive Directors	1	3
<b>Non-executive Directors</b>		
Fees	1,265	1,278
Non-executive Directors' remuneration	1,265	1,278
Average number of non-executive Directors	11	11
<b>Directors' remuneration</b>	<b>3,287</b>	<b>5,709</b>

## Individual Remuneration for the Financial Year Ended 31 December 2016

	Basic salary and fees €'000	Annual cash bonus €'000	Pension <sup>1</sup> €'000	Benefits €'000	Total 2016 €'000	Total 2015 €'000
<b>Executive Directors</b>						
A. Smurfit <sup>2</sup>	1,100	285	253	25	<b>1,663</b>	1,531
K. Bowles <sup>3</sup>	42	11	7	2	<b>62</b>	-
I. Curley <sup>3</sup>	191	66	25	15	<b>297</b>	1,216
G. McGann <sup>2</sup>	-	-	-	-	<b>-</b>	1,684
	<b>1,333</b>	<b>362</b>	<b>285</b>	<b>42</b>	<b>2,022</b>	<b>4,431</b>
<b>Non-executive Directors</b>						
L. O'Mahony	300				<b>300</b>	300
F. Beurskens <sup>4</sup>	110				<b>110</b>	130
C. Bories	80				<b>80</b>	80
T. Brodin	135				<b>135</b>	117
I. Finan	120				<b>120</b>	88
J. Lawrence <sup>5</sup>	80				<b>80</b>	15
G. McGann <sup>2</sup>	80				<b>80</b>	27
S. Mencoﬀ <sup>6</sup>	-				<b>-</b>	65
J. Moloney	80				<b>80</b>	80
R. Newell	80				<b>80</b>	80
G. Restrepo <sup>5</sup>	80				<b>80</b>	47
N. Restrepo <sup>6</sup>	-				<b>-</b>	33
P. Stecko <sup>6</sup>	-				<b>-</b>	96
R. Thorne	120				<b>120</b>	120
	<b>1,265</b>				<b>1,265</b>	<b>1,278</b>

Mr Smurfit acted as a non-executive Director of C&C Group plc up to March 2016 and received €20,168 in respect of the appointment for the period.

1 Pension: The Irish Finance Act 2006 effectively established a cap on pension provision by introducing a penalty tax charge on pension assets in excess of the higher of €5 million or the value of individual prospective pension entitlements as at 7 December 2005. As a result of these legislative changes, the Compensation Committee of SKG in 2007 decided that Irish based executive Directors should have the option once they reached the cap of continuing to accrue pension benefits as previously, or of choosing an alternative arrangement with a similar overall cost to the Group.

Mr Smurfit (in 2016 and 2015) chose the alternative arrangement and received a supplementary taxable non-pensionable cash allowance in lieu of contributions to a pension fund in the amount of €225,500 (2015: €191,964). Mr McGann chose the alternative arrangement in 2015 and received €300,000 as a supplementary taxable non-pensionable cash allowance.

The aggregate amount of contributions paid to defined contribution schemes and defined benefit schemes in respect of Directors was €32,097 (2015: €100,045) and €27,500 (2015: €100,749) respectively.

2 Mr Smurfit was appointed Group Chief Executive Officer on 1 September 2015. Mr McGann retired as Group Chief Executive Officer and became a non-executive Director on 31 August 2015. None of Mr McGann's annual bonus was deferred as he had retired at the date of receipt.

3 Mr Bowles who was appointed Group Chief Financial Officer on 1 April 2016 was appointed a Director on 8 December 2016. Mr Curley stepped down as Group Chief Financial Officer and Director on 31 March 2016 and details of the payment in lieu of notice is set out on page 82.

4 Mr Beurskens' fees include an additional fee of €30,000 (2015: €50,000) for services as a Director of a Group subsidiary.

5 Mr Restrepo joined the Board in June 2015 and Mr Lawrence joined the Board in October 2015.

6 Mr Stecko and Mr Mencoﬀ retired from the Board in October 2015. Mr N. Restrepo passed away in March 2015.

### Share-based Payment

In addition to the above the executive Directors receive Deferred Share Awards and Matching Share Awards details of which are outlined on page 83 of this report. The share-based payment expense recognised in the Consolidated Income Statement for the executive Directors in the year totalled €489,830 (2015: €3,710,424).



## Pension Entitlements – Defined Benefit

	Increase/(decrease) in accrued pension during year <sup>1</sup>	Transfer value of increase/(decrease) in accrued pension <sup>2</sup>	2016 Total accrued pension <sup>3</sup>
Executive Directors	€'000	€'000	€'000
A. Smurfit	-	15	271
K. Bowles	-	-	77

The defined benefit plan which Mr Smurfit and Mr Bowles are members of closed to future accrual with effect from 30 June 2016 and was replaced by a defined contribution plan.

- <sup>1</sup> Increases are after allowing for inflation over the year if applicable.
- <sup>2</sup> In the case of Mr Smurfit retirement benefits payable on death in retirement continue to accrue in accordance with scheme rules so transfer values have been included and calculated on the basis of actuarial advice. These transfer values do not represent sums paid or due, but are the amounts that the pension scheme would transfer to another pension scheme in relation to the benefits accrued in 2016 in the event of the member leaving service.
- <sup>3</sup> Accrued pension benefit is that which would be paid annually on normal retirement date. The defined benefit accrued pension for Mr Smurfit has been set at his Personal Fund Threshold level.

## Additional information

### Payments to former directors

In October 2016, Mr Curley availed of a 100% Transfer Option offered to all deferred members of the pension scheme, that is, a transfer value calculated as set out in statutory guidance issued by the Pensions Authority in Ireland. As a result the pension scheme paid €4,686,276 into Mr Curley's own retirement fund.

In February 2017, based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2016, 12,456 matching shares vested and were distributed to Mr Curley. The market price at the date of vesting was €25.39.

### Payments in lieu of notice

After 27 years of service with the Group, Ian Curley stepped down as a Director and Group Chief Financial Officer with effect from 31 March 2016. His remuneration as CFO continued as normal up to that date, including annual bonus entitlement pro-rated to reflect the portion of the year he remained employed. On stepping down from his role of CFO, he received a payment in accordance with his contract of €1,631,622, being equivalent to his annual salary, the highest annual bonus for the most recent three years, being 2013, the regular pension contribution in respect of the annual salary and the cash value of any benefits.

He also retained in accordance with the terms of the LTIP entitlement to all vested awards under the LTIP. In relation to awards that had not vested at the time he stepped down as CFO, and to the extent that those awards subsequently meet the relevant performance targets, his award shall vest on a pro-rated basis to reflect the portion of the vesting period during which he served as an employee of the Company. Performance will be tested at the end of the performance period as part of the normal process.

## Directors' Interests in Share Capital at 31 December 2016

The interests of the Directors and Secretary in the shares of the Company as at 31 December 2016 which are beneficial unless otherwise indicated are shown below. The Directors and Secretary have no beneficial interests in any of the Group's subsidiary or associated undertakings.

	31 December 2016**	31 December 2015*
<b>Ordinary Shares</b>		
<b>Directors</b>		
L. O'Mahony	19,830	19,830
F. Beurskens	2,500	2,500
C. Bories	1,800	-
T. Brodin	30,000	30,000
I. Finan	8,650	-
J. Lawrence	335,000	150,000
G. McGann	443,531	397,810
J. Moloney	8,000	3,000
R. Newell	4,965	-
R. Thorne	10,000	10,000
A. Smurfit	1,125,332	1,100,568
K. Bowles*	17,754	17,754
I. Curley**	84,267	84,267
<b>Secretary</b>		
M. O'Riordan	110,018	95,018

\* Or at date of appointment if later.

\*\* Or at date of departure if earlier.

The changes in the Directors' and Secretary's interests between 31 December 2016 and 9 March 2017 were as follows: Mr McGann, Mr Smurfit, Mr Bowles and Mr O'Riordan increased their holdings by 7,389, 35,821, 4,612 and 5,000 shares respectively in February 2017, following the vesting of Deferred and Matching Share Awards.

## Convertible Shares

	Note	31 December 2015	Exercised	31 December 2016	Conversion price	Expiry date
<b>Secretary</b>						
M. O'Riordan	D (converted from B)	I	11,050	<b>*11,050</b>	4.36	Sep 2019
	D (converted from C)	I	11,050	<b>*11,050</b>	4.36	Sep 2019
	D (converted from B)	I	3,273	<b>*3,273</b>	6.50	Mar 2020
	D (converted from C)	I	3,273	<b>*3,273</b>	6.50	Mar 2020

## Convertible Shares

*l. Issued under the 2007 Share Incentive Plan – see note on page 77. The shares automatically converted into D convertible shares to the extent that the performance conditions were achieved at the end of three years.*

*\* These shares were exercised in February 2017 and the market price at the date of exercise was €25.39.*

## Deferred Annual Bonus Plan Awards

### Deferred Share Awards and Matching Share Awards

Deferred Share Awards and Matching Share Awards were granted to eligible employees in 2016 in respect of the financial year ended 31 December 2015. The Matching Share Awards may vest up to a maximum of 2.25 times the Deferred Share Award, based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2018.

	31 December * 2015		Granted (Lapsed) in year 2016		Shares distributed on vesting		31 December ** 2016		Market price on award date	Performance period
	Deferred	Matching	Deferred	Matching	Deferred	Matching	Deferred	Matching		
<b>Directors</b>										
A. Smurfit	32,997	32,997			(32,997) <sup>1</sup>	(66,060) <sup>1</sup>	-	-	11.89	01/01/2013- 31/12/2015
	17,733	17,733					17,733 <sup>4</sup>	17,733 <sup>4</sup>	20.23	01/01/2014- 31/12/2016
	15,450	15,450					15,450	15,450	24.05	01/01/2015- 31/12/2017
			13,265	13,265			13,265	13,265	22.84	01/01/2016- 31/12/2018
K. Bowles*	5,742	3,828					5,742 <sup>4</sup>	3,828 <sup>4</sup>	20.23	01/01/2014- 31/12/2016
	4,464	2,976					4,464	2,976	24.05	01/01/2015- 31/12/2017
	3,559	3,559					3,559	3,559	22.84	01/01/2016- 31/12/2018
G. McGann	-	47,683				(95,461) <sup>1</sup>	-	-	11.89	01/01/2013- 31/12/2015
	-	16,749		(2,791) <sup>3</sup>				13,958 <sup>4</sup>	20.23	01/01/2014- 31/12/2016
	-	7,282		(2,428) <sup>3</sup>				4,854	24.05	01/01/2015- 31/12/2017
I. Curley**	30,549	30,549			(30,459) <sup>1</sup>	(61,159) <sup>1</sup>	-	-	11.89	01/01/2013- 31/12/2015
	16,282	16,282		(4,070) <sup>3</sup>	(16,282) <sup>2</sup>		-	12,212 <sup>4</sup>	20.23	01/01/2014- 31/12/2016
	13,202	13,202		(7,701) <sup>3</sup>	(13,302) <sup>2</sup>			5,501	24.05	01/01/2015- 31/12/2017
	-	-	10,525		(10,525) <sup>2</sup>		-	-	22.84	01/01/2016- 31/12/2018
<b>Secretary</b>										
M. O'Riordan	12,159	12,159			(12,159) <sup>1</sup>	(24,342) <sup>1</sup>	-	-	11.89	01/01/2013- 31/12/2015
	7,239	7,239					7,239 <sup>4</sup>	7,239 <sup>4</sup>	20.23	01/01/2014- 31/12/2016
	5,364	5,364					5,364	5,364	24.05	01/01/2015- 31/12/2017
	-	-	4,277	4,277			4,277	4,277	22.84	01/01/2016- 31/12/2018

<sup>1</sup> The deferred shares vested in February 2016 and were distributed. The market price at date of vesting was €22.56.

Based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2015 the matching shares vested in February 2016 with a match of 2 times the level of the Matching Share Award and were distributed. The market price at the date of vesting was €22.56.

<sup>2</sup> Shares vested and were distributed when Mr Curley stepped down on 31 March 2016.

<sup>3</sup> Shares lapsed due to Mr Curley's departure and Mr. McGann's retirement.

<sup>4</sup> The deferred shares vested in February 2017 and were distributed. The market price at date of vesting was €25.39.

Based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2016 the matching shares vested in February 2017 with a match of 1.02 times the level of the Matching Share Award and were distributed. The market price at the date of vesting was €25.39.

\* or at date of appointment if later.

\*\* or at date of departure if earlier.

The market price of the Company's shares at 31 December 2016 was €21.79 and the range during 2016 was €18.23 to €25.12.

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

**Statement on Shareholder Voting**

The Company is committed to ongoing shareholder dialogue when formulating remuneration policy. If there are substantial numbers of votes against resolutions in relation to directors' remuneration the Company will seek to understand the reasons for any such vote and will provide details of any actions in response to such a vote.

The following tables show the voting outcome at the 6 May 2016 AGM for the 2015 Directors' Remuneration Report.

Directors' Remuneration Report

<b>Votes for and discretionary</b>	<b>% votes cast</b>	<b>Votes against</b>	<b>% votes cast</b>	<b>Total votes cast</b>	<b>Vote withheld</b>
130,780,426	95.3%	6,506,857	4.7%	137,287,283	1,415,867

# Nomination Committee Report



**Thomas Brodin**  
Chairman of the Nomination Committee

As Chairman of the Nomination Committee I am pleased to present the report of the Committee in relation to the financial year ended 31 December 2016.

## Role of the Nomination Committee

The role of the Nomination Committee ('the Committee') is to:

- lead the process for appointments to the Board and making recommendations to the Board
- evaluate the balance of skills, knowledge, experience and diversity on the Board and preparing descriptions of the role and requirements for new appointees
- give full consideration to succession planning for Directors.

The Committee uses the services of external advisors where necessary in order to assist in the search for new appointments to the Board and they are provided with a brief which takes into consideration the skills, experience and diversity, both gender and geographical, required at the time to give balance to the Board. When suitable candidates have been identified some Committee members will meet with them and if a candidate is agreed upon, the Committee will then recommend the candidate to the Board. All appointments to the Board are approved by the Board as a whole. Non-executive Directors are expected to serve two three-year terms although they may be invited to serve for a further period.

All newly appointed Directors are subject to election by shareholders at the AGM following their appointment and in compliance with the Code all Directors are required to retire at each AGM and offer themselves for re-election.

The terms and conditions of appointment of non-executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM of the Company.

The role and responsibilities of the Committee are set out in its Terms of Reference which is available on the Group's website: [smurfitkappa.com](http://smurfitkappa.com). The Terms of Reference are reviewed each year by the Committee.

## Membership of the Committee

The Committee is currently comprised of six non-executive Directors. The Committee met two times during the year under review. Details of Committee members and meetings attended are provided in the table below. The Group Chief Executive Officer normally attends meetings of the Committee.

Attendance record	A*	B*	Appointment date
<b>T. Brodin - Chairman</b>	2	2	2008
<b>F. Beurskens</b>	2	2	2013
<b>J. Lawrence</b>	2	2	2015
<b>G. McGann</b>	2	2	2015
<b>L. O'Mahony</b>	2	2	2007
<b>R. Thorne</b>	2	2	2008

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

## Main Activities during the Year

During the year the Committee evaluated the composition of the Board with respect to the balance of skills, knowledge, experience and diversity, including geographical and gender diversity, on the Board and updated a policy document on Board succession which was approved by the Board.

The Committee identified and recommended to the Board that Mr Bowles, Group Chief Financial Officer, be appointed as an executive Director with effect from 8 December 2016. His biography is set out on page 56.

The Committee instigated a search for a new non-executive Director in 2016 as part of the ongoing Board renewal process, using the services of an external advisor, KORN/FERRY Whitehead Mann, who do not have any other affiliation with the Group and continued the process through 2017. Mr Rasmussen was identified through the search process. Following interviews with KORN/FERRY Whitehead Mann and a number of the Committee members, the Committee recommended Mr Rasmussen for co-optation to the Board. The appointment of Mr Rasmussen was confirmed by the Board in March 2017. Mr Rasmussen has significant experience of international markets and the fast moving consumer goods sector specifically, a sector we are a major supplier to. His biography is set out on page 58.

The Terms of Reference and the performance of the Committee was reviewed and the Committee is considered to be operating effectively and efficiently.

Finally having served nine years as a Board member, I will be stepping down at the AGM on 5 May 2017. I would like to thank my fellow Board members for their support over the years and I wish SKG continuing success in the future.

**Thomas Brodin**  
Chairman of the Nomination Committee

9 March 2017





Dominik Dohr attending the Advanced Management Development programme (AMD) in Dublin. Further details on our training and development programmes are included in the People section on page 51.

# Financials

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# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable laws and regulations.

Irish company law requires the Directors to prepare an Annual Report including Financial Statements for each financial year which give a true and fair view of the Group's and the Company's assets, liabilities and financial position at the end of the year and of the profit or loss of the Group for that financial year. The Directors have prepared the Group and the Company Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and as regards the Company's Financial Statements, in accordance with the provisions of the Companies Act.

In preparing the Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- comply with applicable International Financial Reporting Standards as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements;
- include any additional information required by the Companies Act; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are also required by Irish law and the Listing Rules to prepare a Directors' Report and reports relating to Directors' remuneration and corporate governance. In accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 as amended (the 'Transparency Regulations'), the Directors are required to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors confirm that they have complied with the above requirements in preparing the 2016 Annual Report and Consolidated Financial Statements.

The Directors are responsible for:

- keeping accounting records that are sufficient to correctly record and explain the transactions of the Company;
- disclosing with reasonable accuracy at any time the financial position of the Company and the Group;
- maintaining adequate accounting records which enable those financial statements to be audited;
- ensuring that the Financial Statements comply with the Companies Act and as regards the Group Consolidated Financial Statements, Article 4 of the International Accounting Standards ('IAS') Regulation.

They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Directors' Statement Pursuant to the Transparency Regulations and UK Corporate Governance Code

Each of the Directors, whose names and functions are listed on pages 56 to 58, confirms that, to the best of each person's knowledge and belief:

As required by the Transparency Regulations:

- the Annual Report and Consolidated Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the Company and the Group and of the profit of the Group; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face.

As required by the UK Corporate Governance Code:

- the Annual Report and Financial Statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable.

On behalf of the Board

### A. Smurfit

Director and Group Chief Executive Officer

### K. Bowles

Director and Group Chief Financial Officer

9 March 2017

# Independent Auditors' Report

to the members of Smurfit Kappa Group plc

## Report on the financial statements

### Our opinion

In our opinion:

- Smurfit Kappa Group plc's Consolidated Financial Statements and Company Financial Statements (the "financial statements") give a true and fair view of the Group's and the Company's assets, liabilities and financial position as at 31 December 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation.

### What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated and Company Balance Sheets at 31 December 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the financial year then ended;
- the Consolidated and Company Statements of Cash Flows for the financial year then ended;
- the Consolidated and Company Statements of Changes in Equity for the financial year then ended; and
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and IFRSs as adopted by the European Union and, as regards the Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2014.

### Our audit approach

#### Overview



#### Materiality

- Overall Group materiality: €30 million (2015: €29 million) which represents circa 2.5% of pre-exceptional EBITDA (earnings before exceptional items, net finance costs, income tax expense, depreciation and intangible asset amortisation).

#### Audit scope

- The Group is structured along two operating segments being Europe and the Americas. The Consolidated Financial Statements are a consolidation of 367 operating plants and centralised functions spread across 34 countries. We conducted audit work in 22 countries.
- Taken together, the territories and functions where we performed our audit work accounted for 72% of Group revenues and 83% of the Group's pre-exceptional EBITDA and 83% of the Group's total assets.

#### Areas of focus

- Goodwill impairment assessment
- Venezuela – political and associated risks
- Taxation – valuation of deferred tax assets
- Employee benefits – valuation of retirement benefits liabilities

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole. This is not a complete list of all risks identified by our audit.



## Independent Auditors' Report

(continued)

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### Area of focus

#### Goodwill impairment assessment

Refer to page 68 (Audit Committee Report), Note 3 Significant accounting judgements, estimates and assumptions and Note 13 Goodwill and intangible assets.

At 31 December 2016 goodwill amounted to €2,298 million. The goodwill is allocated to 16 Cash Generating Units (CGUs) and three units each individually account for between 10% and 20% of the total carrying amount. The three units are Europe France, Europe Benelux and Europe Germany, Austria and Switzerland as set out in Note 13 where the Directors' annual impairment review is described in detail. No impairment was recognised during the year.

We focused on this area because the Directors' assessment of the carrying value of goodwill involves complex and subjective judgements by the Directors about the future results of the business.

We focused on those CGUs we considered to carry more judgement due to historic underperformance against budget or where management's impairment assessment gave lower headroom relative to other CGUs, in particular, the Europe France and Brazil CGUs.

### How our audit addressed the area of focus

In performing our work we paid particular attention to the CGUs with limited headroom, the Europe France CGU (see Note 13) and Brazil which was acquired in late 2015.

We evaluated the Directors' future cash flow forecasts, including comparing them to the latest Board approved budget. We compared actual historic results to budget as part of our consideration of the forecasting process.

For each of the 16 CGUs, we challenged the Directors' key trading assumptions which comprise volume, price and certain costs such as energy and recovered fibre. Where appropriate we compared the assumptions to external data such as RISI paper pricing forecasts, IMF economic growth indicators, IMF inflation forecasts and similar data.

We also considered the appropriateness of the discount rate used by the Group by assessing the assumptions used in the weighted average cost of capital calculation against external benchmarks. We assessed the terminal value calculation by reference to comparable industry multiples.

We performed sensitivity analysis by changing certain assumptions and considered the likelihood of such changes arising.

We considered the disclosures in the Annual Report in relation to these matters. The Directors have described their impairment review in detail in Note 13, including the impact on goodwill of changes to assumptions, in particular, the impact of changes in assumptions in respect of the Europe France CGU.

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#### Venezuela – political and associated risks

Refer to page 68 (Audit Committee Report), and Note 3 Significant accounting judgements, estimates and assumptions.

At 31 December 2016 the Group's net assets in Venezuela amount to €91 million and cumulative foreign translation losses arising on its net investment in these operations amounting to €987 million are included in the foreign currency translation reserve. The economy, which is heavily dependent on oil revenues, is hyperinflationary and there are extensive exchange controls and multiple exchange rates. The Group is exposed to a number of risks in relation to its operations in Venezuela, where the political climate continues to be unpredictable and the operating environment is severely restricted and difficult. The principal risks and uncertainties with respect to Venezuela are outlined in the Directors' Report on page 65 and the key judgements and estimates are set out in Note 3. The choice of the appropriate exchange rate to consolidate the results for Venezuela is a key judgement.

Following changes to the system of multiple exchange rates in Venezuela in March 2016, the Group changed the rate at which it consolidates its Venezuelan operations as at 31 March 2016 from the Simadi rate to the variable DICOM rate. The Group believes that the DICOM rate is the rate at which it extracts economic benefit. The DICOM rate at 31 December 2016 was Venezuelan Bolivar Fuerte ("VEF") 673.76 per US dollar compared to the Simadi rate of VEF 198.70 per US dollar at 31 December 2015.

We focused on this area due to the political and associated risks and the severe operating restrictions which the Group's businesses in Venezuela face and the existence of multiple exchange rates which are materially different. Due to the absence of a published official inflation rate, management used an independent expert to estimate inflation for the year. We considered the judgements made by the Directors in determining that they continue to control their operations and on the choice of the appropriate exchange rate to use for consolidation of the Venezuelan operations and on the inflation rate used to record hyperinflation adjustments. We also considered the Directors' impairment assessment in respect of non-current assets in Venezuela.

We updated our understanding of the key developments during the current year and up to the date the financial statements were approved and considered the potential impact on the financial statements, including disclosures.

We read public pronouncements by the Venezuelan Government and authorities and other appropriate commentators and we discussed the operating environment in detail with our PwC Venezuela audit team.

We challenged the Directors' conclusion that they continue to control their operations by considering the factors set out in IFRS 10 that are taken into account in assessing control, namely, whether the Directors continue to have the ability to direct the Venezuelan operations, whether the Group is exposed, or has the rights, to variable returns from the operations in Venezuela, and, whether the Directors have the ability to affect the amount of the returns from Venezuela.

We considered the latest guidance issued by relevant accounting bodies in relation to the appropriate accounting where there is a choice between multiple exchange rates and hyperinflationary accounting. We assessed the Directors' choice of the DICOM exchange rate for consolidation by reference to the Venezuelan authorities published regulations giving effect to the various rates together with actual experience in relation to availability of and rates for foreign currency transactions. We also considered the impact of exchange controls in relation to the cash balances within Venezuela. We considered the basis used by management's independent expert to develop the estimate of inflation for the year.

We challenged the Directors on the achievability of the forecast cash flows used in the impairment model (see goodwill impairment assessment above) and considered the recoverability of the related goodwill and other non-current assets.

We discussed these matters with Group, divisional and local management, and the Audit Committee and we considered the Group's oversight framework and position in relation to these matters and, in particular, the Group's ability to continue to control the Venezuelan operations. We also considered the disclosures in the Annual Report in relation to these matters, including in respect of developments since the year end.

## Area of focus

## How our audit addressed the area of focus

### Taxation – valuation of deferred tax assets

Refer to page 68 (Audit Committee Report), Note 3 Significant accounting judgements, estimates and assumptions and Note 17 Deferred tax assets and liabilities.

At 31 December 2016 the Group recognised deferred tax assets of €190 million. The recovery of the deferred tax assets is dependent of the availability of future taxable profits.

The Group operates in a number of tax jurisdictions which apply local and differing tax and regulatory rules including time period restrictions for utilisation of available losses.

We focused on deferred tax assets because of their size and because the assessment of recovery is based on complex and subjective judgements by the Directors about the future results of the business.

We evaluated the Directors' forecasts of future taxable profits, which are the same as those which we considered in connection with our work on the goodwill impairment assessment (see above).

We engaged with our local tax specialists and considered whether there were any local tax or regulatory rules which would limit the utilisation of tax losses (such as time limits) to determine whether such limits were appropriately reflected in the assessment of recoverability.

### Employee benefits – valuation of retirement benefits liabilities

Refer to page 68 (Audit Committee Report), Note 3 Significant accounting judgements, estimates and assumptions and Note 24 Employee benefits.

The Group operates a number of pension plans and at 31 December 2016 the net pension liability amounted to €884 million. The liabilities in respect of these plans are valued on an actuarial basis and are subject to a number of actuarial assumptions.

We focused on this area due to the size of the balance and because there is inherent judgement in determining the actuarial assumptions.

We considered the Group pension arrangements and assessed the impact of any changes to the pension plans.

We considered the actuarial valuations of pension liabilities including both the methodologies and assumptions to determine whether the key assumptions lay within an acceptable range.

We considered the disclosure in Note 24 including the sensitivity analysis in relation to changes in the key actuarial assumptions of discount, mortality and inflation rates.

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic and operating structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along two operating segments, Europe and the Americas. The nature of the Group's activities is such that the corrugated paper plants are typically located close to their customer base and therefore the Group's operations are significantly disaggregated. The Consolidated Financial Statements are a consolidation of 367 operating plants and centralised functions spread across 34 countries. Reporting units are structured by individual plants, grouping of plants or on a country basis depending on their management team and structure.

In determining our audit scope we first focus on individual reporting units and determine the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC ROI and from other PwC network firms and other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work of those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Consolidated Financial Statements as a whole.

Accordingly, we identified those reporting units which, in our view, required an audit of their complete financial information, due to their size and risk characteristics. These full scope reporting units amount to 72% of the Group's revenue, 83% of the Group's pre-exceptional EBITDA and 83% of the Group's total assets. We allocated materiality levels and issued instructions to each component auditor. In addition to an audit report from each of the component auditors, we received detailed memoranda of examination on work performed and relevant findings which supplemented our understanding of the component, its results and the audit findings and we attended a number of local audit closing meetings. In addition we identified certain other reporting units where specific audit procedures on certain balances were performed. This, together with additional procedures performed at Group level, gave us the evidence we needed for our opinion on the Consolidated Financial Statements as a whole.

## Independent Auditors' Report

(continued)

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall Group materiality</b>	€30 million (2015: €29 million).
<b>How we determined it</b>	circa 2.5% of pre-exceptional EBITDA
<b>Rationale for benchmark applied</b>	We have applied a rate of 2.5% to pre-exceptional EBITDA. We also considered materiality as determined by reference to other benchmarks such as revenues or pre-exceptional profit before tax and €30 million falls in the lower end of the range of alternatively used common benchmarks. In deciding that pre-exceptional EBITDA represented the appropriate benchmark we considered the strong weighting given to pre-exceptional EBITDA in assessing performance given both the specific circumstances of the Group and the industry norms and practice as indicated by brokerage reports, industry commentaries, communications with the investor community as well as internal management focus and reporting.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €1 million (2015: €1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 30, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Company has adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

### Other required reporting

#### Consistency of other information

##### Companies Act 2014 opinion

In our opinion the information given in the Directors' Report is consistent with the financial statements.

### ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- |   |                                  |
|---|----------------------------------|
| <ul style="list-style-type: none"> <li>information in the Annual Report is:           <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited financial statements; or</li> <li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or</li> <li>– otherwise misleading.</li> </ul> </li> </ul>   | We have no exceptions to report. |
| <ul style="list-style-type: none"> <li>the statement given by the Directors on page 88, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.</li> </ul> | We have no exceptions to report. |
| <ul style="list-style-type: none"> <li>the section of the Annual Report on page 70, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>   | We have no exceptions to report. |

### The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>the Directors' confirmation on page 64 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>   | We have nothing material to add or to draw attention to. |
| <ul style="list-style-type: none"> <li>the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>   | We have nothing material to add or to draw attention to. |
| <ul style="list-style-type: none"> <li>the Directors' explanation on page 30 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul> | We have nothing material to add or to draw attention to. |

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

### Directors' remuneration and transactions

Under the Companies Act 2014, we are required to report to you if, in our opinion, the disclosure of Directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made, and under the Listing Rules we are required to review the six specified elements of disclosures in the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

### Corporate governance statement

- In our opinion, based on the work undertaken in the course of our audit of the financial statements:
  - the description of the main features of the internal control and risk management systems in relation to the financial reporting process; and
  - the information required by Section 1373(2)(d) of the Companies Act 2014;

included in the Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014.

- Based on our knowledge and understanding of the Company and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Statement.
- In our opinion, based on the work undertaken during the course of our audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) is contained in the Corporate Governance Statement.
- Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code specified for our review. We have nothing to report having performed our review.

### Other matters on which we are required to report by the Companies Act 2014

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Company were sufficient to permit the Company Financial Statements to be readily and properly audited.
- The Company Balance Sheet is in agreement with the accounting records.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Andrew Craig

for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Audit Firm  
Dublin

9 March 2017



# Consolidated Income Statement

For the Financial Year Ended 31 December 2016

	Note	2016			2015		
		Pre-exceptional €m	Exceptional €m	Total €m	Pre-exceptional €m	Exceptional €m	Total €m
Revenue	4	8,159	-	8,159	8,109	-	8,109
Cost of sales	5	(5,690)	-	(5,690)	(5,672)	(8)	(5,680)
Gross profit		2,469	-	2,469	2,437	(8)	2,429
Distribution costs	5	(636)	-	(636)	(643)	-	(643)
Administrative expenses	5	(1,003)	-	(1,003)	(1,014)	-	(1,014)
Other operating expenses	5	-	(15)	(15)	-	(61)	(61)
Operating profit		830	(15)	815	780	(69)	711
Finance costs	8	(215)	-	(215)	(177)	(2)	(179)
Finance income	8	40	12	52	48	16	64
Share of associates' profit (after tax)	6	2	-	2	3	-	3
<b>Profit before income tax</b>		<b>657</b>	<b>(3)</b>	<b>654</b>	654	(55)	599
Income tax expense	9			(196)			(186)
<b>Profit for the financial year</b>				<b>458</b>			<b>413</b>
Attributable to:							
Owners of the parent				444			400
Non-controlling interests				14			13
<b>Profit for the financial year</b>				<b>458</b>			<b>413</b>
<b>Earnings per share</b>							
Basic earnings per share – cent	10			189.4			172.6
Diluted earnings per share – cent	10			187.5			169.4

# Consolidated Statement of Comprehensive Income

For the Financial Year Ended 31 December 2016

	Note	2016 €m	2015 €m
<b>Profit for the financial year</b>		<b>458</b>	413
<b>Other comprehensive income:</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Foreign currency translation adjustments:			
– Arising in the financial year		<b>(80)</b>	(485)
Effective portion of changes in fair value of cash flow hedges:			
– Movement out of reserve		<b>7</b>	10
– New fair value adjustments into reserve		<b>(7)</b>	1
		<b>(80)</b>	(474)
<b>Items which will not be subsequently reclassified to profit or loss</b>			
Defined benefit pension plans:			
– Actuarial (loss)/gain	24	<b>(148)</b>	37
– Movement in deferred tax	9	<b>23</b>	(10)
		<b>(125)</b>	27
<b>Total other comprehensive expense</b>		<b>(205)</b>	(447)
<b>Total comprehensive income/(expense) for the financial year</b>		<b>253</b>	(34)
Attributable to:			
Owners of the parent		<b>235</b>	18
Non-controlling interests		<b>18</b>	(52)
<b>Total comprehensive income/(expense) for the financial year</b>		<b>253</b>	(34)

# Consolidated Balance Sheet

At 31 December 2016

	Note	2016 €m	2015 €m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	3,261	3,103
Goodwill and intangible assets	13	2,478	2,508
Available-for-sale financial assets	14	21	21
Investment in associates	15	17	17
Biological assets	16	114	98
Trade and other receivables	19	29	34
Derivative financial instruments	28	42	34
Deferred income tax assets	17	190	200
		<b>6,152</b>	6,015
<b>Current assets</b>			
Inventories	18	779	735
Biological assets	16	10	8
Trade and other receivables	19	1,470	1,451
Derivative financial instruments	28	10	28
Restricted cash	21	7	5
Cash and cash equivalents	21	436	270
		<b>2,712</b>	2,497
<b>Total assets</b>		<b>8,864</b>	8,512
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the parent</b>			
Equity share capital	22	-	-
Share premium	22	1,983	1,983
Other reserves	22	(507)	(425)
Retained earnings		853	619
<b>Total equity attributable to owners of the parent</b>		<b>2,329</b>	2,177
Non-controlling interests		174	151
<b>Total equity</b>		<b>2,503</b>	2,328
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	23	3,247	3,238
Employee benefits	24	884	818
Derivative financial instruments	28	12	15
Deferred income tax liabilities	17	183	179
Non-current income tax liabilities		30	25
Provisions for liabilities and charges	26	69	52
Capital grants		14	13
Other payables	27	13	13
		<b>4,452</b>	4,353
<b>Current liabilities</b>			
Borrowings	23	137	85
Trade and other payables	27	1,705	1,672
Current income tax liabilities		21	30
Derivative financial instruments	28	27	10
Provisions for liabilities and charges	26	19	34
		<b>1,909</b>	1,831
<b>Total liabilities</b>		<b>6,361</b>	6,184
<b>Total equity and liabilities</b>		<b>8,864</b>	8,512

**A. Smurfit**  
Director

**K. Bowles**  
Director

# Company Balance Sheet

At 31 December 2016

	Note	2016 €m	2015 €m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets	14	2,055	2,055
		<b>2,055</b>	2,055
<b>Current assets</b>			
Amounts receivable from Group companies	19	166	40
		<b>166</b>	40
<b>Total assets</b>		<b>2,221</b>	2,095
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the parent</b>			
Equity share capital		-	-
Share premium		1,983	1,983
Share-based payment reserve		109	109
Retained earnings		124	2
<b>Total equity</b>		<b>2,216</b>	2,094
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Amounts payable to Group companies	27	5	1
<b>Total liabilities</b>		<b>5</b>	1
<b>Total equity and liabilities</b>		<b>2,221</b>	2,095

**A. Smurfit**  
Director

**K. Bowles**  
Director



# Consolidated Statement of Changes in Equity

For the Financial Year Ended 31 December 2016

	Attributable to owners of the parent					Non-controlling interests	Total equity
	Equity share capital	Share premium	Other reserves <sup>(1)</sup>	Retained earnings	Total		
	€m	€m	€m	€m	€m		
At 1 January 2016	-	1,983	(425)	619	2,177	151	2,328
Profit for the financial year	-	-	-	444	444	14	458
<b>Other comprehensive income</b>							
Foreign currency translation adjustments	-	-	(84)	-	(84)	4	(80)
Defined benefit pension plans	-	-	-	(125)	(125)	-	(125)
<b>Total comprehensive (expense)/income for the financial year</b>	-	-	(84)	319	235	18	253
Hyperinflation adjustment	-	-	-	81	81	9	90
Dividends paid	-	-	-	(166)	(166)	(4)	(170)
Share-based payment	-	-	12	-	12	-	12
Shares acquired by SKG Employee Trust	-	-	(10)	-	(10)	-	(10)
<b>At 31 December 2016</b>	-	1,983	(507)	853	2,329	174	2,503
At 1 January 2015	-	1,981	(30)	271	2,222	197	2,419
Profit for the financial year	-	-	-	400	400	13	413
<b>Other comprehensive income</b>							
Foreign currency translation adjustments	-	-	(420)	-	(420)	(65)	(485)
Defined benefit pension plans	-	-	-	27	27	-	27
Effective portion of changes in fair value of cash flow hedges	-	-	11	-	11	-	11
<b>Total comprehensive (expense)/income for the financial year</b>	-	-	(409)	427	18	(52)	(34)
Shares issued	-	2	-	-	2	-	2
Hyperinflation adjustment	-	-	-	61	61	7	68
Dividends paid	-	-	-	(141)	(141)	(4)	(145)
Share-based payment	-	-	28	-	28	-	28
Shares (acquired)/disposed by SKG Employee Trust	-	-	(14)	1	(13)	-	(13)
Acquired non-controlling interest	-	-	-	-	-	3	3
<b>At 31 December 2015</b>	-	1,983	(425)	619	2,177	151	2,328

<sup>(1)</sup> An analysis of Other reserves is provided in Note 22.

# Company Statement of Changes in Equity

For the Financial Year Ended 31 December 2016

	Equity share capital	Share premium	Share-based payment reserve	Retained earnings	Total equity
	€m	€m	€m	€m	€m
At 1 January 2016	-	1,983	109	2	2,094
Profit for the financial year	-	-	-	288	288
Dividends paid to shareholders	-	-	-	(166)	(166)
<b>At 31 December 2016</b>	<b>-</b>	<b>1,983</b>	<b>109</b>	<b>124</b>	<b>2,216</b>
At 1 January 2015	-	1,981	93	17	2,091
Profit for the financial year	-	-	-	126	126
Dividends paid to shareholders	-	-	-	(141)	(141)
Shares issued	-	2	-	-	2
Share-based payment	-	-	16	-	16
<b>At 31 December 2015</b>	<b>-</b>	<b>1,983</b>	<b>109</b>	<b>2</b>	<b>2,094</b>

# Consolidated Statement of Cash Flows

For the Financial Year Ended 31 December 2016

	Note	2016 €m	2015 €m
<b>Cash flows from operating activities</b>			
Profit before income tax		654	599
Adjustment for:			
Net finance costs	8	163	115
Depreciation charge	12	357	338
Impairment of assets		-	8
Amortisation of intangible assets	13	40	37
Amortisation of capital grants		(2)	(2)
Equity settled share-based payment expense	25	12	28
Profit on purchase/sale of assets and businesses		(13)	(15)
Share of associates' profit (after tax)	6	(2)	(3)
Net movement in working capital	20	(94)	(18)
Change in biological assets		(4)	(7)
Change in employee benefits and other provisions		(87)	(85)
Other (primarily hyperinflation adjustments)		12	43
<b>Cash generated from operations</b>		<b>1,036</b>	<b>1,038</b>
Interest paid		(151)	(128)
Income taxes paid:			
Irish corporation tax paid		(24)	(2)
Overseas corporation tax (net of tax refunds) paid		(127)	(129)
<b>Net cash inflow from operating activities</b>		<b>734</b>	<b>779</b>
<b>Cash flows from investing activities</b>			
Interest received		3	5
Business disposals		4	30
Additions to property, plant and equipment and biological assets		(427)	(428)
Additions to intangible assets	13	(13)	(11)
Receipt of capital grants		3	2
Disposal of available-for-sale financial assets		13	-
(Increase)/decrease in restricted cash		(2)	2
Disposal of property, plant and equipment		12	39
Dividends received from associates	15	1	1
Purchase of subsidiaries and non-controlling interests	31	(35)	(332)
Deferred consideration paid		(9)	(8)
<b>Net cash outflow from investing activities</b>		<b>(450)</b>	<b>(700)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of new ordinary shares		-	2
Proceeds from bond issue		-	250
Proceeds from other debt issues		250	-
Purchase of own shares (net)		(10)	(13)
(Decrease)/increase in other interest-bearing borrowings		(65)	106
Repayment of finance leases		(3)	(4)
Repayment of borrowings		(169)	(264)
Derivative termination receipts/(payments)		13	(2)
Deferred debt issue costs paid		(3)	(10)
Dividends paid to shareholders		(166)	(141)
Dividends paid to non-controlling interests		(4)	(4)
<b>Net cash outflow from financing activities</b>		<b>(157)</b>	<b>(80)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>127</b>	<b>(1)</b>
<b>Reconciliation of opening to closing cash and cash equivalents</b>			
Cash and cash equivalents at 1 January		263	361
Currency translation adjustment		12	(97)
Increase/(decrease) in cash and cash equivalents		127	(1)
<b>Cash and cash equivalents at 31 December</b>	21	<b>402</b>	<b>263</b>

# Company Statement of Cash Flows

For the Financial Year Ended 31 December 2016

	2016	2015
	€m	€m
<b>Cash flows from operating activities</b>		
Profit before income tax	288	126
Adjustment for:		
Group creditor movements	5	-
Dividends received	(293)	(128)
<b>Cash used in operations</b>	-	(2)
Dividends received	293	128
<b>Net cash inflow from operating activities</b>	293	126
<b>Cash flows from financing activities</b>		
Group loan movements	(127)	13
Proceeds from issue of new ordinary shares	-	2
Dividends paid to shareholders	(166)	(141)
<b>Net cash outflow from financing activities</b>	(293)	(126)
<b>Movement in cash and cash equivalents</b>	-	-
<b>Reconciliation of opening to closing cash and cash equivalents</b>		
Cash and cash equivalents at 1 January	-	-
Movement in cash and cash equivalents	-	-
<b>Cash and cash equivalents at 31 December</b>	-	-



# Notes to the Consolidated Financial Statements

For the Financial Year Ended 31 December 2016

## 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.

The Consolidated Financial Statements of the Group for the financial year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 9 March 2017.

## 2. Summary of significant accounting policies

### Statement of compliance

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

### Basis of preparation

The Consolidated Financial Statements are presented in euro rounded to the nearest million. They have been prepared under the historical cost convention except for the following which are recognised at fair value: derivative financial instruments; available-for-sale financial assets; biological assets; share-based payments and; pension plan assets. Pension obligations are measured at the present value of the future estimated cash flows of benefits earned. The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit currency at the end of the reporting period. This is the case for the Group's subsidiaries in Venezuela.

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

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

### New and amended standards and interpretations effective during 2016

There are a number of changes to IFRS which became effective in 2016, however, they either did not have an effect on the Consolidated Financial Statements or they are not currently relevant for the Group.

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

#### Financial instruments

IFRS 9, *Financial instruments*, is the standard which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. It has been completed in a number of phases with the final version issued by the IASB in July 2014 and endorsed by the EU in November 2016. 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. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, and the Group will apply IFRS 9 from its effective date.

The Group is currently assessing the impact of IFRS 9 in relation to the following areas which are relevant to the Group.

- The financial assets held by the Group include equity instruments currently classified as available-for-sale for which a fair value through other comprehensive income election is available under IFRS 9, accordingly the Group does not expect the new guidance to have a significant impact on the classification and measurement of these financial assets.
- There will be no impact on the Group's accounting of financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 and have not been changed.
- The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of IFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.
- The new impairment model 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 fair value through other comprehensive income, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.
- The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

## 2. Summary of significant accounting policies (continued)

### Revenue recognition

IFRS 15, *Revenue from Contracts with Customers*, replaces IAS 18, *Revenue* and IAS 11, *Construction contracts* and related interpretations. IFRS 15 was endorsed by the EU in September 2016. IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It specifies how and when revenue should be recognised as well as requiring enhanced disclosures. 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. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, and the Group will apply IFRS 15 from its effective date.

The Group is currently assessing the effects of applying the new standard on the Consolidated Financial Statements and has identified the following areas which could possibly be affected.

- IFRS 15 requires revenue to be recognised over time if one of the following three criteria is met: (1) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; (2) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (3) the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date. We are currently considering the impact of point 3 above on our revenue recognition policy in respect of our contract manufacturing packaging business which is currently recognised at a point in time under IAS18.
- Accounting for certain costs incurred in obtaining or fulfilling a contract which are currently being expensed may need to be recognised as an asset under IFRS15.

At this stage, the Group is not able to estimate the impact of the new rules on the Consolidated Financial Statements.

### 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. 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 subject to EU endorsement, the Group will apply IFRS 16 from its effective date.

The standard will affect primarily the accounting for the Group's operating leases. The Group's non-cancellable operating lease commitments at 31 December 2016 are detailed in the *Lease obligations* note. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit or loss and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some may relate to arrangements which will not qualify as leases under IFRS 16. The Group is currently assessing the impact of IFRS 16.

### Foreign currency transactions and advance consideration

International Financial Reporting Interpretations Committee ('IFRIC') 22 addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. IFRIC 22 is effective for annual periods beginning on or after 1 January 2018, and subject to EU endorsement, the Group will apply IFRIC 22 from its effective date. The Group is currently assessing the impact of IFRIC 22.

Other changes to IFRS have been issued but are not yet effective for the Group. However, they are either not expected to have a material effect on the Consolidated Financial Statements or they are not currently relevant for the Group.

### Basis of consolidation

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

### Subsidiaries

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

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

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 2. Summary of significant accounting policies (continued)

### Associates

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

### Revenue

Revenue comprises the fair value of the consideration receivable for goods sold and services supplied to third party customers in the ordinary course of business. It excludes sales based taxes and is net of allowances for discounts and rebates. Revenue is recognised when delivery to the customer has taken place according to the terms of the sale, at which point the significant risks and rewards of ownership of the goods have passed to the customer. Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group.

### Foreign currency

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

Transactions in foreign currencies are translated into the functional currency of the entity at the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities carried at cost are not subsequently retranslated. Non-monetary assets carried at fair value are subsequently remeasured at the exchange rate at the date of valuation.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currencies at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss with the exception of differences on foreign currency borrowings that qualify as a hedge of the Group's net investment in foreign operations. The portion of exchange gains or losses on foreign currency borrowing used to provide a hedge against a net investment in a foreign operation and that is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in the Consolidated Income Statement.

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

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

### Reporting in hyperinflationary economies

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

### Business combinations

The Group uses the acquisition method in accounting for business combinations. Under the acquisition method, the assets, liabilities and contingent liabilities of an acquired business are initially recognised at their fair value at the date of acquisition. The cost of a business combination is measured as the aggregate of the fair values at the date of exchange of any assets transferred, liabilities incurred or assumed and equity instruments issued in exchange for control. When settlement of all or part of a business combination is deferred, the fair value of the deferred component is determined by discounting the amounts payable to their present value at the date of exchange. The discount component is unwound as an interest expense in the Consolidated Income Statement over the life of the obligation.

Where a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the contingent consideration is measured at fair value. Any subsequent re-measurement of the contingent amount is recognised in the Consolidated Income Statement. When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated to the identifiable assets and liabilities are made within twelve months of the acquisition date. Non-controlling interests are measured either, at their proportionate share of the acquiree's identifiable net assets or, at fair value as at the acquisition date, on a case by case basis. Acquisition related costs are expensed as incurred.

## 2. Summary of significant accounting policies (continued)

### Goodwill and impairment

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

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

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

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

### Property, plant and equipment

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

Freehold and long leasehold buildings:	2 – 5%
Plant and equipment:	3 – 33%

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

### Intangible assets (other than goodwill)

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

### Impairment of non-financial assets (other than goodwill)

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

### Biological assets

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

### Inventories

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



# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 2. Summary of significant accounting policies (continued)

### Financial instruments

A financial instrument is recognised when the Group becomes a party to its contractual provisions. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire, are extinguished or transferred to a third party. Financial liabilities are derecognised when the Group's obligations specified in the contracts expire, are discharged or cancelled.

### Cash and cash equivalents

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

### Restricted cash

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

### Available-for-sale financial assets

Equity and debt investments are classified as available-for-sale and are stated at fair value. Changes in fair value are recognised directly in other comprehensive income, however impairment losses are recognised in the Consolidated Income Statement. On disposal the cumulative gain or loss recognised in other comprehensive income is reclassified to the Consolidated Income Statement as part of the gain or loss arising. When applicable, interest is recognised in profit or loss using the effective interest method.

### Borrowings

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

### Securitised assets

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

### Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of trade receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Impairments are recognised in the Consolidated Income Statement once identified.

### Trade and other payables

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

### Derivative financial instruments and hedging activities

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### Cash flow hedges

Changes in the fair value of derivative hedging instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. Amounts accumulated in other comprehensive income are reclassified to the Consolidated Income Statement in the same periods that the hedged items affect profit or loss. The reclassified gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Consolidated Income Statement within finance income or costs respectively. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement within finance income or costs respectively. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in other comprehensive income is transferred to the Consolidated Income Statement in the same period that the hedged item affects profit or loss.

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

### Fair value hedges

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

### Net investment hedges

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

### Derivatives not designated as hedges

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

### Embedded derivatives

Derivatives embedded in host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and, the host contracts are not carried at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in the Consolidated Income Statement.

### Fair value hierarchy

The Group reports using the fair value hierarchy in relation to its assets and liabilities which are measured at fair value except for those which are exempt as defined under IFRS 13, *Fair Value Measurement*. The fair value hierarchy categorises into three levels the inputs to valuation techniques used to measure fair value, which are described as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on its estimated future cash flows, or for equity securities, there is a significant or prolonged decline in value below its carrying amount. Impairment of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment losses are recognised in the Consolidated Income Statement including any cumulative loss in respect of an available-for-sale financial asset previously recognised in other comprehensive income. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised. For available-for-sale financial assets that are equity securities the reversal is recognised directly in other comprehensive income. For other financial assets the reversal is recognised in the Consolidated Income Statement.

### Provisions

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

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 2. Summary of significant accounting policies (continued)

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

### Finance costs and income

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

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

### Income taxes

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

### Current income tax

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

### Deferred income tax

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

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

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

### Leases

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

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

Arrangements comprising transactions that do not take the legal form of a lease but convey the right to use an asset in return for payment, or a series of payments, are assessed to determine whether the arrangement contains a lease.

### Retirement benefit obligations

The Group operates both defined benefit and defined contribution pension plans throughout its operations in accordance with local conditions and practice. The defined benefit pension plans are funded by payments to separately administered funds or in certain countries, in accordance with local practices, scheme liabilities are unfunded and recognised as liabilities in the Consolidated Balance Sheet.

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

## 2. Summary of significant accounting policies (continued)

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

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

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

### Share-based payments

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

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

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

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

### Exceptional items

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

### Emissions rights and obligations

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

### Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with any related conditions. Grants that compensate the Group for expenses are offset against the related expense in the Consolidated Income Statement in the same accounting periods. Grants related to the cost of an asset are recognised in the Consolidated Income Statement over the useful life of the asset within administrative expenses; prior to 2016 they were recognised within other operating income. 2015 comparatives have been adjusted to conform to this classification.

### Share capital

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

### Own shares

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

### Dividend distributions

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



# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 3. Significant accounting judgements, estimates and assumptions

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

### Consolidation of structured entities

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

The Group has established a trust which facilitates the operation of the Deferred Annual Bonus Plan. While the Group does not hold any of the equity of the trust, the Directors believe that the Group controls its activities and therefore the financial statements of the trust are included in the Consolidated Financial Statements.

### Estimated impairment of goodwill and other non-current assets

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of groups of CGUs have been determined based on value-in-use calculations. The principal assumptions used to determine value-in-use relate to future cash flows and the time value of money. Further information is detailed in the *Goodwill and intangible assets* note. Impairment tests in respect of property, plant and equipment are also performed on a CGU basis. Further information is contained in the *Property, plant and equipment* note.

### Income taxes

Provisions for taxes require judgement and estimation in interpreting tax legislation, current case law and the uncertain outcomes of tax audits and appeals. Where the final outcome of these matters differs from the amounts recognised, differences will impact the tax provisions once the outcome is known. In addition, the Group recognises deferred tax assets, mainly relating to unused tax losses, when it is probable that the assets will be recovered through future profitability and tax planning. The assessment of recoverability involves judgement.

### Measurement of defined benefit obligations

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

### Provisions

The amount recognised for a provision is management's best estimate of the expenditure to be incurred. Provisions are remeasured at each balance sheet date based on the best estimate of the expected settlement amount. Changes to the best estimate of the settlement amount may result from changes in the amount or timing of the outflows or changes in discount rates.

### Establishing lives for depreciation of property, plant and equipment

The annual depreciation charge depends primarily on the estimated lives of each type of asset. Asset lives are reviewed annually and adjusted if necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation and the physical condition of the assets. Changes in asset lives could have a significant impact on depreciation charges.

### Establishing lives for amortisation of intangible assets

The amortisation charge is dependent on the estimated lives of each intangible asset. These lives are regularly reviewed and changed if necessary to reflect the expected period of consumption of future economic benefits. Changes in asset lives could have a significant impact on amortisation charges. Further details are included in the *Goodwill and intangible assets* note.

### Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date. The Group uses recognised valuation techniques for various available-for-sale financial assets that are not traded in active markets. Fair value disclosures are set out in the *Financial instruments* note.

### Measurement of share-based payment expense

The Group operates certain share-based incentive plans which, subject to the occurrence of stated future events, grant the right to qualifying employees to shares in the Company. Estimating the number of these grants, and the periods over which it will be recognised in the Consolidated Income Statement, requires various management estimates and assumptions. Further details are provided in the *Share-based payment* note.

### 3. Significant accounting judgements, estimates and assumptions (continued)

#### Venezuela

##### Exchange control and devaluation

In March 2016, the government announced changes to its system of multiple exchange rates for the Venezuelan Bolivar Fuerte ('VEF') as follows:

- The Sicad and Simadi transaction systems were unified into a single variable rate ('DICOM');
- The DICOM rate was VEF 673.76 per US dollar at 31 December 2016; and
- The official CENCOEX fixed rate of VEF 6.3 per US dollar has been replaced by the DIPRO fixed rate of VEF 10.0 per US dollar.

The Group consolidates its Venezuelan operations at the variable DICOM rate. The Group believes that DICOM is the most appropriate rate for accounting and consolidation, as it believes that this is the rate at which the Group extracts economic benefit. On this basis, in accordance with IFRS, the financial statements of the Group's operations in Venezuela were translated at 31 December 2016 using the DICOM rate of VEF 673.76 per US dollar and the closing euro/US dollar rate of 1 euro = US\$1.054.

##### Price control

In 2014, the Venezuelan government decreed that companies could only seek price increases if they had clearance that their margins are within certain guidelines. The Group's Venezuelan operations are operating within these guidelines. There is a risk that if the Group's Venezuelan operations cannot implement price increases in a timely manner to cover the cost of its increasing raw material and labour costs as a result of inflation and the devaluing currency it would have an adverse effect on its results of operations. In this volatile environment the Group continues to closely monitor developments, assess evolving business risks and actively manage its investments.

##### Operating conditions

The Group's Venezuelan operations have mitigated to some extent the loss of revenue due to the drop in corrugated volumes in the country by exporting paper to the Group's operations in the United States and other Latin American countries. This export of paper is subject to: the availability of local raw materials to produce the paper; the quality of the paper being maintained to a satisfactory standard for our end markets; and the renewal of an export licence by the government every five months. There is a risk that if the quality of paper materially deteriorated due to a lack of raw materials or otherwise, or if the Group were unable to renew the export licence, it would have an adverse effect on its results of operations.

##### Control

The political climate in Venezuela continues to be unpredictable and the operating environment is severely restricted and difficult. The nationalisation of foreign owned companies or assets by the Venezuelan government remains a risk. Market value compensation would be 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 year-end in accordance with the requirements of IFRS 10.

In 2016, the Group's operations in Venezuela represented approximately 3% (2015: 2%) of its EBITDA<sup>(1)</sup>, 2% (2015: 2%) of its total assets and 4% (2015: 4%) of its net assets. In addition, cumulative foreign translation losses arising on its net investment in these operations amounting to €987 million (2015: €927 million) are included in the foreign currency translation reserve.

##### Hyperinflation

Venezuela was deemed hyperinflationary under IFRS in 2009. As a result, the Group has applied the hyperinflationary accounting requirements of IAS 29 to its Venezuelan operations with effect from 1 January 2009. To adjust income and expenses for the effects of hyperinflation, IAS 29 requires restatement (indexation) of income and expenses from the start of the reporting period. It also requires restatement of non-monetary assets, such as property, plant and equipment and inventories, from the date they were first recognised. The gain or loss on the net monetary position is included in finance income or costs. Comparative amounts are not restated. The restated financial statements are translated to euro at the closing rate, average rates are not used. Differences arising on translation to euro are recognised in other comprehensive income.

In 2016 and 2015 management engaged an independent expert to determine an estimate of the annual inflation rate. The level of and movement in the estimated price index at 31 December 2016 and 2015 are as follows:

	2016	2015
Index at year-end	<b>11,154.7</b>	2,575.10
Movement in year	<b>333.2%</b>	206.7%

As a result of the entries recorded in respect of hyperinflationary accounting under IFRS, the Consolidated Income Statement is impacted as follows: Revenue €62 million increase (2015: €14 million decrease), EBITDA €6 million increase (2015: nil impact) and profit after taxation €29 million decrease (2015: €24 million decrease). In 2016, a net monetary gain of €4 million (2015: €15 million gain) was recorded in the Consolidated Income Statement. The impact on the Group's net assets and its total equity is an increase of €64 million (2015: €69 million increase).

<sup>(1)</sup> EBITDA is earnings before exceptional items, share-based payment expense, share of associates' profit (after tax), net finance costs, income tax expense, depreciation and depletion (net) and intangible assets amortisation. A reconciliation of EBITDA to profit for the financial year is set out in Note 4.

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 3. Significant accounting judgements, estimates and assumptions (continued)

The Venezuelan economy remains depressed and the political situation unpredictable, increasing the risk of future inflationary pressures and currency devaluations. The effect of high inflation without a corresponding devaluation of the exchange rate would result in a net monetary loss which may distort some of the Group's key metrics. Were the exchange rate to devalue in line with inflation it would have an adverse effect on the Group's results of operations and financial position. We will continue to monitor events as they unfold. Net assets in Venezuela amounted to €91 million at 31 December 2016.

## 4. Segmental reporting

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

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

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

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

Capital expenditure comprises additions to property, plant and equipment (Note 12), goodwill and intangible assets (Note 13) and biological assets (Note 16), including additions resulting from acquisitions through business combinations (Note 31).

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

#### 4. Segmental reporting (continued)

	Europe 2016 €m	The Americas 2016 €m	Total 2016 €m	Europe 2015 €m	The Americas 2015 €m	Total 2015 €m
<b>Revenue and results</b>						
Revenue	6,146	2,013	8,159	6,249	1,860	8,109
EBITDA before exceptional items	928	339	1,267	901	306	1,207
Segment exceptional items	-	(15)	(15)	8	(69)	(61)
EBITDA after exceptional items	928	324	1,252	909	237	1,146
Unallocated centre costs			(31)			(25)
Share-based payment expense			(13)			(34)
Depreciation and depletion (net)			(353)			(331)
Amortisation			(40)			(37)
Impairment of assets			-			(8)
Finance costs			(215)			(179)
Finance income			52			64
Share of associates' profit (after tax)			2			3
<b>Profit before income tax</b>			654			599
Income tax expense			(196)			(186)
<b>Profit for the financial year</b>			458			413
<b>Assets</b>						
Segment assets	6,195	2,196	8,391	6,240	1,975	8,215
Investment in associates	2	15	17	2	15	17
Group centre assets			456			280
<b>Total assets</b>			8,864			8,512
<b>Liabilities</b>						
Segment liabilities	2,371	507	2,878	2,300	453	2,753
Group centre liabilities			3,483			3,431
<b>Total liabilities</b>			6,361			6,184
<b>Other segmental disclosures</b>						
Capital expenditure, including additions to goodwill, intangible assets and biological assets:						
Segment expenditure	366	193	559	474	352	826
Group centre expenditure			1			1
Total expenditure			560			827
Depreciation and depletion (net):						
Segment depreciation and depletion (net)	272	80	352	268	62	330
Group centre depreciation and depletion (net)			1			1
Total depreciation and depletion (net)			353			331
Amortisation:						
Segment amortisation	14	25	39	13	19	32
Group centre amortisation			1			5
Total amortisation			40			37
Other significant non-cash charges:						
Impairment of assets included in cost of sales	-	-	-	8	-	8
Total other significant non-cash charges			-			8



# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 4. Segmental reporting (continued)

### Information about geographical areas

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

	Revenue 2016 €m	Revenue 2015 €m	Non-current assets 2016 €m	Non-current assets 2015 €m
Ireland	114	111	52	57
France	965	991	377	372
Germany	1,266	1,284	416	424
United Kingdom	721	794	344	390
Other	5,093	4,929	2,383	2,155
	<b>8,159</b>	8,109	<b>3,572</b>	3,398

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

While the Group does not allocate goodwill by geographic area, if it were to ascribe goodwill to Ireland we estimate the amount would be less than 3% (2015: less than 3%) of the total goodwill of the Group of €2,298 million (2015: €2,328 million).

## 5. Cost and income analysis

	2016 €m	2015 €m
<b>Expenses by function:</b>		
Cost of sales	5,690	5,680
Distribution costs	636	643
Administrative expenses	1,003	1,014
Other operating expenses	15	61
	<b>7,344</b>	7,398
<b>Exceptional items included in operating profit:</b>		
Impairment of assets	-	8
Loss on the disposal of the solidboard operations	-	4
Profit on the sale of the Nanterre site	-	(13)
Reorganisation and restructuring costs	15	1
Currency trading loss on change in Venezuelan translation rate	-	69
	<b>15</b>	69

Exceptional items charged within operating profit in 2016 amounted to €15 million. These related to reorganisation and restructuring costs in the Americas.

Exceptional items charged within operating profit in 2015 amounted to €69 million in total, primarily relating to a charge of €69 million which represented the higher cost to our Venezuelan operations of discharging their non-Bolivar denominated payables following our adoption of the Simadi rate. At the time, the Simadi rate was VEF 193 per US dollar compared to the Sicad rate of VEF 12 per US dollar with the large loss reflecting the very different rates. The remaining offsetting amounts comprised a charge of €12 million relating to the solidboard operations and €1 million in reorganisation and restructuring costs less the gain of €13 million on the sale of the site of our former Nanterre mill, near Paris.

## 5. Cost and income analysis (continued)

	2016 €m	2015 €m
<b>Expenses by nature:</b>		
Raw materials and consumables	2,959	2,928
Employee benefit expense excluding redundancy	1,928	1,925
Energy	403	464
Maintenance and repairs	404	405
Transportation and storage costs	634	641
Depreciation, amortisation and depletion	393	368
Impairment of assets	-	8
Reorganisation and restructuring costs	21	2
Operating lease rentals	98	96
Foreign exchange gains and losses	-	2
Other expenses	504	559
<b>Total</b>	<b>7,344</b>	<b>7,398</b>

Included within the expenses by nature above are research and development expenses of €7 million (2015: €10 million). Research and development expenses are included within administrative expenses in the Consolidated Income Statement.

Directors' remuneration is shown in the Remuneration Report and in Note 30.

### Auditors' remuneration

	Other PwC			Other PwC		
	PwC Ireland	network firms	Total	PwC Ireland	network firms	Total
	2016	2016	2016	2015	2015	2015
	€m	€m	€m	€m	€m	€m
Audit of entity financial statements	2.5	6.5	9.0	2.5	6.5	9.0
Other assurance services	0.7	-	0.7	0.6	0.1	0.7
Tax advisory services	0.2	0.1	0.3	0.1	0.1	0.2
Other non-audit services	0.1	0.1	0.2	-	0.4	0.4
	<b>3.5</b>	<b>6.7</b>	<b>10.2</b>	<b>3.2</b>	<b>7.1</b>	<b>10.3</b>

The audit fee for the Parent Company was €50,000 (2015: €50,000) which is payable to PwC, the Statutory Auditor.

## 6. Share of associates' profit after tax

	2016 €m	2015 €m
Profit before tax	3	4
Income tax expense	(1)	(1)
<b>Profit after tax</b>	<b>2</b>	<b>3</b>

## 7. Employee benefit expense

	2016 Number	2015 Number
<b>Average number of persons employed by the Group by geographical area (full time equivalents):</b>		
Europe	27,809	27,643
The Americas	17,715	15,711
	<b>45,524</b>	<b>43,354</b>
	2016 €m	2015 €m
<b>The employee benefit expense comprises:</b>		
Wages and salaries	1,552	1,510
Social insurance costs	305	300
Share-based payment expense	13	34
Defined benefit expense	6	35
Defined contribution plan expense	52	46
Reorganisation and restructuring costs – redundancy	6	10
Charged to operating profit – pre-exceptional	1,934	1,935
Charged to operating profit – exceptional - redundancy	15	(1)
Charged to finance costs	23	21
Actuarial loss/(gain) on pension schemes recognised in other comprehensive income	148	(37)
<b>Total employee benefit cost</b>	<b>2,120</b>	<b>1,918</b>

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 8. Finance costs and income

	Note	2016 €m	2015 €m
<b>Finance costs:</b>			
Interest payable on bank loans and overdrafts		56	37
Interest payable on other borrowings		106	100
Exceptional finance costs associated with debt restructuring		-	2
Unwinding discount element of provisions	26	1	1
Foreign currency translation loss on debt		12	16
Fair value loss on derivatives not designated as hedges		17	2
Net interest cost on net pension liability	24	23	21
<b>Total finance costs</b>		<b>215</b>	179
<b>Finance income:</b>			
Other interest receivable		(3)	(5)
Foreign currency translation gain on debt		(28)	(18)
Exceptional foreign currency translation gain		-	(16)
Exceptional gain on sale of investment		(12)	-
Fair value gain on derivatives not designated as hedges		(5)	(10)
Net monetary gain – hyperinflation		(4)	(15)
<b>Total finance income</b>		<b>(52)</b>	(64)
<b>Net finance costs</b>		<b>163</b>	115

The exceptional finance income in 2016 related to the gain of €12 million on the sale of our shareholding in the Swedish company, IL Recycling.

Exceptional finance costs in 2015 of €2 million 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 the February 2015 €250 million bond issue.

Exceptional finance income in 2015 amounted to €16 million and represented the gain in Venezuela on their US dollar denominated intra-group loans following our adoption of the Simadi rate.

## 9. Income tax expense

Income tax expense recognised in the Consolidated Income Statement

	2016 €m	2015 €m
Current tax:		
Europe	87	86
The Americas	69	60
	<b>156</b>	146
Deferred tax	40	40
<b>Income tax expense</b>	<b>196</b>	186
<b>Current tax is analysed as follows:</b>		
Ireland	14	20
Foreign	142	126
	<b>156</b>	146

The income tax expense in 2016 is €10 million higher than in the comparable period. In Europe, the income tax expense is higher by €6 million. This reflects the tax effects of increased profitability and a tax rate change on deferred tax assets recorded in prior periods. In the Americas, the tax expense is €4 million higher and includes the effects of a change in the profitability mix, the impact of a tax rate change on deferred tax liabilities recorded in prior periods and foreign currency.

The deferred tax expense in 2016 is the same as 2015. However, there is an increase in the deferred tax expense from the impact of tax rate changes both in Europe and the Americas which is offset by a decrease in the deferred tax expense arising on other timing differences and credits.

The income tax expense includes a €3 million tax credit in respect of exceptional items compared to a €3 million charge in 2015.

### Reconciliation of the effective tax rate

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

	2016 €m	2015 €m
Profit before income tax	654	599
Profit before income tax multiplied by the standard rate of tax of 12.5% (2015: 12.5%)	82	75
Effects of:		
Income subject to different rates of tax	75	79
Other items (including non-deductible expenditure)	47	25
Adjustment to prior period tax	(4)	9
Effect of previously unrecognised losses	(4)	(2)
	<b>196</b>	186

### Income tax recognised within equity

	2016 €m	2015 €m
Recognised in the Consolidated Statement of Comprehensive Income:		
Arising on defined benefit pension plans	(23)	10
Total recognised in the Consolidated Statement of Comprehensive Income	(23)	10
Arising on hyperinflation	9	4
<b>Total recognised within equity</b>	<b>(14)</b>	14

### Factors that may affect the future tax expense and other disclosure requirements

#### Unremitted earnings in subsidiaries and associates

The Group has not made a provision for deferred tax in relation to temporary differences applicable to investments in subsidiaries on the basis that the Group can control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The aggregate amount of this temporary timing difference is approximately €449 million (2015: €395 million). The Group is not committed to remit earnings from its subsidiaries but due to the absence of control in the context of associates (significant influence by definition) deferred tax liabilities are recognised where necessary in respect of the Group's investment in these entities.

The total tax expense in future periods will be affected by changes to the corporation tax rates in force and legislative changes that broaden the tax base or introduce other minimum taxes in the countries in which the Group operates. The tax expense may also be impacted by changes in the geographical mix of earnings. The current tax expense may also be impacted, inter alia, by changes in the excess of tax depreciation (capital allowances) over accounting depreciation, the use of tax credits and the crystallisation of unrecognised deferred tax assets. There are no income tax consequences for the Company in respect of dividends which were proposed prior to the issuance of the Consolidated Financial Statements for which a liability has not been recognised.



# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 10. 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 year less own shares.

	2016	2015
Profit attributable to owners of the parent (€ million)	444	400
Weighted average number of ordinary shares in issue (million)	235	232
Basic earnings per share (cent)	189.4	172.6

### 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, deferred shares held in trust, which are based on the passage of time, and matching shares, which are performance-based in addition to the passage of time. Both deferred shares held in trust and matching shares are issued under the Deferred Annual Bonus Plan. Where the conditions governing exercisability of these shares have been satisfied as at the end of the reporting period, they are included in the computation of diluted earnings per ordinary share.

	2016	2015
Profit attributable to owners of the parent (€ million)	444	400
Weighted average number of ordinary shares in issue (million)	235	232
Potential dilutive ordinary shares assumed (million)	2	4
Diluted weighted average ordinary shares (million)	237	236
Diluted earnings per share (cent)	187.5	169.4

### Pre-exceptional

	2016	2015
Profit attributable to owners of the parent (€ million)	444	400
Exceptional items included in profit before income tax (€ million)	3	55
Income tax on exceptional items (€ million)	(3)	3
Pre-exceptional profit attributable to owners of the parent (€ million)	444	458
Weighted average number of ordinary shares in issue (million)	235	232
Pre-exceptional basic earnings per share (cent)	189.4	197.3
Diluted weighted average ordinary shares (million)	237	236
Pre-exceptional diluted earnings per share (cent)	187.6	193.7

## 11. Dividends

During the year, the final dividend for 2015 of 48 cent per share was paid to the holders of ordinary shares. In October, an interim dividend for 2016 of 22 cent per share was paid to the holders of ordinary shares.

The Board is recommending a final dividend of approximately 57.6 cent per share for 2016 subject to the approval of the shareholders at the AGM. It is proposed to pay the final dividend on 12 May 2017 to all ordinary shareholders on the share register at the close of business on 21 April 2017. The final dividend and interim dividends are paid in May and October in each year.

## 12. Property, plant and equipment

	Land and buildings €m	Plant and equipment €m	Total €m
<b>Financial year ended 31 December 2015</b>			
Opening net book amount	1,079	1,954	3,033
Reclassifications	19	(21)	(2)
Additions	7	421	428
Acquisitions	46	116	162
Depreciation charge	(47)	(291)	(338)
Retirements and disposals	(18)	(2)	(20)
Hyperinflation adjustment	17	13	30
Foreign currency translation adjustment	(115)	(75)	(190)
<b>At 31 December 2015</b>	<b>988</b>	<b>2,115</b>	<b>3,103</b>
<b>At 31 December 2015</b>			
Cost or deemed cost	1,512	4,813	6,325
Accumulated depreciation and impairment losses	(524)	(2,698)	(3,222)
<b>Net book amount</b>	<b>988</b>	<b>2,115</b>	<b>3,103</b>
<b>Financial year ended 31 December 2016</b>			
Opening net book amount	<b>988</b>	<b>2,115</b>	<b>3,103</b>
Reclassifications	<b>42</b>	<b>(43)</b>	<b>(1)</b>
Additions	<b>11</b>	<b>465</b>	<b>476</b>
Acquisitions	<b>10</b>	<b>56</b>	<b>66</b>
Depreciation charge	<b>(48)</b>	<b>(309)</b>	<b>(357)</b>
Retirements and disposals	<b>(1)</b>	<b>(11)</b>	<b>(12)</b>
Hyperinflation adjustment	<b>25</b>	<b>21</b>	<b>46</b>
Foreign currency translation adjustment	<b>(23)</b>	<b>(37)</b>	<b>(60)</b>
<b>At 31 December 2016</b>	<b>1,004</b>	<b>2,257</b>	<b>3,261</b>
<b>At 31 December 2016</b>			
Cost or deemed cost	<b>1,562</b>	<b>5,117</b>	<b>6,679</b>
Accumulated depreciation and impairment losses	<b>(558)</b>	<b>(2,860)</b>	<b>(3,418)</b>
<b>Net book amount</b>	<b>1,004</b>	<b>2,257</b>	<b>3,261</b>

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 12. Property, plant and equipment (continued)

### Land and buildings

Included in land and buildings is an amount for land of €350 million (2015: €347 million).

### Plant and equipment

Included in plant and equipment is an amount for construction in progress of €245 million (2015: €231 million).

### Capitalised leased assets

Included in the net book amount of property, plant and equipment is an amount for capitalised leased assets of €14 million (2015: €10 million). The depreciation charge for capitalised leased assets was €1 million (2015: €2 million) and the related finance charges amounted to nil (2015: nil). The net carrying amount by class of assets at each balance sheet date is as follows:

	2016 €m	2015 €m
Plant and equipment	2	3
Buildings	12	7
	<b>14</b>	10

### Capital commitments

The following capital commitments in relation to property, plant and equipment were authorised by the Directors, but have not been provided for in the Consolidated Financial Statements:

	2016 €m	2015 €m
Contracted for	134	197
Not contracted for	191	220
	<b>325</b>	417

### Impairments

Impairment tests for items of property, plant and equipment are performed on a cash-generating unit basis when impairment triggers arise. The recoverable amounts of property, plant and equipment are based on the higher of fair value less costs to sell and value-in-use. Value-in-use calculations are based on cash flow projections and discount rates for items of property, plant and equipment. Impairment charges are recognised within cost of sales in the Consolidated Income Statement.

### Capitalised borrowing costs

In 2016, the Group capitalised borrowing costs of €2 million (2015: €2 million) on qualifying assets. Borrowing costs were capitalised at an average rate of 4.1% (2015: 3.7%).

### 13. Goodwill and intangible assets

	Intangible assets				Total €m
	Goodwill €m	Marketing related €m	Customer related €m	Software assets €m	
<b>Financial year ended 31 December 2015</b>					
Opening net book amount	2,265	13	90	39	2,407
Additions	-	-	2	9	11
Acquisitions	160	11	43	1	215
Amortisation charge	-	(6)	(19)	(12)	(37)
Reclassifications	-	-	-	2	2
Hyperinflation adjustment	16	-	-	1	17
Foreign currency translation adjustment	(113)	1	8	(3)	(107)
<b>At 31 December 2015</b>	<b>2,328</b>	<b>19</b>	<b>124</b>	<b>37</b>	<b>2,508</b>
<b>At 31 December 2015</b>					
Cost or deemed cost	2,518	23	163	165	2,869
Accumulated amortisation and impairment losses	(190)	(4)	(39)	(128)	(361)
<b>Net book amount</b>	<b>2,328</b>	<b>19</b>	<b>124</b>	<b>37</b>	<b>2,508</b>
<b>Financial year ended 31 December 2016</b>					
Opening net book amount	<b>2,328</b>	<b>19</b>	<b>124</b>	<b>37</b>	<b>2,508</b>
Additions	-	-	2	11	13
Acquisitions	(30)	(4)	29	-	(5)
Amortisation charge	-	(2)	(26)	(12)	(40)
Reclassifications	-	-	-	(1)	(1)
Hyperinflation adjustment	25	-	-	2	27
Foreign currency translation adjustment	(25)	(1)	3	(1)	(24)
<b>At 31 December 2016</b>	<b>2,298</b>	<b>12</b>	<b>132</b>	<b>36</b>	<b>2,478</b>
<b>At 31 December 2016</b>					
Cost or deemed cost	<b>2,488</b>	<b>17</b>	<b>197</b>	<b>162</b>	<b>2,864</b>
Accumulated amortisation and impairment losses	<b>(190)</b>	<b>(5)</b>	<b>(65)</b>	<b>(126)</b>	<b>(386)</b>
<b>Net book amount</b>	<b>2,298</b>	<b>12</b>	<b>132</b>	<b>36</b>	<b>2,478</b>

The useful lives of intangible assets other than goodwill are finite and range from two to ten years. Amortisation is recognised as an expense within cost of sales and administrative expenses in the Consolidated Income Statement.

Marketing related intangible assets relate mainly to trade names which arise from business combinations and are amortised over their estimated useful lives of seven to ten years. Customer related intangible assets relate to customer relationships which arise from business combinations or as a result of servicing new business. They are amortised over their estimated useful lives of two to ten years. Software assets relate to computer software, other than software for items of machinery that cannot operate without it; such software is regarded as an integral part of the related hardware and is classified as property, plant and equipment. Computer software assets have estimated useful lives of three to five years for amortisation purposes.

In 2016, goodwill of €20 million arose on the acquisition of Sound, Corrugated Professionals, Empire and Scope Packaging in the United States and Saxon Packaging in the United Kingdom (Note 31). This was offset by a fair value adjustment of €50 million which related principally to Inpa and Paema, the two businesses acquired in Brazil in 2015. In 2015, goodwill of €160 million arose mainly on the acquisition of Inpa and Paema, two integrated paper-based packaging businesses in Brazil. Inspirepac, a corrugated, high quality print and display business in the United Kingdom and Hexacomb, a protective packaging business located in Europe and Mexico.

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 13. Goodwill and intangible assets (continued)

### Impairment testing of goodwill

Goodwill arising as part of a business combination is allocated to groups of cash-generating units ('CGUs') for the purpose of impairment testing based on the Group's existing business segments or, where appropriate, recognition of a new CGU. The CGU groups represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the operating segments determined in accordance with IFRS 8, *Operating Segments*. A total of 16 groups (2015: 16) of CGUs have been identified and these are analysed between the two operating segments as follows:

	2016	2015
	Number	Number
Eurozone	6	6
Eastern Europe	1	1
Scandinavia	1	1
United Kingdom	1	1
Europe	9	9
The Americas	7	7
	<b>16</b>	<b>16</b>

A summary of the allocation of the carrying value of goodwill by operating segment is as follows:

	2016	2015
	€m	€m
Europe	1,882	1,907
The Americas	416	421
	<b>2,298</b>	<b>2,328</b>

No impairment arose in 2016 as the recoverable amount of the groups of CGUs, based on value-in-use and estimated using the methodology outlined below, exceeded the carrying amount.

### Impairment testing methodology and results

The recoverable amount of each CGU is based on a value-in-use calculation. The cash flow forecasts for the purposes of these calculations are based on a nine year plan approved by senior management. Cash flow forecasts use growth factors consistent with historical growth rates as adjusted for the cyclical nature of the business and are validated by reference to external data. The terminal value is estimated based on using an appropriate earnings multiple on the average of cash flows for years one to nine. The Group believes a nine year forecast is more appropriate to use for the impairment test, due to the cyclical nature of the business in which the Group operates and the long-term lives of its assets.

Forecasts are generally derived from a combination of internal and external factors based on historical experience and take into account the cyclicity of cash flows typically associated with these groups of CGUs. The cash flows, including terminal value estimations, are discounted using appropriate pre-tax discount rates consistent with the Group's estimated weighted average cost of capital.

Key assumptions include management's estimates of future profitability, replacement capital expenditure requirements, trade working capital investment needs and discount rates. Key assumptions in determining terminal value include earnings multiples.

Of the goodwill allocated to each of the 16 groups of CGUs, three units individually account for between 10% and 20% of the total carrying amount of €2,298 million and are summarised in the table below. All other units account individually for less than 10% of the total carrying amount and are not regarded as individually significant. The additional disclosures required under IAS 36, *Impairment of Assets* in relation to significant goodwill amounts arising in each of the three groups of CGUs are as follows:

	Europe France		Europe Benelux		Europe Germany, Austria and Switzerland	
	2016	2015	2016	2015	2016	2015
Carrying amount of goodwill (€ million)	276	276	364	364	395	395
Basis of recoverable amount	<b>Value-in-use</b>	Value-in-use	<b>Value-in-use</b>	Value-in-use	<b>Value-in-use</b>	Value-in-use
Discount rate applied (pre-tax)	<b>10.7%</b>	10.8%	<b>10.7%</b>	10.8%	<b>10.7%</b>	10.8%
Earnings multiple used for terminal value	<b>7.1</b>	7.1	<b>7.1</b>	7.1	<b>7.1</b>	7.1
Excess of value-in-use (€ million)	<b>67</b>	77	<b>199</b>	277	<b>246</b>	538

The key assumptions used for these three CGUs are consistent with those addressed above. The values applied to each of the key assumptions are derived from a combination of internal and external factors based on historical experience and take into account the cyclicity of cash flows typically associated with these groups of CGUs.

Management has determined forecast profitability based on past performance and its expectation of the current market conditions taking into account the cyclical nature of the business.



### 13. Goodwill and intangible assets (continued)

The table below identifies the amounts by which each of the key assumptions must change in order for the recoverable amount to be equal to the carrying amount of the three CGUs identified as individually significant.

	Europe France	Europe Benelux	Europe Germany, Austria and Switzerland
Increase in pre-tax discount rate	1.7 percentage points	5.2 percentage points	4.2 percentage points
Reduction in terminal value multiple	1.2	3.2	2.6
Reduction in EBITDA	7%	20%	17%

For the other CGUs any reasonable movement in the assumptions used in the impairment test would not result in an impairment.

The Group recognises that it is exposed to greater business risks in Venezuela than in some other countries. The goodwill relating to our operations in Venezuela represents approximately 1% of the Group's total goodwill. The Group takes account of country risks in its impairment calculation.

### 14. Financial assets

#### Available-for-sale financial assets – Group

	Listed <sup>(1)</sup> €m	Unlisted €m	Total €m
<b>At 31 December 2015</b>	<b>1</b>	<b>20</b>	<b>21</b>
Sale of investment	-	(1)	(1)
Foreign currency translation adjustment	-	1	1
<b>At 31 December 2016</b>	<b>1</b>	<b>20</b>	<b>21</b>

<sup>(1)</sup> Listed on a recognised stock exchange

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other things, the duration and extent to which the fair value of an investment is less than cost, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flows.

At 31 December 2016, there are available-for-sale financial assets amounting to €10 million on which impairments have been recorded in prior years.

#### Investment in subsidiaries – Company

	2016 €m	2015 €m
At 1 January	2,055	2,039
Capital contribution	-	16
<b>At 31 December</b>	<b>2,055</b>	<b>2,055</b>

### 15. Investment in associates

	2016 €m	2015 €m
At 1 January	17	17
Share of profit for the financial year	2	3
Dividends received from associates	(1)	(1)
Foreign currency translation adjustment	(1)	(2)
<b>At 31 December</b>	<b>17</b>	<b>17</b>

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 16. Biological assets

	<b>2016</b>	<b>2015</b>
	<b>€m</b>	<b>€m</b>
At 1 January	<b>106</b>	139
Increases due to new plantations	<b>10</b>	11
Harvested timber transferred to inventories	<b>(10)</b>	(10)
Change in fair value less estimated costs to sell	<b>18</b>	21
Foreign currency translation adjustment	<b>-</b>	(55)
<b>At 31 December</b>	<b>124</b>	106
Current	<b>10</b>	8
Non-current	<b>114</b>	98
<b>At 31 December</b>	<b>124</b>	106
<b>Approximate harvest by volume (tonnes '000)</b>	<b>921</b>	949

At 31 December 2016, the Group's biological assets consist of 103,000 (2015: 103,000) hectares of forest plantations in Colombia and Venezuela which are held for the production of paper and packaging products or sale to third parties. These plantations provide the Group's mills in these regions with a significant proportion of their total wood fibre needs.

The Group's biological assets at 31 December 2016 are measured at fair value and have been categorised within level 2 of the fair value hierarchy. There were no transfers between any levels during the year. Level 2 fair values of forest plantations have been derived using the valuation techniques outlined in the accounting policy note for biological assets.

The Group is exposed to a number of risks related to its plantations:

### Political risks in Venezuela

The risk of nationalisation of foreign owned companies and assets by the Venezuelan government is disclosed in Note 3.

### Regulatory and environmental risks

The Group is subject to laws and regulations in various countries in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

### Supply and demand risk

The Group is exposed to risks arising from market fluctuations in the price and sales volume of similar wood. Where possible the Group manages this risk by aligning its harvest volume to demand for its manufactured products. Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

### Climate and other risks

The Group's forests are exposed to the risk of damage from climatic changes, diseases, fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

## 17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where they relate to income taxes levied by the same tax authority on either a taxable entity or different taxable entities where their intention is to settle the balances on a net basis. This is set out below:

	2016 €m	2015 €m
Deferred tax assets	416	449
Deferred tax assets/liabilities available for offset	(226)	(249)
	<b>190</b>	<b>200</b>
Deferred tax liabilities	409	428
Deferred tax assets/liabilities available for offset	(226)	(249)
	<b>183</b>	<b>179</b>

Deferred tax assets have been recognised in respect of deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax assets have been recognised in respect of tax losses available for carry forward when the Group considers it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Where the Group considers that the recovery of such losses is not probable no asset is recognised.

The movement in deferred tax during the year was as follows:

	Note	2016 €m	2015 €m
At 1 January – net asset		21	54
Movement recognised in the Consolidated Income Statement	9	(40)	(40)
Movement recognised in the Consolidated Statement of Comprehensive Income	9	23	(10)
Acquisitions and disposals		6	(22)
Transfer between current and deferred tax		1	(1)
Hyperinflation adjustment – recognised in equity	9	(9)	(4)
Foreign currency translation adjustment		5	44
<b>At 31 December – net asset</b>		<b>7</b>	<b>21</b>

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction were as follows:

	Retirement benefit obligations €m	Tax losses €m	Derivative fair values €m	Other €m	Total €m
<b>Deferred tax assets</b>					
At 1 January 2015	127	219	2	145	493
Recognised in the Consolidated Income Statement	(10)	(27)	-	9	(28)
Recognised in the Consolidated Statement of Comprehensive Income	(10)	-	-	-	(10)
Recognised in equity	-	-	-	2	2
Acquisitions and disposals	-	-	-	1	1
Foreign currency translation adjustment	3	-	-	(12)	(9)
<b>At 31 December 2015</b>	<b>110</b>	<b>192</b>	<b>2</b>	<b>145</b>	<b>449</b>
Reclassifications	-	-	-	(2)	(2)
Recognised in the Consolidated Income Statement	(14)	(44)	-	8	(50)
Recognised in the Consolidated Statement of Comprehensive Income	23	-	-	-	23
Acquisitions and disposals	-	-	-	6	6
Foreign currency translation adjustment	(3)	-	-	(7)	(10)
<b>At 31 December 2016</b>	<b>116</b>	<b>148</b>	<b>2</b>	<b>150</b>	<b>416</b>

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 17. Deferred tax assets and liabilities (continued)

	Accelerated tax depreciation	Intangible assets fair values	Biological assets fair values	Debt costs	Other	Total
	€m	€m	€m	€m	€m	€m
<b>Deferred tax liabilities</b>						
At 1 January 2015	313	15	6	1	104	439
Reclassifications	-	-	-	-	1	1
Recognised in the Consolidated Income Statement	(11)	1	(1)	-	23	12
Recognised in equity	-	-	-	-	6	6
Acquisitions and disposals	13	10	-	-	-	23
Foreign currency translation adjustment	-	-	-	-	(53)	(53)
<b>At 31 December 2015</b>	<b>315</b>	<b>26</b>	<b>5</b>	<b>1</b>	<b>81</b>	<b>428</b>
Reclassifications	-	-	-	-	(3)	(3)
Recognised in the Consolidated Income Statement	4	(3)	-	(1)	(10)	(10)
Recognised in equity	-	-	-	-	9	9
Foreign currency translation adjustment	-	-	-	-	(15)	(15)
<b>At 31 December 2016</b>	<b>319</b>	<b>23</b>	<b>5</b>	<b>-</b>	<b>62</b>	<b>409</b>

Deferred tax assets have not been recognised in respect of the following (tax effects):

	2016 €m	2015 €m
Tax losses	15	16
Deferred interest	35	44
	50	60
Derivative financial instruments	2	3
	52	63

No deferred tax asset is recognised in respect of the above assets on the grounds that there is insufficient evidence that the assets will be recoverable. In the event that sufficient profits are generated in the relevant jurisdictions in the future these assets may be recovered.

No deferred tax assets have been recognised in respect of gross tax losses amounting to €56 million (2015: €55 million). The expiry dates in respect of these losses are as follows:

Expiry dates	Tax losses 2016 €m
1 January 2017 to 31 December 2017	-
1 January 2018 to 31 December 2018	-
1 January 2019 to 31 December 2019	-
Other expiry	-
Indefinite	56
	56

## 18. Inventories

	2016 €m	2015 €m
Raw materials	202	189
Work in progress	40	39
Finished goods	353	339
Consumables and spare parts	184	168
	779	735

## 19. Trade and other receivables

	Group 2016 €m	Group 2015 €m	Company 2016 €m	Company 2015 €m
<b>Amounts falling due within one financial year:</b>				
Trade receivables	1,338	1,296	-	-
Less: provision for impairment of receivables	(34)	(33)	-	-
Trade receivables – net	1,304	1,263	-	-
Amounts receivable from associates	3	4	-	-
Other receivables	110	134	-	-
Prepayments and accrued income	53	50	-	-
Amounts due from Group companies	-	-	166	40
	1,470	1,451	166	40
<b>Amounts falling due after more than one financial year:</b>				
Other receivables	29	34	-	-
	1,499	1,485	166	40

The carrying amount of trade and other receivables equate to their fair values due to their short-term maturities.

The Group has securitised €557 million (2015: €574 million) of its trade receivables. The securitised receivables have not been derecognised as the Group remains exposed to certain related credit risk. As a result, both the underlying trade receivables and the associated borrowings are shown in the Consolidated Balance Sheet.

### Impairment losses

The movement in the full provision for impairment of receivables was as follows:

	2016 €m	2015 €m
At 1 January	33	31
Provision for impaired receivables during the financial year	6	4
Receivables written off as uncollectable during the financial year	(6)	(6)
Acquisitions	-	4
Foreign currency translation adjustment	1	-
<b>At 31 December</b>	<b>34</b>	<b>33</b>

The provision for impaired receivables is included in administrative expenses in the Consolidated Income Statement. Receivables written off as uncollectable are generally eliminated from receivables and the provision for impairment of receivables when there is no expectation of recovering additional cash.

Receivable balances are continuously monitored and reviewed for indicators of impairment at each reporting date. Examples of the factors considered include evidence of financial difficulty of the customer, payment default, major concessions being sought by the customer or breach of contract. Significant balances are reviewed individually while smaller balances are grouped and assessed collectively. The concentration of risk associated with any one customer is low and historically, instances of material single customer related bad debts are rare.

Trade receivables that are less than three months past due are generally not considered impaired unless specific evidence of impairment is identified. At 31 December 2016 trade receivables of €189 million (2015: €192 million) were past due but not impaired. These relate to customers for which there is no recent history of default. The aged analysis of these receivables was as follows:

	2016 €m	2015 €m
Past due 0 – 30 days	137	148
Past due 30 – 60 days	37	31
Past due 60 – 90 days	9	7
Past due 90+ days	6	6
	189	192

As 31 December 2016 specifically identified trade receivable balances of €29 million (2015: €28 million) were considered impaired and provided for. The ageing of this provision was as follows:

	2016 €m	2015 €m
Not past due	1	1
Past due 0 – 30 days	1	-
Past due 30 – 60 days	-	-
Past due 60 – 90 days	1	1
Past due 90+ days	26	26
	29	28

In addition to the specific provision above, a portfolio provision of €5 million is held in the current year which is calculated based on historical data (2015: €5 million).



# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 20. Net movement in working capital

	2016	2015
	€m	€m
Change in inventories	(60)	(75)
Change in trade and other receivables	(51)	(49)
Change in trade and other payables	17	106
<b>Net movement in working capital</b>	<b>(94)</b>	<b>(18)</b>

## 21. Cash and cash equivalents and restricted cash

### Cash and cash equivalents

	2016	2015
	€m	€m
Cash and current accounts	140	131
Short-term deposits	296	139
<b>Cash and cash equivalents</b>	<b>436</b>	<b>270</b>

### Cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows

Cash and cash equivalents	436	270
Bank overdrafts and demand loans used for cash management purposes	(34)	(7)

<b>Cash and cash equivalents in the Consolidated Statement of Cash Flows</b>	<b>402</b>	<b>263</b>
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<b>Restricted cash</b>	<b>7</b>	<b>5</b>
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At 31 December 2016, cash of €2 million (2015: €1 million) was held in restricted securitisation bank accounts which were not available for transfer to other Group subsidiaries or for use outside the Group. A further €5 million (2015: €4 million) of restricted cash was held in other Group subsidiaries and by a trust which facilitates the operation of the Deferred Annual Bonus Plan.

## 22. Capital and reserves

### Share capital

The authorised share capital of the Company comprises ordinary shares and various classes of convertible shares.

### Restriction on transfer of shares

The Directors, at their absolute discretion and without assigning any reason therefore, may decline to register any transfer of a share which is not fully paid or any transfer to or by a minor or person of unsound mind but this shall not apply to a transfer of such a share resulting from a sale of the share through a stock exchange on which the share is listed.

The Directors may also refuse to register any instrument of transfer (whether or not it is in respect of a fully paid share) unless it is: a) lodged at the Registered Office or at such other place as the Directors may appoint; b) accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; c) in respect of only one class of shares; and d) in favour of not more than four transferees.

All convertible shares (classes B, C, D convertible shares) are subject to restrictions as to their transferability. Generally they are not transferable either at all or without consent of the Directors, save by transmission on the death of a holder.

### Ordinary shares

Subject to the Articles of Association of SKG plc, the holders of ordinary shares are entitled to share in any dividends in proportion to the number of shares held by them and are entitled to one vote for every share held by them at a general meeting. On a return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall firstly be distributed amongst the holders of ordinary shares, in proportion to the number of ordinary shares held by them, of the nominal value of their ordinary shares, secondly (to the extent available) distributed amongst the holders of convertible shares, in proportion to the number of convertible shares held by them, of the nominal value of their convertible shares and the balance (if any) shall be distributed amongst the holders of ordinary shares in proportion to the number of ordinary shares held by them.

### Convertible shares

The holders of convertible shares have no right to participate in the profits of SKG plc and are not entitled to receive notice of, attend or vote at general meetings or to vote on any members' resolution (save for any resolution with regard to the rights of convertible shares). On return of capital (whether on repayment of capital, liquidation or otherwise) the assets and/or capital legally available to be distributed shall, subject first to the rights of the holders of ordinary shares be distributed amongst the holders of convertible shares, in proportion to the number of convertible shares held by them, of the nominal value of their convertible shares.

### Restriction of rights

If the Directors determine that a Specified Event as defined in the Articles of Association of SKG plc has occurred in relation to any share or shares, the Directors may serve a notice to such effect on the holder or holders thereof. Upon the expiry of fourteen days from the service of any such notice, for so long as such notice shall remain in force no holder or holders of the share or shares specified in such notice shall, in relation to such specified shares, be entitled to attend, speak or vote either personally, by representative or by proxy at any general meeting of the Company or at any separate general meeting of the class of shares concerned or to exercise any other right conferred by membership in relation to any such meeting.

## 22. Capital and reserves (continued)

The Directors shall, where the shares specified in such notice represent not less than 0.25 per cent of the class of shares concerned, be entitled: to withhold payment of any dividend or other amount payable (including shares issuable in lieu of dividend) in respect of the shares specified in such notice; and/or to refuse to register any transfer of the shares specified in such notice or any renunciation of any allotment of new shares or debentures made in respect thereof unless such transfer or renunciation is shown to the satisfaction of the Directors to be a bona fide transfer or renunciation to another beneficial owner unconnected with the holder or holders or any person appearing to have an interest in respect of which a notice has been served.

Authorised	2016 €m	2015 €m
Ordinary shares		
9,910,931,085 Ordinary shares of €0.001 each	10	10
Convertible shares of €0.001 each		
2,356,472 Class A1	-	-
2,356,471 Class A2	-	-
2,355,972 Class A3	-	-
30,000,000 Class B	-	-
30,000,000 Class C	-	-
75,000,000 Class D	-	-
	10	10

### Called up, issued and fully paid share capital of the Company

	Numbers of shares of €0.001 each						€m
	Convertible shares				Ordinary shares	Total shares	
	Class B	Class C	Class D	Total			
At 1 January 2015	2,089,514	2,089,514	1,894,909	6,073,937	231,596,512	237,670,449	-
Class D shares converted to ordinary shares	-	-	(410,269)	(410,269)	410,269	-	-
Issue of Deferred Annual Bonus Plan Matching Shares	-	-	-	-	2,804,322	2,804,322	-
<b>At 31 December 2015</b>	<b>2,089,514</b>	<b>2,089,514</b>	<b>1,484,640</b>	<b>5,663,668</b>	<b>234,811,103</b>	<b>240,474,771</b>	<b>-</b>
At 1 January 2016	<b>2,089,514</b>	<b>2,089,514</b>	<b>1,484,640</b>	<b>5,663,668</b>	<b>234,811,103</b>	<b>240,474,771</b>	-
Class D shares converted to ordinary shares	-	-	(51,334)	(51,334)	51,334	-	-
Issue of Deferred Annual Bonus Plan Matching Shares	-	-	-	-	1,483,681	1,483,681	-
<b>At 31 December 2016</b>	<b>2,089,514</b>	<b>2,089,514</b>	<b>1,433,306</b>	<b>5,612,334</b>	<b>236,346,118</b>	<b>241,958,452</b>	<b>-</b>

At 31 December 2016 ordinary shares represented 97.7% and convertible shares represented 2.3% of issued share capital (2015: 97.6% and 2.4% respectively). The called up, issued and fully paid share capital of the Company at 31 December 2016 was €242,000 (2015: €240,000).

### Share premium

Share premium of €1,983 million (2015: €1,983 million) relates to the share premium arising on share issues.

### Other reserves

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

	Reverse acquisition reserve	Cash flow hedging reserve	Foreign currency translation reserve	Share-based payment reserve	Own shares	Available -for-sale reserve	Total
	€m	€m	€m	€m	€m	€m	€m
At 1 January 2016	575	(22)	(1,109)	168	(38)	1	(425)
<b>Other comprehensive income</b>							
Foreign currency translation adjustments	-	-	(84)	-	-	-	(84)
<b>Total other comprehensive expense</b>	-	-	(84)	-	-	-	(84)
Share-based payment	-	-	-	12	-	-	12
Shares acquired by SKG Employee Trust	-	-	-	-	(10)	-	(10)
Shares distributed by SKG Employee Trust	-	-	-	(15)	15	-	-
<b>At 31 December 2016</b>	<b>575</b>	<b>(22)</b>	<b>(1,193)</b>	<b>165</b>	<b>(33)</b>	<b>1</b>	<b>(507)</b>

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 22. Capital and reserves (continued)

	Reverse acquisition reserve	Cash flow hedging reserve	Foreign currency translation reserve	Share-based payment reserve	Own shares	Available-for-sale reserve	Total
	€m	€m	€m	€m	€m	€m	€m
At 1 January 2015	575	(33)	(689)	156	(40)	1	(30)
<b>Other comprehensive income</b>							
Foreign currency translation adjustments	-	-	(420)	-	-	-	(420)
Effective portion of changes in fair value of cash flow hedges	-	11	-	-	-	-	11
<b>Total other comprehensive income/ (expense)</b>	-	11	(420)	-	-	-	(409)
Share-based payment	-	-	-	28	-	-	28
Shares acquired/disposed by SKG Employee Trust	-	-	-	-	(14)	-	(14)
Shares distributed by SKG Employee Trust	-	-	-	(16)	16	-	-
<b>At 31 December 2015</b>	<b>575</b>	<b>(22)</b>	<b>(1,109)</b>	<b>168</b>	<b>(38)</b>	<b>1</b>	<b>(425)</b>

### Reverse acquisition reserve

This reserve arose on the creation of a new parent of the Group prior to listing which was accounted for as a reverse acquisition.

### Cash flow hedging reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments (net of tax) related principally to floating rate debt which has been swapped into fixed interest using interest rate swaps.

### Foreign currency translation reserve

This reserve comprises all foreign currency translation adjustments arising from the translation of the Group's net investment in foreign operations as well as from the translation of liabilities that hedge those net assets.

### Share-based payment reserve

This reserve represents the amounts credited to equity in relation to the share-based payment expense recognised in the Consolidated Income Statement, net of deferred shares distributed by the SKG Employee Trust to participants of the Deferred Annual Bonus Plan.

### Own shares

This represents ordinary shares acquired and disposed of by the SKG Employee Trust under the terms of the Deferred Annual Bonus Plan.

	2016 €m	2015 €m
At 1 January	38	40
Shares acquired/disposed by SKG Employee Trust	10	14
Shares distributed by SKG Employee Trust	(15)	(16)
<b>At 31 December</b>	<b>33</b>	<b>38</b>

As at 31 December 2016 the number of own shares held was 1,500,846 (2015: 2,243,769); their nominal value was €1,501 (2015: €2,244). In 2016, own shares were purchased at an average price of €22.84 (2015: €24.05) per share. The number of own shares held represents 0.6% (2015: 0.9%) of the total called up share capital of the Company.

### Available-for-sale reserve

This reserve includes the cumulative gains and losses arising on changes in the fair value of available-for-sale financial assets recognised in other comprehensive income. Net gains or losses are reclassified to the Consolidated Income Statement when the related assets are derecognised.

## 23. Borrowings

### Analysis of total borrowings

	2016 €m	2015 €m
Senior credit facility		
– Revolving credit facility <sup>(1)</sup> – interest at relevant interbank rate + 1.35% <sup>(5)(7)</sup>	1	149
– Facility A Term loan <sup>(2)</sup> – interest at relevant interbank rate + 1.60% <sup>(5)(7)</sup>	741	494
US\$292.3 million 7.50% senior debentures due 2025 (including accrued interest) <sup>(7)</sup>	279	270
Bank loans and overdrafts	167	124
2018 receivables securitisation variable funding notes <sup>(6)</sup>	114	174
2019 receivables securitisation variable funding notes <sup>(6)</sup>	182	232
2018 senior notes (including accrued interest) <sup>(3)(7)</sup>	488	477
€400 million 4.125% senior notes due 2020 (including accrued interest) <sup>(7)</sup>	404	403
€250 million senior floating rate notes due 2020 (including accrued interest) <sup>(4)(7)</sup>	249	249
€500 million 3.25% senior notes due 2021 (including accrued interest) <sup>(7)</sup>	496	495
€250 million 2.75% senior notes due 2025 (including accrued interest) <sup>(7)</sup>	249	248
Finance leases	14	8
<b>Total borrowings</b>	<b>3,384</b>	<b>3,323</b>
<b>Analysed as follows:</b>		
Current	137	85
Non-current	3,247	3,238
	<b>3,384</b>	<b>3,323</b>

(1) Revolving credit facility ('RCF') of €625 million (available under the senior credit facility) due to be repaid in 2020. (a) Revolver loans – €6 million (b) drawn under ancillary facilities and facilities supported by letters of credit – €nil and (c) other operational facilities including letters of credit – €6 million.

(2) Facility A term loan ('Facility A') due to be repaid in certain instalments from 2018 to 2020. In February 2016, the Group increased Facility A by €250 million. The proceeds were substantially applied to reduce the Group's drawings under the RCF.

(3) €200 million 5.125% senior notes due 2018 and US\$300 million 4.875% senior notes due 2018.

(4) Interest at EURIBOR + 3.5%.

(5) 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%

(6) Secured loans and long-term obligations.

(7) Unsecured loans and long-term obligations.

Included within the carrying value of borrowings are deferred debt issue costs of €30 million (2015: €37 million), all of which will be recognised in finance costs in the Consolidated Income Statement using the effective interest rate method over the remaining life of the borrowings.

Committed facilities (excluding short-term sundry bank loans and overdrafts) amounted to €4,007 million (2015: €3,901 million) of which €3,278 million (2015: €3,285 million) was utilised at 31 December 2016. The weighted average period until maturity of undrawn committed facilities is 3.0 years (2015: 4.1 years).

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 23. Borrowings (continued)

### Maturity of undrawn committed facilities

	2016	2015
	€m	€m
Within 1 year	-	-
Between 1 and 2 years	60	-
More than 2 years	669	616
	<b>729</b>	<b>616</b>

The Group's primary sources of liquidity are cash flows 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.

The Group's borrowing agreements contain certain covenants that restrict the Group's flexibility in certain areas such as incurrence of additional indebtedness, payment of dividends, incurrence of liens and also contain financial covenants, the primary ones being a maximum borrowings to EBITDA and a minimum EBITDA to net interest.

On 3 July 2013, the Group put in place a new five-year trade receivables securitisation programme of up to €175 million of funding. The programme was arranged by Rabobank and carries a margin of 1.70%. Receivables generated by certain of its operating companies in Austria, Belgium, Italy and the Netherlands are sold to a special purpose Group subsidiary to support the funding. A conduit of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (trading as Rabobank) provides €150 million of the funding and a conduit of Landesbank Hessen-Thüringen Girozentrale (trading as Helaba Bank) provides €25 million of the funding.

On 25 June 2014, the Group completed a €240 million five-year trade receivables securitisation programme. The new programme, which has a margin of 1.4%, amended, restated and extended the €250 million securitisation programme which had a November 2015 maturity and a margin of 1.5%. Receivables generated by certain of its operating companies in the United Kingdom, Germany and France are sold to special purpose subsidiaries and entities to support the funding provided by Lloyds Banking Group. The sale of the securitised receivables is not intended to, and does not, meet the requirements for derecognition under IAS 39, with the result that the sold receivables continue to be shown on the face of the Consolidated Balance Sheet and the notes issued which fund the purchase of these receivables continue to be shown as liabilities.

The gross amount of receivables collateralising the 2018 receivables securitisation at 31 December 2016 was €250 million (2015: €253 million). The gross amount of receivables collateralising the 2019 receivables securitisation at 31 December 2016 was €307 million (2015: €321 million). As the Group retains a subordinated interest in the securitised receivables, the Group remains exposed to the credit risk of the underlying securitised receivables. Further details are set out in Note 28. In accordance with the contractual terms, the counterparty only has recourse to the securitised debtors. Given the short-term nature of the securitised debtors and the variable floating notes, the carrying amount of the securitised debtors and the associated liabilities reported on the Consolidated Balance Sheet is estimated to approximate to fair value. At 31 December 2016, cash of €2 million (2015: €1 million) was held in securitisation bank accounts which was not available for transfer to other Group subsidiaries or outside entities.

Certain subsidiaries are party to a senior credit facility, the details of which are set out in this note.

The following table sets out the average interest rates at 31 December 2016 and 2015 for each of the drawings under the senior credit facility.

		2016	2015
	Currency	Interest rate	Interest rate
Facility A	EUR	1.26%	1.47%
Facility A	US\$	2.37%	2.02%
Facility A	GBP	1.86%	-
RCF	EUR	0.98%	1.16%
RCF	GBP	-	1.86%

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

Following acquisitions of over €380 million in 2015, including the Brazilian acquisitions in December, the Group increased the Term Loan under its senior credit facility by €250 million, from €500 million to €750 million on 5 February 2016. The terms applicable to the increase, including margin, amortisation profile and maturity date are the same as the existing Term A loan. The proceeds were substantially applied to reduce the drawings under the revolving credit facility, thereby further improving the Group's liquidity.

Certain other maturity, interest rate repricing and key terms relating to the Group's borrowings have been set out in Note 28.



## 24. Employee benefits

The Group operates both defined benefit and defined contribution pension plans throughout its operations in accordance with local requirements and practices. These plans have broadly similar regulatory frameworks. The major plans are of the defined benefit type and are funded by payments to separately administered funds. In these defined benefit plans, the level of benefits available to members depends on length of service and their average salary over their period of employment or their salary in the final years leading up to retirement or leaving. While the majority of the defined benefit plans are funded, in certain countries, such as Germany, Austria and France, plan liabilities are unfunded and recognised as liabilities in the Consolidated Balance Sheet. In these countries, a full actuarial valuation of the unfunded liabilities is undertaken by independent actuaries on an annual basis. Responsibility for governance of the plans, including investment decisions and contribution schedules, lies with the Company and the boards of trustees.

The most significant defined benefit plans are in the United Kingdom, the Netherlands, Ireland and Germany. The most recent valuations of the significant funded plans are as follows:

Ireland	1 January 2016
Netherlands	31 December 2016
United Kingdom	31 March 2014

The expense for defined contribution pension plans for the financial year ended 31 December 2016 was €52 million (2015: €46 million).

The following is a summary of the Group's employee benefit obligations and their related funding status:

	2016 €m	2015 €m
Present value of funded or partially funded obligations	<b>(2,320)</b>	(2,195)
Fair value of plan assets	<b>1,954</b>	1,884
Deficit in funded or partially funded plans	<b>(366)</b>	(311)
Present value of wholly unfunded obligations	<b>(517)</b>	(507)
Amounts not recognised as assets due to asset ceiling	<b>(1)</b>	-
<b>Net pension liability</b>	<b>(884)</b>	(818)

In determining the defined benefit costs and obligations, all valuations are performed by independent actuaries using the projected unit credit method.

### Financial Assumptions

The main actuarial assumptions used to calculate liabilities under IAS19, *Employee Benefits* at 31 December 2016 and 31 December 2015 are as follows:

	Eurozone		Rest of Europe		The Americas	
	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
Rate of increase in salaries	<b>1.50 – 2.75</b>	1.50 – 3.18	<b>2.25 – 3.70</b>	2.25 – 3.70	<b>3.00 – 5.50</b>	3.00 – 5.50
Rate of increase to pensions in payment	<b>Nil – 1.50</b>	Nil – 1.70	<b>Nil – 2.54</b>	Nil – 2.54	<b>Nil – 3.86</b>	Nil – 2.88
Discount rate for plan liabilities	<b>1.80</b>	2.40	<b>2.55 – 2.75</b>	2.60 – 3.90	<b>4.10 – 7.65</b>	4.35 – 7.82
Inflation	<b>1.50</b>	1.70	<b>1.50 – 3.40</b>	1.50 – 3.20	<b>2.00 – 4.00</b>	0.70 – 3.50

### Mortality assumptions

In assessing the Group's post retirement liabilities, the mortality assumptions chosen for the principal plans above are based on the country's population mortality experience, large pension scheme mortality experience and the plan's own mortality experience. In 2014, the mortality assumptions were reviewed in the United Kingdom, resulting in a slightly lower life expectancy. In the Netherlands, the assumptions were significantly updated in 2012 to take into account the latest national longevity statistics. In 2016, the life expectancies were slightly adjusted to show the same expectations across all plans. In Ireland, the assumptions used were adapted versions of the tables used for the 2013 actuarial valuation. In Germany, the mortality table used is that laid down by statutory authorities. Note that in all cases, the mortality tables used allow for future improvements in life expectancy.

The current life expectancies underlying the valuation of the plan liabilities for the significant plans are as follows:

	Ireland		United Kingdom		Netherlands		Germany	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Longevity at age 65 for current pensioners (years)</b>								
Male	<b>21.2</b>	21.1	<b>20.7</b>	20.6	<b>20.8</b>	20.2	<b>19.6</b>	19.5
Female	<b>23.7</b>	23.6	<b>22.7</b>	22.8	<b>23.7</b>	23.2	<b>23.7</b>	23.6
<b>Longevity at age 65 for current member aged 45 (years)</b>								
Male	<b>23.7</b>	23.6	<b>21.6</b>	21.9	<b>23.2</b>	22.8	<b>22.3</b>	22.1
Female	<b>25.8</b>	25.7	<b>23.9</b>	24.2	<b>26.1</b>	25.4	<b>26.2</b>	26.1

The mortality assumptions for other plans are based on relevant standard mortality tables in each country.

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 24. Employee benefits (continued)

### Sensitivity analysis

The following table illustrates the key sensitivities to the amounts included in the Consolidated Financial Statements which would arise from adjusting certain key actuarial assumptions. The sensitivity of the defined benefit obligation to changes in actuarial assumptions has been calculated using the projected credit method, which is the same method used to calculate the pension liability in the Consolidated Balance Sheet. The methods and assumptions used in preparing the sensitivity analysis have not changed compared to the prior year. In each case all of the other assumptions remain unchanged:

Change in assumption	Increase/(decrease) in pension liabilities	
	2016 €m	2015 €m
Increase discount rate by 0.25%	(114)	(105)
Decrease discount rate by 0.25%	121	111
Increase inflation rate by 0.25%	50	46
Decrease inflation rate by 0.25%	(46)	(44)
Increase in life expectancy by one year	95	89

The sensitivity information shown above has been determined by performing calculations of the liabilities using different assumptions.

### Analysis of plan assets and liabilities

Plan assets are comprised as follows:

	2016			2015		
	Quoted €m	Unquoted €m	Total €m	Quoted €m	Unquoted €m	Total €m
Equities	527	-	527	538	-	538
Corporate bonds	312	-	312	358	-	358
Government bonds	271	-	271	270	-	270
Property	31	1	32	34	1	35
Cash	130	-	130	110	-	110
Insurance contracts	116	31	147	-	31	31
Liability driven investment	258	-	258	300	-	300
Other	277	-	277	242	-	242
	<b>1,922</b>	<b>32</b>	<b>1,954</b>	<b>1,852</b>	<b>32</b>	<b>1,884</b>

Included in plan assets at 31 December 2016 under Property is an amount of €1.3 million (2015: €1.5 million) relating to the Group's Gosport plant in the United Kingdom. This is the only self-investment in the Group by the defined benefit plans.

The actual return on plan assets for the financial year ended 31 December 2016 was a gain of €235 million (2015: a loss of €23 million).

An analysis of the assets held by the plans is as follows:

31 December 2016	Eurozone	Rest of Europe	The Americas	Total
	€m	€m	€m	€m
Equities	324	174	29	527
Corporate bonds	185	102	25	312
Government bonds	220	47	4	271
Property	11	20	1	32
Cash	7	111	12	130
Insurance contracts	142	5	-	147
Liability driven investment	65	193	-	258
Other	74	201	2	277
Fair value of plan assets	<b>1,028</b>	<b>853</b>	<b>73</b>	<b>1,954</b>
Present value of plan liabilities	<b>(1,614)</b>	<b>(1,108)</b>	<b>(115)</b>	<b>(2,837)</b>
Amounts not recognised as assets due to asset ceiling	-	(1)	-	(1)
<b>Net pension liability</b>	<b>(586)</b>	<b>(256)</b>	<b>(42)</b>	<b>(884)</b>

## 24. Employee benefits (continued)

	Eurozone	Rest of Europe	The Americas	Total
<b>31 December 2015</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>
Equities	310	196	32	538
Corporate bonds	234	102	22	358
Government bonds	218	49	3	270
Property	13	21	1	35
Cash	9	86	15	110
Insurance contracts	26	5	-	31
Liability driven investment	64	236	-	300
Other	65	175	2	242
Fair value of plan assets	939	870	75	1,884
Present value of plan liabilities	(1,515)	(1,071)	(116)	(2,702)
<b>Net pension liability</b>	<b>(576)</b>	<b>(201)</b>	<b>(41)</b>	<b>(818)</b>

### Analysis of the amount charged in the Consolidated Income Statement

The following tables set out the components of the defined benefit cost:

	2016	2015
	€m	€m
Current service cost	25	39
Administrative expenses	4	4
Past service cost	(21) <sup>(1)</sup>	(9) <sup>(1)</sup>
Gain on settlement	(5) <sup>(2)</sup>	(3) <sup>(2)</sup>
Actuarial loss arising on other long-term employee benefits	1	1
Charged to operating profit	4 <sup>(3)</sup>	32 <sup>(3)</sup>
Net interest cost on net pension liability	22 <sup>(4)</sup>	21 <sup>(4)</sup>
	<b>26</b>	<b>53</b>

(1) The past service cost in 2016 of €21 million (2015: €9 million) relates to the change from defined benefit to defined contribution arrangements in a number of countries in Europe.

(2) The gain on settlement in 2016 of €5 million (2015: €3 million) was due to a release of reserves in the Irish defined benefit plan as a result of a 100% Transfer Option offered to all deferred pensioners and a release of reserves from the Norwegian defined benefit plan which was closed and replaced by a defined contribution plan.

(3) The amount charged to operating profit for current service cost excludes the hyperinflation adjustment of €2 million (2015: €3 million).

(4) Net interest cost on net pension liability excludes the hyperinflation adjustment of €1 million (2015: nil).

The defined benefit cost for 2016 includes €7 million (2015: €6 million) which relates to other long-term employee benefits.

The expense recognised in the Consolidated Income Statement is charged to the following line items:

	2016	2015
	€m	€m
Cost of sales	4	21
Distribution costs and administrative expenses	-	11
Net interest on net pension liability	22	21
	<b>26</b>	<b>53</b>

### Analysis of actuarial (losses)/gains recognised in the Consolidated Statement of Comprehensive Income

	2016	2015
	€m	€m
Return on plan assets (excluding amounts in interest income)	182	(78)
Actuarial gain due to experience adjustments	4	15
Actuarial (loss)/gain due to changes in financial assumptions	(344)	98
Actuarial gain due to changes in demographic assumptions	10	2
<b>Total (loss)/gain recognised in the Consolidated Statement of Comprehensive Income</b>	<b>(148)</b>	<b>37</b>

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 24. Employee benefits (continued)

	2016	2015
	€m	€m
<b>Movement in present value of defined benefit obligation</b>		
At 1 January	(2,702)	(2,782)
Current service cost	(25)	(39)
Contributions by plan participants	(5)	(9)
Interest cost	(75)	(75)
Actuarial gains and losses	(331)	114
Benefits paid by plans	108	116
Past service cost	21	9
Acquisitions	(3)	(3)
Decrease arising on settlement	18	13
Foreign currency translation adjustments	157	(46)
<b>At 31 December</b>	<b>(2,837)</b>	<b>(2,702)</b>

	2016	2015
	€m	€m
<b>Movement in fair value of plan assets</b>		
At 1 January	1,884	1,889
Interest income on plan assets	53	54
Return on plan assets (excluding amounts in interest income)	182	(77)
Administrative expenses	(4)	(4)
Contributions by employer	83	85
Contributions by plan participants	5	9
Benefits paid by plans	(108)	(116)
Decrease arising on settlements	(13)	(10)
Foreign currency translation adjustments	(128)	54
<b>At 31 December</b>	<b>1,954</b>	<b>1,884</b>

	2016	2015
	€m	€m
<b>Movement in asset ceiling</b>		
At 1 January	-	-
Variations of the effect of the asset ceiling limit	(1)	-
<b>At 31 December</b>	<b>(1)</b>	<b>-</b>

### Employee benefit plan risks

The employee benefit plans expose the Group to a number of risks, the most significant of which are:

<b>Asset volatility</b>	The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to equities is monitored to ensure it remains appropriate given the plans' long term objectives.
<b>Changes in bond yields</b>	A decrease in corporate bond yields will increase the value placed on the plans' liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
<b>Inflation risk</b>	The plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
<b>Life expectancy</b>	The majority of the plans' obligations are to provide benefits based on the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In the case of the funded plans, the Group ensures that the investment positions are managed with an asset-liability matching ('ALM') framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency.

## 24. Employee benefits (continued)

### Maturity analysis

The expected maturity analysis is set out in the table below:

	Projected amounts
	€m
<b>Expected benefit payments:</b>	
Financial year 2017	104
Financial year 2018	102
Financial years 2019-2021	324
Financial years 2022-2026	580

The weighted average duration of the defined benefit obligation at 31 December 2016 is 16.96 years (2015: 16.44 years).

Most of the plans are closed to new entrants and therefore, under the projected unit credit method, the current service cost is expected to increase (all other elements remaining equal) as the members approach retirement and to decrease as members retire or leave service. The expected employee and employer contributions for the year ending 31 December 2017 for the funded schemes are €5 million and €41 million respectively. The expected employer contributions for unfunded schemes for the year ending 31 December 2017 are €30 million.

## 25. Share-based payment

### Share-based payment expense recognised in the Consolidated Income Statement

	2016	2015
	€m	€m
Charge arising from the Deferred Annual Bonus Plan	12	28

The Group grants equity settled share-based payments to employees as part of their remuneration; there are no cash-settled share-based payments.

### Deferred Annual Bonus Plan

In May 2011, the SKG plc Annual General Meeting approved the adoption of the 2011 Deferred Annual Bonus Plan ('DABP') which replaced the existing long-term incentive plan, the 2007 Share Incentive Plan.

The size of the awards to each eligible employee under the DABP is subject to the level of annual bonus earned by the employee in any year. The maximum annual potential bonus for eligible employees in the DABP is 150% of salary. The actual bonus earned in any financial year is based on the achievement of clearly defined stretching annual financial targets for some of the Group's Key Performance Indicators ('KPI') being: Earnings per Share ('EPS'), Return on Capital Employed ('ROCE') and Free Cash Flow ('FCF'), together with targets for health and safety and a comparison of the Group's financial performance to that of a peer group.

The structure of the plan is that 50% of any annual bonus earned for a financial year will be deferred into SKG plc shares ('Deferred Shares') to be granted in the form of a Deferred Share Award. The Deferred Shares will vest (i.e. become unconditional) after a three-year holding period based on a service condition of continuity of employment or in certain circumstances, based on normal good leaver provisions.

At the same time as the grant of a Deferred Share Award, a Matching Share Award can be granted up to the level of the Deferred Share Award. Following a three-year performance period, the Matching Shares could vest up to a maximum of 3 times the level of the Deferred Share Award. The maximum match was reduced to 2.25 times by the Committee for the awards for the 2015-2017 performance period and the 2016-2018 performance period. Matching Share Awards will vest provided that the Compensation Committee considers the Group's ROCE and Total Shareholder Return ('TSR') to be competitive when compared to the constituents of a peer group of international paper and packaging companies over that performance period. The actual number of Matching Shares that will vest under the Matching Share Awards is dependent on the performance conditions of the Group's FCF<sup>(1)</sup> and ROCE targets measured over the same three-year performance period on an inter-conditional basis and the multiplier will be calculated by interpolation.

The accounting for a deferred bonus payable in shares falls under IFRS 2, *Share-based Payment*. Under IFRS 2, when share awards are subject to vesting conditions, the related expense is recognised in profit or loss over the vesting period.

The total DABP charge for the year comprises two elements; a) a charge in respect of the Deferred Share Awards granted in respect of 2013, 2014, 2015 and to be granted in respect of 2016 and b) a charge in respect of the Matching Share Awards granted in respect of 2013, 2014, 2015 and to be granted in respect of 2016.

The actual performance targets assigned to the Matching Share Awards are set by the Compensation Committee on the granting of awards at the start of each three-year cycle. The Group is required to lodge the actual targets with the Group's auditors prior to the grant of any awards under the DABP.

<sup>(1)</sup> In calculating FCF, capital expenditure will be set at a minimum of 90% of depreciation for the three-year performance cycle.



# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 25. Share-based payment (continued)

A summary of the activity under the DABP, for the period from 1 January 2015 to 31 December 2016 is presented below.

	Number outstanding	
	Deferred Share Award	Matching Share Award
At 1 January 2015	3,489,737	2,211,054
Granted in the year	622,933	379,134
Forfeited in the year	(43,516)	(59,243)
Additional match on vesting	-	1,731,932
Distributed in the year	(1,848,076)	(2,804,322)
<b>At 31 December 2015</b>	<b>2,221,078</b>	<b>1,458,555</b>
Granted in the year	<b>447,514</b>	<b>261,501</b>
Forfeited in the year	<b>(22,898)</b>	<b>(41,043)</b>
Additional match on vesting	-	<b>742,580</b>
Distributed in the year	<b>(1,190,437)</b>	<b>(1,483,681)</b>
<b>At 31 December 2016</b>	<b>1,455,257</b>	<b>937,912</b>

The fair value of the awards granted in 2016 was €22.84 (2015: €24.05) which was the market value on the date of the grant.

Deferred Share Awards and Matching Share Awards were granted in 2016 to eligible employees in respect of the financial year ended 31 December 2015. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2018.

Deferred Share Awards and Matching Share Awards will be granted in 2017 to eligible employees in respect of the financial year ended 31 December 2016. The Matching Share Awards may vest based on the achievement of the relevant performance targets for the three-year period ending on 31 December 2019.

The Deferred Share Awards and Matching Share Awards which were granted in 2013 in respect of the financial year ended 31 December 2012 vested in February 2016 and were distributed to the relevant employees. The market price at the date of vesting was €22.56.

The Deferred Share Awards and Matching Share Awards which were granted in 2014 in respect of the financial year ended 31 December 2013 vested in February 2017 and were distributed to the relevant employees. The market price at the date of vesting was €25.39. Details of the performance targets and results for the three-year period to 31 December 2016 are set out in the Remuneration Report.

### 2007 Share Incentive Plan

This scheme has expired for the purpose of issuing invitations to subscribe for convertible shares. However a number of convertible shares issued under this plan have not yet been converted to ordinary shares. Further details are provided below.

In March 2007, SKG plc adopted the 2007 Share Incentive Plan (the '2007 SIP'). The 2007 SIP was amended in May 2009. Incentive awards under the 2007 SIP were in the form of new class B and new class C convertible shares issued in equal proportions to Participants at a nominal value of €0.001 per share. On satisfaction of specified performance criteria the new class B and new class C convertible shares automatically convert on a one-to-one basis into class D convertible shares. The class D convertible shares may be converted by the holder into ordinary shares upon payment of the agreed conversion price. The conversion price for each D convertible share was set at the average market value of an ordinary share for the three dealing days immediately prior to the date that the Participant was invited to subscribe less the nominal subscription price. Each award has a life of ten years from the date of issuance of the new class B and new class C convertible shares. The performance period for the new class B and new class C convertible shares was three financial years.

The performance conditions for the new class B and new class C convertible shares awarded under the 2007 SIP during and from 2009 were subject to a performance condition based on the Group's total shareholder return over the three-year period relative to the total shareholder return of a peer group of companies ('TSR condition'). Under that condition, 30% of the new class C convertible shares would convert into D convertible shares if the Group's total shareholder return was at the median performance level and 100% convert if the Group's total shareholder return was at or greater than the upper quartile of the peer group. A sliding scale applied for performance between the median and upper quartiles.

However, notwithstanding that the TSR condition applicable to any such award may have been satisfied, the Compensation Committee retained an overriding discretion to disallow the vesting of the award, in full or in part, if, in its opinion the Group's underlying financial performance or total shareholder return (or both) had been unsatisfactory during the performance period.

The Compensation Committee determined the performance conditions for awards granted under the 2007 SIP after consultation with the Irish Association of Investment Managers.

The Monte Carlo simulation approach was used to calculate the value of new class B convertible shares awarded from 2009 and all new class C convertible shares at grant date. The expected volatility rates applied were based upon the weighted average historical volatility of the Group's business sector for a period equivalent to the expected life of the grants. The risk-free interest rates used were based upon euro-denominated government bonds with similar lives. The fair value of the convertible shares at the valuation dates was determined based upon the market price at that date.

## 25. Share-based payment (continued)

The awards made in 2009 vested 100% in February 2012 with the TSR condition being in the upper quartile of the peer group. The awards made in 2010 vested 30% in February 2013 with the TSR condition being at the median. The Compensation Committee were of the opinion that the Group's underlying financial performance and total shareholder return had been satisfactory during the performance period and therefore confirmed the vesting.

A summary of the activity under the 2007 SIP, as amended, for the period from 1 January 2015 to 31 December 2016 is presented below.

	2016		2015	
	Number of convertible shares	Weighted average exercise price (€ per share)	Number of convertible shares	Weighted average exercise price (€ per share)
Outstanding at the beginning of the year	750,840	4.94	1,161,109	4.94
Exercised in the year	(51,334)	5.15	(410,269)	4.94
Forfeited in the year	(18,742)	5.10	-	-
<b>Outstanding at the end of the year</b>	<b>680,764</b>	<b>4.92</b>	750,840	4.94
<b>Exercisable at the end of the year</b>	<b>680,764</b>	<b>4.92</b>	750,840	4.94

The weighted average market price on the dates the convertible shares were exercised in the financial year ended 31 December 2016 was €21.85 (2015: €25.30).

	2016	2015
2007 SIP, as amended, convertible shares outstanding at the end of the year (number)	680,764	750,840
Weighted average exercise price (€ per share)	4.92	4.94
Weighted average remaining contractual life (years)	2.9	3.9

## 26. Provisions for liabilities and charges

	2016	2015
	€m	€m
Current	19	34
Non-current	69	52
	<b>88</b>	86

	Deferred and contingent consideration	Restructuring	Environmental	Legal	Other	Total
	€m	€m	€m	€m	€m	€m
At 1 January 2015	18	43	5	5	33	104
Made during the financial year	19	2	-	1	11	33
Released during the financial year	-	(3)	-	-	(2)	(5)
Utilised during the financial year	(16)	(25)	-	(1)	(12)	(54)
Acquisitions	-	-	-	3	3	6
Reclassifications	-	-	-	-	(2)	(2)
Unwinding of discount	1	-	-	-	-	1
Foreign currency translation adjustment	1	-	-	-	2	3
<b>At 31 December 2015</b>	<b>23</b>	<b>17</b>	<b>5</b>	<b>8</b>	<b>33</b>	<b>86</b>
Made during the financial year	6	2	-	2	20	30
Released during the financial year	-	(3)	-	(1)	(1)	(5)
Utilised during the financial year	(9)	(10)	-	(1)	(17)	(37)
Acquisitions	-	-	-	(3)	16	13
Reclassifications	(3)	-	-	-	1	(2)
Unwinding of discount	-	-	-	-	1	1
Foreign currency translation adjustment	1	-	-	-	1	2
<b>At 31 December 2016</b>	<b>18</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>54</b>	<b>88</b>

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 26. Provisions for liabilities and charges (continued)

### Deferred and contingent consideration

Deferred and contingent consideration represents the deferred element of acquisition consideration payable. The balance at 31 December 2016 relates to the acquisition of the following:

- Sound Packaging, a sheet plant located in the United States (2016);
- Corrugated Professionals, a sheet feeder located in the United States (2016);
- CYBSA, a corrugated packaging business in Costa Rica and El Salvador (2015);
- Inspirepac, a corrugated, high quality print and display business in the United Kingdom (2015);
- INPA and Paema, two integrated paper-based packaging businesses in Brazil (2015);
- Cartonera Rierba S.A., a packaging business in the Dominican Republic (2014); and
- Baguin, a bag-in-box packaging solutions company in Argentina (2012).

The deferred and contingent consideration at 31 December 2015 related to the acquisition of the following:

- CYBSA (2015);
- Inspirepac (2015);
- INPA and Paema (2015);
- Cartonera Rierba S.A. (2014); and
- Baguin (2012).

### Restructuring

These provisions relate to irrevocable commitments in respect of restructuring programmes throughout the Group. In 2016 the utilisation of the provision related largely to the provisions made in 2014 for the closure of the Hamburg, Osnabrück and Viersen plants in Germany, the closure of the Ponts and Marais plant in France and the closure of the Nybro plant in Sweden. The Group expects that the majority of the provision balance remaining at 31 December 2016 will be utilised during 2017.

### Environmental

Provisions for environmental costs mainly relate to the reinstatement of landfill sites and other remediation and improvement costs incurred in compliance with either local or national environmental regulations together with constructive obligations stemming from established practice. The timing of settlement of these provisions is not certain particularly where provisions are based on past practice and there is no legal obligation.

### Legal

Legal represents provisions for certain legal claims brought against the Group by various parties in the ordinary course of business. Provisions are expensed in the Consolidated Income Statement within administrative expenses. Legal provisions are uncertain as to timing and amount as they are the subject of ongoing cases.

### Other

Other comprises a number of provisions including: liabilities arising from onerous contracts and dilapidation costs, mainly relating to leased properties amounting to €13 million (2015: €14 million); employee compensation in certain countries in which we operate amounting to €21 million (2015: €9 million); and numerous other items which are not individually material and are not readily grouped together. The property leases have remaining lives ranging from one to thirteen years.

## 27. Trade and other payables

	Group 2016 €m	Group 2015 €m	Company 2016 €m	Company 2015 €m
<b>Amounts falling due within one financial year:</b>				
Trade payables	1,016	1,037	-	-
Amounts owed to associates – trading balances	1	1	-	-
Payroll taxes	35	35	-	-
Value added tax	51	59	-	-
Social insurance	55	58	-	-
Accruals and deferred income	422	390	-	-
Capital payables	99	68	-	-
Other payables	26	24	-	-
Amounts payable to Group companies	-	-	5	1
	<b>1,705</b>	<b>1,672</b>	<b>5</b>	<b>1</b>
<b>Amounts falling due after more than one financial year:</b>				
Other payables	13	13	-	-
	<b>1,718</b>	<b>1,685</b>	<b>5</b>	<b>1</b>

The fair values of trade and other payables are not materially different from their carrying amounts.

Amounts owed to Group companies are unsecured, interest free and are repayable on demand.

## 28. Financial instruments

### Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	Assets at fair value through Consolidated Income Statement	Derivatives used for hedging	Available-for-sale	Total
	€m	€m	€m	€m	€m
<b>31 December 2016</b>					
Assets per Consolidated Balance Sheet:					
Available-for-sale financial assets	-	-	-	21	21
Derivative financial instruments	-	9	43	-	52
Trade and other receivables	1,415	-	-	-	1,415
Cash and cash equivalents	436	-	-	-	436
Restricted cash	7	-	-	-	7
	<b>1,858</b>	<b>9</b>	<b>43</b>	<b>21</b>	<b>1,931</b>

The financial assets of the Company of €166 million consist of loans and receivables.

	Liabilities at fair value through Consolidated Income Statement	Derivatives used for hedging	Other financial liabilities	Total
	€m	€m	€m	€m
<b>31 December 2016</b>				
Liabilities per Consolidated Balance Sheet:				
Borrowings	-	-	3,384	3,384
Derivative financial instruments	20	19	-	39
Trade and other payables	-	-	1,392	1,392
	<b>20</b>	<b>19</b>	<b>4,776</b>	<b>4,815</b>

The financial liabilities of the Company of €5 million consist of other financial liabilities.

	Loans and receivables	Assets at fair value through Consolidated Income Statement	Derivatives used for hedging	Available-for-sale	Total
	€m	€m	€m	€m	€m
<b>31 December 2015</b>					
Assets per Consolidated Balance Sheet:					
Available-for-sale financial assets	-	-	-	21	21
Derivative financial instruments	-	19	43	-	62
Trade and other receivables	1,384	-	-	-	1,384
Cash and cash equivalents	270	-	-	-	270
Restricted cash	5	-	-	-	5
	<b>1,659</b>	<b>19</b>	<b>43</b>	<b>21</b>	<b>1,742</b>

The financial assets of the Company of €40 million consist of loans and receivables.

	Liabilities at fair value through Consolidated Income Statement	Derivatives used for hedging	Other financial liabilities	Total
	€m	€m	€m	€m
<b>31 December 2015</b>				
Liabilities per Consolidated Balance Sheet:				
Borrowings	-	-	3,323	3,323
Derivative financial instruments	5	20	-	25
Trade and other payables	-	-	1,365	1,365
	<b>5</b>	<b>20</b>	<b>4,688</b>	<b>4,713</b>

The financial liabilities of the Company of €1 million consist of other financial liabilities.

Exposure to credit, interest rate, liquidity, energy and currency risks arise in the normal course of the Group's business. Derivatives are generally used to economically hedge exposure to fluctuations in these risks.

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 28. Financial instruments (continued)

### Key financial risks and financial risk management resulting from the use of financial instruments and related sensitivity analysis

#### Financial and credit risk management

The operating parameters and policies of the Group's treasury management function are established under formal Board authority. The Treasury Policy covers the areas of funding, counterparty risk, foreign exchange, controls and derivatives. Risk arising on counterparty default is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. The Group uses financial instruments, including fixed and variable rate debt to finance operations, for capital spending programs and for general corporate purposes. Additionally, financial instruments, including derivative instruments are used to hedge exposure to interest rate, commodity and foreign currency risks. The Group does not use financial instruments for trading purposes. The Group mitigates the risk that counterparties to derivatives will fail to perform by contracting with major financial institutions having high credit ratings and considers the likelihood of counterparty failure to be low. Trade debtors arise from a wide and varied customer base. There is no significant concentration of credit risk amongst any of the Group's most significant financial assets. The Group also holds no collateral in respect of its principal credit exposures.

The successful management of the Group's currency and interest rate exposure depends on a variety of factors, some of which are outside its control. The Group is exposed to the impact of interest rate changes and foreign currency fluctuations due to its investing and funding activities and its operations in foreign currencies. The Group manages interest rate exposure to achieve what management consider to be an appropriate balance of fixed and variable rate funding. To achieve this objective the Group enters into interest rate swaps, options and forward rate agreements. Interest rate swap agreements are primarily used to change the interest payable on its underlying borrowings from variable to fixed rate. The impact of any such swaps on the Group's financial instruments has been set out in the tables below.

The Group manages its balance sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges currency exposure through the use of currency swaps, options and forward contracts. The impact of these derivatives on the currency profile of the Group's financial instruments has been set out in the tables below.

Further details on certain specific financial risks encountered have been set out below.

#### Interest rate risk

The Group is exposed to changes in interest rates, primarily changes in Euribor. The senior credit facility is variable rate debt, as are the Group's securitisation facilities and the €250 million senior floating rate notes due 2020. Interest rate changes therefore generally do not affect the market value of such debt but do impact the amount of the Group's interest payments and, therefore, its future earnings and cash flows, assuming other factors are held constant. At 31 December 2016, the Group had fixed an average of 68% (2015: 68%) of its interest cost on borrowings over the following 12 months. Holding all other variables constant, including levels of indebtedness, at 31 December 2016 a one percentage point increase in variable interest rates would have an estimated impact on pre-tax interest expense of approximately €12 million (including the effect of interest rate swaps) over the following 12 months. Interest income on our cash balances would increase by approximately €4 million, assuming a one percent increase in interest rates earned on such balances over the following twelve months.

The Group has entered into one or more interest rate protection agreements (principally interest rate swaps and cross currency interest rate swaps), which establish a fixed interest rate with respect to certain of its borrowings. In 2012 the Group entered into a cross currency interest rate swap to swap fixed rate debt into variable rate debt. A table setting out the fixed and variable rate debt together with the impact of the related interest and cross currency swaps has been set out below.

#### Currency sensitivity

The Group operates in the following principal currency areas (other than euro): Swedish Krona, Sterling, Latin America (comprising mainly Mexican Peso, Colombian Peso, Venezuelan Bolivar Fuerte and Brazilian Real), US Dollar and Eastern Europe (comprising mainly the Polish Zloty, the Czech Koruna and the Russian Rouble). At the end of 2016 approximately 99% (2015: 99%) of its non euro denominated net assets consisted of the Swedish Krona 28% (2015: 32%), Sterling 2% (2015: 6%), Latin American currencies 56% (2015: 49%), US Dollar 2% (2015: 3%) and Eastern European currencies 11% (2015: 9%). The Group believes that a strengthening of the euro exchange rate by 1% against all other foreign currencies from the 31 December 2016 rate would reduce shareholders' equity by approximately €17 million (2015: €17 million).

#### Commodity price risk

##### Containerboard

The Group is exposed to commodity price risks through its dependence on recovered paper, the principal raw material used in the manufacture of recycled containerboard. The price of recovered paper is dependent on both demand and supply conditions. Demand conditions include the production of recycled containerboard in Europe and the demand for recovered paper for the production of recycled containerboard outside of Europe, principally in Asia. Supply conditions include the rate of recovery of recovered paper, itself dependant on historic pricing related to the cost of recovery, and some slight seasonal variations.

Just over 1.05 metric tonnes of recovered paper are required to manufacture 1.0 metric tonne of recycled containerboard. Consequently, an increase in the price of recovered paper of, for example, €20 per tonne would increase the cost of production of recycled containerboard by approximately €21 per tonne. Historically, increases in the cost of recovered paper, if sustained, have led to a rise in the price of recycled containerboard, with a lag of one to two months.

The price of recovered paper can fluctuate significantly within a given year, affecting the operating results of the Group's paper processing facilities. The Group seeks to manage this risk operationally rather than by entering into financial risk management derivatives. Accordingly, at each of 31 December 2016 and 2015 there were no derivatives held to mitigate such risks.



## 28. Financial instruments (continued)

In addition, developing policy changes in the EU with regard to renewable energy sources have created an additional demand for wood, the principal raw material used in the manufacture of kraftliner. This has the effect of potentially increasing the price of wood and consequently the cost of the Group's raw materials. At 31 December 2016 the Group held no derivatives to mitigate such risks. At 31 December 2015 the Group had entered into a limited level of wood pulp swap contracts to hedge a portion of its wood pulp cost in France and Germany, which matured in January 2016.

### Energy

The cost of producing the Group's products is also sensitive to the price of energy. The Group's main energy exposure is to the cost of gas and electricity. These energy costs have experienced significant price volatility in recent years, with a corresponding effect on Group production costs. Natural gas prices, relevant to the Group, started the year at €16.13 per megawatt-hour, decreased to €11.91 per megawatt-hour in September 2016 and peaked at €17.95 per megawatt-hour at the end of 2016, giving an average price of €13.94 for 2016. The Group has entered into a limited level of energy derivative contracts to economically hedge a portion of its energy costs in Sweden. The Group has also fixed a certain level of its energy costs through contractual arrangements directly with its energy suppliers.

Green energy levies in certain countries increased compared to the prior year, increasing energy costs. However, lower gas and electricity prices more than compensated for this and the Group's overall energy costs decreased significantly compared to 2015.

The Group's energy derivatives have been further detailed in the tables below.

### Liquidity risk

The Group is exposed to liquidity risk which arises primarily from the maturing of short-term and long-term debt obligations and derivative transactions. The Group's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facilities, to ensure all obligations can be met as they fall due. To achieve this objective, the Group:

- maintains cash balances and liquid investments with highly rated counterparties
- limits the maturity of cash balances
- borrows the bulk of its debt needs under committed bank lines or other term financing and by policy maintains a minimum level of undrawn committed facilities.

The Group has entered into a series of borrowing arrangements in order to facilitate its liquidity needs in this regard and the key terms of those arrangements are described within Note 23 and within certain tables set out below. At each year-end, the Group's rolling liquidity reserve (which comprises cash and undrawn committed facilities and which represents the amount of available cash headroom in the Group's funding structure) was as follows:

	<b>2016</b>	<b>2015</b>
	<b>€m</b>	<b>€m</b>
Cash and cash equivalents	<b>436</b>	270
Committed undrawn facilities	<b>729</b>	616
Liquidity reserve	<b>1,165</b>	886
Current liabilities – borrowings due within one year	<b>(245)</b>	(195)
Net position	<b>920</b>	691

Management monitors rolling cash flow forecasts on an ongoing basis to determine the adequacy of the liquidity position of the Group. This process also incorporates a longer term liquidity review to ensure refinancing risks are adequately catered for as part of the Group's strategic planning. The Group continues to benefit from its existing financing package and debt profile. In addition, the Group's operating activities are cash generative and expect to be so over the foreseeable future; the Group has committed undrawn facilities of €729 million at 31 December 2016; and the Group has cash and cash equivalents of €436 million at 31 December 2016. The maturity dates of the Group's main borrowing facilities as set out in Note 23, together with the liquidity analysis as set out in this note, more fully describes the Group's longer term financing risks.

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 28. Financial instruments (continued)

### Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

In managing its capital structure, the primary focus of the Group is the ratio of net debt as a multiple of EBITDA (earnings before exceptional items, share-based payment expense, share of associates' profit (after tax), net finance costs, income tax expense, depreciation and depletion (net) and intangible asset amortisation). Maximum levels for this ratio are set under Board approved policy. At 31 December 2016 the net debt to EBITDA ratio of the Group was 2.4 times (net debt of €2,941 million) which compares to 2.6 times (net debt of €3,048 million) at the end of 2015. This gives the Group continuing headroom compared to the actual covenant level at 31 December 2016 of 3.75 times.

On the basis of pre-exceptional operating profit, the Group's return on capital employed increased to 15.4% compared to 14.8% in 2015. Adjusting to exclude the Brazilian acquisitions, the Group's return on capital employed at 31 December 2015 would have been a more comparable 15.1%. The return on capital employed comprises pre-exceptional operating profit plus share of associates' profit (after tax) as a percentage of average capital employed (where average capital employed is the average of total equity and net debt at the beginning and end of the year). Capital employed at 31 December 2016 was: €5,444 million, (2015: €5,376 million, 2014: €5,178 million). The post-exceptional return on capital employed was 15.1% in 2016 (2015: 13.5%).

The capital employed of the Company at 31 December 2016 was €2,055 million (2015: €2,055 million).

### Credit risk

Credit risk arises from credit exposure to trade debtors, cash and cash equivalents including deposits with banks and financial institutions, derivative financial instruments and investments. The Group has no sovereign exposures and no material debtors with Government agencies. The maximum exposure to credit risk is represented by the carrying amount of each asset.

Trade debtors arise from a wide and varied customer base spread throughout the Group's operations and as such there is no significant concentration of credit risk. Credit evaluations are performed on all customers over certain thresholds and all customers are subject to continued monitoring at operating company level.

Risk of counterparty default arising on cash and cash equivalents and derivative financial instruments is controlled within a framework of dealing with high quality institutions and, by policy, limiting the amount of credit exposure to any one bank or institution. Of the Group's total cash and cash equivalents (including restricted cash) at 31 December 2016 of €443 million, 53% was with financial institutions in the A rating category of Standard & Poor's or Moody's and 28% was with financial institutions in the AA/Aa rating category. The remaining 19% was represented mainly by cash held with banks in Ireland and Latin America which fell outside the A and AA/Aa ratings categories. At 31 December 2016 derivative transactions were with counterparties with ratings ranging from BB+ to AA- with Standard & Poor's or Ba3 to Aa2 with Moody's.

At each reporting date, there were no significant concentrations of credit risk which individually represented more than 10% of the Group's financial assets. A geographical analysis of the Group's segment assets has been provided in Note 4.

### Market risk – available-for-sale securities

The Group's available-for-sale securities principally comprise an investment in an unlisted entity which operates in a similar paper processing market to the Group in Europe and which has a similar underlying risk profile to the general operational risks encountered by the Group in this market, and investments held relating to unfunded pension liabilities. These investments are being carried at their estimated fair value and the Group's maximum exposure to risks associated with these investments is represented by their carrying amounts.

Investments are occasionally made in listed and unlisted entities of strategic importance to the Group and the policy for assessing impairment thereon is set out in Note 14.

## 28. Financial instruments (continued)

### Derivative positions

Derivative financial instruments recognised as assets and liabilities in the Consolidated Balance Sheet both as part of cash flow hedges and other economic hedges which do not meet the criteria for hedge accounting under IAS 39, have been set out below:

	2016 €m	2015 €m
<b>Non-current derivative assets</b>		
Cash flow hedges:		
Foreign currency forwards	1	1
Cross currency swaps	33	27
Fair value hedges:		
Cross currency swaps	8	6
<b>Total non-current derivative assets</b>	<b>42</b>	<b>34</b>
<b>Current derivative assets</b>		
Cash flow hedges:		
Foreign currency forwards	1	1
Cross currency swaps	-	8
Not designated as hedges:		
Foreign currency forwards	1	1
Cross currency swaps	7	18
Energy hedging contracts	1	-
<b>Total current derivative assets</b>	<b>10</b>	<b>28</b>
<b>Total derivative assets</b>	<b>52</b>	<b>62</b>
<b>Non-current derivative liabilities</b>		
Cash flow hedges:		
Interest rate swaps	(11)	(12)
Foreign currency forwards	-	(2)
Cross currency swaps	(1)	-
Not designated as hedges:		
Cross currency swaps	-	(1)
<b>Total non-current derivative liabilities</b>	<b>(12)</b>	<b>(15)</b>
<b>Current derivative liabilities</b>		
Cash flow hedges:		
Interest rate swaps	(5)	(4)
Foreign currency forwards	(1)	(2)
Cross currency swaps	(1)	-
Not designated as hedges:		
Foreign currency forwards	(1)	-
Cross currency swaps	(19)	(3)
Energy hedging contracts	-	(1)
<b>Total current derivative liabilities</b>	<b>(27)</b>	<b>(10)</b>
<b>Total derivative liabilities</b>	<b>(39)</b>	<b>(25)</b>
<b>Net asset on derivative financial instruments</b>	<b>13</b>	<b>37</b>

### Fair value hierarchy

#### Fair value measurement at 31 December 2016

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets (Note 14):				
Listed	1	-	-	1
Unlisted	-	8	12	20
Derivative financial instruments:				
Assets at fair value through Consolidated Income Statement	-	9	-	9
Derivatives used for hedging	-	43	-	43
Derivative financial instruments:				
Liabilities at fair value through Consolidated Income Statement	-	(20)	-	(20)
Derivatives used for hedging	-	(19)	-	(19)
	<b>1</b>	<b>21</b>	<b>12</b>	<b>34</b>

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 28. Financial instruments (continued)

Fair value measurement at 31 December 2015	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Available-for-sale financial assets (Note 14):				
Listed	1	-	-	1
Unlisted	-	7	13	20
Derivative financial instruments:				
Assets at fair value through Consolidated Income Statement	-	19	-	19
Derivatives used for hedging	-	43	-	43
Derivative financial instruments:				
Liabilities at fair value through Consolidated Income Statement	-	(5)	-	(5)
Derivatives used for hedging	-	(20)	-	(20)
	1	44	13	58

The fair value of the derivative financial instruments set out above has been measured in accordance with level 2 of the fair value hierarchy. All are plain derivative instruments, valued with reference to observable foreign exchange rates, interest rates or broker prices. Further details of the available-for-sale financial assets are set out in Note 14.

### Financial instruments in level 3

The following table presents the changes in level 3 instruments for the years ended 31 December 2016 and 31 December 2015:

	2016 €m	2015 €m
At 1 January	13	13
Sale of investment	(1)	-
<b>At 31 December</b>	<b>12</b>	13

### Cash flow hedging

As more fully set out in this note, the Group principally utilises interest rate swaps to swap its variable rate debt into fixed rates. The Group has also designated a number of cross currency swaps which swap fixed US dollar debt into fixed euro debt as cash flow hedges where permitted. These swaps are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying debt being hedged. They have accordingly been determined by the Group to be highly effective in achieving offsetting cash flows for its variable rate debt, and no material level of ineffectiveness in hedged risk has been recorded in the Consolidated Income Statement in relation to these hedges in 2016 and 2015. Amounts accounted for in the cash flow hedging reserve in respect of these swaps during the current and preceding periods have been set out in the Consolidated Statement of Comprehensive Income. These fair value gains and losses are expected to impact on profit and loss over the period from 2017 to 2023, in line with the underlying debt being hedged. In addition, certain subsidiaries use foreign currency forward contracts to hedge forecast foreign currency sales and purchases. Such forward contracts are designated as cash flow hedges and are set so as to closely match the critical terms of the underlying cash flows and have been highly effective in achieving offsetting cashflows with no ineffectiveness recorded. These fair value gains and losses are expected to impact on profit and loss over the period from 2017 to 2018. During 2012, the Group entered into a limited level of wood pulp swap contracts (1,500 tonnes per month for three years) to hedge a portion of its wood pulp cost in France and Germany, which are designated as cash flow hedges. The wood pulp hedges matured in January 2016.

### Fair value hedging

In 2012 the Group entered into a cross currency interest rate swap to swap fixed rate debt into variable rate debt. This swap is designated as a fair value hedge and is set so as to closely match the critical terms of the underlying debt being hedged. It has accordingly been determined by the Group to be highly effective in offsetting the fair value of the fixed rate debt and no material level of ineffectiveness has been recorded in the Consolidated Income Statement in relation to this hedge in 2016 and 2015. The fair value gains and losses are expected to impact on profit and loss over the period from 2017 to 2018, in line with the underlying debt being hedged.

## 28. Financial instruments (continued)

### Derivatives not designated as hedges

The Group utilises a combination of foreign currency forward contracts and cross currency swaps in order to economically hedge on balance sheet debtor, creditor and borrowing exposures which are denominated in currencies other than the euro. Formal hedge accounting as permitted by IAS 39 is not applied to these derivative instruments because a natural offset is effectively already achieved through fair valuing the derivatives through the Consolidated Income Statement as required by IAS 39, while also retranslating the related balance sheet foreign currency denominated monetary assets or liabilities at appropriate closing rates at each balance sheet date, as required by IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

The Group has also entered into certain energy hedging contracts to mitigate the associated price risks which occur as a result of the Group's normal operations. These have not been designated as hedges in accordance with IAS 39 and are recognised at fair value through the Consolidated Income Statement as required by that standard.

The principal terms of the Group's material derivative contracts have been set out further below.

Outstanding interest rate swap agreements at 31 December 2016 are summarised as follows:

Currency	Notional principal (million)	Termination dates	% Fixed payable	% Variable receivable
EUR	125	2018	1.051-1.080	Euribor <sup>(1)</sup>
EUR	50	2019	0.844-0.909	Euribor
EUR	74	2020	1.460-1.488	Euribor
EUR	100	2021	1.314-1.508	Euribor

<sup>(1)</sup> European Interbank Offered Rate.

Outstanding interest rate swap agreements at 31 December 2015 are summarised as follows:

Currency	Notional principal (million)	Termination dates	% Fixed payable	% Variable receivable
EUR	125	2018	1.051-1.080	Euribor
EUR	50	2019	0.844-0.909	Euribor
EUR	74	2020	1.460-1.488	Euribor
EUR	100	2021	1.314-1.508	Euribor

### Foreign exchange risk management

The Group manages its balance sheet having regard to the currency exposures arising from its assets being denominated in a wide range of currencies. To this end, where foreign currency assets are funded by local borrowing, such borrowing is generally sourced in the currency of the related assets. The Group also hedges a portion of its currency exposure through the use of currency swaps and forward contracts. At 31 December 2016 the Group had entered into €302 million (2015: €254 million) currency equivalent of forward contracts and there were no option contracts outstanding in respect of its day to day trading. At 31 December 2016 the Group had also entered into further short-term currency swaps of €571 million equivalent (2015: €685 million) as part of its short-term liquidity management.

The narrative above deals with short-term currency derivatives only. The Group also enters into longer term cross currency swap arrangements in respect of its US dollar debt, which are set out in more detail in the tables below. In addition, the Group entered into a number of cross currency swaps in respect of the funding of its acquisition in Brazil, which are set out in more detail in the table below.

Outstanding currency swap agreements at 31 December 2016 are summarised as follows:

Currency swapped (million)	Currency received (million)	Maturity date	Interest rate paid	Interest rate received
EUR 83	BRL 351	2017	110.9% CDI	Euribor +3.318
US\$ 50	EUR 40	2018	Euribor +3.480	4.875
US\$ 250	EUR 198	2018	4.805	4.875
US\$ 154	EUR 144	2023	5.300	7.500

Outstanding currency swap agreements at 31 December 2015 are summarised as follows:

Currency swapped (million)	Currency received (million)	Maturity date	Interest rate paid	Interest rate received
US\$ 154	EUR 131	2016	7.109	7.500
EUR 70	BRL 302	2017	110.3% CDI	Euribor +3.500
US\$ 50	EUR 40	2018	Euribor +3.480	4.875
US\$ 250	EUR 198	2018	4.805	4.875



# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 28. Financial instruments (continued)

### Energy risk management

The Group had the following energy hedging contracts outstanding at the end of 31 December 2016 and 2015. Gains and losses recorded in respect of these contracts have been set out elsewhere in this note.

Energy contracts	2016		2015	
	Notional €7 million	Maturity Q1 2017 - Q4 2019	Notional €3 million	Maturity Q1 2016 - Q4 2017

### Effective interest rates and repricing analysis

In respect of income earning financial assets and interest bearing financial liabilities, the following tables indicate their average effective interest rates at the reporting date and the periods in which they reprice:

31 December 2016	Average effective interest rate	6 months or less €m	6-12 months €m	1-2 years €m	2-5 Years €m	More than 5 years €m	Total €m
<b>Fixed rate instruments</b>							
Liabilities:							
2025 debentures	7.57%	-	-	-	-	279	279
2018 notes	5.38%	-	-	488	-	-	488
2020 fixed rate notes	4.41%	-	-	-	404	-	404
2021 notes	3.52%	-	-	-	496	-	496
2025 notes	3.00%	-	-	-	-	249	249
Bank loans/overdrafts	6.82%	4	2	2	8	6	22
Effect of interest rate swaps		-	-	125	224	-	349
Effect of fair value cross currency swap		-	-	(47)	-	-	(47)
Total		4	2	568	1,132	534	2,240
Finance leases	5.20%	-	-	1	2	10	13
<b>Total fixed rate liabilities</b>		4	2	569	1,134	544	2,253
<b>Floating rate instruments</b>							
Assets:							
Cash and cash equivalents	0.03%	436	-	-	-	-	436
Restricted cash	0.05%	7	-	-	-	-	7
<b>Total floating rate assets</b>		443	-	-	-	-	443
Liabilities:							
Senior credit facility	1.95%	742	-	-	-	-	742
2018 receivables securitisation	1.73%	114	-	-	-	-	114
2019 receivables securitisation	1.29%	182	-	-	-	-	182
2020 floating rate notes	3.49%	249	-	-	-	-	249
Bank loans/overdrafts	13.27%	145	-	-	-	-	145
Effect of interest rate swaps	1.53%	(349)	-	-	-	-	(349)
Effect of fair value cross currency swap	(2.32%)	40	-	-	-	-	40
Total		1,123	-	-	-	-	1,123
Finance leases	3.19%	1	-	-	-	-	1
<b>Total floating rate liabilities</b>		1,124	-	-	-	-	1,124
<b>Total net position</b>		(685)	(2)	(569)	(1,134)	(544)	(2,934)

## 28. Financial instruments (continued)

### 31 December 2015

	Average effective interest rate	6 months or less €m	6-12 months €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
<b>Fixed rate instruments</b>							
Liabilities:							
2025 debentures	7.58%	-	-	-	-	270	270
2018 notes	5.42%	-	-	-	477	-	477
2020 fixed rate notes	4.42%	-	-	-	403	-	403
2021 notes	3.52%	-	-	-	-	495	495
2025 notes	3.01%	-	-	-	-	248	248
Bank loans/overdrafts	14.26%	-	6	2	36	4	48
Effect of interest rate swaps		-	-	-	249	100	349
Effect of fair value cross currency swap		-	-	-	(46)	-	(46)
Total		-	6	2	1,119	1,117	2,244
Finance leases	4.76%	-	-	1	3	3	7
<b>Total fixed rate liabilities</b>		-	6	3	1,122	1,120	2,251

### Floating rate instruments

Assets:							
Cash and cash equivalents	0.49%	270	-	-	-	-	270
Restricted cash	0.05%	5	-	-	-	-	5
<b>Total floating rate assets</b>		275	-	-	-	-	275
Liabilities:							
Senior credit facility	1.95%	643	-	-	-	-	643
2018 receivables securitisation	1.85%	174	-	-	-	-	174
2019 receivables securitisation	1.67%	232	-	-	-	-	232
2020 floating rate notes	3.76%	249	-	-	-	-	249
Bank loans/overdrafts	11.39%	76	-	-	-	-	76
Effect of interest rate swaps	1.29%	(349)	-	-	-	-	(349)
Effect of fair value cross currency swap	(1.97%)	40	-	-	-	-	40
Total		1,065	-	-	-	-	1,065
Finance leases	3.02%	1	-	-	-	-	1
<b>Total floating rate liabilities</b>		1,066	-	-	-	-	1,066
<b>Total net position</b>		(791)	(6)	(3)	(1,122)	(1,120)	(3,042)

### Liquidity analysis

The following table sets out the maturity or liquidity analysis of the Group's financial liabilities and net settled derivative financial liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

	Weighted average period until maturity (years)	No fixed term €m	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
<b>31 December 2016</b>							
Liabilities:							
Trade and other payables		-	1,392	-	-	-	1,392
Senior credit facility	2.7	-	9	133	634	-	776
2018 receivables securitisation	1.3	-	1	115	-	-	116
2019 receivables securitisation	2.5	-	2	2	184	-	188
Bank loans/overdrafts	1.0	33	99	28	21	2	183
2025 debentures	8.8	-	21	21	62	360	464
2018 notes	1.7	-	24	509	-	-	533
2020 fixed rate notes	3.0	-	17	17	425	-	459
2020 floating rate notes	3.8	-	8	8	266	-	282
2021 notes	4.4	-	16	16	541	-	573
2025 notes	8.0	-	7	7	21	274	309
		33	1,596	856	2,154	636	5,275
Finance leases	6.0	-	3	2	4	9	18
		33	1,599	858	2,158	645	5,293
Derivative liabilities		-	5	5	6	-	16
<b>Total liabilities</b>		33	1,604	863	2,164	645	5,309

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 28. Financial instruments (continued)

	Weighted average period until maturity (years)	No fixed term €m	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
<b>31 December 2015</b>							
Liabilities:							
Trade and other payables		-	1,365	-	-	-	1,365
Senior credit facility	3.8	-	10	10	672	-	692
2018 receivables securitisation	2.3	-	3	3	176	-	182
2019 receivables securitisation	3.5	-	3	3	239	-	245
Bank loans/overdrafts	1.3	6	70	30	31	2	139
2025 debentures	9.8	-	20	20	60	369	469
2018 notes	2.7	-	24	24	499	-	547
2020 fixed rate notes	4.0	-	17	17	441	-	475
2020 floating rate notes	4.8	-	9	9	276	-	294
2021 notes	5.4	-	16	16	49	508	589
2025 notes	9.0	-	7	7	21	281	316
		6	1,544	139	2,464	1,160	5,313
Finance leases	2.4	-	4	2	2	1	9
		6	1,548	141	2,466	1,161	5,322
Derivative liabilities		-	6	5	7	-	18
<b>Total liabilities</b>		6	1,554	146	2,473	1,161	5,340

The financial liabilities of the Company of €5 million (2015: €1 million) are repayable on demand.

The following table sets out the liquidity analysis with regard to derivatives which do not net settle in the normal course of business (primarily foreign exchange contracts and currency swaps). The table shows the estimated timing of cash flows on the liability side of the contracts only:

	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
<b>31 December 2016</b>					
Liabilities:					
Cross currency swaps	702	257	23	159	1,141
Foreign currency forwards	256	46	-	-	302
Total	958	303	23	159	1,443

	Less than 1 year €m	1-2 years €m	2-5 years €m	More than 5 years €m	Total €m
<b>31 December 2015</b>					
Liabilities:					
Cross currency swaps	833	93	249	-	1,175
Foreign currency forwards	205	46	3	-	254
Total	1,038	139	252	-	1,429

## 28. Financial instruments (continued)

### Currency analysis

The table below sets out the Group's financial assets and liabilities according to their principal currencies. Currency risk related to financial assets and liabilities denominated in currencies other than the Group's presentation currency (euro) represents both transactional and translation risk. As at 31 December 2016 and 2015 the Company had no material financial assets or liabilities denominated in foreign currencies.

31 December 2016	Euro	Sterling	Latin America <sup>(1)</sup>	US dollar	Other	Total
	€m	€m	€m	€m	€m	€m
Trade and other receivables	839	129	205	115	127	1,415
Available-for-sale financial assets	21	-	-	-	-	21
Cash and cash equivalents	288	29	36	47	36	436
Restricted cash	5	-	-	1	1	7
<b>Total assets</b>	<b>1,153</b>	<b>158</b>	<b>241</b>	<b>163</b>	<b>164</b>	<b>1,879</b>
Trade and other payables	887	111	143	136	115	1,392
Senior credit facility	568	125	-	49	-	742
2018 receivables securitisation	114	-	-	-	-	114
2019 receivables securitisation	112	70	-	-	-	182
Bank loans/overdrafts	24	1	121	20	1	167
2025 debentures	-	-	-	279	-	279
2018 notes	199	-	-	289	-	488
2020 fixed rate notes	404	-	-	-	-	404
2020 floating rate notes	249	-	-	-	-	249
2021 notes	496	-	-	-	-	496
2025 notes	249	-	-	-	-	249
	3,302	307	264	773	116	4,762
Finance leases	1	2	-	11	-	14
<b>Total liabilities</b>	<b>3,303</b>	<b>309</b>	<b>264</b>	<b>784</b>	<b>116</b>	<b>4,776</b>
Impact of foreign exchange contracts	154	142	107	(288)	(150)	(35)
<b>Total (liabilities)/assets</b>	<b>(2,304)</b>	<b>(293)</b>	<b>(130)</b>	<b>(333)</b>	<b>198</b>	<b>(2,862)</b>

### 31 December 2015

31 December 2015	Euro	Sterling	Latin America <sup>(1)</sup>	US dollar	Other	Total
	€m	€m	€m	€m	€m	€m
Trade and other receivables	807	143	186	140	108	1,384
Available-for-sale financial assets	21	-	-	-	-	21
Cash and cash equivalents	134	22	63	27	24	270
Restricted cash	1	-	-	3	1	5
<b>Total assets</b>	<b>963</b>	<b>165</b>	<b>249</b>	<b>170</b>	<b>133</b>	<b>1,680</b>
Trade and other payables	880	115	119	148	103	1,365
Senior credit facility	545	50	-	48	-	643
2018 receivables securitisation	174	-	-	-	-	174
2019 receivables securitisation	152	80	-	-	-	232
Bank loans/overdrafts	15	1	89	19	-	124
2025 debentures	-	-	-	270	-	270
2018 notes	198	-	-	279	-	477
2020 fixed rate notes	403	-	-	-	-	403
2020 floating rate notes	249	-	-	-	-	249
2021 notes	495	-	-	-	-	495
2025 notes	248	-	-	-	-	248
	3,359	246	208	764	103	4,680
Finance leases	1	4	-	3	-	8
<b>Total liabilities</b>	<b>3,360</b>	<b>250</b>	<b>208</b>	<b>767</b>	<b>103</b>	<b>4,688</b>
Impact of foreign exchange contracts	65	297	78	(317)	(183)	(60)
<b>Total (liabilities)/assets</b>	<b>(2,462)</b>	<b>(382)</b>	<b>(37)</b>	<b>(280)</b>	<b>213</b>	<b>(2,948)</b>

<sup>(1)</sup> Latin America includes currencies such as the Mexican Peso, Colombian Peso, Venezuelan Bolivar Fuerte and Brazilian Real. These have been grouped together principally owing to their size and impact on the currency analysis tables within this note.

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 28. Financial instruments (continued)

### 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.

	2016		2015	
	Carrying value €m	Fair value €m	Carrying value €m	Fair value €m
Trade and other receivables <sup>(1)</sup>	1,415	1,415	1,384	1,384
Available-for-sale financial assets <sup>(2)</sup>	21	21	21	21
Cash and cash equivalents <sup>(3)</sup>	436	436	270	270
Derivative assets <sup>(4)</sup>	52	52	62	62
Restricted cash <sup>(3)</sup>	7	7	5	5
	<b>1,931</b>	<b>1,931</b>	1,742	1,742
Trade and other payables <sup>(1)</sup>	1,392	1,392	1,365	1,365
Senior credit facility <sup>(5)</sup>	742	742	643	643
2018 receivables securitisation <sup>(3)</sup>	114	114	174	174
2019 receivables securitisation <sup>(3)</sup>	182	182	232	232
Bank overdrafts <sup>(3)</sup>	167	167	124	124
2025 debentures <sup>(6)</sup>	279	330	270	324
2018 notes <sup>(6)</sup>	488	517	477	506
2020 fixed rate notes <sup>(6)</sup>	404	446	403	442
2020 floating rate notes <sup>(6)</sup>	249	270	249	268
2021 notes <sup>(6)</sup>	496	538	495	522
2025 notes <sup>(6)</sup>	249	255	248	241
	<b>4,762</b>	<b>4,953</b>	4,680	4,841
Finance leases	14	14	8	8
	<b>4,776</b>	<b>4,967</b>	4,688	4,849
Derivative liabilities <sup>(4)</sup>	39	39	25	25
	<b>4,815</b>	<b>5,006</b>	4,713	4,874
<b>Total net position</b>	<b>(2,884)</b>	<b>(3,075)</b>	(2,971)	(3,132)

(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 available-for-sale financial assets is determined by reference to their bid price at the reporting date. Unlisted available-for-sale financial assets are valued using recognised valuation techniques for the underlying security including discounted cash flows and similar unlisted equity valuation models.

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

(4) The fair value of forward foreign currency 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 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 is based on broker prices at the balance sheet date.

The fair value of the Company's financial assets and financial liabilities approximates to their carrying values.



## 29. Lease obligations

### Operating leases

Future minimum lease payments under non-cancellable operating leases are as follows:

	<b>2016</b>	<b>2015</b>
	<b>€m</b>	<b>€m</b>
Within one year	<b>86</b>	81
Within two to five years	<b>176</b>	161
Over five years	<b>93</b>	68
	<b>355</b>	310

The Group leases properties, plant and machinery and vehicles under operating leases. The leases have various terms, escalation clauses and renewal rights.

### Finance leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	<b>2016</b>		<b>2015</b>	
	<b>Minimum payments</b>	<b>Present value of minimum payments</b>	<b>Minimum payments</b>	<b>Present value of minimum payments</b>
	<b>€m</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>
Within one year	<b>3</b>	<b>2</b>	4	3
Within two to five years	<b>6</b>	<b>4</b>	4	4
Over five years	<b>10</b>	<b>8</b>	1	1
Total minimum lease payments	<b>19</b>	<b>14</b>	9	8
Less: amounts allocated to future finance costs	<b>(5)</b>		(1)	
<b>Present value of minimum lease payments</b>	<b>14</b>		<b>8</b>	

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 30. Related party transactions

The principal related party relationships requiring disclosure under IAS 24, *Related Party Disclosures* pertain to the existence of subsidiaries and associates and transactions with these entities entered into by the Group and the identification and compensation of key management personnel as addressed in greater detail below.

### Transactions with subsidiaries

The Consolidated Financial Statements include the Financial Statements of the Company and its subsidiaries and associates as documented in the accounting policies on pages 103 to 104. A listing of the principal subsidiaries is provided on pages 156 to 157 of this document.

Sales to and purchases from, together with outstanding payables and receivables to and from, subsidiaries are eliminated in the preparation of the consolidated financial information in accordance with IFRS 10, *Consolidated Financial Statements*.

### Transactions with associates

The Group conducts certain transactions with associates in the normal course of business which are summarised as follows:

#### Sales and purchase of goods and services

	2016	2015
	€m	€m
Sale of goods	11	20
Purchase of goods	(3)	(3)
Rendering of services	1	1
Receiving of services	(2)	(1)

These transactions are undertaken and settled at normal trading terms. No guarantees are given or received by either party.

The receivables from related parties of €3 million (2015: €4 million) arise mainly from sale transactions and are due two months after the date of sale. The receivables are unsecured in nature and do not bear interest.

The payables to related parties of €1 million (2015: €1 million) arise mainly from purchase transactions and are due two months after the date of purchase. The payables do not bear interest.

No provision has been made in 2016 or 2015 relating to balances with related parties.

### Transactions with other related parties

In the period to November 2016, the Group purchased, in the normal course of business, approximately 25,000 metric tonnes (2015: 27,000 metric tonnes) of paper amounting to approximately €14 million (2015: €16 million) from Savon Sellu, a company which was controlled by Dermot Smurfit together with his brothers Dr. Michael Smurfit, former Chairman of the Group, and Alan Smurfit until November 2016.

### Transactions with key management personnel

For the purposes of the disclosure requirements of IAS 24, the term 'key management personnel' (i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the Company) comprises the Board of Directors and Secretary who manage the business and affairs of the Company.

	2016	2015
	€m	€m
Short-term employee benefits	3	6
Post-employment benefits	-	1
Share-based payment expense	1	4
Termination payment	2	-
	6	11

### Information on the parent Company

The parent Company is an investment holding company and as a result, holds investments in the Group subsidiaries as financial assets. The parent Company also has receivables and payables with its subsidiaries entered into in the normal course of business. These balances are repayable on demand. The notes to the Company Balance Sheet disclose these various balances.

### 31. Business combinations

The acquisitions completed by the Group during the year, together with percentages acquired and completion dates were as follows:

- Sound Packaging, (100%, 4 January 2016), a sheet plant located in Arizona in the United States;
- Corrugated Professionals, (100%, 4 January 2016), a sheet feeder located in Arizona in the United States;
- Empire Packaging, (100%, 26 February 2016), a sheet plant located in California in the United States;
- Scope Packaging, (100%, 15 March 2016), a sheet plant located in California in the United States; and
- Saxon Packaging (100%, 28 October 2016), a sheet plant located in Suffolk in the United Kingdom.

The assignment of fair values to identifiable net assets has been performed on a provisional basis for certain of these acquisitions due to their timing. Any amendments to these fair values will be made within the twelve month period from the date of acquisition, as permitted by IFRS 3, *Business Combinations*, and will be disclosed in the 2017 Annual Report. None of the business combinations completed during the year were considered sufficiently material to warrant separate disclosure of the fair values attributable to those combinations.

As outlined in the 2015 Annual Report, some of the 2015 business combinations had provisional fair values assigned to them as at 31 December 2015. In accordance with IFRS 3, *Business Combinations*, the Group has adjusted the fair values attributed to these acquisitions during the current financial year. The Group has considered the size of these adjustments and does not deem them to be sufficiently material to warrant a restatement of the 2015 Consolidated Financial Statements. These adjustments principally relate to the INPA and Paema acquisitions in Brazil and have been disclosed separately below.

	2016 Acquisitions €m	Fair value adjustments to 2015 Acquisitions €m	Total €m
Non-current assets			
Property, plant and equipment	13	53	66
Intangible assets	11	14	25
Trade and other receivables	1	(6)	(5)
Deferred income tax assets	-	6	6
Current assets			
Inventories	4	(1)	3
Trade and other receivables	8	1	9
Non-current liabilities			
Employee benefits	-	(3)	(3)
Deferred income tax liabilities	(3)	3	-
Provisions for liabilities and charges	-	(13)	(13)
Other payables	-	(2)	(2)
Current liabilities			
Borrowings	(1)	-	(1)
Trade and other payables	(12)	(1)	(13)
Net assets acquired	21	51	72
Goodwill	20	(50)	(30)
Negative goodwill	-	(4)	(4)
<b>Consideration</b>	<b>41</b>	<b>(3)</b>	<b>38</b>

Settled by:

Cash	35
Deferred consideration	3
	38

The principal factors contributing to the recognition of goodwill are the realisation of cost savings and other synergies with existing entities in the Group which do not qualify for separate recognition as intangible assets.

During the year the Group recognised €4 million of negative goodwill arising from its 2015 acquisition of Paema. This is included within administrative expenses in the Consolidated Income Statement.

€8 million of the goodwill recognised in respect of acquisitions completed in 2016 is expected to be deductible for tax purposes.

#### Net cash outflow arising on acquisition

	€m
Cash consideration	35
Total	35

The gross contractual value of trade and other receivables as at the respective dates of acquisition amounted to €9 million. The fair value of these receivables is estimated at €9 million (all of which are expected to be recoverable).

# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 31. Business combinations (continued)

Acquisition-related costs of €1 million were incurred and are included within administrative expenses in the Consolidated Income Statement.

The Group's acquisitions have contributed €57 million to revenue and €5 million of a loss for the financial year. The proforma revenue and profit of the Group for the year ended 31 December 2016 would have been €8.172 million and €458 million respectively had the acquisitions taken place at the start of the current reporting period.

No contingent liabilities were recognised on the acquisitions completed during the year.

There have been no acquisitions completed subsequent to the balance sheet date which would be individually material to the Group, thereby requiring disclosure under either IFRS 3, *Business Combinations* or IAS 10, *Events after the Balance Sheet Date*. Details of events after the balance sheet date are set out in Note 32.

## 32. Events after the balance sheet date

On 17 January 2017, the Group successfully completed the pricing of an offering of €500 million of euro denominated senior notes due 2024 issued by its wholly-owned subsidiary, Smurfit Kappa Acquisitions Unlimited Company. The proceeds of the offering were used to reduce indebtedness under the Group's senior facilities agreement and existing securitisation facilities and for general corporate purposes.

The notes were offered in a private placement, and there was no public offering of the notes. The notes priced at par and carry a coupon of 2.375%. The sale of the notes was completed on 24 January 2017.

## 33. Profit dealt with in the parent Company

In accordance with Section 304 of the Companies Act 2014, the Company is availing of the exemption from presenting its individual Income Statement to the AGM and from filing it with the Registrar of Companies. A profit of €288 million (2015: a profit of €126 million) has been dealt with in the Income Statement of the Company.

## 34. Contingent liabilities

During 2013, the Spanish Competition Authority ('CNMC') launched an investigation into several corrugated manufacturers based in Spain including SKG and the Spanish Association of Corrugated Cardboard Containers and Packaging Manufacturers ('AFCO'). On 23 June 2015, SKG received notification from the CNMC of a fine for alleged anti-competitive conduct.

The Group considers that the fine is unjustified and that there is no basis upon which a fine can be levied. A formal appeal was lodged in December 2015 and the Group is confident of a successful outcome. Accordingly no provision has been made in respect of this fine in the Consolidated Financial Statements. In the event that the Group is unsuccessful in the appeal, the potential liability amounts to €8.1 million.

## 35. Principal subsidiaries

Each of Smurfit Kappa Group plc, Smurfit Kappa Investments Limited, Smurfit Kappa Holdings Limited, Smurfit Kappa Corporation Designated Activity Company, Smurfit Kappa Funding Designated Activity Company and Smurfit Kappa Acquisitions Unlimited Company with an address at Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, is a holding company with no operations of its own. Smurfit Kappa Acquisitions Unlimited Company is a Public Unlimited Company. A listing of the principal subsidiaries is set out below:

Subsidiaries <sup>(1)</sup>	Principal activities	Country of incorporation <sup>(2)</sup>	Holding %
<b>Cartón de Colombia, S.A.</b> Apartado Aereo 219, Cali, Colombia	Manufacture and sale of paperboard, paper sacks, writing paper and packaging products	<b>Colombia</b>	70
<b>Cartón de Venezuela, S.A.</b> Apartado Aereo 609, Caracas, Venezuela	Manufacture and sale of paperboard and packaging products	<b>Venezuela</b>	88
<b>Grupo Smurfit México, S.A. de C.V.</b> World Plaza, Av. Santa Fe 481, Piso 15, Col. Cruz Manca, México, D.F. 05349	Manufacture and sale of paperboard and packaging products	<b>Mexico</b>	100
<b>Nettingsdorfer Papierfabrik AG &amp; Co KG</b> Nettingsdorfer Straße 40, 4053 Haid bei Ansfelden, Austria	Manufacture and sale of containerboard and holding company for Austrian operations which manufacture corrugated board	<b>Austria</b>	100
<b>Smurfit International B.V.</b> Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Principal international holding company	<b>Netherlands</b>	100
<b>Smurfit Kappa B.V.</b> Warandelaan 2, 4904 PC Oosterhout, The Netherlands	International holding company	<b>Netherlands</b>	100
<b>Smurfit Kappa de Argentina, S.A.</b> Paque Saenz Pena 308 – 8th Floor, Buenos Aires, Argentina	Manufacture and sale of paperboard and packaging products	<b>Argentina</b>	100
<b>Smurfit Kappa Deutschland GmbH</b> Tilsiter Straße 144, 22047 Hamburg, Germany	Holding company for German operations whose principal activities are the manufacture and sale of paperboard, solidboard and packaging products	<b>Germany</b>	100

### 35. Principal subsidiaries (continued)

Subsidiaries	Principal activities	Country of incorporation	Holding %
<b>Smurfit Kappa Holdings Italia, S.p.A.</b> Strada Serravalle 30, 15067 Novi Ligure (AL), Italy	Holding company for Italian operations whose principal activities are the manufacture and sale of paperboard and packaging products	<b>Italy</b>	100
<b>Smurfit Kappa Holdings US, Inc.</b> 1301 International Parkway, Suite 550, Sunrise, Florida 33323, United States	Holding company for North American and certain Mexican operations whose principal activities are the manufacture and sale of paperboard and packaging products	<b>United States</b>	100
<b>Smurfit Kappa Ireland Limited</b> Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, Ireland	Manufacture and sale of paperboard and packaging products	<b>Ireland</b>	100
<b>Smurfit Kappa Kraftliner Piteå AB</b> SE – 941 86, Piteå, Sweden	Manufacture and sale of containerboard and holding company for operations in Sweden and other countries which manufacture and sell packaging products	<b>Sweden</b>	100
<b>Smurfit Kappa Nederland B.V.</b> Warandelaan 2, 4904 PC Oosterhout, The Netherlands	Holding company for Dutch operations which manufacture and sell paperboard and packaging products	<b>Netherlands</b>	100
<b>Smurfit Kappa Nervión, S.A.</b> B Arriandi s/n, 48215 Iurreta, Vizcaya, Spain	Manufacture and sale of sack paper and holding company for Spanish and Portuguese operations whose principal activities are the manufacture and sale of paperboard and packaging products	<b>Spain</b>	100
<b>Smurfit Kappa Packaging UK Limited</b> Cunard Building, Pier Head, Liverpool, LS3 1SF, United Kingdom	Holding company for operations in the United Kingdom whose principal activities are the manufacture and sale of paperboard and packaging products	<b>England</b>	100
<b>Smurfit Kappa Participações do Brasil Ltda.</b> Rua Castilho, 392 – cj 162, Brooklin, São Paulo/SP, Brasil CEP 04568-010	Holding company for operations in Brazil whose principal activities are the manufacture and sale of paperboard and packaging products	<b>Brazil</b>	100
<b>Smurfit Kappa Participations SAS</b> 5 Avenue du Général de Gaulle, 94160 Saint Mandé, France	Holding company for French operations whose activities are the manufacture and sale of paperboard and packaging products	<b>France</b>	100
<b>Smurfit Kappa Treasury Unlimited Company</b> Beech Hill, Clonskeagh, Dublin 4, D04 N2R2, Ireland	Finance company	<b>Ireland</b>	100

<sup>(1)</sup> A full list of subsidiaries and associates will be annexed to the Annual Return of the Company to be filed with the Irish Registrar of Companies.

<sup>(2)</sup> The companies operate principally in their countries of incorporation.

#### Section 357 Guarantees

Pursuant to the provisions of Section 357, Companies Act 2014, Smurfit Kappa Group plc has irrevocably guaranteed the liabilities of certain of its Irish subsidiaries and as a result such subsidiaries have been exempted from the filing provisions of Section 347, Companies Act 2014. These Irish subsidiaries are as follows – Belgray Holdings Unlimited Company, Brenchley Limited, Claystoke Designated Activity Company, Crayside Limited, Damous Limited, DLRS (Holdings) Limited, DLRS Limited, Gorda Limited, Gweebarra Limited, Iona Print Limited, iVenus Limited, Jefferson Smurfit & Sons Limited, Margrave Investments Limited, Smurfit Corrugated Ireland Unlimited Company, Smurfit Corrugated Research Limited, Smurfit Holdings Limited, Smurfit International Designated Activity Company, Smurfit Investments (Ireland) Limited, Smurfit Kappa Corporation Designated Activity Company, Smurfit Kappa Funding Designated Activity Company, Smurfit Kappa Holdings Limited, Smurfit Kappa Investments Limited, Smurfit Kappa Ireland Limited, Smurfit Kappa Irish Paper Sacks Limited, Smurfit Kappa Leasing Unlimited Company, Smurfit Kappa News Press Limited, Smurfit Kappa Packaging Limited, Smurfit Kappa Recycling Ireland Limited, Smurfit Kappa Services Limited, Smurfit Kappa Treasury Unlimited Company, Smurfit Kappa Treasury Funding Designated Activity Company, Smurfit Kappa Treasury Receivables Designated Activity Company, Smurfit Natural Resources Limited, Smurfit Securities Limited, Smurfit Web Research Limited, Woodfab Limited.

#### Article 403 Guarantees

Smurfit Kappa Group plc has, in accordance with Article 403, Book 2 of the Dutch Civil Code, guaranteed the debts of its following Dutch subsidiaries – Advale (Netherlands) B.V., Smurfit International B.V., Smurfit Corrugated B.V., Smurfit Holdings B.V., Smurfit Investments B.V., Packaging Investments Netherlands (PIN) B.V., Packaging Investments Holdings (PIH) B.V., Packaging Investments International (PII) B.V., Smurfit Kappa Europe B.V., Kappa Packaging International B.V., CE International B.V., Kappa Packaging Nederland Holding B.V., Smurfit Kappa Nederland B.V., Kappa Packaging Insurances B.V., Smurfit Kappa Corrugated Division B.V., Smurfit Kappa Corrugated Benelux B.V., Smurfit Kappa TWINCORR B.V., Smurfit Kappa MNL Golfkarton B.V., Smurfit Kappa Van Dam Golfkarton B.V., Smurfit Kappa Vandra B.V., Cobra Golfkarton B.V., Smurfit Kappa Orko-Pak B.V., Smurfit Kappa ELCORR B.V., Smurfit Kappa Trobox Kartonnages B.V., Smurfit Kappa Zedek B.V., Smurfit Kappa European Paper Sourcing B.V., Smurfit Kappa North East Europe Head Office B.V., Kartonfabriek Britannia B.V., Smurfit Kappa Recycling B.V., Kappa Graphic Board USA B.V., Smurfit Kappa Development Centre B.V., Smurfit Kappa Paper Services B.V., Smurfit Kappa Roermond Papier B.V., Kappa Holding (Nederland) B.V., Smurfit Kappa RapidCorr Eindhoven B.V., Smurfit Kappa Paper Sales Benelux B.V., Smurfit Kappa Group IS Nederland B.V., Smurfit Kappa Finance B.V.



# Notes to the Consolidated Financial Statements (continued)

For the Financial Year Ended 31 December 2016

## 35. Principal subsidiaries (continued)

### Non-controlling interests

The total non-controlling interests at 31 December 2016 is €174 million (2015: €151 million), of which €132 million (2015: €112 million) is for Cartón de Colombia S.A. The non-controlling interests in respect of the Group's other subsidiaries are not considered to be material.

Name	Principal activities	Country of incorporation	Ownership interest held by non-controlling interest %	
			2016	2015
Cartón de Colombia S.A.	Manufacture and sale of paperboard, paper sacks, writing paper and packaging products	Colombia	30	30

The profit allocated to the non-controlling interest of this subsidiary in the Group's financial statements is €14 million (2015: €12 million).

The total comprehensive income allocated to the non-controlling interest of this subsidiary in the Group's financial statements is €24 million (2015: expense of €10 million).

### Summarised financial information

The following is summarised financial information for Cartón de Colombia S.A., prepared in accordance with IFRS. The information is before intercompany eliminations with other Group companies.

#### Summarised income statement

	2016	2015
	€m	€m
Revenue	342	360
Profit before income tax	58	65
Income tax expense	(13)	(23)
Profit for the financial year	45	42
Other comprehensive income/(expense)	29	(64)
<b>Total comprehensive income/(expense)</b>	<b>74</b>	<b>(22)</b>

#### Summarised balance sheet

	2016	2015
	€m	€m
Current assets	160	132
Non-current assets	435	370
Current liabilities	(123)	(97)
Non-current liabilities	(56)	(56)
<b>Net assets</b>	<b>416</b>	<b>349</b>

#### Summarised cash flow

	2016	2015
	€m	€m
Cash flows from operating activities	35	41
Cash flows from investing activities	(41)	(46)
Cash flows from financing activities	7	1
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1</b>	<b>(4)</b>

#### Dividends paid to non-controlling interest during the year<sup>(1)</sup>

	2016	2015
Dividends paid to non-controlling interest during the year <sup>(1)</sup>	4	4

<sup>(1)</sup> Included in cash flows from financing activities.

# Shareholder Information

## CREST

Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

## Ordinary shareholdings

On 31 December 2016, the ordinary shares of the Company in issue were held as follows:

Number of shares	Number of shareholders	% of total	Number of shares held '000	% of total
1 - 1,000	858	42.8	348	0.1
1,001 - 5,000	415	20.7	1,028	0.4
5,001 - 10,000	160	8.0	1,162	0.5
10,001 - 50,000	257	12.9	5,850	2.5
50,001 - 100,000	93	4.6	6,610	2.8
100,001 - 500,000	128	6.4	27,576	11.7
Over 500,000	92	4.6	193,772	82.0
Total	2,003	100.0	236,346	100.0

## Stock exchange listings

The Company's shares are listed on the following exchanges:

Exchange	Type	City	Symbol
LSE	Primary	London	SKG
ISE	Secondary	Dublin	SK3

## Financial calendar

AGM	5 May 2017
Interim results announcement	2 August 2017

## Website

The Investors section on the Group's website, [smurfitkappa.com](http://smurfitkappa.com), provides the full text of the financial results and copies of presentations to analysts and investors. Press releases are also made available in this section of the website immediately after release to the stock exchanges.

## Registrars

Enquiries concerning shareholdings should be directed to the Company's Registrars:

### Capita Asset Services, Shareholder Solutions (Ireland),

PO. Box 7117,  
Dublin 2,  
D02 A342.  
Tel: +353 (0)1 553 0050  
Fax: +353 (0)1 224 0700  
[www.capitashareportal.com](http://www.capitashareportal.com)

## CREST proxy voting

CREST members wishing to appoint a proxy via the CREST system should refer to the CREST Manual and the notes to the Notice of the Annual General Meeting.



**Front cover images:**

Clockwise from Top:

Gábor Solymosi, Fleur van Midwoud and Migle Kirvaityte at our Global Experience Centre in Amsterdam, Netherlands; Manuel Maier and Andreas Zeitlinger at our Nettingsdorf kraftliner mill in Austria; Sandra Liliana Gómez at the Cali Mill in Colombia; and Septimiu Fekete and Gerhard Roiser at our Nettingsdorf kraftliner mill in Austria.

**Back cover images:**

Clockwise from Top left: Jeanine Swanenberg at our Van Dam Golfkarton corrugated plant in the Netherlands; Arco Berkenbosch at the Global Experience Centre in Amsterdam, the Netherlands; Nelly Agudelo at our forest nursery in Restrepo, Colombia; Philippe Hulot at our Factice kraftliner mill in France; and Ingeborg Brandstätter and Armin Zahiti at our Nettingsdorf kraftliner mill.



# Smurfit Kappa Group plc

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