Smurfit Kappa

EMBRACING OUR FISCAL RESPONSIBILITIES TO DELIVER VALUE

Smurfit Kappa Group plc, a FTSE 100 Company, is one of the leading providers of paper-based packaging solutions in the world, with 46,000 employees in 350 production sites and with revenue in excess of €8.5 billion in 2020. We are located in 23 countries in Europe and 12 in the Americas. We are the only large-scale pan-regional provider in Latin America.

We are an integrated manufacturer of paper-based packaging solutions. We aim to create long-term value for our shareholders by meeting our customers' growing demand for paper based packaging solutions. We have an unrivalled portfolio of 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 corrugated 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 approach to tax

Our business activities generate significant amounts of tax, including corporate income taxes, value added taxes, employment taxes, wealth taxes and other transaction taxes. We are committed to complying with tax laws in a fair and responsible manner and to having open and constructive relationships with tax authorities. We engage with global initiatives to improve and simplify tax regimes that promote greater transparency, tax certainty and a sustainable contribution to all our stakeholders and to the communities in which we operate.

We have a responsibility to our shareholders to be financially efficient and to deliver returns on their investments which includes managing and maintaining an appropriate tax contribution. As part of this strategy we seek to avail of tax incentives and exemptions offered by governments in support of their own employment and economic development objectives and which are openly available to all taxpayers.

Fiscal Contribution

In 2020, we recorded pre-tax profits of €741 million with an associated tax expense of €201 million for an effective tax rate of 27%. We paid €194 million in corporate income tax in the period. We also paid dividends of €260 million on which we remitted approximately €21 million in taxes on behalf of our shareholders.

In addition to corporate income taxes, our businesses remit payroll taxes and make social security contributions for and on behalf of employees as well as collecting and remitting value-added tax or similar sales or transactional taxes in the countries in which we operate.

Tax Governance, Controllership and Risk Management

The size, geographic scope and complexity of our business operations, which are organised in a vertically integrated business model consisting of containerboard mills and corrugated box plants in a highly sophisticated supply chain, can lead to uncertainty regarding the application of tax laws. Risks may therefore arise in determining our tax liabilities. We seek to address these as organisational, process, planning, risk and reporting disciplines.

Operational responsibility for the conduct of our tax affairs is delegated by our board to the senior executives and their management teams. The Group CFO is accountable for the conduct of the Group's tax affairs and to this end is supported by a Group tax team as well as country based resources and advisors. The Group operates a distributed risk model that ensures there is robust oversight and control at the Group while ensuring primary responsibility for all tax affairs is maintained at local business and regional level.

The Chief Financial Officer in each country or business is responsible for the implementation of our tax strategy which encompasses all elements of the tax life cycle from tax compliance, through controllership, planning, risk management and audits and controversy. The businesses work in close collaboration with the Group tax team in the development and execution of that strategy. This includes the recruitment of complimentary and appropriately experienced tax professionals both at the Group headquarters and at a regional or country level when warranted by the size and complexity of the business operations.

The Audit Committee reviews key performance indicators on a quarterly basis. The Group Tax Director will attend the committee meeting annually to address these leading financial indicators and material tax outcomes whilst also addressing emerging risks and opportunities to our tax strategy. The Group Tax Director may also meet the head of the Audit Committee during each financial year to discuss material international tax developments and any emerging issues.

The interpretation of law and practice differs from country to country and it is currently subject to vast changes from global tax initiatives particularly those led by the OECD. This can sometimes lead to tax uncertainty and risks of double taxation. We are committed to and observe all applicable laws, rules and regulations in meeting our tax compliance, reporting and payment obligations across all forms of tax. We will engage, when appropriate, in international tax initiatives.

We identify, consider and manage tax risks and appropriately record them as part of our tax controllership and reporting processes throughout the financial period. The tax provisions and calculations are subject to regular review and scrutiny with the Group tax team. We have developed robust financial and tax controllership policies, processes and procedures that ensure consistency and accuracy across all operations in all countries. We work with external advisory firms when dealing with complex issues, uncertainties and transactions.

Our tax provisions and disclosures arising from the implementation of our tax strategy are reviewed annually by our external and Independent Financial Auditors and the results are presented to the Audit Committee for review, comment and if necessary action.

Attitude towards tax planning

We do not rigidly define levels of acceptable tax risk and our approach can be considered as consistent with our general approach to risk management and a low risk tolerance across the group.

We are engaged in a forward-looking business that makes capital allocation choices including capital expenditure and expansion through acquisitions that must be supported by a flexible financial structure. We engage in efficient planning, that is aligned with such business activities and reflects substantive economic activity, in order to meet our strategic business objective to deliver sustainable returns to all our stakeholders.

Our business is organised into strategic and geographical regions as well as into containerboard manufacturing and corrugated product clusters which result in cross-border transactions. Transactions between related parties are made on an arms-length basis in accordance with OECD guidance and principles. Our goal is to ensure compliance with all transfer pricing and documentation requirements. We regularly review our transfer pricing policies and procedures to ensure they are in line with current and developing guidance and practice.

Transfer pricing is increasingly an area of uncertainty requiring subject matter expertise. We employ internal resources but also rely on external advisors to assist us in assessing our compliance with such tax laws and to address any enquiries from tax authorities.

We strive to achieve certainty in the tax treatment of our business activities and transactions. We do not engage in transactions that do not have proper commercial purposes or economic rationale.

We have a small number of holding companies and a trading subsidiary in two countries currently listed on the European Union list of non-cooperative jurisdictions for tax purposes which was first issued 2017 and amended since then.These companies were historically acquired as part of acquisitions. We do not use such companies to undertake transactions that do not have proper commercial or economic rationale.

Relationship with revenue authorities and policymakers

We acknowledge the rights and needs of governments to establish tax policy to levy necessary taxation. To this end we support and engage in global or regional tax initiatives with a view to achieving a balance between sufficient tax contribution and the promotion of investment and employment in the communities where we are active.

We aim to build positive and sustainable relationships with tax authorities that are proactive and constructive. We seek to avoid disputes and litigation but if there are areas of disagreement we will work with the authorities to explain and, if necessary, to defend our interpretation of law and practice based on advice from subject matter experts.

We support the work of the OECD on the development of robust international tax standards to appropriately address the balance of needs among all stakeholders. We actively participate in consultation processes that are relevant to our business and industry, generally through representative bodies and advisory firms. We comply with all transparency reporting requirements recommended by the OECD that are enacted in the countries in which our business operations are located as well meeting the requirements of the EU Anti-Tax Avoidance Directives.

We encourage continued international co-operation with the goal of delivering a simplified, stable and certain fiscal environment that is balanced between the need for adequate fiscal contribution and the promotion of capital allocation decisions. We believe that the right balance is essential to promote business activity and to enable Smurfit Kappa to continue to deliver superior and sustainable returns to all our stakeholders.

End.