



20

ANNUAL REPORT  
MAYR-MELNHOF KARTON AG

16

# Key Indicators

consolidated (in millions of EUR)	2016	2015	+/-
Consolidated sales	<b>2,272.7</b>	2,181.5	+ 4.2 %
EBITDA	<b>314.0</b>	298.7	+ 5.1 %
Operating profit	<b>213.7</b>	199.9	+ 6.9 %
Profit before tax	<b>209.2</b>	190.6	+ 9.8 %
Profit for the year	<b>153.4</b>	142.1	+ 8.0 %
Cash earnings	<b>256.3</b>	238.4	+ 7.5 %
Return on equity	<b>12.8 %</b>	12.7 %	
Operating margin	<b>9.4 %</b>	9.2 %	
Return on capital employed	<b>15.9 %</b>	16.1 %	
Total equity	<b>1,259.2</b>	1,144.2	+ 10.1 %
Total assets	<b>1,981.9</b>	1,900.3	+ 4.3 %
Capital expenditures (CAPEX)	<b>144.2</b>	128.0	+ 12.7 %
Depreciation and amortization <sup>1)</sup>	<b>99.1</b>	99.6	- 0.5 %
Employees	<b>9,927</b>	9,938	- 0.1 %
Earnings per share (in EUR)	<b>7.67</b>	7.08	+ 8.3 %
Dividend per share (in EUR)	<b>3.00<sup>2)</sup></b>	2.80 <sup>3)</sup>	+ 7.1 %

<sup>1)</sup> incl. impairment of property, plant and equipment and intangible assets

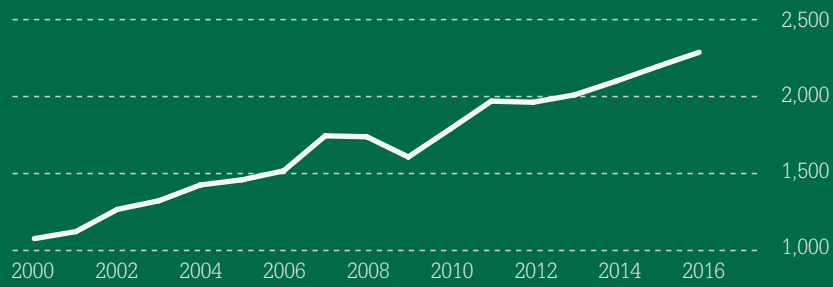
<sup>2)</sup> proposed

<sup>3)</sup> thereof EUR 1.60 interim dividend for 2015

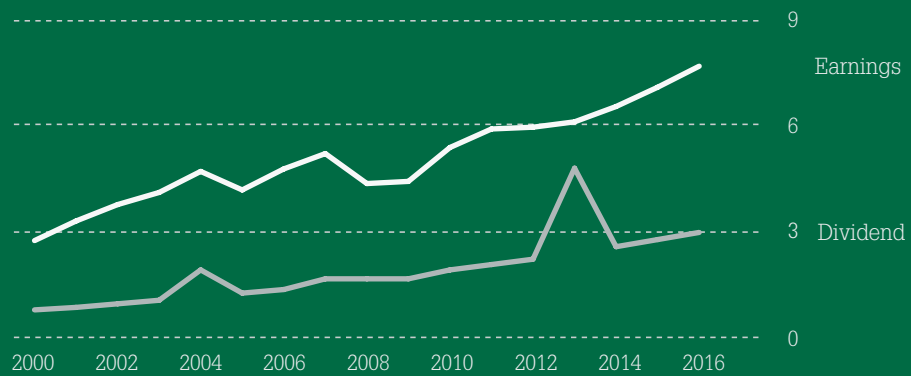
Please find the five year overview 2012 - 2016 at the end of the report.

Cartonboard packaging  
for consumer staples  
is our business.

**Group sales**  
in millions of EUR



**Earnings and dividend per share**  
in EUR



2004:  
incl. bonus of EUR 0.75

2013:  
incl. anniversary bonus of EUR 2.40

# Attractive investment

## # 1

in cartonboard packaging in Europe

## 2,272.7

millions of EUR Group sales

## 256.3

millions of EUR cash earnings

## 15.9%

ROCE

## 3.0%

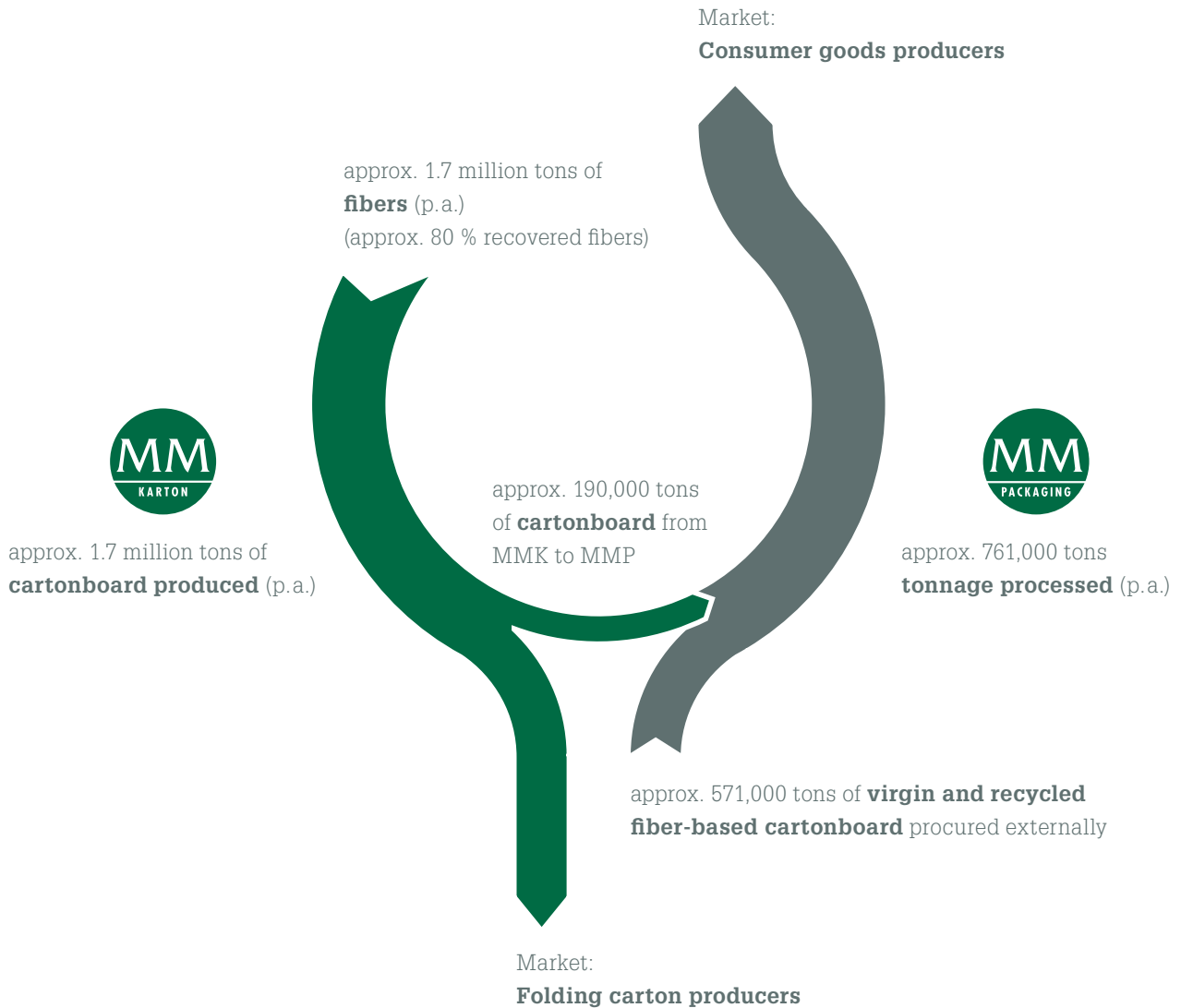
dividend yield

## 9,927

employees

(Values 2016)

# Business structure



MM Karton and MM Packaging are two independent profit centers which carry out business transactions at market conditions.

(Values 2016)

# The Year 2016

1.7

million tons of cartonboard produced and sold

62

billion folding cartons

+6.9%

growth in operating profit

153.4

millions of EUR profit for the year

3.00

EUR dividend per share

144.2

millions of EUR capital expenditures

(Values 2016)





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Keeping solidity and growth  
in a long term balance  
is our orientation.

*Dear Shareholders,*

Your Company was once again able to continue its long-term course of success in the financial year 2016. We are pleased to present to you another record result in a row. We succeeded in maintaining market shares as well as achieving further growth, although, due to a lack of overall economic stimulus, business in our main European markets was dominated by strong competition resulting from sufficient capacities.

**ANOTHER RECORD RESULT**

Our principles prove their worth even in stricter overall conditions and remain unchanged. Without deflection we focus on our core business, cartonboard and folding cartons, in a strongly profit-oriented corporate culture and with great esteem and motivation of our employees. Keeping solidity and growth in balance is our aspiration and orientation in the long-term. The former requires a persistent focus on value even in expansion. An industrial volume business allows for constant increase in throughput only via productivity in our aggregates.

**FOCUS ON OUR  
CORE BUSINESS**

The continuously generated funds give us the strength to constantly improve our competitiveness by focused investment in lowering specific costs, to grow further and to pay out sustainable attractive dividends.

**PAY OUT SUSTAINABLE  
ATTRACTIVE DIVIDENDS**

Our entry into the market for pharmaceutical and luxury packaging following the successful integration of a leading French folding carton producer was a significant growth driver in 2016. Productivity of the MM Group's sites was on an overall good level. An optimized product portfolio, improvements in cost efficiency, and close collaboration with successful customers were the key factors in this regard.

**ACQUISITION AS  
GROWTH DRIVER**

At this point I would like to thank our employees on behalf of the Management Board, in particular for their commitment and performance, which made 2016 another successful year despite challenging conditions.

**SUCCESSFUL  
TEAM**

Our tension level has increased further. The present significant rise in fiber prices, in particular for recovered paper, requires discipline in setting prices. Growth in volume must be accompanied by further cost savings. Our course of expansion will be pursued with vigor and caution. People and resources are ready for the tasks ahead.

**WELL EQUIPPED  
FOR THE FUTURE**

Finally, we would like to thank you, our Shareholders, for the trust that you have so often placed in us over many years. Accompany us further on!



Wilhelm Hörmanseder  
Chairman of the Management Board

February 28, 2017

MANAGEMENT BOARD



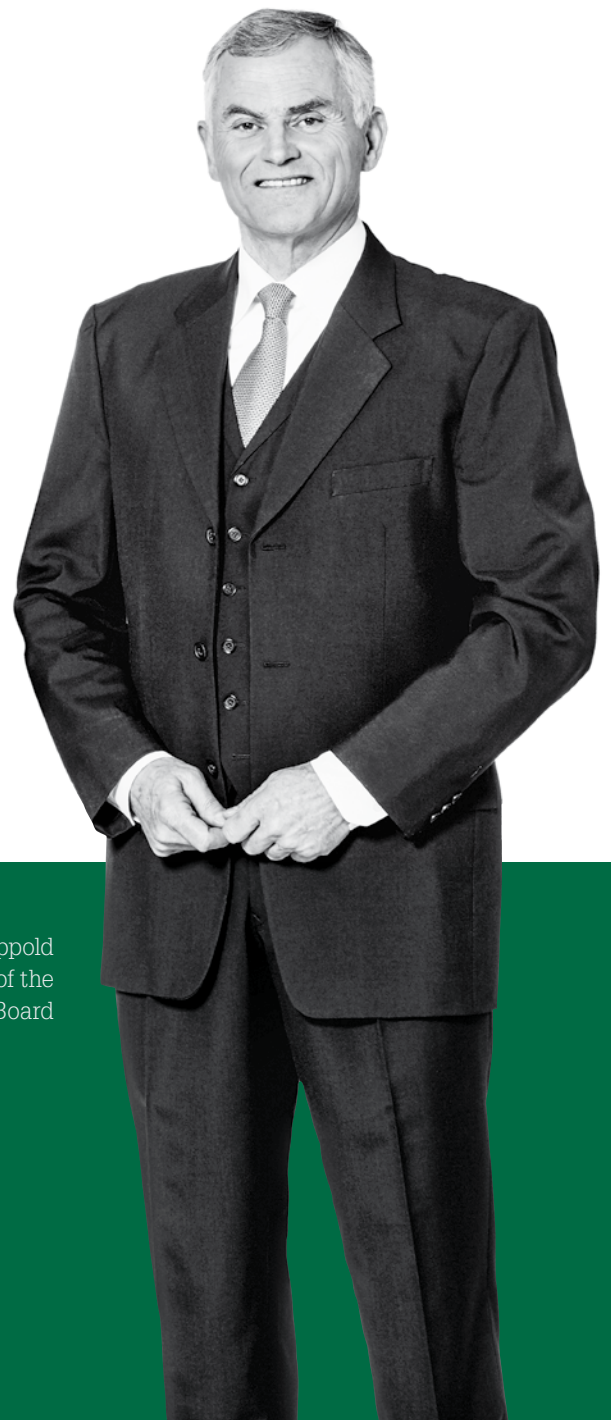
Andreas Blaschke  
Member of the  
Management Board



Wilhelm Hörmanseder  
Chairman of the  
Management Board



Franz Rappold  
Member of the  
Management Board



Gotthard Mayringer  
Member of the  
Management Board

LOCATIONS

**MM Karton**

■ mills

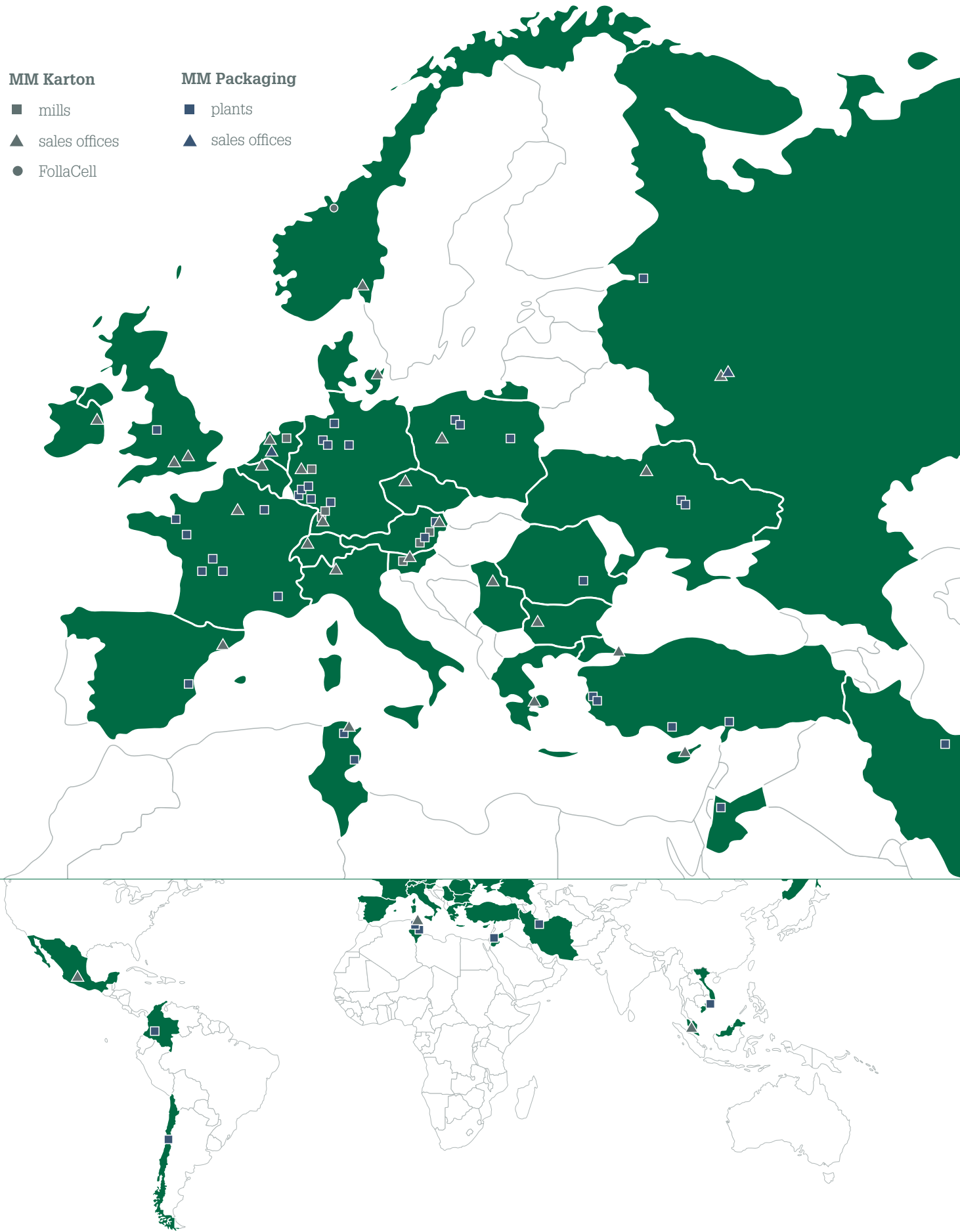
▲ sales offices

● FollaCell

**MM Packaging**

■ plants

▲ sales offices



# Global presence with a focus on Europe

45

production sites

4

continents

7

cartonboard mills

38

folding carton plants

sales in more than

100

countries

85%

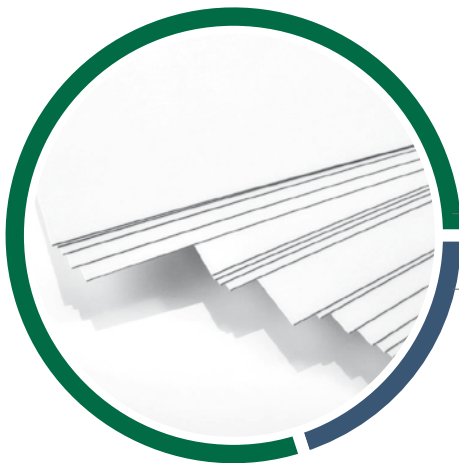
share of sales in Europe

Products from our European cartonboard mills are sold worldwide. The business of individual folding carton sites is in particular focused on the respective regional market due to the limited economic delivery radius.

(Values 2016)

# A balanced portfolio

## MM Karton



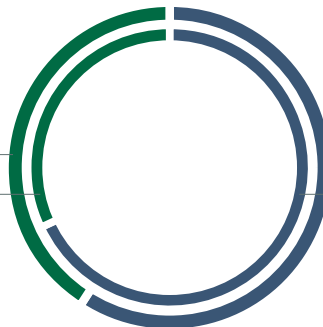
80 % Recycled fiber-based cartonboard  
20 % Virgin fiber-based cartonboard

## MM Packaging



75 % Multinational customers  
25 % Local customers

41 % MMK share in Group sales  
32 % MMK share in Group operating profit



59 % MMP share in Group sales  
68 % MMP share in Group operating profit



## TWO-PROFIT BUSINESS

We manage our business  
in two divisions,  
MM Karton and MM Packaging,  
with independent  
profit responsibility.

# MM Karton

## SUSTAINABLE BOARD SOLUTIONS

### MARKET LEADER IN RECYCLED FIBER-BASED CARTONBOARD

MM Karton is the world's largest producer of coated recycled fiber-based cartonboard with a significant European position in virgin fiber-based cartonboard. With an annual production capacity exceeding 1.7 million tons, around 80 % account for recycled fiber-based cartonboard and around 20 % for virgin fiber-based cartonboard. Recovered paper, which is sustainably available in Europe, groundwood pulp, energy, especially natural gas, and chemicals are the main input factors.

### A SUSTAINABLE MARKET

The products of MM Karton are used primarily for the production of cartonboard packaging for consumer staples. The main focus of sales lies on food packaging as well as packaging for household and hygiene products, pharmaceuticals, do-it-yourself products, spare parts for the automotive industry, etc. MM Karton's customers are mainly printing companies of the fragmented European folding carton industry. MM Packaging is the largest customer, with a share in deliveries of around 11 %, purchasing as a profit center at market conditions. The influence of consumer goods manufacturers on cartonboard purchases continues to increase. MM Karton thereby focuses on size and on providing full-service.

### GLOBAL SALES – MAIN MARKET EUROPE

MM Karton sells worldwide from seven European cartonboard mills. With a share of around 83 %, the main focus of sales is on Europe – a solid, mature and developed market. Due to the highly customer-specific production of cartonboard in a variety of formats and transportation costs, European cartonboard customers are mostly supplied from Europe. Trade between the continents is of subordinate importance. The European cartonboard industry is extremely concentrated, with the five largest suppliers accounting for around three-quarters of capacity.

### SUCCESS THROUGH COST LEADERSHIP AND INNOVATION

A further reduction of specific costs as well as ongoing improvements and renewals of products are decisive for competitiveness and of top priority. Therefore, we have focused production on high-performance machines and continuously invest in state-of-the-art technology and innovation. This enables MM Karton to distinguish itself in the market and to create growth potential with high capital efficiency. The aim is to strengthen value creation along the entire supply chain and to safeguard and further expand market shares.

## MM KARTON KEY INDICATORS

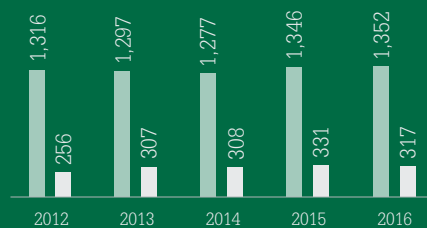
(in millions of EUR)	2016	2015	+/-
Sales	1,023.0	1,046.7	-2.3 %
EBITDA	109.0	120.6	-9.6 %
Operating profit	68.1	82.6	-17.6 %
Cash earnings	91.6	95.4	-4.0 %
EBITDA margin	10.7 %	11.5 %	
Operating margin	6.7 %	7.9 %	
Cash earnings margin	9.0 %	9.1 %	
Return on capital employed	12.4 %	15.9 %	
Capital expenditures	83.7	72.6	+15.3 %
Depreciation and amortization <sup>1)</sup>	40.6	38.8	+4.6 %
Employees	2,554	2,546	+0.3 %

	2016	2015	+/-
Tonnage sold (in thousands of tons)	1,671	1,660	+0.7 %
Tonnage produced (in thousands of tons)	1,669	1,677	-0.5 %
Recycled fiber-based board	1,352	1,346	
Virgin fiber-based board	317	331	
Capacity utilization	97 %	98 %	

<sup>1)</sup> incl. impairment on property, plant and equipment and intangible assets

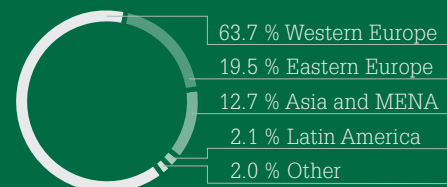
### Tonnage produced by MM Karton



■ Recycled fiber-based board  
■ Virgin fiber-based board

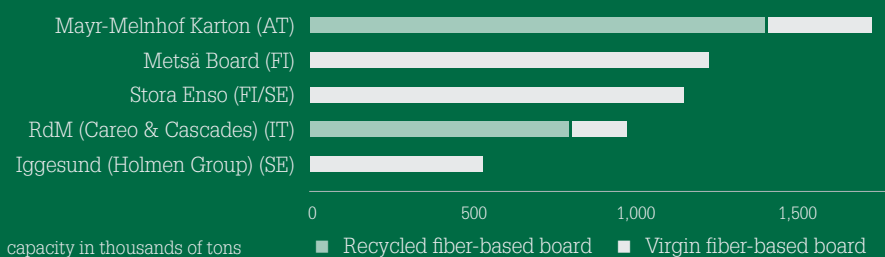
in thousands of tons

### Sales by destination<sup>1)</sup>



<sup>1)</sup> incl. interdivisional sales

### Leading European producers of coated board



capacity in thousands of tons

■ Recycled fiber-based board ■ Virgin fiber-based board

Source: MM; excl. grey board, LPB (Stora Enso), and CNK from USA

# MM Packaging

## SHAPING THE WORLD OF CARTONS

### MARKET LEADER IN EUROPE WITH A GLOBAL FOOTPRINT

In 2016, MM Packaging processed around 761,000 tons of recycled and virgin fiber-based cartonboard into approximately 62 billion consumer goods packages. Therefore MM Packaging is not only the largest producer of folding carton packages in Europe, but also has a leading position in several markets outside Europe. With currently 38 production sites in 16 countries on 4 continents, we are located close to our customers and supply a wide portfolio of market segments in the field of consumer goods. The most important raw material, cartonboard, is purchased at market conditions by an own procurement organization according to the profit-center principle. For this reason, and due to the limited supply of virgin fiber-based cartonboard, only around one-quarter of the tonnage processed is procured from MM Karton.

### VOLUME BUSINESS AND HIGH-END PACKAGING

The main sales areas of MM Packaging are cartonboard packaging for consumer staples, in particular fast-moving consumer goods (FMCG), as well as highly specialized markets like cigarettes, pharmaceuticals, detergents, personal care and luxury products. International customers account for around three quarters of sales, moreover business with a large number of local customers constitutes a further core area.

### FOCUS ON HIGHLY EFFICIENT INDUSTRIAL PACKAGING PRODUCTION

In a highly competitive market environment, we focus on cost and technology leadership. Therefore, we sustainably invest in state-of-the-art high-performance technology, location size and innovation as well as in an ongoing enhancement of efficiency and quality. MM Packaging's plant and equipment comprises all common preprint, printing and finishing technologies. Through the focused development of knowledge and its implementation, we pursue continuous technological lead.

### GROWTH WITH STRONG CUSTOMERS

Targeted growth with strong international customers has been determining MM Packaging's course of expansion for a long time. We focus on both organic growth and acquisitions to steadily extend our position in both young and mature markets. Due to the limited delivery radius of folding cartons, we accompany our customers and are continuously expanding our geographical presence. With a share of sales of around 87 %, Europe is our core market. Moreover, we have leading positions in several future markets in the regions of Latin America, the Middle East and Asia.

## MM PACKAGING KEY INDICATORS

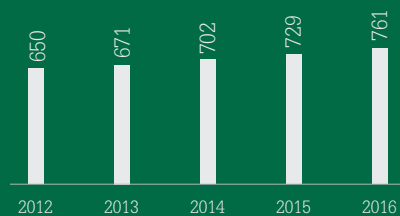
(in millions of EUR)	2016	2015	+/-
Sales	1,352.6	1,237.3	+9.3 %
EBITDA	205.0	178.1	+15.1 %
Operating profit	145.6	117.3	+24.1 %
Cash earnings	164.7	143.0	+15.2 %
EBITDA margin	15.2 %	14.4 %	
Operating margin	10.8 %	9.5 %	
Cash earnings margin	12.2 %	11.6 %	
Return on capital employed	18.4 %	16.2 %	
Capital expenditures	60.5	55.4	+9.2 %
Depreciation and amortization <sup>1)</sup>	58.5	60.8	-3.8 %
Employees	7,373	7,392	-0.3 %

	2016	2015	+/-
Tonnage processed (in thousands of tons)	761	729	+4.4 %
Sheet equivalent (in millions)	2,240.1	2,059.3	+8.8 %

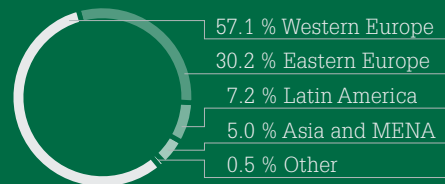
<sup>1)</sup> incl. impairment on property, plant and equipment and intangible assets

### Tonnage processed by MM Packaging



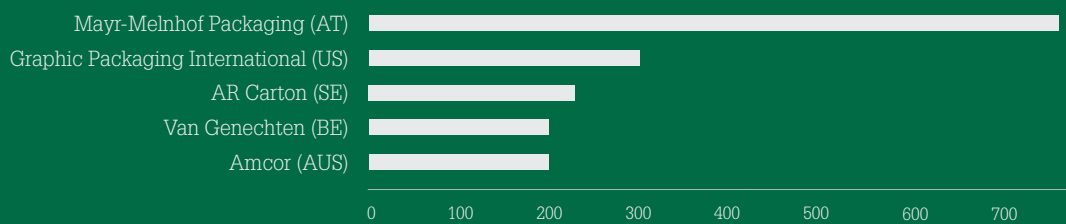
in thousands of tons

### Sales by destination<sup>1)</sup>



<sup>1)</sup> incl. interdivisional sales

### Leading folding carton producers in Europe



tonnage processed in thousands of tons

Source: MM

# Our employees

9,927

people

86.4%

Europe

7.1%

Asia and  
MENA

6.5%

Latin  
America

38.7%

of value-added distributed  
to employees

211

apprentices

“Great place to start”

award

(Values 2016)

PERFORMANCE-ORIENTED TEAM  
WITH SHARED VALUES

Responsibility, performance  
and passion are our  
corporate values that  
we pursue in our daily work  
in a corporate culture  
characterized by mutual trust,  
respect and high loyalty.

# Innovation

## The Fiber-Based “Packaging Innovation of the Year 2016”

FOODBOARD™  
Awarded by PPI Awards

## Pro Carton ECMA “Most Innovative Carton” Award 2016

MM Packaging  
fruit juice promotion carton

## “Renovation – Process”

Effective packaging solutions for defined markets  
through continuous optimization of products  
and services at MM Karton



## HIGH COMPETITIVENESS

The continuous generation and implementation of future-oriented innovations and optimizations are an important element in achieving our strategic aim of market leadership based on cost and technology leadership.



# MM Shares

In 2016, a trading year characterized above all by political uncertainties, the Mayr-Melnhof share was unable to maintain the high level attained at the end of 2015 despite a solid business performance. Following a price of EUR 114.50 at the end of 2015, the year 2016 closed at a price of EUR 100.70.

Investor relations activities and regular capital market information continued to focus on positioning the MM Group as a long-term reliable and profitable market leader in cartonboard packaging with a steady dividend policy and risk-conscious, value-oriented growth. The interest shown by international institutional investors remained high, confirming the Company's long-term strategy and development. Positive recommendations from analysts also accompanied us through the trading year.

## The share

Since April 22, 1994, the share of Mayr-Melnhof Karton AG has been listed on the Vienna Stock Exchange. The issue price was at EUR 26.16. With the listing of the share in the ATX Prime, special additional requirements, such as transparency and minimum capitalization, are fulfilled. The long-term positive performance of the share reflects the course of the MM Group, focusing on high profitability and sustainably solid growth.

The Company's share capital of EUR 80 million is divided into 20 million bearer shares, with each share having the same voting rights based on the principle of "one share - one vote". Besides the listing on the Vienna Stock Exchange, there is a Sponsored Level 1 ADR (American Depositary Receipt) program with the Bank of New York Mellon. ADRs are denominated in US dollars and are traded over the counter (OTC), with four ADRs equaling one share of common stock.

## Stock markets 2016

Although stock markets were marked by significant price fluctuations in 2016, the overall trend was positive. While the year started with significant declines as a result of concerns over the economic development in China and weakening raw material prices, a softening of the monetary policy of the European Central Bank as well as the cautious interest rate policy of the US Central Bank (FED) contributed, however, towards stabilization. Markets again reacted with significant losses on the decision by Great Britain to leave the European Union; these were, however, made up again following more optimistic forecasts and the strong rise in stock prices on US stock exchanges after the presidential election. Many stock exchanges finally saw the beginning of a price rally that lasted until year-end. With an annual performance of around +9.2 %, the leading Austrian index ATX outperformed both the DAX (+6.9 %) and the EURO STOXX 50 (+0.7 %).

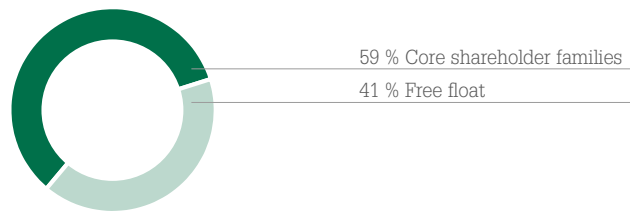
### Stable shareholder structure

The Group's shareholder structure is characterized by a sustainably high degree of stability. The largest shareholders are the core shareholder families who continue to hold approximately 59 % of the share capital in a syndicate. The remaining 41 % of the shares are in free float and mainly held by long-term oriented institutional investors in Europe and the US.

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#### Shareholder structure

in %




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### Continuous dividend policy

The dividend policy of the Mayr-Melnhof Group pursues the distribution of around one third of the consolidated profit for the year in the long-term. In line with the positive profit development in the business year 2016, the Management Board will propose to the 23<sup>rd</sup> Ordinary Shareholders' Meeting on April 26, 2017, a dividend increase to EUR 3.00 per share, after EUR 2.80 per share (sum of interim dividend EUR 1.60 per share and dividend EUR 1.20 per share) were paid out for 2015. This corresponds to a payout amount of EUR 60.0 million for the business year 2016 (2015: EUR 56.0 million) and a payout ratio of 39.14 % (2015: 39.4 %). Based on the average share price in 2016, a dividend yield of around 3.0 % could be achieved (2015: 2.8 %).

### Investor Relations

In 2016, we continued the open and personal dialog with our institutional and private investors, analysts, journalists, and the interested public with great commitment as part of our Investor Relations program.

Thus, the approach is to provide an accurate image of the Group in order to facilitate an adequate valuation of the MM share.

We attach highest priority to the principle of treating all shareholders equally. Therefore price-relevant and current information is always simultaneously and identically published via an electronic distribution medium and on the website of Mayr-Melnhof Karton AG. The Chairman of the Management Board comments publicly on the current development of the Group on a regular basis. Corresponding audio and video webcasts are regularly announced and made available on the Group's website at <http://www.mayr-melnhof.com>. Conference calls with the CEO are generally offered for annual and half-year results.

As in previous years, we again used a large number of roadshows and international investor conferences in 2016 to pursue or initiate our dialog with investors. Focus was placed on the major financial

centers in Europe and the US. Several international analysts report regularly on the Group and are continuously supported by Investor Relations.

### Service for shareholders

Mayr-Melnhof Karton AG offers shareholders and interested parties the possibility to register for the regular receipt of the Company's reports. Furthermore, press releases are distributed via e-mail on request. Our Investor Relations department will be happy to accept registrations at any time.

We aim at continuously improving our Investor Relations activities and are therefore always grateful for any suggestions for optimization.

### Your contact to Mayr-Melnhof Investor Relations

Stephan Sweerts-Sporck

Phone: +43 1 501 36 91180

Fax: +43 1 501 36 91195

E-mail: [investor.relations@mm-karton.com](mailto:investor.relations@mm-karton.com)

Website: <http://www.mayr-melnhof.com>

### Information about Mayr-Melnhof shares

ISIN securities identification number: AT0000938204

ADR Level 1: MNHFY

Reuters: MMKV.VI

Bloomberg: MMK:AV

### Share price chart

Relative performance of MM shares 2016 (December 30, 2015 = 100)



## Share performance indicators

<b>Stock price per share</b> (in EUR)	<b>2014</b>	<b>2015</b>	<b>2016</b>
High	95.00	116.00	111.45
Low	79.00	86.49	93.34
Year-end	86.00	114.50	100.70
<b>Stock performance</b> (as of Dec. 31)			
-1 month	+2.8 %	+8.4 %	+5.9 %
-3 months	+2.2 %	+10.8 %	+2.9 %
-9 months	-5.6 %	+19.3 %	-4.5 %
<b>Relative performance</b> (year-end)			
MM Shares	-4.4 %	+33.1 %	-12.1 %
ATX Prime	-13.5 %	+12.9 %	+8.1 %
<b>Share performance indicators</b> (in EUR)			
Earnings per share	6.54	7.08	7.67
Cash earnings per share	11.07 <sup>3</sup>	11.92	12.82
Total equity per share	54.58	56.78	62.62
Dividend per share	2.60	2.80 <sup>4</sup>	3.00 <sup>5</sup>
Dividend (in millions of EUR)	52.00	56.00 <sup>4</sup>	60.00 <sup>5</sup>
Dividend yield per average share price	3.0 %	2.8 %	3.0 %
<b>Trading volume</b>			
Vienna Stock Exchange <sup>1</sup> (in EUR)	1,552,507	1,374,802	1,002,934
Number of shares issued	20,000,000	20,000,000	20,000,000
Free float <sup>2</sup>	8,296,720	8,296,720	8,296,720
Market capitalization <sup>2</sup> (in millions of EUR)	1,720	2,290	2,014
ATX Prime weighting <sup>2</sup> (in %)	2.31 %	2.85 %	2.26 %

<sup>1</sup> daily average<sup>2</sup> as of Dec. 31<sup>3</sup> adjusted according to definition (see glossary)<sup>4</sup> incl. EUR 1.60 interim dividend per share<sup>5</sup> proposed

# Corporate Governance Report

The Mayr-Melnhof Group pursues a responsible business activity focusing on sustainable profitability in both core competence areas, cartonboard and folding carton production. Therefore, we have consistently complied with the principles of proper Corporate Governance. They are the basis for the trust our employees, shareholders, customers, suppliers, and the public place in the management and control of the Company, pursuing the goal of long-term value creation.

## COMMITMENT TO THE AUSTRIAN CORPORATE GOVERNANCE CODE

Mayr-Melnhof Karton AG has voluntarily committed to compliance with the Austrian Corporate Governance Code in the respectively applicable version ever since the Code became effective. The Code is based on the provisions of Austrian stock corporation, stock exchange and capital market laws, EU recommendations as well as the guidelines contained in the OECD Principles of Corporate Governance. The Code is regularly reviewed in accordance with national and international developments and adjusted accordingly. The applicable version of the Austrian Corporate Governance Code (Österreichischer Corporate Governance Kodex – ÖCGK) can be downloaded from the website of the Austrian Working Group for Corporate Governance at [www.corporate-governance.at](http://www.corporate-governance.at). Part of the Company's Corporate Governance Program is an annual internal evaluation of compliance with the Code.

Moreover the Code requires a regular (at least every three years) external evaluation of the Company's compliance with the C rules (Comply or Explain). The latest was made in the course of the annual audit of the financial statements 2015 by Grant Thornton Unitreu GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The review of compliance with the rules of the Code regarding the audit was conducted by Georg Eckert, professor at Innsbruck University. As a result of this evaluation, the auditors have determined that the declaration given by Mayr-Melnhof Karton AG with regard to compliance with the Corporate Governance Code in the version of January 2015 corresponds to the actual conditions.

The implementation and internal evaluation for the business year 2016 is based on the version of the Code of January 2015. As before, Mayr Melnhof Karton AG complies with all legal provisions without any restrictions. Almost all additional C Rules and R Rules (Recommendations) contained in the Code, which do not require any explanation in case of deviations, have been complied with.

The Company gives the following explanations for deviations from C Rules in 2016:

Rule 27	Non-financial criteria are not taken into account for the variable compensation of the members of the Management Board. Explanation: Content of current contracts with the members of the Management Board
Rule 27a	In case of an early termination of a member of the Management Board without any good cause, such member shall be compensated for no more than the remaining term of the contract. The economic situation of the company is not considered. Explanation: Content of current contracts with the members of the Management Board
Rule 30	The upper limits currently applicable for variable compensation are not stated. Explanation: We do not believe this information is material or relevant for any decisions. A cap is designated by all means.
Rule 51	No disclosure of the compensation of each individual member of the Supervisory Board Explanation: We do not believe this information is material or relevant for any decisions.

## COMPOSITION AND REMUNERATION OF THE BOARD

### THE MANAGEMENT BOARD

Wilhelm HÖRMANSEDER  
Chairman  
Member of the Management Board  
since March 9, 1994  
appointed until December 31, 2019  
born 1954

Gotthard MAYRINGER  
Member of the Management Board  
since April 1, 2015  
appointed until May 14, 2018  
born 1966

Andreas BLASCHKE  
Member of the Management Board  
since May 14, 2002  
appointed until May 14, 2020  
born 1961

Franz RAPPOLD  
Member of the Management Board  
since May 14, 2002  
appointed until May 14, 2020  
born 1952

Wilhelm Hörmanseder is member of the Board of Directors of Krono Holding AG, Luzern, Switzerland. The other members of the Management Board do not hold any mandates in Group-external supervisory boards.



## THE SUPERVISORY BOARD

Rainer ZELLNER

Chairman since April 29, 2015

born 1947

Independent entrepreneur, Chairman of the Supervisory Board of Mayr-Melnhof Holz Holding AG, Leoben

Romuald BERTL

Deputy Chairman since March 2, 1994

born 1953

Auditor and tax consultant, Ordinary University Professor of Accounting and Auditing at the Vienna University of Economics and Business, Head of the Institute of Accounting and Auditing at the Vienna University of Economics and Business, President of the Austrian Financial Reporting and Auditing Committee (AFRAC), Management Board member of Austrian family trusts and Supervisory Board member in Austrian family-owned companies

Johannes GOESS-SAURAU

Deputy Chairman since May 7, 2008

Member of the Supervisory Board since May 18, 2005

born 1955

Manager of several own companies

Nikolaus ANKERSHOFEN

Member of the Supervisory Board since April 28, 2010

born 1969

Lawyer and partner at Ankershofen-Goess-Hinteregger Rechtsanwälte OG, Supervisory Board member at Mayr-Melnhof Holz Holding AG, Leoben, Supervisory Board member at Bankhaus Krentschker & Co. Aktiengesellschaft, Graz, Management Board member of several private trusts

Guido HELD

Member of the Supervisory Board since May 7, 2008

born 1944

Lawyer and managing partner at hba Rechtsanwälte GmbH, Management Board member of several private trusts, member of the management of various companies

Alexander LEEB

Member of the Supervisory Board since May 7, 2008

born 1959

Chairman of the Supervisory Board of Plansee Holding AG, Reutte, Supervisory Board member of Industrieliegenschaftsverwaltung AG, Vienna, Chairman of the Board of Trustees of LGT Venture Philanthropy Foundation, Vaduz, Chairman of Impact Ventures S.A., Luxembourg

Georg MAYR-MELNHOF

Member of the Supervisory Board since May 7, 2008

born 1968

Employee of the archdiocese Salzburg

Michael SCHWARZKOPF

Member of the Supervisory Board since April 29, 2009

born 1961

Chairman of the Management Board of Plansee Holding AG, Reutte, Member of the Supervisory Board, voestalpine AG, Linz, Member of the Supervisory Board, Molibdenos y Metales S.A., Santiago

Andreas HEMMER

Member of the Supervisory Board since October 20, 2009

born 1968

Employee representative

Gerhard NOVOTNY

Member of the Supervisory Board since May 10, 1995

born 1963

Employee representative

The current mandates of all members of the Supervisory Board delegated by the shareholders will expire upon the 26<sup>th</sup> Ordinary Shareholders' Meeting in 2020, which resolves on the discharge for the financial year 2019.

All mandates of the Supervisory Board members delegated by the employees' representation bodies are awarded for an indefinite period of time.

### **Members of the Committees of the Supervisory Board**

*Presidium (Committee for Management Board Issues)*

Rainer ZELLNER, Chairman

Romuald BERTL

Johannes GOESS-SAURAU

Nikolaus ANKERSHOFEN

*Audit Committee*

Romuald BERTL, Chairman

Rainer ZELLNER

Johannes GOESS-SAURAU

Nikolaus ANKERSHOFEN

Gerhard NOVOTNY

### **Members of the Supervisory Board with additional Supervisory Board mandates in publicly listed companies**

Michael SCHWARZKOPF

Member of the Supervisory Board, voestalpine AG, Linz, Austria

Member of the Supervisory Board, Molibdenos y Metales S.A., Santiago, Chile

### **Independence of the members of the Supervisory Board**

The members of the Supervisory Board have orientated themselves towards the guidelines of the Austrian Corporate Governance Code for determining the criteria of their independence:

The Supervisory Board member must not maintain, or have maintained in the past year, any business relations with the Company or any of its subsidiaries with significance for the member of the Supervisory Board. This also applies to relationships with companies in which a member of the Supervisory Board has a considerable economic interest, but not to the performance of institutional functions in the Group. The approval of individual transactions by the Supervisory Board in accordance with L Rule 48 (Company Contracts with Members of the Supervisory Board outside their activity in the Supervisory Board) does not automatically qualify the person as not independent.

The Supervisory Board member must not have acted as an auditor of the Company or have owned a share in the auditing company or have worked there as an employee in the past three years.

The Supervisory Board member must not be a member of the Management Board of another company in which a member of the Company's Management Board is a Supervisory Board member.

The Supervisory Board member must not be closely related (direct offspring, spouse, life partner, parent, uncle, aunt, brother, sister, niece, nephew) to a member of the Management Board or to employees in leading positions, to the auditor, or to employees of the auditing company.

All members of the Supervisory Board have declared their independence in accordance with these criteria. Consequently this also applies to any members of Committees of the Supervisory Board.

### **Share owners or representation of interests of a share > 10 % in Mayr-Melnhof Karton AG**

In the Supervisory Board of Mayr-Melnhof Karton AG, there is only one independent member representing a legal entity with a shareholding of more than 10 %:

Nikolaus ANKERSHOFEN

### **Contracts between members of the Supervisory Board and the Company subject to approval**

There are no such contracts.

## Compensation of the Management Board

The compensation of the members of the Management Board is based on responsibility, personal performance, and the tasks accomplished by each member of the Management Board as well as the achievement of the Company's objectives, and the economic situation of the Company. The compensation comprises fixed and variable components. The variable compensation depends particularly on sustainable, long-term and multi-year performance criteria without giving rise to unreasonable risk-taking. Non-financial criteria are currently not taken into account.

The variable component of the compensation of the members of the Management Board, which is proportionally high in comparison to the fixed compensation, is subject to an upper limit and depends on the annual result, cash earnings, dividend payments, and the return on capital employed. The variable compensation of the members of the Management Board is paid on the basis of the data audited by the auditor in the year following the economic reference base.

In the business year 2016, the total amount of compensation for the members of the Management Board was thous. EUR 7,199 (2015: thous. EUR 5,751). Thereof, thous. EUR 2,309 (2015: thous. EUR 2,778) were related to fixed compensation, and thous. EUR 4,890 (2015: thous. EUR 2,973) to variable compensation. The compensations of the individual members are as follows: Wilhelm Hörmanseder accounts for a fixed compensation of thous. EUR 920 and a variable compensation of thous. EUR 2,410, Franz Rappold accounts for a fixed compensation of thous. EUR 465 and a variable compensation of thous. EUR 926, Andreas Blaschke accounts for a fixed compensation of thous. EUR 462 and a variable compensation of thous. EUR 926, and Gotthard Mayringer accounts for a fixed compensation of thous. EUR 462 and a variable compensation of thous. EUR 628.

Regarding the Company pension scheme, there is an entitlement to receive a pension as of the 65<sup>th</sup> year of age depending on the qualifying period. This includes defined benefit plans and defined contribution plans, which primarily depend on the length of service and the beneficiaries' compensation.

In case of the termination of a function, statutory rights on the basis of the employment contract shall apply. Severance payments in case of early terminations shall not exceed the compensation of the member of the Management Board for the remaining term of the member's contract and take into account the circumstances of such termination of the respective member of the Management Board.

The Company took out a D&O (Directors-and-Officers) insurance.

The compensation of senior management in the Group also comprises fixed and variable components, the variable compensations being based on the achievement of financial corporate goals as well as individually defined objectives.

## Compensation of the Supervisory Board

The compensation of the Supervisory Board for the current business year will be determined by the Shareholders' Meeting in the following year and paid subsequently. The Supervisory Board's compensation for 2015 amounted to thous. EUR 444. The distribution of the total compensation among the members is the Supervisory Board's responsibility. In addition, the members of the Supervisory Board are granted a compensation for additional expenses incurred in exercising their duties.

## INFORMATION ON THE PROCEDURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

### Allocation of rights and duties within the Management Board

Wilhelm HÖRMANSEDER	Chairman of the Management Board
Gotthard MAYRINGER	Finance
Andreas BLASCHKE	Sales, Marketing MM Packaging
Franz RAPPOLD	Sales, Marketing MM Karton

The Management Board manages the business in accordance with the law, the bylaws, and the Articles of Association of the Company. The bylaws of the Management Board govern the assignment of responsibilities as well as the cooperation within the Management Board and include a catalogue of business cases which require the prior consent of the Supervisory Board. The members of the Management Board cooperate closely as colleagues, informing one another of all significant measures and occurrences within their respective areas of operation. The Management Board of Mayr-Melnhof Karton AG holds regular Board meetings on material Group- and division-relevant topics. The Chairman of the Management Board is responsible for chairing and preparing the meetings and for exchanging information with the Supervisory Board.

### Type and decision-making power of the Committees of the Supervisory Board

The Supervisory Board has established the following Committees from among its members:

#### *Presidium (Committee for Management Board Issues)*

The principal task of the Presidium is to discuss the Company's strategy and direction on a continuous basis as well as to prepare resolutions for the Supervisory Board concerning all strategic matters. Furthermore, this Committee decides on issues concerning the Management Board in accordance with statutory regulations and also fulfills the appointment and compensation of Committee functions. The quality of the Committee's work is guaranteed by its long-standing experience and know-how in compensation policy.

#### *Audit Committee*

The Committee's decision-making power derives from statutory regulations. The quality of the Committee's work is guaranteed by its long-standing experience and know-how in finance and accounting as well as reporting.

It is guaranteed that the Supervisory Board and the Committees are able to take decisions promptly in urgent cases. Each Chairman of the Committee informs the Supervisory Board on a regular basis about the activities of the Committee.

#### **Focus of the Supervisory Board**

The Supervisory Board held six meetings in the business year 2016, with the participation of the Management Board, and fulfilled its tasks and obligations in accordance with the law and the Articles of Association. All members of the Supervisory Board attended at least five meetings.

In addition to analyzing ongoing business development, the main areas of focus were further strategic development, investment plans, financing, risk evaluation, and topics of Corporate Governance.

The Supervisory Board carried out a self-evaluation for the financial year 2016. The result of the self-evaluation shows that the activity of the Supervisory Board of Mayr-Melnhof Karton AG is assessed as efficient. The bylaws, the regular exchange of information as well as the cooperation with the Management Board and the Group Auditor contribute significantly to this.

Also in 2016, discussions in the Supervisory Board and Management Board meetings were characterized by openness and a high degree of constructiveness. All participants had sufficient opportunity for questions and discussions.

#### **Focus of the Committees of the Supervisory Board**

In 2016, the Presidium (Committee for Management Board Issues) met four times. It dealt in particular with Group strategy as well as matters relating to the Management Board and prepared the meetings of the Supervisory Board. The implementation of the Governance regulations applicable to the compensation of the members of the Management Board as well as the review of the underlying compensation policy has been taken care of.

In 2016, the Audit Committee held two meetings and fulfilled its statutory duties. The focus was placed on dealing with the financial statements of the Group and the individual financial statements for 2015 as well as the preparation of the Group and the individual financial statements for 2016. In this context the Statutory Audit Regulation Changes Act 2016 (APRÄG 2016) were discussed and details concerning the scope of non-auditing services rendered by the auditors as well as the key audit matters were determined.

Due to the regular exchange between the Chairman of the Audit Committee and the Group Auditor outside the meetings, a discussion during the meetings without the participating Management Board members was not necessary.

## ADVANCEMENT OF WOMEN AS MEMBERS OF THE MANAGEMENT BOARD, SUPERVISORY BOARD, AND IN LEADING POSITIONS

Positions on the Management Board, the Supervisory Board as well as all leading positions are staffed based on professional and personal qualifications.

Women have been holding leading positions within the Group for a long time, in particular in the areas of human resources, legal matters, sales, and quality management.

Owing to the Group's activities in heavy industry and the shift systems, the proportion of women within the Group and in the recruitment process tends to be low. We nevertheless aspire to increase the share of women at all levels, in particular through appropriate development programs as well as by offering flexible working time models. Being an attractive employer for women, also in technical occupations, is one of our long-term objectives.

## COMPLIANCE

Compliance as the sum of the measures aimed at adherence to laws, codes of conduct, voluntary commitments, and other standards is a key management task of the Management Board in the Mayr-Melnhof Group, which is matched by a Compliance Program that is subject to continuous development.

In order to prevent insider transactions, all persons concerned are subject to a mandatory internal compliance policy, incorporating the provisions of the Issuer Compliance Regulations of the Financial Market Supervisory Authority. In 2016, the internal information and education measures focused particularly on the implementation of the EU Market Abuse Directive as well as on the thereby adjusted internal compliance policy.

Vienna, February 28, 2017

### **The Management Board**

Wilhelm Hörmanseder m. p.

Andreas Blaschke m. p.

Gotthard Mayringer m. p.

Franz Rappold m. p.

# Report of the Supervisory Board

In the financial year 2016, the Supervisory Board discharged its responsibilities under statute and the Articles of Association. In addition to discussing ongoing business development, the Supervisory Board dealt in particular with strategic development and investment plans, financing, risk evaluation as well as Corporate Governance issues.

The Management Board has complied with its duty to provide information and has informed the Supervisory Board regularly, promptly and in detail both in writing and verbally about the position and development of the Company and its subsidiaries.

In the meetings of the Supervisory Board and the Committees there was always sufficient opportunity to discuss in detail the respective agenda items and the documents submitted in time.

The Chairman of the Supervisory Board and the Chairman of the Management Board were also in regular contact between the meetings and discussed the progress of business, strategy, and the Company's risk position.

During the financial year the Supervisory Board convened in six meetings with the participation of the Management Board. All members of the Supervisory Board attended at least five meetings. Furthermore, the Presidium (Committee for Management Board Issues) convened four times, the Audit Committee chaired by Romuald Bertl met twice.

The cooperation of the capital and employee representatives within the Supervisory Board was characterized by trust and a constructive atmosphere.

The annual financial statements and the management report of Mayr-Melnhof Karton AG for the year ending December 31, 2016 including accounting were audited by Grant Thornton Unitreu GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft. The same applies to the consolidated annual financial statements, which were prepared in accordance with IFRS and supplemented by the management report for the Group and further notes under the terms of section 245 a of the Austrian Commercial Code. The audit confirmed that accounting, the annual financial statements, the management report as well as the consolidated annual financial statements and the management report for the Group conform with the legal requirements and the Articles of Association and, in all material respects, convey a fair picture of the financial position, the financial performance and cash flows. The audit provided no reason for query, and the auditors duly issued an unqualified opinion for 2016.



The Supervisory Board concurs with the annual financial statements, management report, corporate governance report, the consolidated annual financial statements as well as the management report for the Group, and hereby approves the annual financial statements as well as the consolidated annual financial statements of Mayr-Melnhof Karton AG as of December 31, 2016. Thus, the 2016 annual financial statements of Mayr-Melnhof Karton AG are adopted in accordance with section 96 (4) of the Austrian Stock Corporation Act.

The Supervisory Board has considered and approved the Management Board's proposal regarding the distribution of the profit for the financial year 2016.

The members of the Supervisory Board extend their high recognition and gratitude to the Management Board and all employees of the Mayr-Melnhof Group for their high performance and great dedication during the financial year 2016.

Vienna, March 2017

Rainer ZELLNER  
Chairman of the Supervisory Board

# Corporate Social Responsibility (CSR)

In a corporate culture characterized by efficiency, transparency and trust, responsibility, performance and passion have always been the practiced core values of the MM Group to which we direct our actions everywhere in the Group.

Long-term nature characterizes the orientation of our Group under constant prioritization of profitability and solidity.

Highest integrity is the focus of our principles of conduct. The sustainable protection of the environment by implementing a recycling economy is an inherent part of our business model.

Besides adhering to the principles of honorable traders in our business activity, we also acknowledge our long-term responsibility in society.

## Managerial responsibility

The following principles of conduct of the Mayr-Melnhof Group, which are documented in the Group's Code of Conduct and include the universal United Nations Global Compact principles, are guidelines for the responsible action of our employees. Continuous communication and training are intended to increase detailed knowledge of this topic and to provide direction for its implementation.

In 2016, particular focus of training was placed on the topics of compliance and the protection of sensitive data. Furthermore an internal training video was created to supplement the print version of the Group's Code of Conduct as part of a project for young executives ("MM Ranger").

## Compliance with laws

We comply with all applicable laws and regulations of the countries in which we do business and observe their respective social standards.

Compliance, which comprises all the measures aimed at observing laws, codes of conduct, and other standards, is a key management task of the Management Board of the Mayr-Melnhof Group, which corresponds to a continuously developed compliance program.

## Human rights

We commit ourselves to observing human rights within our sphere of influence and reject any form of forced labor in our companies and in the companies of our business partners.

**Child labor**

We reject child labor, irrespective of local legislation, throughout our Company and in the companies of our business partners. Throughout our Group we comply with the international standards (ILO Conventions C 138 and C 182) and keep records that show that all members of our workforce are of the minimum age required by law.

**Mutual respect, non-discrimination, promotion of diversity**

We commit ourselves to creating a working environment throughout our group of companies that is characterized by honesty and mutual respect. We consider the diversity of our employees an asset that enables us to fulfill our tasks in an even more creative and better way. We reject any form of discrimination and harassment on grounds of gender, race, skin color, religion, age, national or ethnic descent, disability, or sexual orientation. Employees and job applicants are assessed adhering to the principle of non-discrimination.

Owing to the Group's operations in heavy industry and the shift systems it requires, the proportion of women within the Group and in the recruitment process tends to be low. We nevertheless aspire to increase the share of women at all levels, in particular by corresponding development programs and offering flexible working time models.

**Employee development**

We develop the potential of our workforce systematically for the future of our Company. Thereby we pay attention to the development of technical as well as social and methodological skills.

Relevant activities in the field of Human Resources are described in detail in the Group Management Report beginning on page 62.

**Relationship to employees and employees' representatives**

We respect our workforce's right of freedom of association. We strive for a long-term, constructive dialog with the employees' representatives both at a local level and in the regional federation of companies.

**Working hours and remuneration**

In all the companies of the Group, we comply with the applicable regulations concerning working time. We acknowledge the entitlement of our workforce to adequate remuneration and observe the legal provisions of the individual countries.

**Health and safety**

We promote the vitality and safety of our employees by ensuring a healthy, safe and humane working environment. The respective standards for health and safety at the workplace are met. Appropriate measures, such as continuous evaluation and training, are directed at continuously improving health and safety at the workplace.

In 2016, emphasis with regard to safety was again placed on external training courses, job appraisals as well as the continuation of a project aimed at systematic tidiness, cleanliness, and safety at the workplace.

**Conflicts of interests, fight against corruption**

We always act in the best interest of the Mayr-Melnhof Group and strictly separate the interests of the Company from private interests. We aim to avoid even the mere appearance of conflicts of interests. We take decisions based on reasonable business aspects in line with laws and standards. In our business relations, we always act perfectly in line with the respective regulations against corruption, bribery, fraud, and money laundering.

The function of a Compliance Officer has been established to respond to all questions employees may have concerning this matter. Continuous plausibility checks in systems, training as well as safety-related equipment are preventive measures in this critical respect.

**Competition, conduct on the market**

We commit ourselves to unrestricted, fair competition with our competitors, business partners, and other market participants. We undertake to comply with the laws on the restriction of competition that apply in the countries where the Mayr-Melnhof Group does business.

The Group's rejection of cartel violations is expressed in an antitrust compliance guideline that also describes appropriate conduct in dealing with competitors.

**Protection of assets and sensitive information**

Employees of the Mayr-Melnhof Group are responsible for protecting tangible and intangible assets of the Company within their fields of activity.

In the area of capital markets compliance, all persons concerned are subject to a mandatory internal compliance policy incorporating the provisions of the Issuer Compliance Regulations of the Financial Market Supervisory Authority in order to prevent insider transactions.

**Financial integrity**

To preserve the high degree of trust that shareholders, employees, business associates, and the public place in us, the reporting of the Mayr-Melnhof Group shall be correct and truthful at all times and has to comply with the applicable legislation. Accounts and records are kept in accordance with legal, official, and fiscal regulations as well as in line with internationally recognized standards of accounting.

**Responsibility for the environment**

The Mayr-Melnhof Group effects its performance taking into account the environment at all steps of production as well as within downstream and upstream activities. We have opted for foresight, the use of environmentally friendly technologies, and a continuous, systematic enhancement of the environmental efficiency of our Company.

Details on the topic "environmental protection" within the Mayr-Melnhof Group can be found from page 77 of the Group Management Report.

**Business associates**

We expect our business associates within the value added chain to comply with all legal provisions and industry standards at all times and encourage them to introduce and implement similar principles of responsibility within their companies.

The preceding principles represent the basic attitude of the Mayr-Melnhof Group. They cannot be regarded, however, as a basis for demanding a specific line of conduct from the Mayr-Melnhof Group, nor for substantiating contractual claims against the Company.

The detailed Code of Conduct is available on our website at <http://www.mayr-melnhof.com> under the section "responsibility".



# Management Report

## 1 — POSITIONING OF THE MAYR-MELNHOF GROUP AND THE DIVISIONS

### GROUP

#### **Cartonboard packaging – our core business**

The core business of the Mayr-Melnhof Group is the production and sale of cartonboard and folding cartons, which is managed in two separate divisions. MM Karton is the world's largest producer of coated recycled fiber-based cartonboard with a significant position in virgin fiber-based cartonboard. MM Packaging is the largest producer of folding cartons in Europe with a leading market position in several countries outside Europe. Cartonboard is the most important raw material in the production of folding carton packaging. Folding cartons are besides plastic materials the most important packaging material for consumer goods. Demand therefore correlates with the development of private consumption.

Both divisions of the Group are managed as independent profit centers which carry out business transactions at arm's length. As in previous years, MM Karton supplied around 11 % of the cartonboard sales to MM Packaging in 2016, with the remaining share being sold to folding carton producers outside the Group. MM Packaging procures approximately one quarter of tonnage processed from MM Karton. The predominant requirements are covered by third-party suppliers, partly as a result of the limited internal supply of pulp board.

#### **Sustainable profitability through long-term focus**

Cartonboard packages are a sustainable market. Our aim is to achieve further profitable growth on a solid financial basis. Therefore, we focus on our core business areas over the long term, placing emphasis on cost, technology, and innovation leadership. Excellent industrial production through permanent best-practice benchmarking among the plants, continuous investments in state-of-the-art technologies and innovations as well as the constant development of our employees provide a foundation for high competitive strength and are the basis of our success, today and in the future.

#### **Growth in existing and new markets**

Based on our leading market position in Europe, our growth course is focused on intensified penetration of existing markets as well as expansion into new markets with attractive future potentials. Our aim is to achieve a leading position in all market segments and countries in which we operate. The undistracted focus on our core business, cartonboard packaging, as well as the combination of organic and acquisitive growth should allow for sustainably profitable dynamics at a manageable risk.

## MAYR-MELNHOF KARTON

### **Leading in recycled fiber-based cartonboard**

With an annual capacity of over 1.7 million tons, MM Karton is the world's largest producer of coated recycled fiber-based cartonboard, which accounts for around 80 % of annual production. With a production share of about 20 %, MM Karton also holds a significant European position in the market of virgin fiber-based cartonboard. The cartonboard division does not operate in the field of integrated pulp board production. Recycled fibers and groundwood pulp are the principal sources of fibers.

### **Focus on consumer goods packages**

Packages for everyday consumer goods constitute the main area of use for MM Karton products. The focus is on food packaging as well as packages for household and hygiene products, pharmaceuticals, do-it-yourself products, spare parts for the automotive industry, etc. The constant development of a broad product range as well as continuous investment in innovation and fields of growth make it possible to cover a diverse range of applications and to exploit new opportunities. MM Karton thus sets accents along the entire value-added chain and achieves market differentiation. In order to meet the specific requirements and needs of our markets, the MM Karton's sales organization focuses on the main product groups of recycled fiber-based cartonboard, virgin fiber-based cartonboard, and liner (coated top layer for the corrugated board industry).

Plastic packaging is the most important competitive product for cartonboard packaging, with a high dependency on the price of crude oil, a different range of applications and a broad variety of specializations. However, owing to differences in functionality, the overlap between these two major packaging materials is basically limited to fringe areas.

### **Broad customer base**

MM Karton supplies more than 1,000 customers, primarily printing businesses in the fragmented folding carton industry characterized by medium-sized companies. The main criteria for the purchase of cartonboard are product functionality, price and reliability of supply, whereby the influence of branded goods manufacturers and other end customers on the purchasing decision has increased significantly.

In this trend, MM Karton has focused on size and its expertise as a full-service supplier. We guarantee maximum supply security, reliability and logistical advantages by delivering the same products from a number of locations. Thus, MM Karton is a leading supplier to Europe's largest cartonboard processors and has besides this a leading position in several export markets.

### **Concentrated production**

The production of coated cartonboard for packaging is a capital-intensive industrial process. For this reason, MM Karton has concentrated production on high performing cartonboard machines, and currently produces on nine highly efficient cartonboard machines at seven European locations in four countries: Germany, Austria, Slovenia, and the Netherlands.



### **Strategic raw material recovered paper secured for the long term**

The most important cost factors in the production of coated cartonboard are fibers, in particular recovered paper and groundwood pulp, alongside energy, chemicals and logistics. A so called "coating", consisting primarily of chalk, fillers and binders, is applied to the cartonboard, making it suitable for high-quality prints.

The strategic raw material recovered paper is purchased in Europe mainly on the spot market. In addition to this, long-term supply opportunities from municipalities and waste-management companies are also used. Due to sustainable, high recycling quotas in Europe and existing reserves, we consider the raw material of recovered paper sustainably available and the supply of our cartonboard mills to be secure in the long term.

### **Fierce competition despite high concentration in the European cartonboard industry**

According to our latest estimates, total recorded global cartonboard consumption is around 58 million tons per year, of which more than a half is accounted for by Asia, and around one fifth each by America and Europe.

Owing to the high level of specific finishing of cartonboard in individual formats and high logistical demands regarding short-term product delivery to customers, the European cartonboard market is primarily supplied from Europe. Trade between the continents plays a minor role, particularly for recycled fiber-based cartonboard.

Concentration in the cartonboard industry in Europe is far advanced, meaning that the five largest suppliers currently account for around three quarters of European cartonboard capacities. Whereas the last new machine for the production of recycled fiber-based cartonboard was installed at MM Karton over two decades ago, and ever since a steady growth in capacity is achieved through continuous investment in existing mills ("creeping capacity increase"), the shift from the production of graphical papers to cartonboard packaging products is currently resulting in over-capacities in the supply of virgin fiber-based board.

### **MM Karton well-positioned – focus remains on cutting unit costs and gaining market share**

Cartonboard is used across a wide range of applications and has considerable potential. The aim of MM Karton is to gain additional market shares for the main product of recycled fiber-based cartonboard and to secure an attractive position in virgin fiber-based board while maintaining sustainable profitability.

Consequently, we focus on a continuous reduction in unit costs and technological progress in products and service. New and improved products are intended to ensure growth and strengthen our leading position. Ongoing investments in our facilities are primarily aimed at lowering specific costs, especially for fibers and energy. A digitalization initiative aims at creating significant differentiation from our competitors, particularly in the area of service.

We will pursue our path with discipline and prioritize maintaining prices over volumes as hitherto. Our growth course remains value-oriented and will mainly focus on developing existing facilities, since the capital efficiency of additional capacities created this way is generally significantly higher than that provided by newly built machines. The cartonboard business is cyclical, but we aspire to remain robust in a downturn and attractive in an upturn in order to achieve long-term continuity. Our cartonboard mills and sales organization are well positioned for this.

## MAYR-MELNHOF PACKAGING

### **Leading folding carton producer**

In 2016, MM Packaging processed around 761,000 tons of recycled and virgin fiber-based board into around 62 billion consumer goods packages. Therefore, MM Packaging is by far the leading producer of folding cartons in Europe as well as one of the largest worldwide.

Classic corrugated cardboard is a large separate industry sector where we do not operate. Overlaps can be found mainly in the production of micro-flute packages produced at a few specialized MM Packaging locations.

Europe is our core market with a sales share of around 87 %. In addition, MM Packaging also holds a leading position in several future markets outside Europe. Our international network of sites currently comprises 38 production plants in 16 countries on 4 continents with a focus on Europe as well as the regions Middle East, Latin America and the Far East.

Owing to the clearly limited economic supply radius for folding cartons compared to the cartonboard market, with this broad geographical structure we are always located near our largely international customers.

In technological and sales terms, we meet the needs of the high-volume market of fast-moving consumer goods (FMCG) as well as the highly specialized markets of packages for cigarettes, pharmaceuticals, detergents, personal care and luxury products.

Around three quarters of MM Packaging's sales are accounted for by large multinational customers, who are supported by a key account management dedicated to the specific aspects of the respective markets.

Besides multinational customers, we also supply a large number of regional customers locally, whereby more than 1,500 are supplied.

MM Packaging has recorded steady growth over a long period by accompanying strong customers on their expansion course and through targeted acquisition. Thus, the tonnage processed by the division has increased more than sevenfold since the company went public in 1994.

**High-performance technological basis**

The production of folding cartons is a multi-step process that can be described in a simplified way as follows: Cartonboard is printed, cut, glued and finished in various processes. The packages are then usually filled with consumer goods by the customer's packing system.

MM Packaging's plant and equipment comprise all common state-of-the-art preprinting, printing and finishing technologies. We strive for technological leadership in all our sales markets and for superior efficiency and quality by continuously optimizing processes and products as well as through constant innovation and investment in the latest technology.

Cartonboard is the most important raw material and cost factor in the production of folding cartons. In accordance with our profit-center-principle, cartonboard is purchased by MM Packaging through an own procurement organization. The choice of cartonboard depends in particular on the required functionality and the demands of the respective consumer goods sector, whereas the decision on the purchase of cartonboard for large international business operations is often taken by customers. Contracts with large customers are generally of a long-term nature, major changes in cartonboard prices being covered by corresponding clauses.

Besides cartonboard, major direct costs include inks, varnishes and cutting equipment. Due to the still low level of automation and the often separated process steps, the ratio of personnel costs to sales in folding carton production is generally higher than in cartonboard production.

**Focus on cost leadership through high-performance production**

With the strategic aim of maintaining cost leadership, MM Packaging focuses on industrial production within a competitive environment dominated by medium-sized companies and trade businesses. Unlike the cartonboard industry, the European folding carton sector has a far more fragmented structure, with the five largest suppliers accounting for about one third of the market volume. In the ongoing highly competitive environment the reduction of unit costs and prime quality performance are crucial.

We therefore attach top priority to economies of scale and the division-wide rolling out of "best practice". In this connection, our processes have been largely standardized and are continuously improved at state-of-the-art in a permanent process of benchmarking among the locations. The common guiding principle is to establish the "perfect factory".

Pursuing this approach in the long run also means that acquisitions and capacity expansions can be integrated with manageable risk and profitability can be rapidly increased.

### **Continued growth course**

Similarly to the cartonboard market, the demand for folding cartons largely reflects private consumption which is developing solidly in our European main market but without noticeable impulses. On the one hand, the aim is to achieve continued growth through displacement and, on the other hand, to extend our position in individual markets through selective acquisitions.

Outside Europe, we continue to focus on future markets with attractive demographic development and economic potential. Capacities in our sites in Iran and Vietnam are being increased accordingly, and additional opportunities are being explored. Our goal is to be present in new sales regions and product segments that have not yet undergone supplier concentration at the earliest possible stage through high-performance facilities and high quality.

Although concentration is proceeding slowly in the European industry due to low interest rates, MM Packaging will set further accents, always risk-conscious and value-oriented. The measure remains a high return on capital employed.

## 2 — DEVELOPMENT IN THE YEAR 2016

### GENERAL ECONOMIC SITUATION

The global economy still showed only moderate development in 2016. While dynamics accelerated in the US, growth remained unchanged at a low level in Europe. Simultaneously, emerging markets continued to stabilize in the course of the year due to higher prices for raw materials. The purchasing power of consumers in the euro area was supported by a gradual decrease in unemployment as well as lower oil prices and rising wages; private consumption thus served as major support for the economy together with an increased investment activity. The volatile economic developments in the EU member states in Central and Eastern Europe seen at the beginning of the year persisted, however sound private consumption and robust exports further allowed for an overall positive trend.

The longer-term economic consequences of Great Britain's impending exit from the EU ("Brexit") have not been assessable yet.

### INDUSTRY DEVELOPMENT

While private consumption contributed to ongoing positive general economic development in Europe, development in everyday consumer goods generally lacked any form of impulses in 2016. Thus, the European cartonboard and folding carton markets recorded hardly any growth and remained characterized by strong competition as a result of sufficiently available capacities. Especially newly built capacities in the area of virgin fiber-based cartonboard, usually modified former production machines for graphical papers, led to an increased pressure on volumes in this product area. In contrast, long-term growth in line with the market with regard to recycled fiber-based cartonboard continued through consistent investment ("creeping capacity increase") without new facilities. The slow progress in the consolidation process due to low interest rates as well as weak dynamics in consumer markets caused an unchanged pressure on prices.

On procurement markets, prices for recovered paper recorded a significant increase during the summer months as a result of stockpiling for new corrugated base paper machinery, which was only eased slightly from October onwards. Owing to the restrained order situation cartonboard producers often selectively passed on increases in recovered paper prices. In contrast, prices for energy and chemicals remained largely stable.

There were no major changes in the composition of the large European cartonboard and folding carton manufacturers in 2016.

In Europe, there was a temporary decline especially in exports to Great Britain after the Brexit vote led to price increases as a result of the fall in the exchange rate of the pound.

## DEVELOPMENT OF BUSINESS 2016

*GROUP*

The Mayr-Melnhof Group was again able to maintain its position on the whole in 2016, a year characterized by little dynamics and intense competition on its European main market, increasing both sales and profit. Due to the wide geographical sales spectrum and close cooperation with customers from different consumer goods industries, both divisions achieved high levels of capacity utilization in spite of the weak market environment.

The packaging division provided noticeable growth and profit impulses, particularly as a result of the integration of the latest acquisition in France as well as a favorable product mix. In contrast, MM Karton's margins came under increasing pressure following a significant rise in the prices for recovered paper as from the third quarter. The objective is therefore to pass on the cost increase through higher cartonboard prices.

In line with the positive profit development, a recommendation will be made to the 23<sup>rd</sup> Ordinary Shareholders' Meeting on April 26, 2017, to increase the dividend to EUR 3.00 per share for the financial year 2016, following EUR 2.80 per share (sum of EUR 1.60 interim dividend and EUR 1.20 dividend) for 2015.

## Consolidated income statements

**Consolidated income statements (condensed version)**

(in millions of EUR)	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>	<b>+/-</b>
Sales	2,272.7	2,181.5	+4.2 %
Operating profit	213.7	199.9	+6.9 %
Financial result and result from investments	(4.5)	(9.3)	
Income tax expense	(55.8)	(48.5)	
<b>Profit for the year</b>	<b>153.4</b>	<b>142.1</b>	<b>+8.0 %</b>

The Group's consolidated sales rose by 4.2 % to EUR 2,272.7 million and were thus EUR 91.2 million above the previous year's amount (2015: EUR 2,181.5 million). This increase is primarily due to the acquisition-related higher business volume at MM Packaging. Regional sales allocation remained unchanged on Western Europe with 59.2 % (2015: 58.4 %), followed by Eastern Europe, accounting for 25.8 % (2015: 26.5 %), and markets outside Europe, accounting for 15.0 % (2015: 15.1 %). Intra-group sales totaled EUR 102.9 million (2015: EUR 102.5 million) and mainly related to deliveries from MM Karton to MM Packaging.

## Group sales by destination

(in %)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Western Europe (excl. Austria)	56.9 %	55.8 %
Austria	2.3 %	2.6 %
Eastern Europe	25.8 %	26.5 %
Asia and MENA	8.6 %	8.3 %
Latin America	5.2 %	5.5 %
Other	1.2 %	1.3 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

## Cost of sales

(in millions of EUR)	Percentage of sales				
	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	+/-	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Cost of materials and purchased services	1,280.8	1,259.6	1.7 %	56.4 %	57.7 %
Personnel expenses	309.9	290.3	6.8 %	13.6 %	13.3 %
Depreciation, amortization and impairment <sup>1)</sup>	88.1	84.2	4.6 %	3.9 %	3.9 %
Other expenses	66.2	46.3	43.0 %	2.9 %	2.1 %
<b>Cost of sales</b>	<b>1,745.0</b>	<b>1,680.4</b>	<b>3.8 %</b>	<b>76.8 %</b>	<b>77.0 %</b>

<sup>1)</sup> of property, plant and equipment and intangible assets

Cost of sales for operating performance at EUR 1,745.0 million were EUR 64.6 million or 3.8 % above the comparative value for the previous year (2015: EUR 1,680.4 million). This rise primarily resulted from the expansion of business volume following MM Packaging's latest acquisition in France. Its share in sales remained almost unchanged at 76.8 % (2015: 77.0 %).

## Selling and distribution, administrative and other operating expenses

(in millions of EUR)	Percentage of sales				
	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	+/-	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Personnel expenses	124.3	115.8	7.3 %	5.5 %	5.3 %
Depreciation, amortization and impairment <sup>1)</sup>	11.0	15.4	-28.6 %	0.5 %	0.7 %
Other expenses	190.5	187.3	1.7 %	8.3 %	8.6 %
<b>Selling and distribution, administrative and other operating expenses</b>	<b>325.8</b>	<b>318.5</b>	<b>2.3 %</b>	<b>14.3 %</b>	<b>14.6 %</b>

<sup>1)</sup> of property, plant and equipment and intangible assets

Selling and distribution costs, administrative and other operating expenses also went up to EUR 325.8 million (2015: EUR 318.5 million), largely as a result of MM Packaging's latest acquisition. The share in sales totaled 14.3 % (2015: 14.6 %).

At EUR 213.7 million, operating profit was 6.9 % or EUR 13.8 million higher than in the previous year (2015: EUR 199.9 million). A clear increase in profit in the packaging division contrasted with a decline in the cartonboard division. The Group's operating margin was thus 9.4 % (2015: 9.2 %). The return on capital employed amounted to 15.9 % (2015: 16.1 %).

With the persistent low euro key interest rate, financial income totaled EUR 3.1 million (2015: EUR 2.2 million) while financial expenses were EUR -6.1 million (2015: EUR -6.3 million). At EUR -4.5 million (2015: EUR -9.3 million), the financial result remained overall negative.

Profit before tax increased by 9.8 % to EUR 209.2 million after EUR 190.6 million in the previous year. Income tax expense amounted to EUR 55.8 million (2015: EUR 48.5 million), resulting in an effective Group tax rate of 26.7 % (2015: 25.4 %).

### Profit for the year, earnings per share

Profit for the year thus rose by 8.0 % to EUR 153.4 million (2015: EUR 142.1 million), with the net profit margin increasing slightly from 6.5 % to 6.7 %. In the financial year 2016, there was an unchanged total average of 20,000,000 shares outstanding, which translates into earnings per share of EUR 7.67 (2015: EUR 7.08) related to the profit for the year attributable to the shareholders of the Company totaling EUR 153.3 million (2015: EUR 141.6 million). Cash earnings generated in the Group went up to EUR 256.3 million (2015: EUR 238.4 million), meaning that the cash earnings margin also increased slightly from 10.9 % to 11.3 %.



## Value added

The Group's net value added is the difference between total operating revenue and the products and services provided by third parties. In the statement of distribution, the share of all parties participating in the net value added is shown.

### Value added

(in millions of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	Year ended Dec. 31, 2015
<b>Origin:</b>				
Sales	2,272.7		2,181.5	
Other operating income	11.8		17.2	
Change in finished goods and own work capitalized	6.1		19.9	
Financial result and result from investments	(4.5)		(9.3)	
<b>Total operating revenue</b>	<b>2,286.1</b>		<b>2,209.3</b>	
(-) Expenditures on purchased goods and services	(1,536.2)		(1,508.1)	
(-) Depreciation, amortization and impairment <sup>1)</sup>	(99.1)		(99.6)	
<b>Net value added</b>	<b>650.8</b>	<b>100.0 %</b>	<b>601.6</b>	<b>100.0 %</b>
<b>Distribution:</b>				
Employees	(251.6)	(38.7 %)	(238.1)	(39.6 %)
Social benefit costs	(124.3)	(19.1 %)	(112.2)	(18.6 %)
Public authorities	(121.5)	(18.7 %)	(109.2)	(18.2 %)
Non-controlling (minority) interests	(0.1)	(0.0 %)	(0.6)	(0.1 %)
Shareholders' dividend (proposed for 2016)	(60.0)	(9.2 %)	(56.0)	(9.3 %)
Company	93.3	14.3 %	85.5	14.2 %

<sup>1)</sup> of property, plant and equipment and intangible assets

In the financial year 2016, the total operating revenue generated by the Group climbed to EUR 2,286.1 million after EUR 2,209.3 million in the previous year. After consideration of expenditures on purchased goods and services as well as depreciation and amortization totaling EUR 1,635.3 million, a net value added of EUR 650.8 million was achieved (2015: EUR 601.6 million).

As before, the major share of the net value added of 38.7 % or EUR 251.6 million (2015: 39.6 %; EUR 238.1 million) was distributed to the Group's employees. A similarly large part of 37.8 % or EUR 245.8 million (2015: 36.8 %; EUR 221.4 million) went to public authorities and to social insurance. The shareholders should receive a dividend of EUR 60.0 million or 9.2 % of the net value added for the financial year 2016 (2015: EUR 56.0 million; 9.3 %). A profit of EUR 93.3 million or 14.3 % will be retained within the Group (2015: EUR 85.5 million; 14.2 %).

## Assets, capital, and liquid funds

### Consolidated balance sheets (condensed version)

(in millions of EUR)	Dec. 31, 2016	Dec. 31, 2015
Non-current assets	954.1	928.1
Current assets	1,027.8	972.2
<b>Total assets</b>	<b>1,981.9</b>	<b>1,900.3</b>
Total equity	1,259.2	1,144.2
Non-current liabilities	358.0	351.6
Current liabilities	364.7	404.5
<b>Total equity and liabilities</b>	<b>1,981.9</b>	<b>1,900.3</b>

As of December 31, 2016, the Group's total assets amounted to EUR 1,981.9 million and were thus EUR 81.6 million above the figure at the end of 2015. The Group's total equity increased from EUR 1,144.2 million to EUR 1,259.2 million, with the profit for the year being offset by the dividend for the financial year 2015. Total equity to total assets was therefore 63.5 % (December 31, 2015: 60.2 %), and the return on equity was 12.8 % (December 31, 2015: 12.7 %).

Financial liabilities, principally of a long-term character, decreased from EUR 293.3 million to EUR 260.9 million as a result of loan repayments. Provisions for non-current liabilities and charges relating to accruals for employee benefits rose from EUR 118.1 million to EUR 129.3 million, primarily due to the low interest level.

Over the course of the year, total funds available to the Group declined from EUR 258.3 million to EUR 253.7 million, while net debt was reduced from EUR 35.0 million (December 31, 2015) to EUR 7.2 million at the end of 2016. Furthermore, as of December 31, 2016, credit lines of EUR 391.6 million (December 31, 2015: EUR 412.6 million) were available to the Group and can be utilized at any time.

Non-current assets rose primarily as a consequence of increased investing activities to EUR 954.1 million (December 31, 2015: EUR 928.1 million). At EUR 1,027.8 million, current assets exceeded the comparative value of the previous year by EUR 55.6 million, largely as a result of higher levels of receivables and inventories (December 31, 2015: EUR 972.2 million).

## Cash flow development

### Consolidated cash flow statements (condensed version)

(in millions of EUR)	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
Net cash from operating activities	219.4	206.7
Net cash from investing activities	(144.6)	(198.0)
Net cash from financing activities	(79.8)	(70.6)
Effect of exchange rate changes	1.2	(3.2)
<b>Net change in cash and cash equivalents (&lt; 3 months)</b>	<b>(3.8)</b>	<b>(65.1)</b>
<b>Cash and cash equivalents (&lt; 3 months) at the end of the year</b>	<b>251.1</b>	<b>255.0</b>
Current and non-current securities	2.6	3.3
<b>Total funds available to the Group</b>	<b>253.7</b>	<b>258.3</b>

Cash flow from operating activities reached EUR 219.4 million and thus exceeded the comparative value of the previous year (2015: EUR 206.7 million) by EUR 12.7 million. This difference mainly results from an increase in profit for the year as well as a lower rise in working capital compared to the previous year, which was contrasted by higher income tax payments.

Cash flow from investing activities amounted to EUR -144.6 million following EUR -198.0 million in the previous year. In the financial year 2016, expenditures for the acquisition of property, plant and equipment and intangible assets rose from EUR 130.4 million to EUR 152.2 million, which was offset by the net payment for the acquisition in France of EUR 76.1 million in 2015.

The focus of investment expenditures at MM Karton of EUR 89.5 million (2015: EUR 76.9 million) related, on the one hand, to the continued technological modernization of the cartonboard mills and, on the other hand, to the construction of a new power station at the Frohnleiten mill in Austria, which will replace the existing station at the beginning of 2018.

Investment expenditures at MM Packaging totaled EUR 62.7 million after EUR 53.5 million in the previous year. Besides the expansion of the packaging plants in Iran and Vietnam, the focus was directed towards a large number of technical innovations.

Cash flow from financing activities changed from EUR -70.6 million to EUR -79.8 million. Firstly, this change is due to the interim dividend for 2015 already paid out in the previous year and the therefore reduced payment for the remaining dividend in 2016, and, secondly, the loan issuance in 2015 was offset by scheduled loan repayments in 2016.

## Definition of financial indicators

### **Cash earnings**

Sum of profit for the year before depreciation, amortization as well as impairment of property, plant and equipment and intangible assets and before deferred taxes.

### **Cash earnings margin**

Cash earnings divided by sales.

### **Total equity to total assets**

Total equity divided by total assets.

### **Net debt/net liquidity**

The sum of interest-bearing current and non-current financial liabilities, including liabilities from finance lease, less cash and cash equivalents as well as current and non-current securities. If the sum of cash and cash equivalents as well as securities exceeds the financial liabilities, there is net liquidity.

### **Net profit margin**

Profit for the year divided by sales.

### **Operating margin**

Operating profit divided by sales.

### **Return on capital employed (ROCE)**

Profit before tax, excluding net interest income/expenses and excluding the respective profit attributable to non-controlling (minority) shareholders according to IAS 32, divided by the sum of average total equity plus average current and non-current interest-bearing financial liabilities, including liabilities from finance lease, average provisions for non-current liabilities and charges and average obligations with regard to non-controlling (minority) shareholders according to IAS 32, less average cash and cash equivalents as well as current and non-current securities.

### **Return on equity (ROE)**

Profit for the year divided by average total equity.

All indicators were calculated exclusively on the basis of the information provided in the consolidated financial statements.

## *BUSINESS DEVELOPMENT IN THE DIVISIONS*

### **MM Karton**

The situation on the European cartonboard market in 2016 was more restrained than in the previous year for both recycled and virgin fiber-based cartonboard with an increased pressure on prices. Under tougher general conditions, MM Karton focused on a consequent price policy in Europe and on supplying established export markets outside Europe, thus succeeding in keeping volumes at the previous year's level. While market shares for recycled fiber-based cartonboard were maintained, the general higher level of competition in the area of virgin fiber-based cartonboard was clearly noticeable.

The increasingly short-term nature of the business was shown by a decline of the average order backlog of MM Karton to 47,000 tons after 80,000 tons in the previous year. Nevertheless, the cartonboard division again achieved almost full capacity utilization at 97 % (2015: 98 %) due to a selective sales policy.

On the procurement markets, an overall stable development in energy and chemicals contrasted with a sharp increase in recovered paper prices as of the middle of the year primarily caused by the commissioning of new machinery for corrugated base paper. Accordingly, a price increase for all recycled fiber-based cartonboard products was announced in the fourth quarter, which was initially applied only selectively owing to a generally weak demand and high competitive pressure.

Production as well as tonnage sold, at 1,669,000 tons and 1,671,000 tons, respectively, almost matched the comparative figures of the previous year (2015: 1,677,000 tons and 1,660,000 tons, respectively). Based on the average number of employees, 655 tons per employee were produced (2015: 657 tons).

Average prices were a little lower, meaning that sales at EUR 1,023.0 million did not fully reach the value of the previous year (2015: EUR 1,046.7 million). Around 64 % of this was achieved in the markets of Western Europe (2015: 63 %) and 19 % in Eastern Europe (2015: 20 %), with the share of business outside Europe remaining unchanged at 17 % (2015: 17 %). More than 1,000 customers are supplied worldwide. With a share of deliveries of 11 % or 190,000 tons (2015: 11 % or 181,000 tons) the sister division MM Packaging was again the largest customer in 2016. The five largest customers, including MM Packaging, accounted for 27 % (2015: 28 %) of sales.

Operating profit decreased mainly due to the sharp rise in recovered paper prices from EUR 82.6 million to EUR 68.1 million. The operating margin was accordingly at 6.7 % (2015: 7.9 %) and the return on capital employed at 12.4 % (2015: 15.9 %). Cash earnings totaling EUR 91.6 million (2015: EUR 95.4 million) were generated, resulting in a cash earnings margin of 9.0 % (2015: 9.1 %).

**Market launch of FOODBOARD™**

FOODBOARD™, a new cartonboard with a unique functional barrier for safe primary food packaging, was launched in the first quarter of 2016 and is already available in the retail trade in Europe.

**Divisional indicators MM Karton**

(in millions of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	+/-
Sales <sup>1)</sup>	1,023.0	1,046.7	-2.3 %
Operating profit	68.1	82.6	-17.6 %
Operating margin (%)	6.7 %	7.9 %	
Return on capital employed (%)	12.4 %	15.9 %	
Tonnage sold (in thousands of tons)	1,671	1,660	+0.7 %
Tonnage produced (in thousands of tons)	1,669	1,677	-0.5 %

<sup>1)</sup> including interdivisional sales

**MM Packaging**

Market saturation and overall economic uncertainty characterized the situation on the European consumer goods market in 2016, resulting in many consumer goods manufacturers continuing to optimize their product and plant portfolio. Accordingly, the general situation on the European folding carton market was characterized by strong competition and decreasing prices.

However, dynamics varied depending on the market segment and geographical location, thus proving to be an advantage for MM Packaging to produce for various consumer markets in a broad network of sites. Thereby, plant capacity could be utilized at a generally high level, with a still heterogeneous profit contribution by different sites.

Against this background, the primary focus of operating activities was on a continuous improvement of cost efficiency, safeguarding market shares and developing technological and geographical potentials. The latter clearly appeared in the increased investment program at the production sites in Iran and in Vietnam.

On the whole, MM Packaging succeeded in continuing its long-term course of growth in sales and profit in 2016. A major growth driver was the first full year inclusion of a leading French folding carton producer in the fields of pharmaceutical and luxury goods packaging acquired at the end of October 2015. Integration proceeded according to schedule and met expectations.

Tonnage processed reached 761,000 tons and was thus 4.4 % above the comparative value of the previous year (2015: 729,000 tons). In line with this, the number of printed sheets (sheet equivalent) could be increased by 8.8 % from 2,059.3 million to 2,240.1 million. The sheet equivalent per employee was 303 thousand (2015: 303 thousand).

Sales went up mainly acquisition-related by 9.3 % to EUR 1,352.6 million (2015: EUR 1,237.3 million). In geographic terms, 57 % related to Western Europe, 30 % to Eastern Europe and 13 % to business outside Europe (2015: 55 %; 32 %; 13 %), demonstrating a high degree of continuity.

MM Packaging supplies more than 1,500 customers from various consumer goods markets. As before, packages for food and cigarettes made up the main sales areas in 2016. Owing to the high degree of producer concentration in these sectors, around three quarters of our business has been generated with multinational consumer goods producers for a long time. In the reporting year, the five largest customers accounted for 40 % (2015: 42 %) of sales.

Due to volume growth, assisted by a favorable product mix, operating profit rose to EUR 145.6 million and was thus 24.1 % higher than in the previous year (2015: EUR 117.3 million). The operating margin totaled 10.8 % (2015: 9.5 %). Return on capital employed increased from 16.2 % to 18.4 %. Cash earnings reached EUR 164.7 million (2015: EUR 143.0 million), representing a cash earnings margin of 12.2 % (2015: 11.6 %).

#### Divisional indicators MM Packaging

(in millions of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	+/-
Sales <sup>1)</sup>	1,352.6	1,237.3	+9.3 %
Operating profit	145.6	117.3	+24.1 %
Operating margin (%)	10.8 %	9.5 %	
Return on capital employed (%)	18.4 %	16.2 %	
Tonnage processed (in thousands of tons)	761	729	+4.4 %
Sheet equivalent (in millions)	2,240.1	2,059.3	+8.8 %

<sup>1)</sup> including interdivisional sales

### 3 — HUMAN RESOURCES

A total of 9,927 employees were employed by the Mayr-Melnhof Group in 26 countries at the end of 2016. Their competence, performance, and sense of responsibility form the foundation for our sustainable success of the Company. Our human resources activities are directed at safeguarding conditions over the long term in which our employees can effectively implement the Group's strategy in a dynamic and increasingly global environment. Thus, it is our aim to ensure that the best qualified specialists and managers are sustainably available to the Group in order to safeguard our leading position and further growth.

Accordingly, we constantly evaluate our human resources program and adapt it to current requirements. Our focus lies on strategic personnel planning, recruitment and employee development as well as education and advanced training and the systematic preservation of knowledge within the Group. The program is centrally managed in the Group by the function "Corporate Human Resources" and implemented locally in the individual locations.

#### **Performance-oriented team with shared values**

Responsibility, performance and passion are our corporate values that we pursue in our daily work in a corporate culture characterized by mutual trust, respect and high loyalty. To work as a performance-oriented team with shared values is our maxim, which we regularly demonstrate in real-life examples throughout the Group.

Openness and subsidiarity have always been guiding principles within our organization which is characterized by a high degree of personal responsibility and individual entrepreneurship. This enables us to secure the required efficiency, speed and flexibility to maintain high competitive strength over the long term.

The MM Group stands for continuity as well as for responsible, well-timed change and foresight, which are also reflected in the long-term development of our human resources.

#### **Prospective personnel development**

Our aspiration is to retain knowledge and talents within the Group in the long run. We therefore strive to fill vacant positions as well as new areas of responsibility, wherever possible, internally, opening up attractive career opportunities within the MM Group. This requires the prospective development and qualification of our employees, which we encourage at all levels, at individual locations as well as through mobility within the Group in order to grow with MM. For this purpose, we have embedded a large number of programs within the Group that are continuously optimized and systematically accompany employees throughout their careers at the Mayr-Melnhof Group. Particular emphasis in defining all programs is placed on designing them to offer a challenging scope of tasks and contents and provide an active contribution to the Company.



### **“Great Place to Start” Award**

In addition to our existing quality seal “Top Company for apprenticeships”, MM was awarded as “Great Place to Start” in Austria by Great Place to Work® in 2016 – a further important appreciation of our “Young Professionals” program in which we prepare ambitious young people for their careers in a holistic process with a high degree of responsibility. After a careful selection process, we encourage our junior staff to acquire high professional skills and to develop their personalities and prove themselves in an international environment. The guiding principle in this respect is “the apprentice as future opportunity for our Company and our Company as future opportunity for the apprentice”.

At the end of 2016, the Group had around 211 apprentices (December 31, 2015: 202). The focus remains on industrial and technical professions.

With the support of mentors, the “Young Professionals ++” program leads to the targeted transfer of technical and managerial responsibility a few years after completion of an apprenticeship.

In the “Ranger” program we prepare “High Potentials” for future key positions. Special features of the program are responsible tasks for the “Ranger” from the very beginning, support from experienced managers, orientation towards future management roles and additional opportunities for training and gaining experience. A specific professional qualification, high motivation, language skills and international mobility are fundamental requirements for participation in the program. The development plan involves three different areas of responsibility at three different locations within three years.

In addition, our “Explorer” programs offer attractive career paths in Key Account Management, Controlling, or IT. Training, mentoring and coaching are the mainstays in acquiring additional professional skills and in further personal development.

### **MM-Academy proves popular**

The “MM-Academy” is the central institution for education and advanced training for our employees at all levels within the Group. Training focuses on developing social and managerial skills in addition to specialist knowledge and language skills as well as the “MM Apprentice Academy”. The key criterion for every course commissioned is the value attainable for our Company. The “MM-Academy” trains around 1,500 employees each year.

In 2016, we once again consistently pursued our aim of guaranteeing the highest quality for internal training courses.

### **Proactively against demographic change – active HR marketing**

We have already been addressing the expected shortage of specialists resulting from demographic change with foresight for many years. Besides apprenticeships and employee recruitment, we especially promote projects that tie the long working experience and expert knowledge of older employees to the Group (“Methusalems” program). The aim is to combine time-proven practice with innovation and to secure the success of complex projects. The exchange of ideas between young and old is an immanent element of our “Ranger” and “Explorer” programs.

We use continuous collaboration with schools, universities, and colleges as well as regular participation in career fairs to position the MM Group as an attractive employer and to get into contact with potential young professionals on a regular basis. In this connection, cooperation with the degree program “Industrial Packaging Technology” at the University of Applied Sciences “FH Campus Wien” has been in place since 2015.

### **Prevention and screening at the core of health management**

Our health management policy aims at preserving the health and vitality of our employees at a high level throughout their entire working lives. Prevention and screening are given the highest priority and are primarily covered by continuous care from company doctors, a range of regular preventive check-ups and health and occupational safety training courses. Recently, resilience and resource mobilization training has helped employees to deal with stress and strain in order to regain their balance using simple means.

### **Diversity – an enrichment**

As a company with a broad geographic base, we appreciate the cultural variety and diversity of our employees as a great enrichment in order to support our aim of establishing “best practice” everywhere within the Group. Ambitious benchmarking among locations and the international exchange of specialists and expertise ensure that best performance and new potential can be systematically identified and implemented within the Group.

We attach great importance to promoting women in technical professions. In 2016, special mention in this respect was made of our commitment to apprenticeship training in the “amaZone Awards” presentation.

### **Performance-related remuneration**

A high level of personal identification with the success of the Company is firmly rooted within our corporate culture. For this reason, performance-related forms of remuneration are used across the Group to ensure that individuals with high performance participate in the success of the Company.

## Development of number of employees

A high level of continuity characterized the development of the number of employees in 2016. As of December 31, 2016, 9,927 people were employed by the Group (December 31, 2015: 9,938). Of these, 2,554 were employed in the MM Karton division (December 31, 2015: 2,546) and 7,373 in the MM Packaging division (December 31, 2015: 7,392). The share of employees in Europe totaled 86.4 % (December 31, 2015: 86.4 %), meaning that 13.6 % were accounted for by non-European countries (December 31, 2015: 13.6 %). The number of employees in Austria amounted to 1,478 (December 31, 2015: 1,508).

### Employees of the Group

	Dec. 31, 2016		Dec. 31, 2015	
	Number	%	Number	%
Western Europe (excl. Austria)	4,520	45.5 %	4,533	45.6 %
Austria	1,478	14.9 %	1,508	15.2 %
Eastern Europe	2,574	26.0 %	2,539	25.6 %
Asia and MENA	708	7.1 %	620	6.2 %
Latin America	647	6.5 %	738	7.4 %
<b>Total</b>	<b>9,927</b>	<b>100.0 %</b>	<b>9,938</b>	<b>100.0 %</b>

## Words of thanks

The Management Board and the Supervisory Board thank all employees for their high performance and great commitment that made the financial year 2016 another year of success. We express our gratitude and appreciation to the employee representatives for their trustful and constructive cooperation.

## 4 — RESEARCH AND DEVELOPMENT

### **Safeguarding competitiveness over the long term**

The principal goal of research and development activities is sustainable strengthening and safeguarding the competitiveness of the Mayr-Melnhof Group in the core competence areas of cartonboard and folding cartons. Ensuring reliable, state-of-the-art production as well as an ongoing generation and implementation of future-oriented innovations and optimizations are an important element in achieving our strategic aim of market leadership based on cost and technology leadership. Our innovation activity focuses on market needs and future trends. It covers the entire supply chain and includes also aspects that go beyond traditional applications of cartonboard and folding cartons.

### **Group-wide innovation management**

Systematic innovation management forms the basis of our R&D activities and, on the one hand, governs the targeted cooperation among experts from various areas and, on the other hand, ensures long-term knowledge accumulation within the Group. Therefore, a separate innovation function has been established in both divisions to provide systematic support in the process from generating ideas to their implementation. Through close collaboration with research institutions as well as standardization and legislative bodies, we strive to ensure that our products and services always comply with the latest requirements at an early stage. Our proactive business development also aims at bringing innovations rapidly to the market in order to provide customers timely with the benefits of differentiation.

### **Maximum efficiency even for new requirements**

Besides sustainability, safety and convenience, the latest trends in requirements comprise optimized packaging systems for shelf and online sales, digitalization as well as the personalization of communication with the customer and a stage-managed packaging experience. We proactively strive to achieve these goals, always ensuring maximum efficiency in implementation.

### **Innovation activity in the MM Karton division in 2016**

Our constant technological innovation activity in cartonboard production particularly focuses on improvements in stiffness, printability, barriers, appearance and performance in high-performance processing. Accordingly, the production process is continuously optimized and the product range progressively expanded. MM Karton's innovation activities are performed basic- and product-related in the R&D center set up at the cartonboard mill in Frohnleiten.

In 2016, greater emphasis was placed on cartonboard with functional barriers (such as migration and grease barriers) supplemented by new findings from basic research. The analytical laboratory in Frohnleiten was also substantially expanded along with the acquisition of a new analytical system.

### **Focused product alignment**

In the course of the “Renovation” project, products from individual mills are redefined and realigned for specific markets and applications. In 2016, this involved in particular the following products:

With Accurate™ Top Natural the Eerbeek mill in the Netherlands created a virgin fiber-based cartonboard with a natural, rustic appearance. Whereas this look was achieved in the past by printing the reverse side of the cartonboard, it is now possible by printing the front. The special raw surface of Accurate™ Top Natural provides an optical and haptic distinguishing feature on the store shelf.

The Baiersbronn mill customized Excellent Top™ 1D for printing with 1D codes which are mandatory for exporting pharmaceuticals to China. Due to outstanding laser and inkjet coding characteristics, the new GC2 quality is ideal for precise 1D codes as well as for the simpler 2D matrix codes that will become mandatory in the EU for pharmaceutical packages as of 2019.

With MM Flexoliner™ the mill in Kolicovo, Slovenia, produces for the dynamic market of high-quality flexographic printing. The surface of the cartonboard has a special coating and thus offers excellent printing performance.

Following the trend to lower grammage, several types of cartonboard have been extended to the lower weight ranges of both recycled as well as virgin fiber-based board.

### **FOODBOARD™ as recycled and virgin fiber-based board**

The virgin fiber-based board FOODBOARD™ virgin fiber will round off MM Karton's FOODBOARD™ portfolio, which includes FOODBOARD™ on a recycled fiber basis with a brown or light reverse side and FOODBOARD™ virgin fiber on a virgin fiber basis. The key feature of the product range is an innovative barrier on the food contact side of the cartonboard for packaging that prevents specific unintended substances from reaching the food.

FOODBOARD™ won the “Fiber-Based Packaging Innovation Award 2016” at the prestigious PPI Awards.

## **Innovation activity in the MM Packaging division in 2016**

### **Innovation Energized**

Under the motto “Innovation Energized”, MM Packaging bundles its innovative strength in the collaboration of a division-wide team that combines competence, experience and creativity from various disciplines. This makes the entire expertise of MMP's innovation network for customized product and process innovation available to the customers. MM Packaging's innovation organization comprises the following functions and institutions: the Creative Center PacProject in Hamburg, the Premium Printing Center in Trier as well as local Packaging Development Centers at individual production sites.

In individual projects a technical account manager performs the management function both internally and in relation to the customer. Only solutions that have been approved by the Divisional Technical Support Team as well as the production site involved are presented to the customer.

**Focus on creativity and technology**

By recourse to our bundled expertise, MM Packaging aims at offering convincing solutions in every phase of the innovation process that give customers competitive advantages and increase MM Packaging's ability to create added value. MM Packaging's range of innovation is comprehensive, ranging from the proactive generation of ideas and strategy development to custom design concepts, from consumer insights to brand promotion to the development of optimized processes and their implementation on production machinery.

When implementing designs, prototypes and functionalities, we draw on the expertise and experience of all printing and finishing techniques. Thus, we ensure maximum efficiency by continuously optimizing production and supply chain parameters and ongoing investment in state-of-the-art technology.

**Innovation partner in online business**

With the very latest knowledge about optimized packaging solutions for e-commerce and interactivity, we aim at being a strong innovative partner for our customers also in online business. A team of designers, packaging and market specialists constantly provides impulses for leading-edge technology.

**Awards**

A promotional package from MM Packaging for a well-known fruit juice producer was declared the winner of "Most Innovative Carton" in the innovation category at the Pro Carton ECMA Awards 2016 of the European cartonboard and folding carton industry.

## 5 — RISK MANAGEMENT

As a globally operating company the Mayr-Melnhof Group is exposed to a range of general and industry-specific risks. Due to the correlation between demand for cartonboard and folding cartons and private consumption, the current and expected economic development, in particular, has a significant influence on the Group's risk position. On procurement markets, special emphasis for risk assessment is placed on the development in fibers and energy. The risk situation for the reporting year 2016 and the beginning of 2017 can be classified as largely unchanged. The risks faced by the Group remain manageable and the Group's continued existence and ability to develop are secured.

Owing to the clear focus on the core business areas cartonboard and folding cartons for decades, the Mayr-Melnhof Group has a solid base to identify potential risks at an early stage and to adequately assess the possible consequences that might arise. The Group's approach in dealing with risks is anchored in a risk management system. It involves the systematic identification, assessment, control, and reporting of significant events and risks which could potentially endanger the Group's existence and influence its development. The term risk is deemed to be a negative deviation from the Group's corporate objectives resulting from an event that might occur in the future with a certain degree of probability. The aim of our risk management system is to limit substantial risks to an acceptable level through suitable measures and thereby safeguard the existence of the Group and its ability to create value over the long term.

For each risk that is identified and considered to be significant for the Group, individual control, steering and safeguarding measures are defined, taking into account the Group-wide risk policy, in order to manage the risk. These measures are continually evaluated and developed or amended. They are intended to improve the Group's risk position, however without restricting its potential of opportunities.

The Group's risk management is the responsibility of the Management Board that defines the risk policy and sets the framework for the Group-wide risk management. The Group's risk policy is characterized by an overall conservative approach. Risk prevention and risk reduction play an important role and are, as far as economically justifiable, achieved by appropriate control measures and supplemented by the Group's insurance program.

In the Group, the "Risk Management Compliance" department is set up, which directly reports to the Management Board and ensures that risk management is implemented and conducted on behalf and in the interest of the Management Board. Each risk area that is considered to be significant is assigned to a risk area officer with relevant expertise who is responsible for analyzing, assessing, controlling, and monitoring the respective risks. Thus, the risk management process does not work in an isolated way, but is an integral part of the organization and its procedures. Identified risks are evaluated in terms of potential damage and probability of occurrence before as well as after taking safeguarding and steering measures.

The Group's auditor assesses the functionality of the risk management system and reports to the Supervisory Board and the Management Board.

In the following, the most significant areas of risks to which the Group is exposed are described and the measures to manage these risks are presented.

## Sales

The demand for cartonboard and folding cartons correlates with private consumption, especially with the demand of everyday consumer goods. Market risks may thus arise in particular from the overall economic development as well as political and regulative conditions in the respective sales markets.

The cartonboard as well as folding carton market will be characterized by intensified competition for many years as sufficient capacities are available.

In total, the Group counts several thousand customers in both divisions. The cartonboard division supplies in particular the fragmented folding carton industry in Europe and generates around 49 % of divisional sales with 20 main customers, including MM Packaging. The packaging division sells folding cartons to consumer goods manufacturers and generates more than three quarters of divisional sales with multinational customers. However, the level of dependency on individual customers is classified as manageable.

Customers constantly evaluate their locations network from the point of cost optimization and exploitation of growth opportunities, which can lead to a geographical relocation as well as a re-allocation of business. One risk for MM Packaging is that the demand of customers cannot be met or can only be met insufficiently from existing locations in the future. However, the broad positioning of the packaging division in a great number of market segments as well as the wide geographical spread provide a substantial contribution to minimizing risk.

The Tobacco Products Directive (TPD2) was adopted as a binding EU directive in 2014 and had to be translated into national legislations within two years. It specifies, among others, a minimum requirement for combined health warnings (textual and graphic) of 65 % of the front and back side, as well as general warnings or educational messages of a minimum of 50 % of the side surfaces of cigarette packaging. Furthermore, it is planned to reduce the complexity of packaging. The EU provides national legislators with a possibility to insist on higher percentages or packaging units without trademark logos (plain packaging). So far, four countries have opted for plain packaging: Great Britain, Ireland, France, and Hungary. Countries outside the EU (Turkey and Russia) are also considering a switch to plain packaging. In order to assess and minimize risks, a project team has been set up that collaborates closely with cigarette producers. The actual impact of the Tobacco Products Directive, especially of plain packaging, to the sales development of MM Packaging still cannot be finally assessed from today's perspective. However, the broad geographical sale of cigarette packaging in various countries also outside the EU provides an important contribution to minimizing risks.



A broad range of measures has been taken to safeguard market shares and generate new business. These include constant market analyses, close customer contact, cooperation in research and development, ongoing monitoring, sustained quality and cost management and targeted investments as well as a systematic expansion of our customer base and regular participation in tenders. The possibility to manufacture individual products at different sites also increases the reliability of supply for customers and reduces the default risk. Price fluctuations of strategically important input factors are taken into account by appropriate clauses in long-term agreements.

Following the trend towards "lightweight packaging", the cartonboard division has gradually been extending its range of qualities with low grammages over the past years.

As commodity goods, cartonboard and folding carton products are subject to permanent price competition. The Group therefore pursues the strategy to further strengthen and extend its market leadership position in both divisions over the long term through cost, competence, and innovation leadership.

To ensure sustainably safe, innovative, and market-adequate products, both divisions apply modern innovation management across all locations and have sufficient R&D capacities, which are constantly extended and newly oriented.

## Production

Production plants and processes in the Group are state-of-the-art and are developed systematically. The focus is placed on a sustainably responsible production, taking into account economic, environmental, and social aspects with the aim of creating long-term benefits for our customers, shareholders, employees, and the environment.

This means primarily the economical use of resources (especially fibers, cartonboard, energy, water, chemicals, transport, and logistics) within our production while maintaining a solid financial conduct. The aim is to establish the highest possible standards throughout the Group by a constant benchmarking and innovation process as well as investments in state-of-the-art technology.

In both cartonboard and folding carton production a high degree of technical availability (operational readiness) is crucial. Continuous electronic monitoring of individual machines and sections of machines, revisions, maintenance and certifications as well as risk engineering in collaboration with insurance companies are among the most important preventive measures for maintaining continuous operations. Furthermore, division-wide back-up concepts secure customer supplies even in the event of long-term interruptions of operations, as it is possible to move capacities between individual production sites.

Guaranteeing compliance with product norms and the required quality standards is crucial for the sustainable competitiveness and attractiveness of our products. Constant quality assurance measures across the value added chain document compliance with high standards and ensure the traceability of products. Continuous R&D activities and a longstanding collaboration with national and international standardization bodies and lobbies allow to evaluate and consider new findings and interpretations as well as future developments in a timely manner.

We keep risks relating to investments, technical innovations, and integration of acquisitions limited by focusing on our core competence areas cartonboard and folding cartons. Investment plans are subject to a standard multi-level approval process as well as clearly defined tendering procedures involving the specialist departments concerned. Additionally, investment plans are accompanied by a continuous controlling of qualitative as well as quantitative aspects. Product and process innovations are subjected to extensive test phases and generally assessed in a pilot project before being rolled out to additional sites.

Energy (gas and electricity) is an input factor of strategic importance, especially for the division MM Karton. In risk assessment, in particular the purchase price, the basic availability and purchase opportunity are essential parameters. The latter refers to the physical availability of energy, which depends mainly on the political stability of producer and transit countries. The minimum purchase quantities are defined in energy agreements. If the level is not reached due to standstills or technical faults, compensation settlements will be due (take-or-pay rule). In order to manage the risk, we rely on concluding long-term framework purchase contracts, continually monitoring price development and existing hedging contracts as well as linking production and sales planning to the purchase of energy. Furthermore, medium-term purchasing policy is managed based on regular consultations between the management and an energy procurement team with Group-wide responsibility. Moreover, measures aimed at reducing specific energy requirements are continuously implemented.

For MM Karton, trading in emission rights is subject to a risk of regulatory availability and to a price risk in case additional emission certificates have to be purchased. Based on current knowledge, the volume allocation of CO<sub>2</sub> certificates in the financial years 2013 up to and including 2020 to the seven cartonboard mills located within the European Union was largely free of charge. Accordingly, there is a sufficient number of CO<sub>2</sub> certificates available for these sites until the end of 2019. A reduction of approximately 20 % in CO<sub>2</sub> emissions until 2020 in comparison to the reference year 1990 is pursued as a political objective of the European Union. In this context, free allocations of CO<sub>2</sub> are falling from 2013 onwards. The EU reserves the right to revise its free CO<sub>2</sub> allocation in the event of changes in the carbon leakage classification of individual sectors. A revision of the free CO<sub>2</sub> allocation by the European Parliament for the years following 2016 is thus possible. A shortfall or excess in CO<sub>2</sub> certificates can be purchased or sold on the free market.

The EU directive on energy efficiency was integrated into national legislation (EEffG). National implementation differs among individual EU states and requires i.a. the implementation of management systems or energy efficiency measures. The MM Group complies with this requirement in particular by operating energy and environment protection management systems (ISO 50001, ISO 14000, EMAS) or external audits.

## Procurement

The performance of both divisions requires the use of certain essential raw materials and input factors. With regard to the division MM Karton, these are especially fiber materials, in particular recovered paper and groundwood pulp as well as energy, chemicals, and logistics services. In the division MM Packaging, these are primarily cartonboard, paper, inks, varnishes, and tools. There is an essential risk of availability with regard to quantity and quality as well as a price risk for procurement. We proactively counter the risk of availability through regular market and demand monitoring and continuous contact with a majority of suppliers. We ensure compliance with the agreed properties and the hereto applicable European standard EN 643 by visits to suppliers, constant incoming goods inspections and continuous quality monitoring.

The division MM Karton procures the strategic raw material, recovered paper, via its European procurement organization based on longer-term contracts as well as monthly or spot orders. Long-term contracts make it possible, among other things, to absorb occurring peaks in prices. As a result of high recycling quotas and existing reserves in Europe, sufficient supply of recovered paper is further assured. In cooperation between production and engineering we furthermore take specific measures to control consumption and optimize the use of raw materials. Opportunities for substitution and adjustments of formulas are regularly examined. Following the profit center principle, purchase of cartonboard for the Packaging division is conducted by an own procurement organization with continuous screening of a majority of cartonboard producers.

Where reasonable and possible, tenders are conducted for present purchasing volumes.

## Human Resources

The Group relies at all levels on qualified, motivated, and performance-oriented employees in order to achieve corporate success. With the aim to tie key personnel to the Company in the long run and find suitable top performers for vacancies, we promote long-term collaboration through systematic personnel development, appropriate remuneration and bonus systems as well as a practiced awareness of values. For increasing the attractiveness as employer, targeted measures in HR marketing are implemented.

Foresighted succession planning and promotion of junior employees are specifically managed and ensured in the long run via the central "Corporate Human Resources" department. A wide range of internal development, training and counselling programs systematically support this process to ensure that talents can grow and to preserve current expertise over the long term. Furthermore, corporate health management takes a large number of measures with the goal of maintaining our employees' health and productivity at a high level over their entire working lives.

### Pensions/severance payments/pre-retirement

The majority of employees in the Group is covered by defined contribution plans as part of the statutory pension scheme. Apart from the statutory pension scheme, the Group has also made performance- and contribution-based pension commitments to certain employees on the basis of individual commitments and company agreements. In addition, there are performance- and contribution-based severance obligations and obligations as part of the statutory pre-retirement scheme. Clearly structured data provisioning, plausibility checks, and verification on the level of individual companies or the Group as well as the monitoring of individual commitments by the Group's headquarter have a risk minimizing effect.

### Financial risks

Corporate planning is based on professional forecasts, assessments and assumptions concerning future economic and financial developments in the Group. The risk of false estimation is minimized by a close cooperation of the mills with the specialist departments of the Group and the divisions within a clearly defined multi-step planning process.

We counter financing and liquidity risks of the Group in particular by a centrally-managed cash and credit management, the careful selection and a continuous monitoring of national and international banking partners as well as sufficient availability of credit lines at any time.

Foreign exchange risks are monitored continually with system support and are limited or reduced by suitable hedging measures. Hence, the attention is primarily placed on naturally balancing risks by matching receivables and liabilities at individual subsidiaries and at Group level as well as foreign exchange forward, swap and option contracts. Currency hedging transactions are mainly performed on a central currency trading platform. Currencies that are hedged for fluctuations of their exchange rates are in particular the British pound, the US dollar, the Turkish lira, and the Polish zloty. In the regions Eastern Europe, South Eastern Europe, Latin America, and Asia, we pursue a policy of minimizing currency risks by currency congruence in business transactions and by price adjustment mechanisms in long-term agreements. Derivative financial instruments are neither used for trading nor for speculative purposes.

A central management system continuously optimizes working capital and minimizes impairment risks for inventories. The risk of default on accounts receivable is minimized by continuous credit assessment as well as credit insurance for all customers, with the exception of selected international customers enjoying the highest credit rating.

## Accounting

The Management Board is responsible for establishing and developing an appropriate internal monitoring and risk management system for accounting as well as financial reporting and for preparing the consolidated financial statements. This ensures the completeness, reliability, and transparency of financial information. In addition, the appropriateness and efficiency of processes as well as compliance with statutory, contractual, and internal regulations is guaranteed.

The accounting process covers all essential tasks which ensure that the accounting-relevant information is recorded and processed completely, accurately, and in time and that financial reporting is presented in accordance with the applicable accounting standards.

In the organizational and operational structure, clear responsibilities are defined for the individual companies and the Group. The central functions of "Corporate Accounting" and "Planning and Reporting" are responsible for developing up-to-date uniform Group guidelines as well as the organization and control of financial reporting in the Group.

The reporting to the Management Board and Supervisory Board is effected in a regular, comprehensive, and timely manner. Compliance with internal Group guidelines and processes concerning the recording, posting, and accounting of business transactions is continuously monitored. The data processing systems used are developed in a targeted manner and are continuously improved. Accounting processes and financial reporting are reviewed systematically for potential risks. Improvement measures are taken as quickly as possible and implemented swiftly. Focus audits are carried out by the auditor in collaboration with Internal Audit.

## Information technology

Central IT management is based on ISO 31000. The risk of a breakdown of the central data processing is limited by a geographically separated backup computer center and a wide range of preventive measures and checks. Risks regarding information security are countered by a variety of security measures according to the Group-wide information security strategy and the function of an Information Protection Officer who ensures the Group-wide establishment and continuous update of security standards.

### Other risks

The compliance risk arising from possible non-conformity with standards, laws, ethical codes of conduct, and, where applicable, voluntary commitments, is managed especially by means of protective measures in the systems, regular, systematic compliance monitoring, the four-eyes principle as well as guidelines (for example the Code of Conduct). Furthermore, we have set up the function of a Compliance Officer who can act autonomously and who is also responsible for compliance training and internal and external reporting.

The Corporate Governance Report, which is an integral part of the Annual Report, is available on our web site at [www.mayr-melnhof.com](http://www.mayr-melnhof.com)> about> governance.

We deal with the risk field of "Legal Compliance" which comprises all actions and measures geared towards compliance with legal regulations and contractual provisions through the function of a Legal Manager as well as the use of a central "Legal Compliance System", and, if necessary, by consulting external experts. The aim consists in preventing increasing risks of infringement of the law and possible sanctions due to even stricter regulations.

In addition to the risks listed here, the Group may be exposed to further risks. We are currently not aware of any such risks or classify them to be insignificant.

## 6 — ENVIRONMENTAL PROTECTION

### **Environmental protection and circular economy – part of our business operations**

Responsible protection of the environment is an immanent element firmly anchored in the business operations and corporate culture of the Mayr-Melnhof Group. We are committed to providing our goods and services in an efficient, sustainable and resource-friendly manner as part of a business model, which aims at implementing an attractive circular economy in the long run. We produce our cartonboard products using state-of-the-art technology primarily from renewable and recyclable raw materials. We convert cartonboard in highly efficient processes into packaging for consumer goods that are almost entirely recyclable after use. In addition to their product-related technical and commercial advantages, cartonboard packages also constitute an especially sustainable packaging solution from an ecological perspective.

### **Our ambition – “best practice” throughout the Group**

In keeping with the Group's aspiration for leadership within the industry, our aim is to establish the best possible standards over the long term in all business areas. Therefore, we pursue an approach of applying challenging benchmarks among individual locations to ensure that “best practice” can take root throughout the Group. As a result of our long-established pursuit of this aim we can today record the best values for specific consumption and emissions in the industry. It is our ambition to improve them further through continuous investment in technical progress.

We therefore consequently measure and assess a large number of ecologically relevant indicators in order to ensure compliance with all requirements and to exploit new optimization potential for our products and processes. For this reason, we follow a holistic approach that also covers areas upstream and downstream from production, including product design, procurement, logistics as well as end-user consumption and reusability.

### **Systematic optimization process**

Certified management systems have supported the Group's continuous optimization process for many years. The main areas of focus here are quality, environment, energy and hygiene management in accordance with ISO 9001, ISO 14001, EMAS, ISO 50001 and HACCP, EN 15593, BRC-IOP, ISO 22000. Moreover, the certification of all cartonboard mills and a large share of folding carton sites according to FSC or PEFC documents that we procure fibers from sustainably managed forestry.

Besides recertification, certification according to FSC in particular was extended in MM Packaging's network of sites in 2016.

### **“Best Improver Austria” in Carbon Disclosure Project (CDP)**

Each year the internationally acknowledged NGO Carbon Disclosure Project (CDP) collects data and information on behalf of investors about CO<sub>2</sub> emissions, climate risks as well as reduction targets and strategies from companies on a voluntary basis. The MM Group has already been participating in this assessment project for several years and was awarded the “Best Improver Austria” prize for significant improvement in 2016.

### **Reduced carbon footprint**

In 2015, the MM Group participated in a multi-annual re-evaluation of the carbon footprint of the European cartonboard and folding carton industry conducted by Pro Carton. The result shows a further reduction to 885 kg of CO<sub>2</sub> equivalent per ton of folding carton (European average) after 915 kg in the last survey in 2012. In its measurement Pro Carton follows the requirements laid down in the framework of the CEPI (Confederation of European Paper Industry). This is based on a comprehensive approach to calculating the carbon footprint that begins with the raw materials and ends at the exit gates of the folding carton producer.

### **"Carbon leakage" classification for MM Karton**

Due to the good level, the volume allocation of CO<sub>2</sub> certificates to the seven cartonboard mills located within the European Union for the financial years 2013 up to and including 2020 was largely free of charge. Accordingly, a sufficient number of CO<sub>2</sub> certificates is available for these sites until the end of 2019. The political objective of the European Union is a reduction of CO<sub>2</sub> emissions by approximately 20 % by 2020 compared to the reference year 1990. In this context, free allocations of CO<sub>2</sub> have been reduced since 2013. The EU reserves the right to revise its free CO<sub>2</sub> allocation in the event of future changes in the "carbon leakage" classification of individual sectors.

## **Environmental aspects of MM Karton**

### **Fibers**

Fibers are the most important raw material in the production of cartonboard. Cartonboard mills therefore work continuously on projects aimed at optimizing fiber application and fiber use. Improvements in extracting recovered fibers are achieved primarily through progress in material processing. Constant monitoring ensures optimum use in day-to-day production. Furthermore, our formulations are regularly examined with regard to possible improvements of fiber use. MM Karton uses more than 1.7 million tons of fibers each year, of which about 80 % are accounted for by recovered fibers and 20 % by virgin fibers from sustainably managed forests.

### **Energy**

Our cartonboard mills principally use natural gas as their primary source of energy. We operate combined heat and power generating plants at a high level of efficiency to produce steam and electricity for cartonboard production.

We have been working for around ten years on improving energy efficiency per ton of cartonboard as part of the "efficiency" initiative, which involves a set of centrally coordinated measures including benchmark comparison. Despite a significant reduction in specific energy consumption already achieved, we are succeeding in using further savings potentials. In 2016, this was especially achieved through the optimized operation of machinery, more efficient switching and improvements in drying performance and heat recovery.



**Water**

We keep specific water consumption per ton of cartonboard low as a result of closed circulation systems. We achieved improvements in 2016 in particular due to further efficiency increases in production. In addition, water supply and disposal systems were renewed or modernized.

**Exhaust air**

The exhaust air emissions that result from the manufacture of cartonboard are mainly caused in energy production by burning natural gas. Emissions in form of CO<sub>2</sub>, NO<sub>x</sub> and CO are constantly monitored for compliance with legal regulations. In contrast, direct exhaust air produced by cartonboard machines consists primarily of steam.

MM Karton constantly takes new measures to further reduce exhaust air emissions in line with state-of-the-art technology. A major area of emphasis in 2016 was the construction of a new power station at the Austrian cartonboard mill in Frohnleiten that is scheduled to be put into operation at the beginning of 2018 and will contribute to a significant reduction in NO<sub>x</sub> emissions. The conversion of a boiler at the cartonboard production site in Neuss, Germany, had a similar direction.

**Waste**

As a general rule for waste disposal, we apply the principle of "prevention before recycling before disposal". Waste management of our locations is performed according to a waste management plan that is implemented by the respective waste management officer. Disposal itself is performed by authorized waste collectors, recyclers and disposal firms. We aim at combining economic advantages and ecological benefits, in particular by constantly minimizing the quantity of residual material from production.

**Environmental aspects of MM Packaging**

Emphasis in the environmentally relevant area of cartonboard processing is placed primarily on avoiding, reducing and recycling residual materials. In 2016, our programs for increasing productivity and material efficiency made further significant contributions to noticeable improvements in this area.

Areas of focus in the field of energy continued to be the change to LED lighting, the optimization of heating systems and the use of opportunities for heat recovery.

The new certification of sites according to FSC, Imprim'Vert and Ecovadis documents the progress being made by MM Packaging in sustainability management.

Main areas of focus in chemicals management involved in particular optimizations in storage as well as prevention measures.

For an improved management of water consumption the respective monitoring was extended through broader use of measuring systems.

## 7 — DISCLOSURES ACCORDING TO SECTION 243A PARA. 1 OF THE AUSTRIAN COMMERCIAL CODE

### **Composition of capital, stock categories**

Please refer to the information provided in the consolidated financial statements under note 13 a.

### **Restrictions concerning the voting rights and the transfer of shares**

Approximately 59 % of the shares are held by the core shareholder families in a syndicate. There is a syndicate agreement which regulates the transferability of shares within the syndicate and to outside parties. Issues that concern the Ordinary Shareholders' Meeting are decided by the syndicate with 65 % of the voting rights. Modifications of the syndicate agreement require 90 % of the voting rights.

### **Direct or indirect participation in capital of at least 10 %**

According to the information provided to the Company, there were the following minimum participations of 10 % in the capital at year-end 2016:

MMS Mayr-Melnhof-Saurau Beteiligungsverwaltung KG  
CAMA Privatstiftung

### **Owners of shares with special control rights and a description of these rights**

There are no shares with special control rights.

### **Type of voting rights control for capital participation by employees, if they do not directly exercise the right to vote**

There is no such capital participation model for employees.

### **Provisions for appointment and revocation of members of the Management Board and the Supervisory Board and regarding alteration of the Articles of Association of the Company that do not arise directly from the Act**

There are no provisions of this type.

### **Authorization of the members of the Management Board that does not arise directly from the Act, in particular with regard to the option of issuing or repurchasing shares**

There are no authorizations of this type.

**All significant agreements to which the Company is a party and that take effect are modified or terminated in the event of a change of control of the Company as a result of a takeover offer as well as its effects; excepted are agreements which would significantly damage the Company if made public, unless the Company is obligated to make such information public as a result of other statutory provisions**

The protective clause with regard to the disclosure of this information is invoked. The scope of the business in question is considered reasonable.

**Existence and significant contents of compensation agreements between the Company and the members of its Management and Supervisory Boards or employees in the event of a public takeover offer**

There are no agreements of this type.

## 8 — OUTLOOK ON THE FINANCIAL YEAR 2017

This outlook reflects the assessment of the Management Board as of February 28, 2017, and does not take into consideration the effects of any possible acquisitions, disposals or other structural changes in 2017. Previous and subsequent prospective statements are subject to known as well as unknown risks and uncertainties that may result in actual events differing from the forecasts made here.

The general conditions in our main European markets remain challenging. Against the backdrop of weak dynamics in the general economic environment, demand for cartonboard packaging is still restrained. In contrast, there are sufficient supply capacities that are gradually growing as a result of constant optimization. The business climate in our sector is sustainably characterized by intense competition over prices and volumes. At the same time, significantly higher recovered paper prices compared to the beginning of 2016 have further increased tensions.

Nevertheless, the aim for 2017 is to continue the long-term course of success in both cartonboard production as well as cartonboard processing and to grow further while maintaining margins the best possible. In the cartonboard division, the focus is on volume increases, especially through product optimizations as well as on passing on the higher recovered paper prices. In the packaging division particularly measures to raise productivity are intended to strengthen the profit level of the business with higher throughput.

We will continue our usual scope of investment activity focusing on reducing direct costs. The special investment project started last year, new gas and steam turbine power station at the cartonboard mill in Frohnleiten, will be completed on schedule in the course of the year and put into operation at the beginning of 2018. Costs will amount to between EUR 40 and 45 million.

Owing to the short-term nature of the business, it is not yet possible to provide a forecast for the result of 2017. However, the record result achieved in 2016 presents a challenging new level for our ambitions.

Our growth course applies unchanged in both core business areas, cartonboard and folding cartons, and will be pursued value-oriented, organically as well as through acquisitions.

Vienna, February 28, 2017

### **The Management Board**

Wilhelm Hörmanseder m. p.

Andreas Blaschke m. p.

Gotthard Mayringer m. p.

Franz Rappold m. p.

# Consolidated Financial Statements

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# Consolidated Balance Sheets

(all amounts in thousands of EUR)	Notes	Dec. 31, 2016	Dec. 31, 2015
<b>ASSETS</b>			
Property, plant and equipment	6	792,650	759,640
Intangible assets including goodwill	6	129,207	131,388
Securities and other financial assets	8	5,085	5,821
Deferred income taxes	9	27,203	31,248
<b>Non-current assets</b>		<b>954,145</b>	<b>928,097</b>
Inventories	10	332,134	320,420
Trade receivables	11	362,410	339,207
Income tax receivables		8,247	11,011
Prepaid expenses, securities and other current assets	12	73,823	46,634
Cash and cash equivalents	31	251,138	254,953
<b>Current assets</b>		<b>1,027,752</b>	<b>972,225</b>
<b>TOTAL ASSETS</b>		<b>1,981,897</b>	<b>1,900,322</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	13	80,000	80,000
Additional paid-in capital	13	172,658	172,658
Retained earnings	13	1,150,995	1,020,442
Other reserves	13	(151,275)	(137,550)
<b>Equity attributable to shareholders of the Company</b>		<b>1,252,378</b>	<b>1,135,550</b>
Non-controlling (minority) interests	13	6,784	8,605
<b>Total equity</b>		<b>1,259,162</b>	<b>1,144,155</b>
Financial liabilities	14	211,997	213,845
Provisions for non-current liabilities and charges	15	129,318	118,094
Deferred income taxes	9	16,739	19,655
<b>Non-current liabilities</b>		<b>358,054</b>	<b>351,594</b>
Financial liabilities	14	48,903	79,446
Current tax liabilities		8,532	20,873
Trade liabilities	16	192,648	186,287
Deferred income and other current liabilities	17	88,830	96,648
Provisions for current liabilities and charges	18	25,768	21,319
<b>Current liabilities</b>		<b>364,681</b>	<b>404,573</b>
<b>Total liabilities</b>		<b>722,735</b>	<b>756,167</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,981,897</b>	<b>1,900,322</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Income Statements

(all amounts in thousands of EUR except share and per share data)	Notes	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
Sales	19	2,272,734	2,181,549
Cost of sales		(1,744,996)	(1,680,362)
<b>Gross margin</b>		<b>527,738</b>	<b>501,187</b>
Other operating income	20	11,757	17,164
Selling and distribution expenses		(214,884)	(214,206)
Administrative expenses		(110,895)	(104,222)
Other operating expenses		(62)	(61)
<b>Operating profit</b>		<b>213,654</b>	<b>199,862</b>
Financial income	25	3,083	2,153
Financial expenses	26	(6,124)	(6,269)
Other financial result – net	27	(1,426)	(5,126)
<b>Profit before tax</b>		<b>209,187</b>	<b>190,620</b>
Income tax expense	9	(55,799)	(48,476)
<b>Profit for the year</b>		<b>153,388</b>	<b>142,144</b>
<b>Attributable to:</b>			
Shareholders of the Company		153,307	141,550
Non-controlling (minority) interests	13	81	594
<b>Profit for the year</b>		<b>153,388</b>	<b>142,144</b>
<b>Earnings per share for profit attributable to the shareholders of the Company during the year:</b>			
Basic and diluted average number of shares outstanding	28	20,000,000	20,000,000
<b>Basic and diluted earnings per share</b>	28	<b>7.67</b>	<b>7.08</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Comprehensive Income Statements

(all amounts in thousands of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
<b>Profit for the year<sup>1)</sup></b>	<b>153,388</b>	<b>142,144</b>
<b>Other comprehensive income:</b>		
Actuarial valuation of defined benefit pension and severance obligations	(16,424)	4,515
Effect of income taxes	2,514	4,165
<b>Total of items that will not be reclassified subsequently to the income statement</b>	<b>(13,910)</b>	<b>8,680</b>
Foreign currency translations <sup>1)</sup>	126	(21,757)
<b>Total of items that will be reclassified subsequently to the income statement</b>	<b>126</b>	<b>(21,757)</b>
<b>Other comprehensive income (net)<sup>1)</sup></b>	<b>(13,784)</b>	<b>(13,077)</b>
<b>Total comprehensive income</b>	<b>139,604</b>	<b>129,067</b>
<b>Attributable to:</b>		
Shareholders of the Company	139,582	128,190
Non-controlling (minority) interests	22	877
<b>Total comprehensive income</b>	<b>139,604</b>	<b>129,067</b>

The accompanying notes are an integral part of these consolidated financial statements.

<sup>1)</sup> In the financial year 2016, no reclassifications were made (2015: thous. EUR -674) from other comprehensive income to the profit for the year.

# Consolidated Statements of Changes in Equity

(all amounts in thousands of EUR) Notes	Equity attributable to shareholders of the Company						Non-controlling (minority) interests	Total equity	
	Share capital	Additional paid-in capital	Retained earnings	Other comprehensive income					
				Foreign currency translations	Actuarial gains and losses	Other reserves	Total		
<b>Balance at Jan. 1, 2015</b>	<b>80,000</b>	<b>172,658</b>	<b>963,119</b>	<b>(76,192)</b>	<b>(47,998)</b>	<b>(124,190)</b>	<b>1,091,587</b>	<b>10,581</b>	<b>1,102,168</b>
Profit for the year	0	0	141,550	0	0	0	141,550	594	142,144
Other comprehensive income	0	0	0	(22,028)	8,668	(13,360)	(13,360)	283	(13,077)
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>141,550</b>	<b>(22,028)</b>	<b>8,668</b>	<b>(13,360)</b>	<b>128,190</b>	<b>877</b>	<b>129,067</b>
<b>Transactions with shareholders:</b>									
Dividends paid 13	0	0	(84,000)	0	0	0	(84,000)	(2,586)	(86,586)
Change in majority interests 5	0	0	(227)	0	0	0	(227)	(267)	(494)
<b>Balance at Dec. 31, 2015</b>	<b>80,000</b>	<b>172,658</b>	<b>1,020,442</b>	<b>(98,220)</b>	<b>(39,330)</b>	<b>(137,550)</b>	<b>1,135,550</b>	<b>8,605</b>	<b>1,144,155</b>
Profit for the year	0	0	153,307	0	0	0	153,307	81	153,388
Other comprehensive income	0	0	0	180	(13,905)	(13,725)	(13,725)	(59)	(13,784)
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>153,307</b>	<b>180</b>	<b>(13,905)</b>	<b>(13,725)</b>	<b>139,582</b>	<b>22</b>	<b>139,604</b>
<b>Transactions with shareholders:</b>									
Dividends paid 13	0	0	(24,000)	0	0	0	(24,000)	(501)	(24,501)
Change in majority interests 5	0	0	1,246	0	0	0	1,246	(1,342)	(96)
<b>Balance at Dec. 31, 2016</b>	<b>80,000</b>	<b>172,658</b>	<b>1,150,995</b>	<b>(98,040)</b>	<b>(53,235)</b>	<b>(151,275)</b>	<b>1,252,378</b>	<b>6,784</b>	<b>1,259,162</b>

The accompanying notes are an integral part of these consolidated financial statements.



# Consolidated Cash Flow Statements

(all amounts in thousands of EUR)	Notes	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Profit for the year		153,388	142,144
<b>Adjustments to reconcile profit for the year to net cash from operating activities excluding interest and taxes paid :</b>			
Income tax expense	9	55,799	48,476
Depreciation and amortization of property, plant and equipment, and intangible assets	6	99,065	94,692
Impairment	6	0	4,860
Gains (losses) from disposals of property, plant and equipment, and intangible assets	20	(821)	(5,508)
Financial income	25	(3,083)	(2,153)
Financial expense	26	6,124	6,269
Share of profit (loss) of associated companies and other investments		(741)	(269)
Other adjustments		(2,173)	(3,816)
<b>Net cash from profit</b>		<b>307,558</b>	<b>284,695</b>
<b>Changes in working capital:</b>			
Inventories		(14,850)	(31,044)
Trade receivables		(28,201)	(16,214)
Prepaid expenses, securities and other current assets		(4,091)	3,504
Trade liabilities		15,258	3,994
Deferred income and other current liabilities		(1,735)	3,110
Provisions for current liabilities and charges		5,310	1,144
<b>Changes in working capital</b>		<b>(28,309)</b>	<b>(35,506)</b>
<b>Cash flow from operating activities excluding interest and taxes paid</b>		<b>279,249</b>	<b>249,189</b>
Income taxes paid		(59,854)	(42,491)
<b>Net cash from operating activities</b>		<b>219,395</b>	<b>206,698</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>			
Proceeds from disposals of property, plant and equipment, and intangible assets		3,422	8,792
Acquisition of property, plant and equipment, and intangible assets (incl. payments on account)	16	(152,206)	(130,405)
Acquisitions of companies or other business entities, net of cash and cash equivalents acquired (2016: thous. EUR 0; 2015: thous. EUR 9,404)	5	(635)	(79,616)
Proceeds from disposals of securities and other financial assets		904	1,048
Purchases of securities and other financial assets		(46)	(215)
Dividends received		741	269
Interest received		3,176	2,087
<b>Net cash from investing activities</b>		<b>(144,644)</b>	<b>(198,040)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Interest paid		(6,105)	(6,152)
Issuances of financial liabilities		0	93,204
Repayments of financial liabilities		(31,922)	(70,576)
Payments to non-controlling (minority) shareholders	5/31	(17,278)	(494)
Dividends paid to the shareholders of the Company	13	(24,000)	(84,000)
Dividends paid to non-controlling (minority) shareholders	13	(501)	(2,586)
<b>Net cash from financing activities</b>		<b>(79,806)</b>	<b>(70,604)</b>
Effect of exchange rate changes on cash and cash equivalents		1,240	(3,187)
<b>Net increase in cash and cash equivalents</b>		<b>(3,815)</b>	<b>(65,133)</b>
<b>Cash and cash equivalents at the beginning of the year (according to the consolidated balance sheet)</b>		<b>254,953</b>	<b>320,086</b>
<b>Cash and cash equivalents at the end of the year (according to the consolidated balance sheet)</b>		<b>251,138</b>	<b>254,953</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 — BASIC INFORMATION

### **The Mayr-Melnhof Group**

Mayr-Melnhof Karton AG and its subsidiaries (“the Group”) are primarily engaged in manufacturing and selling cartonboard and folding cartons with a focus on Europe. The parent company of the Group is Mayr-Melnhof Karton AG, located at Brahmssplatz 6, 1040 Vienna, Austria. The shares of the Company are listed on the Vienna Stock Exchange.

### **Segment information**

The Group is divided into two operating segments (see note 19): Mayr-Melnhof Karton (“MM Karton”) and Mayr-Melnhof Packaging (“MM Packaging”). MM Karton manufactures and markets numerous grades of cartonboard, concentrating on coated cartonboard produced predominantly from recovered paper as well as virgin fiber-based cartonboard. MM Packaging processes cartonboard into folding cartons, mainly for the food industry (e. g. cereals, dried foods, sugar, and baked products), other consumer goods industries (e. g. cosmetics and toiletries, detergents, household articles, and toys), and cigarette as well as pharmaceutical packagings and high-grade confectionary packaging.

## 2 — PRINCIPLES OF PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

### **Basic accounting principles and declaration of compliance**

The consolidated financial statements and notes thereto of Mayr-Melnhof Karton AG and its subsidiaries have been prepared applying section 245 a of the Austrian Commercial Code in accordance with International Financial Reporting Standards and their interpretations released by the International Accounting Standards Board “IASB” as to be applied within the European Union. Additional requirements according to section 245 a paragraph 1 of the Austrian Commercial Code have been met.

The consolidated financial statements are prepared according to historical acquisition or manufacturing cost, except for certain positions as, for example, derivative financial instruments and defined benefit obligations.

The present consolidated financial statements comprise the period from January 1 till December 31, 2016 and have been prepared by the Management Board as of February 28, 2017 and will be presented to the Supervisory Board for review and approval.

The consolidated financial statements are reported in Euro. Unless stated otherwise, all amounts herein, except share data and per share amounts, are specified in thousands of Euro.

#### Application of new and revised standards

During the preparation of the consolidated financial statements and notes thereto, relevant amendments to existing IAS, IFRS and interpretations as well as newly enacted standards and interpretations, as published in the Official Journal of the European Union no later than December 31, 2016 and with an effective date no later than this date, were taken into consideration:

Revised standards	Content	Effective
IAS 1	Disclosure Initiative: Preparation of Financial Statements	2016
IAS 27	Separate Financial Statements: Equity Method in Separate Financial Statements	2016
IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	2016
IAS 16/IAS 41	Agriculture: Bearer Plants	2016
IFRS 10/12/IAS 28	Investment Entities: Applying the Consolidation Exception	2016
IFRS 11	Acquisitions of Interests in Joint Operations	2016
	Annual Improvements to IFRSs – 2012-2014 Cycle	2016

If applicable, the effective regulations were applied in the present consolidated financial statements without any significant impact on the presentation of the financial situation and profitability.

Furthermore, the following revised standards were endorsed by the EU by December 31, 2016; their application is, however, not yet compulsory for the financial year 2016:

New standards	Content	Effective
IFRS 9	Financial Instruments	2018
IFRS 15	Revenue from contracts with customers	2018

Additionally, the following new and revised standards and interpretations were published by IASB by December 31, 2016 but have not yet been endorsed by the EU:

<b>New standards</b>	<b>Content</b>	<b>Effective</b>
IFRS 16	Leases	2019
<b>Revised standards</b>	<b>Content</b>	
IAS 7	Disclosure Initiative	2017
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	2017
	Annual Improvements to IFRSs – 2014-2016 Cycle	2017/2018
IAS 40	Transfers of Investment Property	2018
IFRS 2	Classification and Measurement of Share-Based Payment Transactions	2018
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2018
IFRS 15	Clarifications	2018
<b>New interpretations</b>	<b>Content</b>	
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2018

The newly applicable standards IFRS 9, IFRS 15 and IFRS 16 are described as follows:

IFRS 9 “Financial Instruments” contains provisions for recognition, valuation, derecognition and hedge accounting and is to be applied to all types of financial instruments, thus completely replacing reporting according to IAS 32 and IAS 39. The first mandatory application of IFRS 9 in the Group is planned for financial years starting on or after January 1, 2018.

The application of IFRS 9 will change classification and valuation of financial instruments. The standard takes the business model and certain cash flow criteria as basis. Only minor changes in reporting are expected as a consequence of the change in classification as the basic valuation methods within the Group will not change substantially according to a preliminary assessment.

As a result of IFRS 9, the incurred loss model used in IAS 39 will be replaced by the future-oriented expected loss model. This will result in losses being recognized without any objective evidence to impairment and will require discretionary decisions with regard to the extent to which these are influenced by economic factors. The Group is currently analyzing the potential effects of application and will not make use of an earlier adoption option. The Group will apply a simplified version of the basic 3-step model (simplified approach) for trade receivables. From today’s perspective, it is assumed that value adjustments for financial assets will increase only slightly. There is no concentration of default risks owing to the broad and diversified structure of the customer base and existing credit insurance. Trade receivables exist primarily with customers subject to credit insurance and customers with very good credit worthiness. The impairment methods to be applied in accordance with IFRS 9 have not yet been finally determined within the Group.

IFRS 15 "Revenue from Contracts with Customers" replaces existing provisions for the recognition of sales, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs". The core principle of IFRS 15 is that a company is to recognize sales in the amount in which goods or services are expected in return for the performance obligation(s) accepted, i.e. the delivery of goods or the performance of services. The newly introduced 5-step model serves in specifying the amount, timing and period for revenue recognition. The application of the standard in the Group is mandatory for reporting periods starting on or after January 1, 2018. In 2016, MM launched a Group-wide project for the introduction of the standard in order to determine required adjustments. During the initial phase, various possible scenarios were identified in both divisions and individual elements of contracts with major customers analyzed. The subsequent second phase of the project in 2017 will be primarily concerned with implementing the required adjustments that were determined.

The following effects were identified on the basis of the analysis of IFRS 15 conducted in the 2016 financial year: In the MM Packaging division, it might be necessary, owing to the industrial production process and the criteria specified in IFRS 15, to recognize sales over time according to the "output-oriented method". It is currently being examined whether the recognition of sales might have a front-loading effect in terms of time by certain scenarios compared with the current approach. The separation of performance obligation and transaction price due to IFRS 15 will in certain circumstances influence the distribution of sales in terms of time. The terms of delivery agreed with customers might, in individual cases, result in a separation of performance obligations arising from transportation services rendered. Apart from this, no major multiple-component contracts covering e.g. the delivery of goods and the performance of services were identified. The Group is currently evaluating special tooling agreements in the MM Packaging division and examining whether there are any other potential consequences arising from the application of IFRS 15.

The Group will not make use of the option of an earlier adoption before the start of 2018. Besides a complete retrospective application, a modified retrospective initial application is permitted by the transitional provisions of IFRS 15. As a detailed analysis of the consequences of the new standard has not yet been completed, the Group will decide in the course of the 2017 financial year on the model to be used for the transition to IFRS 15. From the current perspective, the adjustments arising from IFRS 15 are considered to be minor and are therefore not expected to have any substantial effects on the Group's assets, financial situation or profitability. It is currently not possible to provide quantitative details as the relevant calculations are not yet available.

In addition, IFRS 16 “Leases” was issued in January 2016, replacing IAS 17 and modifying the way leases are reported. IFRS 16 introduces a standardized reporting model according to which leases will be recognized in future on the lessee’s balance sheet regardless of whether an operating or finance lease in accordance with the criteria of IAS 17 is involved. A lessee will recognize a right-of-use to the underlying asset (right-of-use asset) and a liability representing their leasing payment obligations. There are exceptions governing short-term leases and leases relating to low-value assets. Reporting for the lessor remains almost unchanged in comparison with the current standard. The application of the standard in the Group is mandatory for reporting periods starting on or after January 1, 2019.

The Group is currently analyzing the effects of IFRS 16 in a Group-wide project. In the initial phase information on the type and scope of leasing agreements has been collected centrally and parameters relevant for valuation have been updated. In the next phase, a system solution will be selected that will, on the one hand, manage agreements on a Group-wide basis and, on the other hand, provide system-supported valuation of the agreements.

From today’s perspective, it can be assumed that within the MM Group IFRS 16 will result in rights of use and leasing liabilities from leases previously classified as operating leases being reported on the balance sheet. Furthermore, depreciation of the right of use and interest expenses from the leasing liability will replace the previously recognized linear lease expense. There will be no major changes in the way finance leases are reported. The Group is also currently examining possible early adoption together with IFRS 15, and has not yet decided which transitional approach is to be used. It is currently not possible to provide any quantitative details, as the relevant calculations are not yet available and, in addition, any effects will depend on the transitional method chosen and the extent to which the Group will apply practical rules governing simplification and exceptions.

In December 2014, the IASB published changes to IAS 1 “Presentation of Financial Statements” that are to be applied as of January 1, 2016. The changes are primarily concerned with the clarification of the concept of materiality and uses of discretion, explanations concerning aggregation and disaggregation of items on the balance sheet and comprehensive income statement as well as the structure of notes and the presentation of significant accounting methods. The MM Group prepared the changes to IAS 1 in a project and implemented them in the consolidated financial statements for the financial year 2016. Their application primarily resulted in a modification of the structure and a tightening of disclosures, especially in the presentation of the accounting and valuation methods.

### 3 — ACCOUNTING PRINCIPLES

The significant accounting and recognition principles applied in the Group are explained in the corresponding note.

#### **Consolidation principles and methods**

The consolidated financial statements and notes thereto include Mayr-Melnhof Karton AG (“the Company”) as well as its subsidiaries. These are all companies over which the Group has control. The Group has control, when it is exposed to positive as well as negative variable returns of its involvement in the entity and can affect the amount of these variable returns. Generally, the ownership of more than 50 % of voting shares provides an entity with control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The criteria whether the Group has control over another entity are reviewed even if the Group holds less than 50 % of voting rights. MM has the majority of shares and voting rights in all its controlled entities. There are no additional agreements which rule out control.

The subsidiaries are consolidated as of the date on which control is transferred to the Group. They are de-consolidated on the date on which such control ceases to exist.

Changes in shareholdings which do not lead to a loss of control over the subsidiaries are presented only as equity transactions and therefore have no impact on the consolidated income statement.

Non-controlling (minority) interests represent the non-controlling (minority) shareholders' proportionate share in equity and total profit for the year in subsidiaries of the Group. These minority interests are presented separately within equity.

All effects of intercompany transactions are entirely eliminated.

#### **Foreign currency translation**

Assets and liabilities of foreign subsidiaries with a functional currency other than the Euro are translated into Euro using the average exchange rates as of the balance sheet date. Revenues and expenses are translated using average exchange rates for the year. Differences arising from the translation of assets and liabilities in comparison with the previous periods are recognized as a separate component of equity. Gains and losses resulting from foreign currency transactions are recognized in the income statement as incurred.

The transactions of the Company in currencies other than the functional currency are translated using the exchange rates on the date of transaction. Monetary items in foreign currency are translated using the exchange rates on the balance sheet date. Resulting exchange rate differences as well as effects of the realization are recognized in the income statement.

Exchange rate differences arising on monetary items that form part of a net investment in a foreign operation are initially reported as a separate component of equity and are recognized in the income statement only upon intentional repayment or disposal of the net investment.

The exchange rates of the relevant currencies of non-Euro participating countries used in preparing the consolidated financial statements and notes thereto were as follows:

Country:	Currency:	Exchange rate	Exchange rate	Annual average	Annual average
		at Dec. 31, 2016	at Dec. 31, 2015	exchange rate 2016	exchange rate 2015
		1 EUR =	1 EUR =	1 EUR =	1 EUR =
Bulgaria	BGN	1.96	1.96	1.96	1.96
Chile	CLP	699	775	744	726
China	CNY	7.32	7.06	7.32	6.99
Colombia	COP	3,165	3,429	3,358	3,021
Czech Republic	CZK	27.02	27.02	27.04	27.30
Great Britain	GBP	0.86	0.73	0.81	0.73
Jordan	JOD	0.74	0.77	0.78	0.79
Malaysia	MYR	4.73	4.70	4.57	4.32
Norway	NOK	9.09	9.60	9.28	8.98
Poland	PLN	4.42	4.26	4.37	4.19
Romania	RON	4.54	4.52	4.50	4.44
Russia	RUB	63.81	79.70	73.34	67.72
Switzerland	CHF	1.07	1.08	1.09	1.07
Tunisia	TND	2.42	2.20	2.34	2.17
Turkey	TRY	3.71	3.18	3.32	3.01
Ukraine	UAH	28.42	26.22	28.11	23.62
Vietnam	VND	24,044	23,574	24,272	24,015



**Business Combinations**

All new acquisitions of subsidiaries and businesses are accounted for using the acquisition method.

The acquisition costs of the transaction correspond to the fair values of the assets transferred and liabilities received or taken over on the acquisition date.

The acquired assets and liabilities are measured at fair value at acquisition date. Depending on the nature and materiality of the acquisition, basically land, buildings and machines are valuated using an independent external expert report. Intangible assets are, according to their nature and due to the complexity of identifying the fair values, measured using an independent external expert report or internally, applying adequate valuation methods. Any non-controlling (minority) interests in the acquiree are recognized at the non-controlling (minority) interest's proportionate share in the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Contingent considerations are measured at fair value at the acquisition date. Additional changes in contingent consideration classified as asset or liability are also measured at fair value, and the resulting profit or loss recognized in the profit for the year.

Any remaining excess of the acquisition costs over the Group's share on the fair value of identifiable net assets shall be capitalized as goodwill. After repeated assessment, negative goodwill shall be recognized directly in the income statement.

## 4 — DISCRETIONARY DECISIONS, ASSUMPTIONS AND ESTIMATES

The consolidated financial statements and the notes thereto are prepared in accordance with generally accepted accounting and recognition standards of IFRS using estimates and assumptions for certain items which affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. In the end, actual amounts may differ from these assumptions and estimates. Assumptions and estimates are constantly monitored and any changes are prospectively recognized.

The consolidated financial statements and notes thereto include the following material items, the determination of whose carrying amounts is highly dependent on the underlying assumptions and estimates:

### **Useful life of non-current assets**

Property, plant and equipment, and acquired intangible assets are recognized at acquisition and manufacturing costs and are depreciated/amortized on a straight-line basis over their estimated useful lives. The estimation of useful lives is based on assumptions about wear and tear, aging, technical standards, contract periods, and changes in demand. Changes in these factors may cause a reduction of the useful life of an asset. Hence, the carrying amount would be depreciated/amortized over the remaining shorter useful life, resulting in higher annual depreciation/amortization expenses.

### **Accounting for acquisitions**

Goodwill is reported in the consolidated balance sheet as a consequence of company acquisitions. As part of the initial consolidation of a company acquisition, all identifiable assets, liabilities and contingent liabilities are recognized at fair values as of the effective acquisition date. The valuation of intangible assets is, in particular, based on the forecast of the total expected cash flows and is strongly dependent on the assumptions of the management regarding future developments as well as the underlying developments of the discount rate to be applied.

### **Impairment of assets**

Goodwill is tested for impairment in the course of an annual impairment test. Furthermore, a recoverability evaluation of fixed assets is performed whenever events that have occurred or circumstances that have changed indicate that the carrying amount of an asset or a group of assets exceeds its recoverable amount. In the course of this impairment test, the evaluation of fixed assets is also based on budget assessments of market or company-specific discount rates, expected annual growth rates, and gross margin/costs development. The assumptions involved in these calculations may change and may lead to an impairment loss in future periods.

### **Other intangible assets**

In the course of the implementation of the Kyoto Protocol, Directive 2003/87/EC came into force in the European Union as of January 1, 2005. Based on this Directive, the Group is obliged to redeem specified emission rights for carbon dioxide emissions incurred during cartonboard production. These emission rights have been allocated free of charge to the Group's respective production sites for the period from 2013 to 2020.

As IFRIC 3 "Emission Rights" has been withdrawn by the IASB, there are no definite regulations concerning the accounting treatment of emission rights. Therefore these emission rights are recognized in accordance with IAS 38 "Intangible Assets" as intangible assets in "Prepaid expenses, securities and other current assets", measured at cost amounting to zero, if the rights have been allocated free of charge. If effective carbon dioxide emissions exceed the number of existing emission rights during the reporting period at the balance sheet date, a provision for these missing emission rights in the amount of their market value has to be accounted for. As of December 31, 2016 and 2015, the Group had sufficient emission rights available.

Accordingly, only expenses from the utilization of acquired emission rights and income from the sale of redundant emission rights are recorded in the income statement.

### **Income taxes**

The Group operates in numerous countries and is therefore subject to a wide range of tax legislation in numerous tax jurisdictions. Calculating global tax liabilities requires significant assessments that may result in the actual outcome of such tax-related uncertainties differing from the original estimate and in consequences for tax liabilities and deferred taxes.

### **Realization of deferred tax assets**

Deferred taxes are calculated by applying the tax rates which are effective on the balance sheet date or have essentially been legally adopted and which are expected to be valid at the time of realization of a deferred tax asset or the settlement of a deferred tax liability as well as by evaluating the capacity of future taxable income. Potential tax rate changes or a future taxable result which differ from the assumptions may result in the fact that the realization of deferred tax assets becomes improbable and a valuation allowance for the respective assets has to be recorded.

### **Provisions for pensions, severance payments and anniversary bonuses**

The actuarial calculation of pension, severance and anniversary bonuses obligations is based on assumptions about discount rates, salary and pension adjustments, life expectancy, and retirement age. Additionally, the probable employee turnover depending on the years of service is used for assessing anniversary bonuses. Actual outcomes may be different from these assumptions due to changes in the economic environment and market conditions and, as a result, can lead to a significant change in non-current provision as well as equity.

### **Other provisions**

The use and valuation of other provisions is based on the best possible estimation of probability of the future resources outflow as well as experience and known circumstances as of the balance sheet date. Therefore the actual realized resources outflow can differ from the provision amount reported on the balance sheet date.

### **Legal risks**

The Group is subject to various claims and legal proceedings that have arisen in the ordinary course of business. On regular basis, the Management analyzes the latest information and recognizes provisions for probable obligation arising from any legal expenses, if necessary. Based on all the facts available to the Management, the Group believes that the ultimate resolution of these claims and legal proceedings will be unlikely to have a material adverse effect on its financial position or the results of its operations, although no assurance can be given with respect to the outcome of such claims or litigations.

## 5 — SIGNIFICANT CHANGES IN THE CONSOLIDATED COMPANIES

### a — Changes in 2016

In May 2016, the division MM Karton increased its majority interest in the Malaysian cartonboard trader Firgos (Malaysia) SND BHD, located in Kuala Lumpur, to 100 % for a price of thous. EUR 6,921, for which a purchase price liability in amount of thous. EUR 6,859 was recognized. As a consequence, an expense in amount of thous. EUR 62 was recognized in other financial result – net. A difference amount resulting from this transaction of thous. EUR 1,266 was reported in equity.

Additionally, there were further insignificant changes of single subsidiaries (see note 33 as well as consolidated statements of changes in equity)

## b — Changes in 2015

**Acquisitions**

In October 2015, the division MM Packaging acquired 100 % of the shares and voting rights in Alliora SAS (renamed to MMP Premium SAS) as well as its 100 % subsidiary Packetis SAS (renamed to MMP Packetis SAS) in France. The company produces folding cartons for the pharmaceutical industry as well as for luxury and cosmetic products. The aim of this acquisition is to increase the exploitation of these markets.

The acquisition costs for the purchase amount to thous. EUR 86,123. Thereof thous. EUR 85,488 were paid out as of the closing date and the remaining amount of thous. EUR 635 was recognized as a liability. Contracting parties were obliged to reach a final settlement based on the working capital as well as net debt of the acquired sites as of the closing date, which have not resulted in any further purchase price adjustment. Inclusion into the Group and division was effected on October 30, 2015. The fair values of the acquired assets and liabilities according to IFRS at the acquisition date were presented as follows:

**Fair values according to IFRS**

(in thousands of EUR)	Oct. 30, 2015
Property, plant and equipment	40,643
Intangible assets	8,139
Deferred tax assets	1,589
Inventories	12,288
Trade receivables	26,913
Prepaid expenses and other current assets	2,693
Cash and cash equivalents	9,404
Interest-bearing financial liabilities	(5,512)
Deferred tax liabilities	(8,390)
Other non-current liabilities	(3,779)
Trade liabilities	(17,959)
Other current liabilities	(13,291)
Goodwill	33,385
<b>Net assets</b>	<b>86,123</b>

Trade receivables comprise gross contractual receivables amounting to thous. EUR 27,852, of which thous. EUR 939 are estimated as presumably irrecoverable, resulting in a fair value of thous. EUR 26,913. In case of tax receivables as well as other receivables, the fair value of thous. EUR 1,817 corresponds to the gross amount. Due to the short-term nature of receivables, the Group assumes that the future cash flows correspond to the fair value.

The remaining goodwill of thous. EUR 33,385 essentially reflects expected synergies achieved by portfolio expansion, new business and network effects of the acquired sites. Recognized goodwill is not deductible for tax purposes.

Additionally, service contracts were concluded with the seller at arm's length conditions, however these are not part of the acquisition.

The acquisition-related costs of thous. EUR 454 were recorded as expense in the financial year and reported under administrative expenses in the consolidated income statement.

Sales and profit before tax for the time the business belonged to the Group and division in the financial year 2015 amounted to thous. EUR 17,884 and thous. EUR -570. Profit before tax was reduced by a non-recurring effect in amount of thous. EUR 1,557 which results from the valuation of inventory performed in the course of purchase price allocation and was recognized in the months of November and December as cost of sales and selling and distribution expenses. If the acquisition had been concluded as of January 1, 2015, MMP Premium SAS and its 100 % subsidiary MMP Packetis SAS could have contributed thous. EUR 122,079 to the Group's sales and thous. EUR 1,251 to the Group's profit before tax.

The purchase price allocation has been finalized as the valuation and the final settlement with the seller have been fully completed. A review of the preliminary purchase price allocation based on information gathered after the transaction date about the conditions as of the acquisition date has not led to any adjustments.

## 6 — DEVELOPMENT OF FIXED ASSETS

## a — Property, plant and equipment

**Property, plant and equipment**

Property, plant and equipment are recognized at acquisition or manufacturing cost less accumulated depreciation. Therefore, depreciation expense is recognized using the straight-line method over the following estimated useful lives:

Buildings	10 – 50 years
Technical equipment and machines	3 – 20 years
Other equipment, fixtures and fittings	3 – 20 years

The Group capitalizes significant renewal investments and leasehold improvements. Generally, costs resulting in a prolongation of utilization or in an increase in future utilization of assets are capitalized. Current costs of maintenance and repairs are recognized as expense as incurred.

The costs of internally generated assets include the respective direct costs as well as attributable material and manufacturing overhead costs including depreciation.

**Development of property, plant and equipment 2016**

(in thousands of EUR)	Lands, similar land rights and buildings	Technical equipment and machines	Other equipment, fixtures and fittings	Construction in progress	<b>Property, plant and equipment</b>
<b>ACQUISITION OR MANUFACTURING COSTS:</b>					
<b>Balance at Jan. 1, 2016</b>	<b>522,947</b>	<b>1,498,075</b>	<b>157,541</b>	<b>33,175</b>	<b>2,211,738</b>
Effect of exchange rate changes	1,248	(4,569)	864	(356)	(2,813)
Additions	3,809	29,777	7,486	90,892	131,964
Disposals	(2,556)	(22,112)	(6,951)	(30)	(31,649)
Reclassifications	(531)	42,774	2,272	(55,378)	(10,863)
<b>Balance at Dec. 31, 2016</b>	<b>524,917</b>	<b>1,543,945</b>	<b>161,212</b>	<b>68,303</b>	<b>2,298,377</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>					
<b>Balance at Jan. 1, 2016</b>	<b>237,595</b>	<b>1,097,457</b>	<b>117,125</b>	<b>(79)</b>	<b>1,452,098</b>
Effect of exchange rate changes	276	(3,836)	570	(3)	(2,993)
Disposals	(1,132)	(21,146)	(6,770)	0	(29,048)
Depreciation/amortization expense for the year	13,581	68,080	11,005	0	92,666
Reclassifications	(1,980)	(4,755)	(260)	(1)	(6,996)
<b>Balance at Dec. 31, 2016</b>	<b>248,340</b>	<b>1,135,800</b>	<b>121,670</b>	<b>(83)</b>	<b>1,505,727</b>
<b>NET BOOK VALUE:</b>					
<b>Net book value at Dec. 31, 2016</b>	<b>276,577</b>	<b>408,145</b>	<b>39,542</b>	<b>68,386</b>	<b>792,650</b>
<b>Net book value at Dec. 31, 2015</b>	<b>285,352</b>	<b>400,618</b>	<b>40,416</b>	<b>33,254</b>	<b>759,640</b>



**Development of property, plant and equipment 2015**

(in thousands of EUR)	Lands, similar land rights and buildings	Technical equipment and machines	Other equipment, fixtures and fittings	Construction in progress	<b>Property, plant and equipment</b>
<b>ACQUISITION OR MANUFACTURING COSTS:</b>					
<b>Balance at Jan. 1, 2015</b>	<b>487,989</b>	<b>1,412,218</b>	<b>151,857</b>	<b>53,075</b>	<b>2,105,139</b>
Effect of exchange rate changes	(4,859)	(11,098)	(1,093)	(464)	(17,514)
Changes in consolidated companies	15,589	23,167	910	977	40,643
Additions	8,304	31,984	10,308	74,738	125,334
Disposals	(6,820)	(25,202)	(6,828)	0	(38,850)
Reclassifications	22,744	67,006	2,387	(95,151)	(3,014)
<b>Balance at Dec. 31, 2015</b>	<b>522,947</b>	<b>1,498,075</b>	<b>157,541</b>	<b>33,175</b>	<b>2,211,738</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT:</b>					
<b>Balance at Jan. 1, 2015</b>	<b>230,778</b>	<b>1,064,106</b>	<b>112,610</b>	<b>(79)</b>	<b>1,407,415</b>
Effect of exchange rate changes	(981)	(5,160)	(652)	0	(6,793)
Changes in consolidated companies	0	0	0	0	0
Disposals	(5,861)	(23,306)	(6,400)	0	(35,567)
Depreciation/amortization expense for the year	13,042	63,971	11,588	0	88,601
Impairment	624	0	0	0	624
Reclassifications	(7)	(2,154)	(21)	0	(2,182)
<b>Balance at Dec. 31, 2015</b>	<b>237,595</b>	<b>1,097,457</b>	<b>117,125</b>	<b>(79)</b>	<b>1,452,098</b>
<b>NET BOOK VALUE:</b>					
<b>Net book value at Dec. 31, 2015</b>	<b>285,352</b>	<b>400,618</b>	<b>40,416</b>	<b>33,254</b>	<b>759,640</b>
<b>Net book value at Dec. 31, 2014</b>	<b>257,211</b>	<b>348,112</b>	<b>39,247</b>	<b>53,154</b>	<b>697,724</b>

**b — Intangible assets including goodwill**

Acquired intangible assets which are determined to have a finite useful life are capitalized at acquisition cost and amortized on a straight-line basis over their estimated useful lives ranging from five to ten years. Amortization of intangible assets is recognized based on the nature of intangible assets in cost of sales, selling and distribution as well as administrative expenses.

**Development of intangible assets including goodwill 2016**

(in thousands of EUR)	Concessions, licenses and similar rights	Goodwill	Other intangible assets	<b>Intangible assets including goodwill</b>
<b>ACQUISITION OR MANUFACTURING COSTS:</b>				
<b>Balance at Jan. 1, 2016</b>	<b>55,941</b>	<b>118,339</b>	<b>31,827</b>	<b>206,107</b>
Effect of exchange rate changes	(21)	912	1,139	2,030
Additions	2,991	0	0	2,991
Disposals	(2,607)	0	0	(2,607)
Reclassifications	22	(270)	0	(248)
<b>Balance at Dec. 31, 2016</b>	<b>56,326</b>	<b>118,981</b>	<b>32,966</b>	<b>208,273</b>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT:</b>				
<b>Balance at Jan. 1, 2016</b>	<b>48,242</b>	<b>9,048</b>	<b>17,429</b>	<b>74,719</b>
Effect of exchange rate changes	(13)	(4)	650	633
Disposals	(2,607)	0	0	(2,607)
Amortization expense for the year	3,383	0	3,016	6,399
Reclassifications	(78)	0	0	(78)
<b>Balance at Dec. 31, 2016</b>	<b>48,927</b>	<b>9,044</b>	<b>21,095</b>	<b>79,066</b>
<b>NET BOOK VALUE:</b>				
<b>Net book value at Dec. 31, 2016</b>	<b>7,399</b>	<b>109,937</b>	<b>11,871</b>	<b>129,207</b>
<b>Net book value at Dec. 31, 2015</b>	<b>7,699</b>	<b>109,291</b>	<b>14,398</b>	<b>131,388</b>

**Development of intangible assets including goodwill 2015**

(in thousands of EUR)	Concessions, licenses and similar rights	Goodwill	Other intangible assets	<b>Intangible assets including goodwill</b>
<b>ACQUISITION OR MANUFACTURING COSTS:</b>				
<b>Balance at Jan. 1, 2015</b>	<b>52,698</b>	<b>86,321</b>	<b>24,977</b>	<b>163,996</b>
Effect of exchange rate changes	(83)	(1,367)	(1,197)	(2,647)
Changes in consolidated companies	92	33,385	8,047	41,524
Additions	3,573	0	0	3,573
Disposals	(953)	0	0	(953)
Reclassifications	614	0	0	614
<b>Balance at Dec. 31, 2015</b>	<b>55,941</b>	<b>118,339</b>	<b>31,827</b>	<b>206,107</b>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT:</b>				
<b>Balance at Jan. 1, 2015</b>	<b>45,691</b>	<b>9,048</b>	<b>11,560</b>	<b>66,299</b>
Effect of exchange rate changes	(51)	0	(904)	(955)
Changes in consolidated companies	0	0	0	0
Disposals	(952)	0	0	(952)
Amortization expense for the year	3,554	0	2,537	6,091
Impairment	0	0	4,236	4,236
Reclassifications	0	0	0	0
<b>Balance at Dec. 31, 2015</b>	<b>48,242</b>	<b>9,048</b>	<b>17,429</b>	<b>74,719</b>
<b>NET BOOK VALUE:</b>				
<b>Net book value at Dec. 31, 2015</b>	<b>7,699</b>	<b>109,291</b>	<b>14,398</b>	<b>131,388</b>
<b>Net book value at Dec. 31, 2014</b>	<b>7,007</b>	<b>77,273</b>	<b>13,417</b>	<b>97,697</b>

In the financial year 2016, the depreciation and amortization expense recorded on "Property, plant and equipment" and "Intangible assets including goodwill" amounted to thous. EUR 99,065 (2015: thous. EUR 94,692). The amortization of the position "Intangible assets" is recorded mainly on assets related to customer relationships, which is included in selling and distribution expenses as well as software licences which are recognized in cost of sales, selling and distribution as well as administration expenses.

There was no pledge right implied on the Group's property to secure the liabilities.

c — Recoverability of non-current assets

A recoverability evaluation of non-current assets is performed as soon as events have occurred or circumstances have changed, indicating that the carrying amount of an asset or a group of assets could exceed its recoverable amount. In such a case, the carrying amount of the asset or the group of assets is compared with the higher of fair value less costs to sell or its present value of estimated future cash flows from use of the asset. In case that the reason for an impairment no longer exists, a reversal has to be conducted.

**Goodwill**

Goodwill is recognized at acquisition cost and is not amortized but tested for impairment on an annual basis as of December 31 or when there is an indication that a significant impairment may exist.

*Goodwill allocation*

Goodwill within the Group is monitored for internal management purposes at the level of the operating segments MM Karton and MM Packaging. Therefore the impairment test is carried out at this organizational level. Goodwill is allocated to the segments as follows:

(in thousands of EUR)	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Goodwill MM Karton	4,630	4,646
Goodwill MM Packaging	105,307	104,645
<b>Goodwill Group</b>	<b>109,937</b>	<b>109,291</b>

Any possible impairment will be recorded in the amount by which the book value of the respective operating segment including the respective goodwill assigned to this segment exceeds the so-called recoverable amount. The recoverable amount is defined as the higher of value in use and fair value less cost to sell of the Group's respective cash generating units. For the impairment test, the respective recoverable amount is determined based on the calculation of value in use for each operating segment.

*Calculation of value in use*

Value in use is determined for the respective operating segment based on the present value of estimated future cash flows (Free Cash Flows) before taxes using the discounted cash flow method (DCF method) under the following underlying assumptions (parameters):

Discount rate	The discount rate represents the weighted average cost of capital (WACC) of the Group before taxes and for the current financial year it equals 8.47 % (2015: 9.16 %) for the segment MM Karton and 10.87 % (2015: 11.94 %) for the segment MM Packaging. Cost of equity is derived from a general risk premium, for which the Group's specific risk premium is taken into consideration by applying the beta factor as well as country-specific risk indicators. The beta factor as well as cost of debt are derived from Peer-Group capital market information.
The detailed forecast period	The detailed forecast period is five years (2015: five years). The last planned year is also used for the cash flow calculation hereafter and modified using further assumptions for the terminal value.
Growth rate	The Free Cash Flows after the five year detailed forecast period are considered at a continuous growth rate of 1.5 % p.a. (2015: 1.5 % p.a.).
Gross margin/Cost development	Based on the expectation of the Company, a stable gross margin and fixed cost development is assumed.

If, using this procedure and these underlying assumptions, it is determined that the recoverable amount (value in use) is lower than the respective book value of the cash generating operating segment including the respective goodwill assigned, the difference is recorded as impairment. The fair value less cost to sell should be calculated at first in case of impairment.

*Underlying assumptions sensitivity*

Regarding the underlying parameters for calculating the value in use, the above stated assumptions were met. From today's perspective, after due deliberation, no significant changes of one or more underlying assumptions used for determining the value in use of both operating segments are expected, which would result in the book value of the respective operating segments including goodwill assigned to this segment exceeding the recoverable amount in the following financial year.

The respective pre-tax discount rate according to which the value in use would equal the book value as of December 31, 2016 is 12.86 % (December 31, 2015: 19.01 %) for the operating segment MM Karton and 20.10 % (December 31, 2015: 20.29 %) for the operating segment MM Packaging.

A decrease in free cash flows by 5.0 % points or in growth rate by 0.5 % points would not have led to any impairment either as of December 31, 2016 or as of December 31, 2015 for both operating segments.

As of December 31, 2016, the Group's market capitalization amounted to thous. EUR 2,014,000 (December 31, 2015: thous. EUR 2,290,000), and the book value of equity amounted to thous. EUR 1,259,162 (December 31, 2015: thous. EUR 1,144,155).

The Group has conducted its annual impairment test as of December 31, 2016 and December 31, 2015. Neither in 2016 nor in 2015 an impairment on goodwill was recognized on this basis.

In the financial year 2015, other intangible assets and property, plant and equipment were impaired in an amount of thous. EUR 4,860. The impairment is in particular related to the production locations MM Packaging Vidon Limited Liability Company in Vietnam and MM Packaging Colombia S.A.S in Columbia, resulting from a decrease in sales with individual customers. The impairment is primarily recognized under selling and distribution expenses of the division MM Packaging.

Non-current assets which are attributed to Turkey (thous. EUR 36,596) and Great Britain (thous. EUR 1,831) within the Group as of December 31, 2016 were tested for impairment for both of these countries, taking into consideration profitability. On this basis, there was no need for impairment.

## 7 — FINANCIAL INSTRUMENTS DISCLOSURES

### a — Classification and measurement of financial instruments

Financial instruments comprise financial assets and financial liabilities and are recognized in different categories which determine the respective measurement method and thus also the resulting type of income and expense. Below, the financial instruments are assigned to the respective categories and measurement methods. Afterwards, the carrying amounts included in the balance sheet that correspond to the respective categories are presented. In conclusion, the income and expenses resulting from the different categories are shown.

Financial assets of the Group comprise securities, other financial assets, loans, trade receivables, other receivables, and assets (except for certain positions which do not represent financial instruments, such as receivables regarding taxes and other charges), cash and cash equivalents, and derivative financial instruments with a positive balance.

Financial assets are classified and measured as follows:

Category	Measurement
At fair value through profit or loss, e.g. derivatives	At fair value through profit or loss
Held-to-maturity investments, e.g. bonds	At amortized cost
Available-for-sale financial assets, e.g. available-for-sale securities	At fair value through other comprehensive income
Loans and receivables, e.g. trade receivables, loans	At amortized cost

Assets measured at their fair value through profit and loss are financial assets held for trading. A financial asset will be classified in this category if it is purchased with the intention to be sold in the short-term. Derivative financial instruments are also included in this category, unless they are used as hedging instruments.

Financial assets are classified as held-to-maturity investments when they feature fixed maturity dates and repayment is not at risk and if the Group is able and intends to hold them to maturity.

Loans and receivables are financial assets with fixed and determinable payments that are not quoted in an active market.

Financial assets not classified as "at fair value through profit and loss" are initially measured at their fair value plus transaction costs. Financial assets, classified in this category, are at first measured at their fair value; associated transaction costs are directly recognized in profit and loss. These financial assets are derecognized when all the rights for payment are transferred or expired and the Group has transferred considerable risks and rewards associated with ownership.

Financial assets are assessed at the end of each reporting period to determine whether there is an objective evidence of impairment. A financial asset or a group of financial assets should be impaired only as a consequence of one or more events which have occurred after the initial recognition of the assets ("loss event"), if objective evidence of impairment exists and if this loss event (or events) has (or have) a reliably measurable impact on the future expected cash flows related to these financial assets or group of financial assets.

Objective events are, for example, significant financial difficulties of the debtor or issuer, breach of agreement, such as default or a past-due event, or the disappearance of an active market. In case of equity instruments classified as available-for-sale financial assets, a material or continuous fall of their fair value below their acquisition costs is an indicator of impairment.

In the category "Loans and receivables", credit loss will be measured as a difference between the carrying amount of an asset and the present value of the expected future cash flows (excluding future credit losses that have not been incurred) discounted with the original effective interest rate of the financial asset. The carrying amount of the asset will be reduced and the loss will be recognized through profit or loss.

If, in a subsequent period, the amount of an impairment loss decreases due to an event occurring after the impairment was initially recognized (for example better rating), the impairment loss is reversed through profit or loss.

If there is objective evidence of impairment of “available-for-sale” instruments, the cumulative loss measured as difference between amortized costs and current fair value less the amount of the previous impairment loss relating to this financial asset will be derecognized from equity and recognized through profit or loss. Once the impairment of available-for-sale equity instruments is recognized through profit and loss, it cannot be reversed through profit or loss anymore. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale financial asset increased due to an event occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through profit or loss.

Financial liabilities of the Group comprise interest-bearing financial liabilities including finance lease, trade liabilities, other liabilities (except for certain positions which do not represent financial instruments, such as liabilities regarding taxes and other charges) as well as derivative financial liabilities with a negative balance.

Financial liabilities are classified and measured as follows:

Category	Measurement
At fair value through profit or loss, e.g. derivatives	At fair value through profit or loss
Other financial liabilities, e.g. financial liabilities, trade liabilities	At amortized cost

Financial liabilities measured at fair value through profit and loss are at first recorded at their fair value; transaction costs are directly recognized in profit and loss. Other financial liabilities are recorded at their fair value net of transaction costs. Subsequently, financial liabilities are evaluated in following periods either at amortized costs, using the effective interest method, or at their fair value in profit and loss.



The following table presents in which category the financial assets included in the balance sheet are recognized and by which method these financial instruments are measured:

	Financial assets measured at fair value through profit and loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	<b>Total</b>
	<b>At fair value</b>	<b>At amortized cost</b>			
(in thousands of EUR)	<b>Carrying amount at Dec. 31, 2016</b>				
Securities and other financial assets <sup>1)</sup>	0	1,699	1,989	1,397	5,085
Trade receivables	0	0	0	362,410	362,410
Other receivables and assets, including derivatives	496	0	550	14,551	15,597
Cash and cash equivalents	0	0	0	251,138	251,138
<b>Total</b>	<b>496</b>	<b>1,699</b>	<b>2,539</b>	<b>629,496</b>	<b>634,230</b>
	<b>Carrying amount at Dec. 31, 2015</b>				
Securities and other financial assets <sup>1)</sup>	0	1,699	2,549	1,573	5,821
Trade receivables	0	0	0	339,207	339,207
Other receivables and assets, including derivatives	1,325	0	807	12,044	14,176
Cash and cash equivalents	0	0	0	254,953	254,953
<b>Total</b>	<b>1,325</b>	<b>1,699</b>	<b>3,356</b>	<b>607,777</b>	<b>614,157</b>

<sup>1)</sup> For measurement of "other financial assets" classified as "available-for-sale financial assets", see note 7f.

The following table presents in which category the financial liabilities included in the balance sheet are recognized and by which method these financial instruments are measured:

	Financial liabilities measured at fair value through profit and loss	Other financial liabilities	<b>Total</b>
	<b>At fair value</b>	<b>At amortized cost</b>	
(in thousands of EUR)	<b>Carrying amount at Dec. 31, 2016</b>		
Interest-bearing financial liabilities incl. finance lease	0	260,900	260,900
Trade liabilities	0	192,648	192,648
Other liabilities, including derivatives	961	8,038	8,999
<b>Total</b>	<b>961</b>	<b>461,586</b>	<b>462,547</b>
	<b>Carrying amount at Dec. 31, 2015</b>		
Interest-bearing financial liabilities incl. finance lease	0	293,291	293,291
Trade liabilities	0	186,287	186,287
Share purchase price and option liabilities	0	6,859	6,859
Other liabilities, including derivatives	1,100	10,980	12,080
<b>Total</b>	<b>1,100</b>	<b>497,417</b>	<b>498,517</b>

The following table presents the types of income and expenses from financial assets assigned to categories and measurement methods:

	Financial assets measured at fair value through profit and loss				<b>Total</b>
	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables		
	<b>At fair value</b>	<b>At amortized cost</b>			
(in thousands of EUR)	<b>Income and expense 2016</b>				
<b>In profit for the year</b>	<b>(829)</b>	<b>741</b>	<b>41</b>	<b>3,116</b>	<b>3,069</b>
Interests/Dividends received	0	741	41	3,042	3,824
Fair value/Carrying amount changes	(829)	0	0	74	(755)
<i>Thereof impairment</i>	0	0	0	74	74
<b>In other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Change in fair value	0	0	0	0	0
<b>Net profit/loss</b>	<b>(829)</b>	<b>741</b>	<b>41</b>	<b>3,116</b>	<b>3,069</b>
	<b>Income and expense 2015</b>				
<b>In profit for the year</b>	<b>61</b>	<b>269</b>	<b>52</b>	<b>1,958</b>	<b>2,340</b>
Interests/Dividends received	0	269	52	2,101	2,422
Fair value/Carrying amount changes	61	0	0	(143)	(82)
<i>Thereof impairment</i>	0	0	0	(143)	(143)
<b>In other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Change in fair value	0	0	0	0	0
<b>Net profit/loss</b>	<b>61</b>	<b>269</b>	<b>52</b>	<b>1,958</b>	<b>2,340</b>

The following table presents the types of income and expenses from financial liabilities assigned to categories and measurement methods:

	Financial liabilities measured at fair value through profit and loss	Other financial liabilities	<b>Total</b>
	<b>At fair value</b>	<b>At amortized cost</b>	
(in thousands of EUR)	<b>Income and expense 2016</b>		
<b>In profit for the year</b>	<b>139</b>	<b>(6,202)</b>	<b>(6,063)</b>
Interests	0	(6,123)	(6,123)
Fair value/Carrying amount changes	139	(79)	60
<b>Net profit/loss</b>	<b>139</b>	<b>(6,202)</b>	<b>(6,063)</b>
	<b>Income and expense 2015</b>		
<b>In profit for the year</b>	<b>(130)</b>	<b>(8,228)</b>	<b>(8,358)</b>
Interests	0	(6,269)	(6,269)
Fair value/Carrying amount changes	(130)	(1,959)	(2,089)
<b>Net profit/loss</b>	<b>(130)</b>	<b>(8,228)</b>	<b>(8,358)</b>

## b — Derivatives

The Group recognizes derivative financial instruments as financial assets or liabilities measured at their fair value. These hedging relationships established to secure cash flows or fair values related to single underlying transactions reduce the currency risk in the Group.

Thereby foreign exchange forward, swap and option contracts are used in order to mitigate the short-term effects of exchange rate fluctuations.

The most important foreign currencies for which the Group protects itself against fluctuation effects are the British Pound, the US Dollar as well as the Euro for the companies with functional currencies other than the Euro. The changes in fair values of these derivatives are recognized in "Foreign currency exchange rate gains (losses) – net" (see note 27). The settlement of these transactions and the trade are generally effected by Corporate Treasury.

As of December 31, 2016, the Group had concluded foreign exchange forward, swap and option contracts with a nominal value of receivables of thous. EUR 151,121 (December 31, 2015: thous. EUR 119,446) and liabilities of thous. EUR 151,673 (December 31, 2015: thous. EUR 119,333) with a negative total market value of thous. EUR 465 (December 31, 2015: positive market value of thous. EUR 225).

The derivative financial instruments are recorded in the consolidated balance sheet under "Prepaid expenses, securities and other current assets" as current assets in the amount of thous. EUR 496 (December 31, 2015: thous. EUR 1,325) and under "Deferred income and other current liabilities" as current liabilities in the amount of thous. EUR 961 (December 31, 2015: thous. EUR 1,100).

## c — Financial Risk Management

The Group is exposed to various financial risks arising from its operating activities and the structure of its financing. These financial risks include primarily credit risk, liquidity risk, currency risk, and risk of interest rate changes. These risks are limited using centralized risk management which is applied throughout the Group. The identification, analysis, and evaluation of financial risks as well as the decisions concerning the application of financial instruments to manage these risks are carried out by the Group's headquarters.

### **Credit and default risk**

The credit risk represents the risk arising from non-fulfilment of contractual obligations by business partners which may result in losses. The immanent risk of default of business partners resulting from the underlying transaction is widely hedged in the Group by credit risk insurance as well as by bank guarantees and letters of credit. The criteria to be applied for credit ratings are based on contractual agreements with credit insurance institutions and are defined by internal guidelines.

The credit and default risks are continuously monitored; existing and identifiable risks are provided for by recording appropriate allowances or provisions. For the assessment of the overall risk, existing insurance coverage, possible guarantees and letters of credit are taken into consideration. Financial instruments which may cause a concentration of financial risks within the Group in certain cases comprise primarily cash and cash equivalents, securities, and trade receivables. Trade receivables derive from a broad and diversified group of customers with different credit ratings. The financial risk arising from customers is monitored by ongoing credit rating assessments. Additionally, the Group concludes credit insurance contracts in order to cover certain potentially non-collectible receivables. Furthermore, the Group forms allowances based on the expected collectability of the total receivables volume. If trade accounts receivables are insured against default and if an allowance becomes necessary, only the amount not covered by the insurance policy is to be recognized. The Group reports single or lump-sum allowance. The latter is only permissible when the need for allowance can be proven, for example, by experience from the past. As a result of the broad and diversified customer base and the existing credit insurance contracts, there is no concentrated risk of default. Trade receivables exist mainly against customers with credit insurance and customers with very good creditworthiness; accordingly, bad debt losses were insignificant in the past.

The Group uses also foreign exchange forward, swap and option contracts. All the respective contract partners are renowned international financial institutions with which the Group has ongoing business relations. Therefore, the Group considers the risk of non-fulfilment by a contract partner and the related risk of loss as low.

Money market investments are concluded with corporate banks with investment-grade ratings.

The carrying amounts of financial assets reflect the theoretical maximum default risk.

### Liquidity risk

The liquidity risk is referred to as the risk of having to raise the required funds at any time in order to settle the amounts payable in due course. The Group's financing policy is oriented towards long-term financial planning and is managed centrally and monitored constantly. Based on well-timed liquidity management, sufficient liquidity of all the Group's subsidiaries is provided for by the availability of adequate cash and cash equivalents as well as credit lines. The companies of the MM Group are financed mostly internally. Consequently, inter-company credit lines and a cash-pooling system with financial limits are available. Therefore, liquidity risk is assessed as low.

The following table shows the financial liabilities arising from interest-bearing financial liabilities including finance lease, trade liabilities and liabilities arising from derivative financial instruments and interests for interest-bearing financial liabilities including finance lease based on the remaining maturity as of the balance sheet date or referred to the contractually agreed maturity.

(in thousands of EUR)	Up to 3 months	3 months up to 1 year	1-2 years	2-5 years	Over 5 years
<b>Balance at Dec. 31, 2016</b>					
Interest-bearing financial liabilities incl. finance lease	1,708	47,195	20,770	21,227	170,000
Interests for interest-bearing financial liabilities incl. finance lease	309	3,599	3,599	9,623	11,779
Trade liabilities	188,588	4,060	0	0	0
Payment obligations from derivative financial instruments	141,519	10,154	0	0	0
Payment entitlements for derivative financial instruments	(141,221)	(9,900)	0	0	0
<b>Balance at Dec. 31, 2015</b>					
Interest-bearing financial liabilities incl. finance lease	2,588	76,858	1,848	41,745	170,252
Interests for interest-bearing financial liabilities incl. finance lease	452	4,127	3,837	10,340	15,296
Trade liabilities	183,609	2,678	0	0	0
Payment obligations from derivative financial instruments	116,823	2,510	0	0	0
Payment entitlements for derivative financial instruments	(117,180)	(2,266)	0	0	0

### Currency risk

The currency risk represents the risk arising from changes in the value of financial instruments due to exchange rates fluctuations. This risk exists when business transactions are processed in currencies other than the functional (local) currency of the Company. This is particularly the case for business relations to customers and suppliers in the British Pound, the US Dollar and the Euro, from the perspective of companies which do not have the Euro as their functional currency. The respective currency risks are, as far as possible, reduced by matching business transactions in similar currencies and by price adjustment mechanisms in longer-term agreements as well as foreign exchange forward, swap and option contracts.

Provided that currencies related to current and non-current financial receivables and financial liabilities as of December 31, 2016 (December 31, 2015) stated below changed by the below-stated percentage ("Volatility"), assuming that all other variables remained constant, the profit for the year and hence equity would have increased or decreased by the following values.

Currency	Volatility	Impact on profit for the year and equity in thousands of EUR	
		2016	2015
EUR <sup>1)</sup>	+/- 5 %	-/+ 81	-/+ 127
GBP	+/- 5 %	+/- 184	+/- 38
USD	+/- 5 %	+/- 207	-/+ 93

<sup>1)</sup> From the perspective of companies which do not have the Euro as functional currency.



### Interest rate risk

The interest rate risk is referred to as the risk arising from changes in the market interest rates, which can result in value fluctuation of balance sheet items or fluctuation in cash flows. For balance sheet items with fixed interest the risk consists mainly in fluctuations in value (price risk); when the market interest rate changes, the (present) value of financial instruments with fixed interest payments changes as well. Due to these value fluctuations, profit or loss can arise, which are particularly realized when the financial instrument is sold before maturity. For balance sheet items with a variable interest rate, there is mainly the risk of fluctuating cash flows. In case the market interest rate changes, the amount of interest receivable or payable from financial instruments with variable interest payments changes as well. Such changes would alter the ongoing interest payments and therefore also the interest income and expense. As of December 31, 2016, the Group is financed via financial liabilities with variable as well as fixed interest rates and holds almost solely financial assets with variable interest rates.

If the interest rates as of December 31, 2016 (December 31, 2015) had been higher or lower by ten basis points (i. e. 0.1 %), assuming that all other variables remained constant, the profit for the year and hence equity would have increased or decreased for the whole year as follows:

	Change in interest rate	Impact on profit for the year and equity in thousands of EUR	
		2016	2015
Financial assets with variable interest	+/- 0.1 %	+/- 111	+/- 64
Financial liabilities with variable interest	+/- 0.1 %	-/+ 147	-/+ 177

## d — Capital management

Capital employed includes the equity of the Group and interest-bearing financial liabilities less cash and cash equivalents.

Capital management aims at ensuring an equity to total assets ratio that is appropriate for the long-term economic development of the Group, taking into consideration a continuous dividend policy.

Equity and total assets as of December 31, 2016 and December 31, 2015 amounted to:

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
Total equity	1,259,162	1,144,155
Total assets	1,981,897	1,900,322
Total equity to total assets	63.5 %	60.2 %

The aim of capital management to achieve a total equity to total assets ratio in the range of 50 % to 70 % remains unchanged in comparison to the previous year. The Company fulfills the legal and statutory minimum capital requirements. The Mayr-Melnhof Karton AG is subject to the minimum capital requirements of the Austrian Stock Corporation Act. The articles of association do not stipulate capital requirements.

There are financial covenants partly agreed on with lenders for the interest-bearing financial liabilities. The financial covenants are mainly related to the total equity to total assets ratio and the net debt to EBITDA ratio. All of these clauses were met in the financial year.

## e — Measurement at fair value

The amounts of financial assets and financial liabilities which are recognized at fair value are as follows:

(in thousands of EUR)	Level 2	
	Dec. 31, 2016	Dec. 31, 2015
<b>Financial assets:</b>		
Derivative financial instruments	496	1,325
<b>Financial liabilities:</b>		
Derivative financial instruments	961	1,100

### Measurement methods

The Group applies the following hierarchy to determine the measurement method and to identify the fair value of financial instruments, depending on the availability of information about market prices:

Availability of information, sorted by level	Measurement method used
Level 2 – Quoted market prices for identical instruments are not available, but all necessary measurement inputs can be derived from active markets	Measurement based on measurement method using directly or indirectly observable market data

The fair value of derivative financial instruments (Level 2 measurement) is mostly determined on the basis of spot prices as of the balance sheet date, taking into account forward premiums or discounts with relevant maturity.

In general, there are also financial instruments measured at fair value based on the prices quoted on active markets (Level 1 measurement) or using parameters for which no observable market data exists (Level 3 measurement). There are currently no such financial instruments for which this measurement method would be applicable in the Group.

## f — Measurement at amortized cost

The amounts reported in the consolidated balance sheets for trade receivables, held-to-maturity securities measured at amortized cost, cash and cash equivalents as well as financial liabilities, except for fixed-interest-bearing financial liabilities, represent a proper approximation to the fair value. The fair value of fixed-interest-bearing financial liabilities is solely presented in the notes and totals thous. EUR 115,975 as of December 31, 2016 (December 31, 2015: thous. EUR 112,220). The calculation is based on the present value of future cash-flows discounted by the currently observable interest curve (Level 2).

As of December 31, 2016, other financial assets classified as "Available-for-sale financial assets" include investments in unconsolidated companies in the amount of thous. EUR 1,699 (December 31, 2015: thous. EUR 1,699). There is no active market for these investments. As the related future cash flows cannot be reliably determined, the market value based on valuation models is not measurable. Therefore, the investments in the respective companies are recognized at amortized cost. In general, there is no intention to sell these equity shares. No derecognition or valuation results were recorded.

8 — SECURITIES AND OTHER FINANCIAL ASSETS

**Securities**

The Group classifies its securities as “Held-to-maturity investments”. These are recognized by applying the effective interest rate method at amortized cost. Premiums and accretions of discount of debt securities are allocated over their maturity period and are included in the income statement in the positions “Financial income” or “Financial expenses”.

Securities are to be classified as non-current if they are not going to be sold or not intended to be sold within 12 months of the balance sheet date. Otherwise, they must be classified as current.

**Other financial assets**

Other financial assets comprise other investments, loans and other financial investments. Other investments are defined under the category “Available-for-sale financial assets”, but, in general, these investments are recognized at amortized cost net of allowances, as no active market exists for these investments and the respective fair values cannot be reliably measured with economically justifiable effort. In case an indication of lower fair value exists, such value is recorded.

Investments in companies in which the Group has the ability to exercise significant influence, but no dominant control over its operating and financial policy are accounted for under the equity method and primarily recognized at their acquisition costs. This is generally the case when the voting interest is between 20 % and 50 %. All other investments which are not measured using the equity method are accounted for at their fair value. If there is no active market for these investments and the fair value cannot be reliably determined at reasonable effort, they are assessed at their acquisition costs less impairment.

The carrying amounts of long-term securities and other financial assets consist of:

(in thousands of EUR)	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Long-term securities	1,989	2,549
Other investments	1,699	1,699
Liability insurance not pledged to beneficiaries	1,397	1,573
<b>Securities and other financial assets</b>	<b>5,085</b>	<b>5,821</b>

The short-term and long-term securities of the Group comprise debt securities and other fixed-interest-bearing securities with a book value of thous. EUR 2,539 (December 31, 2015: thous. EUR 3,356).

## 9 — INCOME TAXES

Income taxes are recognized in profit and loss, unless when they are associated with positions directly recognized in equity or other comprehensive income of the total comprehensive income. In this case, the income taxes are recorded in equity or other comprehensive income of the total comprehensive income as well.

Current tax expense of the period comprises current and deferred taxes and is recognized according to the tax regulations of the countries in which the subsidiaries are active and obtain their taxable income.

Deferred tax assets and liabilities are recognized for all temporary differences between tax and the consolidated balance sheet. Deferred taxes are evaluated using the tax rates which are already in force on the balance sheet date or which have essentially been legally adopted and which are expected to be valid at the time of realization of the deferred tax asset or the settlement of deferred tax liability. Deferred tax assets are recognized only if there is a probability that sufficient taxable profit will be available for utilization of the deductible temporary differences. Not recognized deferred tax entitlements are reassessed on each balance sheet date. If losses are incurred in the current or previous period, deferred taxes are only recognized in case of objective evidence for a future taxable result, as for example following an internal reorganization of subsidiaries.

Deferred tax liabilities arising from temporary differences related to investments in subsidiaries and associated companies are recognized unless the Group is able to control the date of reversal and it is probable that these temporary differences will not be reversed in the foreseeable future due to this influence. As for example this is the case for dividends within the Group.

Deferred tax assets will be offset with deferred tax liabilities only if the entity has the legal right to settle on a net basis, they are related to income taxes and are levied by the same tax authority on the same taxable entity or different taxable entities that intend to realize the asset and settle the liability at the same time.

The effect of tax rate changes on deferred tax assets and liabilities is recognized as income tax expense or in the consolidated comprehensive income statement in the period of a tax rate change. In case of a distribution of retained earnings of certain subsidiaries, an increase of a tax burden can occur under current country-specific tax jurisdictions and existing double-taxation treaties, for which in some cases a deferred tax liability will be formed.

## a — Deferred taxes recognized in the balance sheet

Deferred taxes due to temporary differences and tax loss carryforwards recognized in the balance sheet as of the balance sheet dates are as follows:

(in thousands of EUR)	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Intangible assets	3,425	3,869
Property, plant and equipment	7,025	5,357
Inventories	5,525	5,709
Defined benefit plans and other liabilities and charges	22,789	20,269
Loans receivable, investments and financial assets	1,642	2,043
Loss carryforwards	16,962	18,256
Other	3,259	4,052
<b>Gross deferred tax assets</b>	<b>60,627</b>	<b>59,555</b>
Unrecognized deferred tax assets	(11,372)	(10,968)
<b>Net deferred tax assets</b>	<b>49,255</b>	<b>48,587</b>
Offset	(22,052)	(17,339)
<b>Deferred tax assets in the balance sheet</b>	<b>27,203</b>	<b>31,248</b>
Intangible assets	(5,608)	(6,377)
Property, plant and equipment	(12,898)	(14,811)
Inventories	(1,129)	(847)
Defined benefit plans and other liabilities and charges	(5,686)	(1,713)
Loans receivable, investments and financial assets	(3,703)	(4,133)
Other	(9,767)	(9,113)
<b>Net deferred tax liabilities</b>	<b>(38,791)</b>	<b>(36,994)</b>
Offset	22,052	17,339
<b>Deferred tax liabilities in the balance sheet</b>	<b>(16,739)</b>	<b>(19,655)</b>

The unrecognized deferred tax assets in the amount of thous. EUR 11,372 (December 31, 2015: thous. EUR 10,968) comprises thous. EUR 9,287 (December 31, 2015: thous. EUR 10,301) of unrecognized loss carryforwards.

The following table shows the expected realization of deferred tax assets and liabilities:

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
Deferred tax assets, realized within 12 months	9,450	10,201
Deferred tax assets, realized after 12 months	39,805	38,386
<b>Deferred tax assets</b>	<b>49,255</b>	<b>48,587</b>
Deferred tax liabilities, realized within 12 months	(5,602)	(7,188)
Deferred tax liabilities, realized after 12 months	(33,189)	(29,806)
<b>Deferred tax liabilities</b>	<b>(38,791)</b>	<b>(36,994)</b>

Deferred tax liabilities which result from the difference between the tax carrying amount of investments in subsidiaries and the pro-rata equity (Outside-Basis-Differences) were not recognized for certain subsidiaries, as a distribution of these retained earnings is not intended due to reinvestment of the respective profits or because they will remain tax-free in the foreseeable future. These retained earnings amounted to thous. EUR 827,164 at December 31, 2016 (December 31, 2015: thous. EUR 872,258). For retained earnings which are provided for distribution the valuation of deferred tax liabilities was adjusted according to the applicable capital gains and withholding taxes on profit distribution.

## b — Tax loss carryforwards

An overview of the Group's tax loss carryforwards as of the respective balance sheet dates is as follows:

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
Loss carryforwards with expiration	7,032	4,327
Loss carryforwards with no expiration	61,979	68,253
<b>Loss carryforwards</b>	<b>69,011</b>	<b>72,580</b>

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
Recognized loss carryforwards	30,038	31,262
Unrecognized loss carryforwards	38,973	41,318
<b>Loss carryforwards</b>	<b>69,011</b>	<b>72,580</b>

The time-limited loss carryforwards expire between 2018 and 2022, unless they are utilized in the meantime.

The assessment of the recognition of loss carryforwards led to the result that for thous. EUR 30,038 (December 31, 2015: thous. EUR 31,262), deferred tax assets amounting to thous. EUR 7,675 (December 31, 2015: thous. EUR 7,955) were recognized. For the remaining amount of thous. EUR 38,973 (December 31, 2015: thous. EUR 41,318), deferred tax assets amounting to thous. EUR 9,287 (December 31, 2015: thous. EUR 10,301) were not recorded in the balance sheet. The expiry dates of this unrecognized loss carryforwards are as follows:

(in thousands of EUR)	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
1 year	0	0
2 years	31	113
3 years	1,648	82
4 years	3,871	111
5 years	3	0
After 5 years	59	98
No expiration	33,361	40,914
<b>Unrecognized loss carryforwards</b>	<b>38,973</b>	<b>41,318</b>

c — “Income tax expense” recognized in the income statement

The position “Income tax expense” is comprised as follows:

(in thousands of EUR)	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
<b>Current taxes:</b>		
Current period	51,479	53,445
Due to utilization of previously unrecognized loss carryforwards	(56)	(1,056)
Prior periods	483	(596)
<b>Deferred taxes:</b>		
Due to temporary differences	3,429	507
Due to tax loss carryforwards of the current period	0	(604)
Due to utilization of recognized loss carryforwards	800	562
Due to tax loss carryforwards of previous periods	(1,485)	(1,684)
Due to change of allowances	1,128	(2,368)
Due to tax rate changes	21	270
<b>Income tax expense</b>	<b>55,799</b>	<b>48,476</b>



d — Tax effects on “Other comprehensive income”

The amount of income taxes directly recognized in other comprehensive income is based on actuarial losses from defined benefit plans booked in 2016 in amount of thous. EUR 16,424 (2015: gains in amount of thous. EUR 4,515). Thereon deferred taxes in amount of thous. EUR 2,514 (2015: positive amount of thous. EUR 4,165) were recognized for the financial year 2016. In result, actuarial losses from defined benefit plans after tax amounted to thous. EUR 13,910 (2015: gains thous. EUR 8,680).

e — Group tax rate

Reconciliation from the applicable tax rate which results from the geographical allocation of income and the current nominal tax rates of the respective tax jurisdictions to the effective tax rate, which burdens the profit before tax, is as follows:

(in %)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
<b>Applicable tax rate</b>	<b>24.29 %</b>	<b>25.18 %</b>
Non-deductible expenses and tax-free income	(0.24 %)	(1.57 %)
Tax effect from unrecognized loss carryforwards of the financial year	1.31 %	1.92 %
Tax effect from the recognition of loss carryforwards of previous years	(0.85 %)	(0.88 %)
Tax effect from utilization of unrecognized loss carryforwards	(0.03 %)	(0.55 %)
Tax effect from change of deferred tax assets allowances	0.54 %	(1.25 %)
Tax effect from capital gains and withholding tax	0.67 %	0.12 %
Tax effect from tax rate changes	0.01 %	0.14 %
Non-periodic income tax expense or income (current and deferred)	1.04 %	2.38 %
Other effects	(0.07 %)	(0.06 %)
<b>Effective tax rate</b>	<b>26.67 %</b>	<b>25.43 %</b>

## 10 — INVENTORIES

Inventories are valued at the lower of acquisition or manufacturing costs and the net realizable value. The net realizable value is based on expected selling prices and takes into consideration remaining costs of completion as well as estimated selling and distribution expenses. In order to determine purchase costs of raw materials, manufacturing and operating supplies as well as goods for resale, a weighted average price method, taking into consideration the sales market, is applied in the cartonboard division. In the packaging division, the purchase costs of raw materials, manufacturing and operating supplies as well as goods for resale are basically recognized using the actual sequence of consumption (specific identification method). The value of raw materials, manufacturing and operating supplies recognized in the balance sheet is based on data from physical stocktaking or from the inventory management system. The devaluation of raw materials, manufacturing and operating supplies depends on each individual case.

Work in process and finished goods consist of direct costs, such as material and labor costs as well as material and production overheads and administrative costs. Write-downs for slow moving and obsolete inventories are recognized considering the storage period and sales situation.

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
Raw materials, manufacturing and operating supplies	177,604	170,203
Work in process	29,613	24,632
Finished goods and goods for resale	149,240	148,597
<b>Total</b>	<b>356,457</b>	<b>343,432</b>
Write-downs	(24,323)	(23,012)
<b>Inventories – net</b>	<b>332,134</b>	<b>320,420</b>

In the financial year 2016, write-downs of inventories recognized as an expense amounted to thous. EUR 7,889 (2015: thous. EUR 7,788), the reversal of write-downs as a result of changes in prices of inventories recognized as income amounted to thous. EUR 328 (2015: thous. EUR 460), both under cost of goods sold. The carrying amount of inventories carried at net realizable value amounted to thous. EUR 17,588 (2015: thous. EUR 28,083).

Cost of materials and purchased services recognized in cost of goods sold can be broken down as follows:

(in thousands of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Cost of materials	1,251,447	1,234,831
Cost of purchased services	29,391	24,780
<b>Total</b>	<b>1,280,838</b>	<b>1,259,611</b>

## 11 — TRADE RECEIVABLES

Receivables are accounted for at amortized cost, i.e. at par value less allowances and are classified under the category “Loans and receivables”.

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
Trade receivables	364,024	341,179
Allowances	(1,614)	(1,972)
<b>Trade receivables – net</b>	<b>362,410</b>	<b>339,207</b>

At December 31, 2016, the aging of trade receivables overdue but not impaired is as follows:

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
up to 30 days overdue	6,396	6,176
31–60 days overdue	2,211	1,340
61–365 days overdue	2,474	1,802
more than 365 days overdue	32	133
<b>Total of trade receivables overdue but not impaired</b>	<b>11,113</b>	<b>9,451</b>

For an explanation of the criteria which were considered for the determination of the allowances please refer to the remarks on credit and default risk (see note 7).

Allowances for trade receivables developed as follows:

(in thousands of EUR)	2016	2015
<b>Allowances at the beginning of the year</b>	<b>1,972</b>	<b>961</b>
Effect of exchange rate changes	(38)	7
Changes in consolidated companies	0	938
Utilization	(245)	(77)
Reversal	(159)	(386)
Increase	84	529
<b>Allowances at the end of the year</b>	<b>1,614</b>	<b>1,972</b>

## 12 — PREPAID EXPENSES, SECURITIES AND OTHER CURRENT ASSETS

Prepaid expenses, securities and other current assets are as follows:

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
Value-added tax receivables	16,635	18,402
Other tax receivables	6,489	6,568
Payments on account	10,713	1,394
Escrow account for share acquisition <sup>1)</sup>	10,344	0
Other receivables and other assets	22,913	14,377
Prepaid expenses	6,729	5,893
<b>Prepaid expenses, securities and other current assets</b>	<b>73,823</b>	<b>46,634</b>

<sup>1)</sup> Payment of purchase price to an escrow account for the acquisition of the remaining share of 34.90 % of MM Packaging Vidon Limited Liability Company (see note 32)

## 13 — EQUITY

### a — Share capital/additional paid-in capital

Ordinary shares are classified as equity.

As in the previous year, the fully-paid share capital of the Company amounts to thous. EUR 80,000 and comprises 20,000,000 approved and issued no-par value shares. One no-par value share grants a calculated share of EUR 4.00 in share capital. Each share participates equally in equity and grants the same rights and responsibilities, especially the entitlement to resolved dividends and the voting right at the Ordinary Shareholder's Meeting. There are neither any different share classes nor shares with special control rights.

Additional paid-in capital derives from the share premium raised at the capital increase in the course of the initial public offer in 1994 and the cancelation of treasury shares less the increase of share capital by conversion of additional paid-in capital in 2008 and 2010, representing the amount of the tied capital reserve.

## b — Retained earnings/dividend

Retained earnings comprise accumulated results from prior years.

Due to the change of majority interests, a residual amount of thous. EUR 1,246 was recognized directly in equity in the financial year 2016, which increased the retained earnings (2015: decrease of retained earnings by thous. EUR 227).

Under Austrian Stock Corporation Act, the amount of dividend available for distribution to shareholders is based on the unappropriated retained earnings from the annual financial statements of Mayr-Melnhof Karton AG, determined in accordance with the Austrian Commercial Code. At December 31, 2016, the distributable unappropriated retained earnings amounted to thous. EUR 72,000 (December 31, 2015: thous. EUR 28,000).

### Extract from the individual financial statements of Mayr-Melnhof Karton AG

(in thousands of EUR)	2016	2015
<b>Unappropriated retained earnings at Jan. 1</b>	<b>28,000</b>	<b>60,000</b>
Net profit of the Company for the year ended Dec. 31	68,701	86,821
Changes in reserves	(701)	(34,821)
Dividend paid	(24,000)	(84,000) <sup>1)</sup>
<b>Unappropriated retained earnings at Dec. 31</b>	<b>72,000</b>	<b>28,000</b>

<sup>1)</sup> incl. interim dividend 2015 of thous. EUR 32,000

For the year ended December 31, 2016, the Management Board of the Company has proposed a dividend of EUR 3.00 after EUR 2.80 for 2015 (total of interim dividend of EUR 1.60 and dividend of EUR 1.20) per voting share, resulting in a dividend of thous. EUR 60,000 as of the balance sheet date. The total dividend for 2015 in the amount of thous. EUR 56,000 was divided into the interim dividend of thous. EUR 32,000, already paid out in November 2015, and the remaining dividend in the amount of thous. EUR 24,000 paid out in 2016 (see consolidated statement of changes in equity).

## c — Non-controlling (minority) interests

Non-controlling (minority) interests comprise the interest in equity and total profit for the year attributable to non-group shareholders' investments in subsidiaries of Mayr-Melnhof Karton AG. The non-controlling (minority) interests as of the acquisition date are presented as part of net assets (equity) of the respective entity or businesses and, in the following period, adjusted taking into consideration profit or loss attributable to the shareholders, dividend paid as well as paid-in or paid-out capital.

The summarized information about the subsidiaries in which the Group holds non-controlling (minority) interests is stated below. The disclosures correspond to the amounts before intra-group eliminations. Further information about these subsidiaries can be found in note 33.

(in thousands EUR)	Dec. 31, 2016		Dec. 31, 2015	
	MM Karton	MM Packaging	MM Karton	MM Packaging
Non-current assets	367	57,483	5,336	44,880
Current assets	2,475	41,575	9,188	29,976
Non-current liabilities	487	31,000	877	17,265
Current liabilities	1,025	20,794	7,646	9,471
<b>Net assets</b>	<b>1,330</b>	<b>47,264</b>	<b>6,001</b>	<b>48,120</b>
<b>Carrying amount of the non-controlling (minority) interests</b>	<b>543</b>	<b>6,241</b>	<b>1,741</b>	<b>6,864</b>
	Year ended Dec. 31, 2016		Year ended Dec. 31, 2015	
Sales	36,688	58,870	38,034	47,864
Profit for the year	2,324	5,057	2,667	3,174
<b>Thereof attributable to non-controlling (minority) interests</b>	<b>421</b>	<b>(340)</b>	<b>1,064</b>	<b>(470)</b>
Total comprehensive income	2,224	3,243	1,837	5,408
<b>Thereof attributable to non-controlling (minority) interests</b>	<b>418</b>	<b>(396)</b>	<b>746</b>	<b>131</b>
Dividend paid to non-controlling (minority) interests	274	227	2,335	251
<b>Net change in cash and cash equivalents</b>	<b>(1,216)</b>	<b>(4,353)</b>	<b>2,016</b>	<b>3,942</b>

d — Other comprehensive income of the consolidated comprehensive income statement

Other reserves comprise certain changes directly recognized in equity. These are in particular differences arising from foreign currency translation as well as actuarial gains and losses arising from the defined benefit pension and severance obligations, the latter after considering deferred income taxes.

In 2016, profit and loss recognized in other comprehensive income consisted of foreign currency translations with a positive amount of thous. EUR 126 (2015: negative amount of thous. EUR 21,757) as well as actuarial losses in the amount of thous. EUR 16,424 (2015: gains of thous. EUR 4,515). Thereon deferred taxes in an amount of thous. EUR 2,514 (2015: positive amount of thous. EUR 4,165) were recognized for the financial year 2016.

## 14 — FINANCIAL LIABILITIES AND LEASES

Financial liabilities comprise interest-bearing financial liabilities including financial lease liabilities and are recognized at amortized cost under the category “other financial liabilities”. This amount is calculated as initially paid out nominal value less redemption plus accrued interest.

### a — Interest-bearing financial liabilities

At December 31, 2016, the Group had current interest-bearing loan facilities available in the amount of thous. EUR 1,598 (December 31, 2015: thous. EUR 22,578), of which thous. EUR 1,598 (December 31, 2015: thous. EUR 6,270) were used as of the balance sheet date. At December 31, 2016, the weighted average interest rate of these current credit lines, used by subsidiaries outside the Euro participating countries, was 8.406 % (December 31, 2015: 7.348 %). These credit line facilities are subject to normal banking terms and conditions.

At December 31, 2016 and December 31, 2015, interest-bearing financial liabilities comprised liabilities against banks and insurance companies. A summary of these financial liabilities at current interest rates is as follows:

(in thousands of EUR)	<b>Dec. 31, 2016</b>
0.507 % EUR loan(s) due 2017	45,450
1.181 % EUR loan(s) due 2018	20,000
0.771 % EUR loan(s) due 2019	20,000
0.771 % EUR loan(s) due 2022	20,000
1.865 % EUR loan(s) due 2024	80,000
0.771 % EUR loan(s) due 2025	20,000
2.670 % EUR loan(s) due 2026	50,000
10.140 % COP loan(s) due 2017	79
Used credit lines	1,598
<b>Interest-bearing financial liabilities</b>	<b>257,127</b>
Thereof current interest-bearing financial liabilities	47,127
Thereof non-current interest-bearing financial liabilities	210,000



(in thousands of EUR)	<b>Dec. 31, 2015</b>
0.790 % EUR loan(s) due 2016	69,450
1.459 % EUR loan(s) due 2018	20,000
0.958 % EUR loan(s) due 2019	20,000
0.958 % EUR loan(s) due 2022	20,000
1.912 % EUR loan(s) due 2024	80,000
0.958 % EUR loan(s) due 2025	20,000
2.670 % EUR loan(s) due 2026	50,000
7.223 % COP loan(s) due 2016-2017	1,228
5.750 % MYR loan(s) due 2016	639
5.395 % Other	229
Used credit lines	6,270
<b>Interest-bearing financial liabilities</b>	<b>287,816</b>
Thereof current interest-bearing financial liabilities	77,743
Thereof non-current interest-bearing financial liabilities	210,073

At December 31, 2016, the weighted average interest rate for these financial liabilities was 1.516 % (December 31, 2015: 1.695 %).

Of the interest-bearing financial liabilities, loans in the amount of thous. EUR 110,079 (December 31, 2015: thous. EUR 110,868) are subject to a fixed interest rate.

No collateral was provided in order to secure the financial liabilities described above. At December 31, 2016, the Group had unused credit lines available in the amount of thous. EUR 390,000 (December 31, 2015: thous. EUR 390,000).

As of December 31, 2016, the short-term revolving credits in an amount of thous. EUR 45,450 (December 31, 2015: thous. EUR 45,450) are included in the interest-bearing financial liabilities.

## b — Leases

The Group is predominantly the lessee in lease transactions. As far as the Group substantially bears all the risks and rewards incidental to the ownership of an asset, thereby being considered as beneficial owner ("Finance Lease"), the asset is recognized under non-current assets at fair value or at the present value of the non-cancellable minimum lease payments and a lease liability is accrued in the respective amount. For all remaining lease transactions ("Operating Lease"), the lease-related payments are recognized as expenses over the relevant term of the lease.

### Finance leases liabilities

At the balance sheet dates, the future minimum lease payments under non-cancellable finance lease obligations, due on December 31 of the following years, were as follows:

(in thousands of EUR)	Dec. 31, 2016			Dec. 31, 2015		
	Future minimum lease payments	Interests	Present value of minimum lease payments	Future minimum lease payments	Interests	Present value of minimum lease payments
Less than one year	1,912	127	1,785	1,859	156	1,703
Between one and five years	2,211	223	1,988	3,686	165	3,521
More than five years	0	0	0	254	3	251
<b>Total future minimum lease payments</b>	<b>4,123</b>	<b>350</b>	<b>3,773</b>	<b>5,799</b>	<b>324</b>	<b>5,475</b>

At December 31, 2016, the Group had capitalized assets from finance lease agreements with the following book values: land and buildings thous. EUR 3,255 (December 31, 2015: thous. EUR 3,340) as well as technical equipment and machines thous. EUR 3,833 (December 31, 2015: thous. EUR 4,546). These tangible assets and the above mentioned finance lease liabilities were almost entirely taken over in the course of the acquisition of a French folding carton group (see note 5).

### Operating lease

At the balance sheet dates, the future minimum lease payments under non-cancellable operating lease obligations, due on December 31 of the following years, were as follows:

(in thousands of EUR)	Dec. 31, 2016	Dec. 31, 2015
Less than one year	11,685	10,276
Between one and five years	33,144	35,524
More than five years	22,187	25,286
<b>Total future minimum lease payments</b>	<b>67,016</b>	<b>71,086</b>

The Group especially rents and leases buildings, land, warehouses, offices, and other facilities. In the financial year 2016, the expenses relating to operating lease agreements amounted to thous. EUR 11,025 (2015: thous. EUR 11,147), thereof thous. EUR 2,229 (2015: thous. EUR 2,906) are attributable to contingent lease and rental payments.

## 15 — PROVISIONS FOR NON-CURRENT LIABILITIES AND CHARGES

Defined benefit pension obligations and other benefits related to severance obligations are valued actuarially in accordance with IAS 19 "Employee benefits" using the projected unit credit method. The present value of defined benefit obligations is calculated based on the years of service, the anticipated development of the employee's compensation as well as the enacted contractual and statutory pension revaluation requirements. The service cost is recognized in personnel cost; the net interest cost for the provisions is recognized in "Other financial result - net". Actuarial gains and losses as well as gains from plan assets, excluding the amounts which are already included in the net interest on net liability, are recognized in other comprehensive income in the statement of comprehensive income in accordance with IAS 19.

Provisions for anniversary bonuses are valued actuarially for non-current obligations against employees related to the number of years of their service based on collective or plant bargaining agreements using the projected unit credit method. The service cost is recognized in personnel cost; the net interest cost for the provisions is recognized in "Other financial result - net". Actuarial gains and losses are recognized in the income statement in accordance with IAS 19.

Provisions for pre-retirement programs are accrued upon conclusion of individual contractual agreements as well as for probable pre-retirement agreements in the future, if employees have the right to participate in pre-retirement programs based on plant bargaining agreements or collective agreements. Statutory deposits of securities for covering pre-retirement programs are netted with the provisions for pre-retirement programs, provided that they meet the definition of plan assets.

## a — Development of provisions for non-current liabilities and charges

In 2016, provisions for non-current liabilities and charges developed as follows:

(in thousands of EUR)	Pensions	Severance	Anniversary bonuses	Pre-retirement programs	Other	Total
<b>Balance at Jan. 1, 2016</b>	<b>76,884</b>	<b>30,491</b>	<b>8,975</b>	<b>1,316</b>	<b>428</b>	<b>118,094</b>
Effect of exchange rate changes	(2,235)	(242)	0	0	0	(2,477)
Utilization	(3,853)	(2,675)	(617)	(359)	0	(7,504)
Reversal	0	0	0	(281)	0	(281)
Increase	3,332	2,608	1,238	411	1	7,590
IAS 19 remeasurements through other comprehensive income	13,589	2,835	0	0	0	16,424
Benefit payments from and contributions to plan assets	(2,530)	59	0	0	0	(2,471)
Reclassifications	0	(57)	0	0	0	(57)
<b>Balance at Dec. 31, 2016</b>	<b>85,187</b>	<b>33,019</b>	<b>9,596</b>	<b>1,087</b>	<b>429</b>	<b>129,318</b>

In 2015, the provisions for non-current liabilities and charges developed as follows:

(in thousands of EUR)	Pensions	Severance	Anniversary bonuses	Pre-retirement programs	Other	Total
<b>Balance at Jan. 1, 2015</b>	<b>83,065</b>	<b>28,912</b>	<b>7,663</b>	<b>1,144</b>	<b>427</b>	<b>121,211</b>
Effect of exchange rate changes	773	(102)	0	0	0	671
Changes in consolidated companies	0	3,700	79	0	0	3,779
Utilization	(4,200)	(4,510)	(930)	(437)	0	(10,077)
Reversal	0	0	(112)	0	0	(112)
Increase	3,485	2,641	2,275	609	1	9,011
IAS 19 remeasurements through other comprehensive income	(4,386)	(150)	0	0	0	(4,536)
Benefit payments from and contributions to plan assets	(1,853)	0	0	0	0	(1,853)
<b>Balance at Dec. 31, 2015</b>	<b>76,884</b>	<b>30,491</b>	<b>8,975</b>	<b>1,316</b>	<b>428</b>	<b>118,094</b>

As of December 31, 2016, securities with an estimated fair value of thous. EUR 1,311 (December 31, 2015: thous. EUR 1,557) had been provided as security for provisions for pre-retirement programs within the scope of the respective legal commitments. At December 31, 2016 and December 31, 2015, those securities were deducted from the underlying obligations.

## b — Provisions for pensions and severance payments

The majority of the Group's employees are covered by government-sponsored pension and welfare programs, whereas the Group makes periodic payments to various government agencies, which are expensed as incurred. In addition, the Group provides certain employees with additional retirement benefits through the sponsorship of defined contribution plans and defined benefit plans. The benefits provided by the Group depend on the legal, fiscal, and economic circumstances of each particular country and are primarily based on the length of service and the employee's compensation.

Under the defined contribution plans, the Group makes fixed payments to external pension funds. Once the contributions are made, the Group does not have any further payment obligations towards the employees. These periodical contribution payments are recognized as part of the annual pension and severance costs and amounted to thous. EUR 4,939 in financial year 2016 (2015: thous. EUR 4,728).

Defined benefit obligations in the Group consist of pensions and severances. These obligations exist in several countries where the Group has employees, particularly in Germany, Austria and Great Britain.

The pension obligations cover the arrangement of a pension program for active employees and, after fulfillment of the vesting period, for former employees, including their surviving dependants. Essentially, these are managers and also employees for whom a corresponding commitment originating from a time before the acquisition of such subsidiary was assumed by the Group. Therefore, obligations exist both towards employees in existing employment relationships and also towards employees who have left or retired.

Expected payments under the pension plan may depend on the salary received by the employee in the last year of service or on the average of several years and, as a rule, are based on the length of service. Pension benefits are granted as a non-recurring payment or as monthly retirement payments. In case of retirement payments, the Group bears to the full extent the risk of longevity and inflation due to pension adjustments.

The Group operates a defined benefit pension plan in Great Britain which is governed by a board of trustees composed of representatives of the Company and plan participants. Responsibility for investment decisions and contribution schedules lies jointly with the Company and the board of trustees.

Obligations from severance of employees cover legal and contractual claims for non-recurring severance payments made by the Group to employees, which result from certain causes, such as termination, dissolution of an employment relationship by mutual agreement, retirement, or death of the employee. These payments significantly depend on the number of years of service and the cause of termination.

Defined benefit pension and other benefit plans are measured and recognized applying the internationally common projected unit credit method according to IAS 19. Under this method, the actuarial calculation of future obligations is based on the proportionate obligations as of the balance sheet date. The valuation was conducted based on assumptions and assessments as of the balance sheet date. Significant influencing factors were discount interest rate, estimated life expectancy, expected salary growth rate, expected pension growth rate as well as retirement age.

Actuarial gains and losses which result from changes in the number of plan participants and from differences between actual trends and estimates that are the basis for calculation are recognized in other comprehensive income in the consolidated comprehensive income statement according to IAS 19.

The calculation of pension and other benefit obligations is based on the following actuarial assumptions:

(in %)	Dec. 31, 2016		Dec. 31, 2015	
	Pensions	Severance	Pensions	Severance
Discount rate	1.90 %	2.21 %	2.63 %	2.62 %
Salary growth rate	2.50 %	2.86 %	2.50 %	2.78 %
Pension growth rate	2.35 %	-	2.27 %	-

Valuation of life expectancy was performed based on local mortality tables. These are in particular for Austria: AVÖ 2008-P "Angestellte" or "Gemischt" (Pagler & Pagler), for Germany: Richttafeln 2005 G (Prof. Dr. Klaus Heubeck), for Great Britain: Post Retirement and Pre Retirement: S2PA CMI\_2015\_M/F [1.25 %] (yob). As a rule, the retirement age corresponds to the respective country-specific legal regulations.

The following expenses were recorded for defined benefit pension and severance commitments:

(in thousands of EUR)	2016		2015	
	Pensions	Severance	Pensions	Severance
Service cost	1,447	1,700	1,547	1,628
Net interest on the net defined benefit liability	1,746	775	1,786	694
Past service costs	0	99	0	319
Effects due to plan changes	0	34	0	0
Administration costs	139	0	152	0
<b>Net periodic benefit cost</b>	<b>3,332</b>	<b>2,608</b>	<b>3,485</b>	<b>2,641</b>

The defined benefit obligation and plan assets developed as follows:

(in thousands of EUR)	2016		2015	
	Pensions	Severance	Pensions	Severance
<b>Defined benefit obligation at the beginning of the year</b>	<b>121,917</b>	<b>30,799</b>	<b>124,256</b>	<b>28,912</b>
Effect of exchange rate changes	(5,782)	(242)	2,206	(102)
Changes in consolidated companies	0	0	0	4,008
Service cost	1,447	1,700	1,547	1,628
Interest cost	3,026	782	3,059	695
Past service costs	0	99	0	319
Remeasurements	13,971	2,834	(4,951)	(151)
<i>Thereof (gains)/losses from change in demographic assumptions (e.g. life expectancy, retirement age)</i>	<i>(523)</i>	<i>(3)</i>	<i>(72)</i>	<i>1</i>
<i>Thereof (gains)/losses from change in financial assumptions (e.g. discount rate, salary growth rate, pension growth rate)</i>	<i>15,951</i>	<i>1,813</i>	<i>(4,206)</i>	<i>(740)</i>
<i>Thereof experience (gains)/losses (deviation between actual value and planned value)</i>	<i>(1,457)</i>	<i>1,024</i>	<i>(673)</i>	<i>588</i>
Benefit payments	(3,853)	(2,675)	(4,200)	(4,510)
Reclassifications	0	(57)	0	0
Effects due to plan changes	0	34	0	0
<b>Defined benefit obligation at the end of the year</b>	<b>130,726</b>	<b>33,274</b>	<b>121,917</b>	<b>30,799</b>

(in thousands of EUR)	2016		2015	
	Pensions	Severance	Pensions	Severance
<b>Fair value of plan assets at the beginning of the year</b>	<b>45,033</b>	<b>308</b>	<b>41,191</b>	<b>0</b>
Effect of exchange rate changes	(3,547)	0	1,433	0
Changes in consolidated companies	0	0	0	308
Interest income	1,280	7	1,273	1
Administrative expense	(139)	0	(152)	0
Remeasurements	382	(1)	(565)	(1)
<i>Thereof return on plan assets excluding amounts included in interest income – net</i>	<i>382</i>	<i>(1)</i>	<i>(565)</i>	<i>(1)</i>
Employer contributions	3,963	0	3,558	0
Benefit payments from plan	(1,433)	(59)	(1,705)	0
<b>Fair value of plan assets at the end of the year</b>	<b>45,539</b>	<b>255</b>	<b>45,033</b>	<b>308</b>

An overview of the geographic and divisional allocation of net periodic benefit costs for defined benefit pensions and severance, defined benefit obligation, and the fair value of plan assets for the financial years 2016 and 2015 is represented as follows:

(in thousands of EUR)	2016							
	MM Karton				MM Packaging			
	Germany	Austria	Other countries <sup>1)</sup>	Total	Germany	Austria	Other countries	Total
Net periodic benefit cost	632	1,799	654	3,085	1,104	633	1,118	2,855
Defined benefit obligation at the end of the year	25,232	41,674	40,564	107,470	34,181	14,102	8,247	56,530
Fair value of plan assets at the end of the year	889	19,762	21,720	42,371	550	2,618	255	3,423

<sup>1)</sup> This primarily includes the pension plan in Great Britain.

(in thousands of EUR)	2015							
	MM Karton				MM Packaging			
	Germany	Austria	Other countries <sup>1)</sup>	Total	Germany	Austria	Other countries	Total
Net periodic benefit cost	659	1,788	717	3,164	1,146	1,129	687	2,962
Defined benefit obligation at the end of the year	23,951	38,351	38,555	100,857	31,513	12,792	7,554	51,859
Fair value of plan assets at the end of the year	851	16,560	24,628	42,039	502	2,492	308	3,302

<sup>1)</sup> This primarily includes the pension plan in Great Britain.

The employers' contributions to plan assets for the year 2017 are expected to amount to thous. EUR 3,896. This includes the obligatory annual contribution for increasing plan assets and for other expenses in Great Britain in the amount of thous. EUR 759.

### The structure of plan assets

In Austria and Germany, the plan assets for pension obligations as well as in France for severance obligations are present in form of qualifying insurance policies which are pledged to respective beneficiaries. The Group contributes to qualifying insurance policies as required.

Further plan assets include a pension plan in Great Britain which is assessed by external asset management according to directives of the responsible board of trustees. Current directives allow for proportionate investment of 30 % in equity instruments and of 70 % in debt instruments; minimum diversification is prescribed to diversify the default risk, by which the single investment value is limited to 2 % of the portfolio and the total value of all investments in one company is limited to 4 % of the portfolio. Investments in Private Equity Funds and Hedge Funds are forbidden. The objective of asset management is to maximize the return at an adequate level of risk; index-based benchmarks are given to asset management to measure the achievement of objectives. The Group is obliged to provide regular contributions to the plan assets in Great Britain based on a contribution plan over several years.



The portfolio structure of plan assets as of December 31, 2016 and of December 31, 2015:

(in thousands of EUR)	<b>Dec. 31, 2016</b>	<b>in %</b>	<b>Dec. 31, 2015</b>	<b>in %</b>
<b>Equity instruments:</b>				
– developed markets	5,099		6,623	
– emerging markets	452		440	
– other	0		95	
<b>Total</b>	<b>5,551</b>	<b>12 %</b>	<b>7,158</b>	<b>16 %</b>
<b>Debt instruments:</b>				
– Corporate bonds	10,282		10,601	
– Government bonds	2,941		1,178	
<b>Total</b>	<b>13,223</b>	<b>29 %</b>	<b>11,779</b>	<b>26 %</b>
<b>Qualifying insurance policy pledged to beneficiaries</b>	24,073	53 %	20,713	46 %
<b>Money market investment/Bank deposit</b>	2,946	6 %	5,691	12 %
<b>Total</b>	<b>45,793</b>	<b>100 %</b>	<b>45,341</b>	<b>100 %</b>

All instruments in the category equity instruments and debt instruments are traded on active markets. Ratings of investments in debt instruments correspond at least to a rating of “BBB”.

### Plan assets market price risk

Return on plan assets is assumed in accordance with IAS 19 using the discount rate for the underlying obligation. That corresponds to the return on corporate bonds with good credit rating. Provided that the actual return on plan assets exceeds (falls below) the discount interest rate used, net liability from the present plans decreases (increases). Due to the proportion of investments in equity in the plan assets in Great Britain, the actual return, on the one hand, may exceed the return on corporate bonds with good credit rating in the long term and, on the other hand, result in higher plan asset volatility in the short term. Related price risk is considered as manageable by the Group, as the proportion of investments in equity in total plan assets is low. Furthermore, the obligations which come to maturity in the upcoming years can be fulfilled from current cash flow of the Group and from remaining components of plan assets.

The net liability from pension and severance obligations, and the reconciliation to the net liability recognized are as follows:

(in thousands of EUR)	Dec. 31, 2016		Dec. 31, 2015	
	Pensions	Severance	Pensions	Severance
<b>Defined benefit obligation</b>	<b>130,726</b>	<b>33,274</b>	<b>121,917</b>	<b>30,799</b>
<i>Thereof obligations covered by provisions</i>	<i>58,664</i>	<i>31,557</i>	<i>55,305</i>	<i>29,191</i>
<i>Thereof obligations covered by funds</i>	<i>72,062</i>	<i>1,717</i>	<i>66,612</i>	<i>1,608</i>
Less fair value of plan assets	(45,539)	(255)	(45,033)	(308)
<b>Net liability recognized as provision for non-current liabilities and charges</b>	<b>85,187</b>	<b>33,019</b>	<b>76,884</b>	<b>30,491</b>

The following sensitivity analysis for pension and severance provisions presents the impact a possible change in significant actuarial assumptions might have on the obligation. If one significant assumption is changed, the remaining assumptions are kept constant.

(in %)	Impact on the defined benefit obligation 2016		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25 %	Decrease by 3.7 %	Increase by 3.9 %
Salary growth rate	0.25 %	Increase by 0.8 %	Decrease by 0.8 %
Pension growth rate	0.25 %	Increase by 2.6 %	Decrease by 2.5 %
		<b>Increase by one year in assumption</b>	
Retirement age		Decrease by 1.2 %	
Life expectancy		Increase by 3.5 %	
		<b>Increase by one year in assumption</b>	
		Decrease by 1.6 %	
		Increase by 3.6 %	

(in %)	Impact on the defined benefit obligation 2015		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25 %	Decrease by 3.6 %	Increase by 3.8%
Salary growth rate	0.25 %	Increase by 0.9 %	Decrease by 0.8 %
Pension growth rate	0.25 %	Increase by 2.4 %	Decrease by 2.3 %
		<b>Increase by one year in assumption</b>	
		Decrease by 1.6 %	
		Increase by 3.6 %	

The weighted average duration of the defined benefit obligation is 15.7 years as of the balance sheet date (December 31, 2015: 14.8 years).

The expected maturity analysis of defined benefit obligations for the next ten years as of December 31, 2016 and December 31, 2015 in relation to actual payments is as follows:

(in thousands of EUR)	<b>Less than a year</b>	<b>Between 1–2 years</b>	<b>Between 2–5 years</b>	<b>Between 5–10 years</b>	<b>Total</b>
<b>As of Dec. 31, 2016</b>					
Defined benefit plans	4,982	5,321	20,460	38,355	69,118
<b>As of Dec. 31, 2015</b>					
Defined benefit plans	5,403	5,302	19,648	38,826	69,179

## 16 — TRADE LIABILITIES

Current liabilities are, as a rule, stated at cost which is the consideration to be paid.

Trade liabilities in amount of thous. EUR 192,648 (December 31, 2015: thous. EUR 186,287) as of December 31, 2016 contain liabilities from acquisition of property, plant and equipment and intangible assets amounting to thous. EUR 8,567 (December 31, 2015: thous. EUR 16,492) which are taken into consideration by the cash flow from investing activities as non-cash transactions, as well as advances from customers in amount of thous. EUR 715 (December 31, 2015: thous. EUR 1,170).

## 17 — DEFERRED INCOME AND OTHER CURRENT LIABILITIES

Accruals comprise the liabilities for which the exact time of utilization or amount is uncertain while being definable to a high degree of certainty. Even if the amount and the exact time are only estimated, the measurement precision of accruals is higher than by determination of provisions. Therefore they will be recognized according to their origin as trade liabilities (see note 16) and other current liabilities, especially in personnel and social costs.

(in thousands of EUR)	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Obligations for personnel and social costs	64,452	64,683
Other tax liabilities	10,185	10,408
Deferred income	2,229	2,618
Share purchase price and option liabilities	0	6,859
Other liabilities	11,964	12,080
<b>Deferred income and other current liabilities</b>	<b>88,830</b>	<b>96,648</b>

Obligations for personnel and social costs include particularly premiums and bonuses for employees, unused vacations as well as other deferred personnel related obligations.

The change of share purchase price and option liabilities is attributed to the acquisition relating to Malaysia (see note 5).

## 18 — PROVISIONS FOR CURRENT LIABILITIES AND CHARGES

Provisions are created when the Group has a legal or constructive obligation to a third party as a result of past event, it is probable that it will be settled and the amount of obligation can be reliably estimated. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. If the interest effect is considerable, the provision is discounted with a market interest rate.

Provisions for large numbers of similar obligations, e. g. warranties, are measured at a probability-weighted expected value of assets reduction based on this group of obligations. A provision is also recognized under liabilities, if the probability of a claim on assets is negligible within a single obligation included in this group.

In the financial year 2016, provisions for current liabilities and charges developed as follows:

(in thousands of EUR)	Customer rebates and bonuses	Sales	Other provisions	Total
<b>Balance at Jan. 1, 2016</b>	<b>7,621</b>	<b>3,974</b>	<b>9,724</b>	<b>21,319</b>
Effect of exchange rate changes	(51)	12	(142)	(181)
Utilization	(4,464)	(2,623)	(2,906)	(9,993)
Reversal	(2,131)	(500)	(1,679)	(4,310)
Increase	9,520	3,395	6,875	19,790
Reclassifications	0	(7)	(850)	(857)
<b>Balance at Dec. 31, 2016</b>	<b>10,495</b>	<b>4,251</b>	<b>11,022</b>	<b>25,768</b>

In the financial year 2015, provisions for current liabilities and charges developed as follows:

(in thousands of EUR)	Customer rebates and bonuses	Sales	Other provisions	Total
<b>Balance at Jan. 1, 2015</b>	<b>7,235</b>	<b>3,889</b>	<b>6,816</b>	<b>17,940</b>
Effect of exchange rate changes	(68)	(124)	24	(168)
Changes in consolidated companies	0	707	1,561	2,268
Utilization	(3,462)	(1,702)	(3,344)	(8,508)
Reversal	(1,923)	(820)	(1,261)	(4,004)
Increase	5,839	2,024	5,928	13,791
<b>Balance at Dec. 31, 2015</b>	<b>7,621</b>	<b>3,974</b>	<b>9,724</b>	<b>21,319</b>

Provisions for customer rebates and bonuses include bonus claims and rebates of customers calculated on the basis of the underlying customer arrangements.

The provisions for sales are recognized on product warranties and guarantees as well as returned goods. The provisions for product warranties and guarantees are made both on legal and contractual basis. On the one hand the single risk and on the other hand the overall risk based on past experience are taken into consideration by the calculation.

The position "Other provisions" primarily contains provisions for litigations and legal costs, other taxes as well as environmental matters.

## 19 — SEGMENT REPORTING INFORMATION

Mayr-Melnhof Karton AG and its subsidiaries operate in two operating areas, the production of cartonboard (Division MM Karton) and the production of folding cartons and packaging (Division MM Packaging). The Group is organized according to these two operating areas and is managed by the Management Board based on the financial information acquired thereon. Hence, the segments reported correspond to these two operating areas.

The division MM Karton manufactures and markets numerous grades of cartonboard, focusing particularly on coated cartonboard made primarily from recycled fiber.

The division MM Packaging converts cartonboard into printed folding cartons purchased by customers in a variety of industries including food and consumer goods (e. g. packaging for cereals, dried foods, sugar, confectionary and baked goods, cosmetics and toiletries, detergents, domestic appliances, toys, cigarette and pharmaceutical packaging and high-grade confectionary).

Data provided by the management information system on which the segment reporting is based, is in accordance with the accounting and recognition principles applied to the consolidated financial statements. Central operations are completely allocated to the operating segments by an allocation system, in analogy with the procedures in the management information system. Results from inter-segment transactions are already eliminated in the segment results.

The Group measures the performance of its operating segments by assessing operating profit and profit for the year as they are presented in the Group's income statement.

Intersegment sales are carried out on an arm's length basis.

Revenues are allocated based on the shipment destinations of finished goods, whereas non-current assets are allocated according to the location of the respective units.

Capital expenditures and depreciation/amortization and impairment refer to the acquisition or depreciation/amortization and impairment of property, plant and equipment as well as intangible assets including goodwill (see note 6).

**Revenue recognition**

Revenues comprise all income, which results from the typical business activities of the Mayr-Melnhof Group and includes income from sale of numerous grades of cartonboard as well as folding cartons less reductions such as bonuses, discounts and rebates as well as value-added tax. The Group recognizes revenues based on the agreed delivery conditions (incoterms) after the transfer of significant risk and rewards to the customer when the revenue is contractually agreed or can be measured reliably and it is sufficiently probable that the economic benefit associated with the transaction will flow to the Group.

The segment reporting information concerning the Group's operating segments can be illustrated as follows:

(in thousands of EUR)	2016			
	MM Karton	MM Packaging	Eliminations	Consolidated
Sales to external customers	920,769	1,351,965	0	2,272,734
Intersegment sales	102,187	672	(102,859)	0
<b>Total sales</b>	<b>1,022,956</b>	<b>1,352,637</b>	<b>(102,859)</b>	<b>2,272,734</b>
Operating profit	68,010	145,644	0	213,654
Financial income	416	2,989	(322)	3,083
Financial expenses	(2,458)	(3,988)	322	(6,124)
Profit before tax	64,916	144,271	0	209,187
Income tax expense	(14,344)	(41,455)	0	(55,799)
Profit for the year	50,572	102,816	0	153,388
Capital expenditures	83,744	60,441	0	144,185
Depreciation and amortization	(40,538)	(58,527)	0	(99,065)
Segment assets	1,012,229	1,049,562	(79,894)	1,981,897
Segment liabilities	310,293	492,336	(79,894)	722,735
Employees per segment as of December 31	2,554	7,373		9,927

(in thousands of EUR)	2015			
	MM Karton	MM Packaging	Eliminations	Consolidated
Sales to external customers	945,212	1,236,337	0	2,181,549
Intersegment sales	101,535	952	(102,487)	0
<b>Total sales</b>	<b>1,046,747</b>	<b>1,237,289</b>	<b>(102,487)</b>	<b>2,181,549</b>
Operating profit	82,610	117,252	0	199,862
Financial income	574	1,915	(336)	2,153
Financial expenses	(2,622)	(3,983)	336	(6,269)
Profit before tax	76,502	114,118	0	190,620
Income tax expense	(18,214)	(30,262)	0	(48,476)
Profit for the year	58,288	83,856	0	142,144
Capital expenditures	72,541	55,410	0	127,951
Depreciation, amortization and impairment <sup>1)</sup>	(38,732)	(60,820)	0	(99,552)
Segment assets	992,651	984,364	(76,693)	1,900,322
Segment liabilities	320,047	512,813	(76,693)	756,167
Employees per segment as of December 31	2,546	7,392		9,938

<sup>1)</sup> of property, plant and equipment and intangible assets

The following is a country-by-country breakdown of net sales based on shipment destinations as well as a summary of non-current assets and capital expenditures based on locations:

(in thousands of EUR)	2016			2015		
	Net sales	Non-current assets	Capital expenditures	Net sales	Non-current assets	Capital expenditures
Austria	53,091	190,328	46,211	56,687	166,776	42,499
Germany	446,583	245,277	32,706	453,946	244,028	30,457
France	261,837	89,259	6,662	170,657	92,033	1,385
Great Britain	200,945	1,831	39	227,793	2,904	92
Other Western European countries	383,066	52,757	10,566	365,042	46,307	6,531
Eastern Europe (including Turkey)	586,669	227,113	20,802	579,296	231,682	40,965
Asia and MENA	196,814	60,810	25,322	180,474	53,357	3,894
Latin America	117,049	54,482	1,877	119,920	53,941	2,128
Other	26,680	0	0	27,734	0	0
<b>Consolidated total</b>	<b>2,272,734</b>	<b>921,857</b>	<b>144,185</b>	<b>2,181,549</b>	<b>891,028</b>	<b>127,951</b>

Non-current assets and capital expenditures comprise property, plant and equipment, and intangible assets including goodwill (see note 6) as well as payments on account for property, plant and equipment (see note 12).

## 20 — OTHER OPERATING INCOME

(in thousands of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Insurance claims	3,322	1,582
Rental income	1,528	1,488
Gains and losses from disposal of property, plant and equipment, and intangible assets – net	821	5,508
Other income – net	6,086	8,586
<b>Other operating income</b>	<b>11,757</b>	<b>17,164</b>

Other income – net includes income from compensation for damages in an amount of thous. EUR 1,006 (2015: thous. EUR 866) as well as other income, for example scrap sales, canteen income and other diverse negligible income.



## 21 — EXPENSES BY NATURE

The consolidated income statements are prepared using the presentation of expenses by function. The following overview comprises a breakdown of expenses by nature for the financial years 2016 and 2015:

(in thousands of EUR)	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
Cost of materials and purchased services	1,280,838	1,259,611
Personnel expenses	434,229	406,098
Depreciation, amortization and impairment <sup>1)</sup>	99,065	99,552
Other expenses	256,705	233,590
<b>Total of cost of sales, selling and distribution, administrative and other operating expenses</b>	<b>2,070,837</b>	<b>1,998,851</b>

<sup>1)</sup> of property, plant and equipment and intangible assets

## 22 — PERSONNEL EXPENSES

Personnel expenses from all Group areas can be broken down as follows:

(in thousands of EUR)	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
Gross wages	198,731	185,668
Gross salaries	144,556	134,035
Severance expenses	4,422	5,026
Pension expenses	5,931	5,720
Expenses for statutory social security as well as payroll-related taxes and other contributions	71,803	64,278
Other welfare expenses	8,786	11,371
<b>Total</b>	<b>434,229</b>	<b>406,098</b>

The average number of employees is as follows:

(Number of persons)	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
Factory workers	7,688	7,178
Office staff	2,245	2,169
<b>Total</b>	<b>9,933</b>	<b>9,347</b>

### Remuneration of the management

The key management of the Group includes the Management Board and the Supervisory Board. The remuneration of the management is as follows:

(in thousands of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Salaries and other short-term employee benefits (incl. Supervisory Board remuneration)	7,642	5,515
Post-employment benefits	2,923	3,336
Termination benefits	0	42
<b>Total</b>	<b>10,565</b>	<b>8,893</b>

The remuneration of the members of the Management Board is as follows:

(in thousands of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Fixed compensation	2,309	2,778
Variable compensation	4,890	2,973
<b>Total</b>	<b>7,199</b>	<b>5,751</b>

The remuneration of the members of the Supervisory Board elected by the shareholders for the financial year 2016 amounted to thous. EUR 444 (2015: thous. EUR 314).

Concerning the remuneration of former members of the Management and Supervisory Boards, the provision on non-disclosure of such remuneration was applied by referring to section 266 figure 2 third sentence in conjunction with section 242 paragraph 4 of the Austrian Commercial Code.

## 23 — EXPENSES FOR THE GROUP AUDITOR

The 22<sup>nd</sup> Ordinary Shareholders' Meeting on April 28, 2016 appointed Grant Thornton Unitreu GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as the auditor of the consolidated and individual financial statements of Mayr-Melnhof Karton AG. Furthermore, they audited the individual financial statements of the Austrian subsidiaries. In 2016, expenses for services rendered by Grant Thornton Unitreu amounted to thous. EUR 389 (2015: thous. EUR 451) of which thous. EUR 383 (2015: thous. EUR 447) related to auditing and other assurance services and thous. EUR 6 (2015: thous. EUR 4) to other services.

## 24 — RESEARCH AND DEVELOPMENT EXPENSES

Research and development costs are recognized as expense as incurred. Neither as of December 31, 2016 nor as of December 31, 2015 have development costs been capitalized.

Research and development costs recognized as expenses in the income statement amounted to thous. EUR 3,246 in the financial year 2016 (2015: thous. EUR 3,997).

## 25 — FINANCIAL INCOME

(in thousands of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Interest from bank deposits	2,973	2,007
Other financial income	110	146
<b>Total financial income</b>	<b>3,083</b>	<b>2,153</b>

## 26 — FINANCIAL EXPENSES

(in thousands of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Interest expense related to financial liabilities	(4,592)	(4,810)
Other financial expenses	(1,532)	(1,459)
<b>Total financial expenses</b>	<b>(6,124)</b>	<b>(6,269)</b>

Commitment fees for unused credit lines and interest expense related to finance lease are included in other financial expenses.

## 27 — OTHER FINANCIAL RESULT – NET

(in thousands of EUR)	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015
Foreign currency exchange rate gains (losses) – net	603	(956)
Net interest cost from benefit obligation	(2,691)	(2,480)
Valuation of (contingent) share purchase price and option liabilities	(62)	(1,946)
Other expenses and income – net	724	256
<b>Other financial result – net</b>	<b>(1,426)</b>	<b>(5,126)</b>

28 — EARNINGS PER SHARE

Earnings per share are calculated in accordance with IAS 33 “Earnings per Share”. The standard requires the calculation and disclosure of two key figures, basic and diluted earnings per share. Basic earnings per share are calculated by dividing profit or loss attributable to the shareholders of the Company by the weighted average number of shares outstanding during the financial year. As there were no dilutive stock options neither as of December 31, 2016 nor as of December 31, 2015, it was not necessary to calculate the diluted earnings per share. Hence this corresponds to the basic earnings per share.

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year.

	<b>Year ended Dec. 31, 2016</b>	<b>Year ended Dec. 31, 2015</b>
Profit attributable to ordinary shareholders of the parent company (in thousands of EUR)	153,307	141,550
Weighted average number of ordinary shares	20,000,000	20,000,000
Basic earnings per share attributable to ordinary shareholders of the parent company (in EUR)	7.67	7.08

As in the previous year, the number of shares issued as of December 31, 2016 amounted to 20,000,000 shares.

## 29 — COMMITMENTS AND CONTINGENT LIABILITIES

**Commitments from legal proceedings and similar claims**

The Group is subject to various claims and legal proceedings that have arisen in the ordinary course of business. Based on all the facts available to the Management, the Group believes that the ultimate resolution of these claims and legal proceedings will be unlikely to have a material adverse effect on its financial position or the results of its operations, although no assurance can be given with respect to the outcome of such claims or litigations.

**Commitments from environmental matters**

The Group is also subject to various environmental legislations and regulations in the countries in which it operates. Expenditures for environmental matters which relate to existing conditions caused by past operations and have no significant future benefit are expensed as incurred. The Group records an accrual for environmental matters when an expense is probable and may be reasonably estimated. For the assessment of the amount of accruals, estimates have to be used to a certain extent. It is possible that the final assessment of some of these matters may require the Group to make expenditures in excess of the amounts currently provided for. However, the Management believes that such additional amounts will not have a material effect on the Group's financial position or results of operations.

Expenses related to environmental matters were not material for the years ended December 31, 2016 and 2015.

**Other contingent liabilities**

At December 31, 2016, purchase obligations for fixed assets regarding planned capital expenditures maturing within one year amounted to thous. EUR 61,010 (December 31, 2015: thous. EUR 24,317).

### 30 — DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES

Raw materials for the production of cartonboard amounting to thous. EUR 5,903 were purchased from other related companies in 2016 (2015: thous. EUR 8,311). At December 31, 2016, trade liabilities with other related companies amounted to thous. EUR 1,037 (December 31, 2015: thous. EUR 979).

Transactions with these companies are carried out on an arm's length basis.

Key management personnel of the Group (active management board and supervisory board members of Mayr-Melnhof Karton AG) and their close relatives are considered as related parties. For information regarding management remuneration please see note 22.

For information about contributions to the pension benefit plan in Great Britain see note 15.

### 31 — NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash, checks, and short-term demand deposits at financial institutions with expiration dates within three months. Cash and cash equivalents denominated in foreign currencies are translated into Euro using the exchange rates at the balance sheet date. For the purpose of the statement of cash flows, the above defined cash and cash equivalents comprise the following:

(in thousands of EUR)	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Fixed deposits	110,706	63,751
Unrestricted bank deposits and cash	140,417	191,146
Other restricted bank deposits	15	56
<b>Cash and cash equivalents</b>	<b>251,138</b>	<b>254,953</b>

Cash flows from investing and financing activities are calculated directly on the basis of cash inflows and outflows, while cash flow from operating activities is derived from the consolidated financial statements using the indirect method.

Cash flow from operating activities increased from thous. EUR 206,698 to thous. EUR 219,395. This difference mainly results from an increase in the profit for the year as well as a lower rise in working capital compared to the previous year, which were contrasted with higher income tax payments.

Cash flow from investing activities changed from thous. EUR -198,040 to thous. EUR -144,644. Payments for property, plant and equipment and intangible assets increased in the financial year 2016. These contrasted with the payment for the acquisition in France in the financial year 2015.

Cash flow from financing activities changed from thous. EUR -70,604 to thous. EUR -79,806. Payments to non-controlling (minority) shareholders refer to the acquisition of remaining shares in Malaysia and Vietnam (see notes 5 and 32). The payment regarding Vietnam was already made in 2016. The higher dividend payment in the previous year also includes the interim dividend for the financial year 2015, which was distributed in November 2015. Total scheduled loan repayments in 2016 contrasted with a net loan issuance in 2015.

## 32 — SUBSEQUENT EVENTS

In January 2017, the division MM Packaging increased its majority interest in the Vietnamese folding carton producer MM Packaging Vidon Limited Liability Company, located in Ho Chi Minh City, for a price of thous. EUR 10,344 to 100 %.

## 33 — TABLE OF AFFILIATED AND ASSOCIATED COMPANIES

2016					2015				
Company name	Currency	Nominal capital in thousand currency units	Shareholding in %	Type of consolidation	Company name	Currency	Nominal capital in thousand currency units	Shareholding in %	Type of consolidation
Mayr-Melnhof Karton Aktiengesellschaft, Vienna (AUT)	EUR	80,000	-	FC <sup>1)</sup>	Mayr-Melnhof Karton Aktiengesellschaft, Vienna (AUT)	EUR	80,000	-	FC <sup>1)</sup>
<b>MM KARTON</b>					<b>MM KARTON</b>				
Baiersbronn Frischfaser Karton GmbH, Baiersbronn (DEU)	EUR	2,050	100.00 %	FC <sup>1)</sup>	Baiersbronn Frischfaser Karton GmbH, Baiersbronn (DEU)	EUR	2,050	100.00 %	FC <sup>1)</sup>
CartPrint Insurance AG, Vaduz (LIE)	EUR	3,000	100.00 %	FC <sup>1)</sup>	CartPrint Insurance AG, Vaduz (LIE)	EUR	3,000	100.00 %	FC <sup>1)</sup>
CP (CartPrint) International Trading AG, Worb (CHE)	CHF	100	100.00 %	FC <sup>1)</sup>	CP (CartPrint) International Trading AG, Worb (CHE)	CHF	100	100.00 %	FC <sup>1)</sup>
free-com solutions GmbH, Vienna (AUT)	EUR	35	51.00 %	FC <sup>1)</sup>	free-com solutions GmbH, Vienna (AUT)	EUR	35	51.00 %	FC <sup>1)</sup>
FS-Karton GmbH, Baiersbronn (DEU)	EUR	51,641	100.00 %	FC <sup>1)</sup>	FS-Karton GmbH, Baiersbronn (DEU)	EUR	51,641	100.00 %	FC <sup>1)</sup>
Industriewater Eerbeek B.V., Eerbeek (NLD)	EUR	143	37.50 %	NC <sup>2)</sup>	Industriewater Eerbeek B.V., Eerbeek (NLD)	EUR	143	37.50 %	NC <sup>2)</sup>
Kolicevo Karton Proizvodnja kartona, d.o.o., Domzale (SVN)	EUR	12,828	100.00 %	FC <sup>1)</sup>	Kolicevo Karton Proizvodnja kartona, d.o.o., Domzale (SVN)	EUR	12,828	100.00 %	FC <sup>1)</sup>
Lokalbahn Payerbach-Hirschwang Gesellschaft m.b.H., Reichenau/Rax (AUT)	EUR	190	100.00 %	FC <sup>1)</sup>	Lokalbahn Payerbach-Hirschwang Gesellschaft m.b.H., Reichenau/Rax (AUT)	EUR	190	100.00 %	FC <sup>1)</sup>
Mayr-Melnhof Cartonboard International GmbH, Vienna (AUT)	EUR	5,000	100.00 %	FC <sup>1)</sup>	Mayr-Melnhof Cartonboard International GmbH, Vienna (AUT)	EUR	5,000	100.00 %	FC <sup>1)</sup>
Mayr-Melnhof Eerbeek B.V., Eerbeek (NLD)	EUR	7,300	100.00 %	FC <sup>1)</sup>	Mayr-Melnhof Eerbeek B.V., Eerbeek (NLD)	EUR	7,300	100.00 %	FC <sup>1)</sup>
Mayr-Melnhof Gernsbach GmbH, Gernsbach (DEU)	EUR	9,205	100.00 %	FC <sup>1)</sup>	Mayr-Melnhof Gernsbach GmbH, Gernsbach (DEU)	EUR	9,205	100.00 %	FC <sup>1)</sup>
Mayr-Melnhof Karton Gesellschaft m.b.H., Frohnleiten (AUT)	EUR	7,500	100.00 %	FC <sup>1)</sup>	Mayr-Melnhof Karton Gesellschaft m.b.H., Frohnleiten (AUT)	EUR	7,500	100.00 %	FC <sup>1)</sup>
MM Karton FollaCell AS, Verran (NOR)	NOK	10,000	100.00 %	FC <sup>1)</sup>	MM Karton FollaCell AS, Verran (NOR)	NOK	10,000	100.00 %	FC <sup>1)</sup>
MM Karton Turkey Ticaret Limited Sirketi, Istanbul (TUR)	TRY	10	100.00 %	FC <sup>1)</sup>	MM Karton Turkey Ticaret Limited Sirketi, Istanbul (TUR)	TRY	10	100.00 %	FC <sup>1)</sup>
Stort Doonweg B.V., Eerbeek (NLD)	EUR	18	50.00 %	NC <sup>2)</sup>	Stort Doonweg B.V., Eerbeek (NLD)	EUR	18	50.00 %	NC <sup>2)</sup>



2016					2015				
Company name	Currency	Nominal capital in thousand currency units	Shareholding in %	Type of consolidation	Company name	Currency	Nominal capital in thousand currency units	Shareholding in %	Type of consolidation
<b>Trading companies &amp; sales offices of MM Karton</b>					<b>Trading companies &amp; sales offices of MM Karton</b>				
Austria Cartón S.A., Barcelona (ESP)	EUR	60	75.00 %	FC <sup>(1)</sup>	Austria Cartón S.A., Barcelona (ESP)	EUR	60	75.00 %	FC <sup>(1)</sup>
Figros (Malaysia) SDN BHD, Kuala Lumpur (MYS)	MYR	500	100.00 %	FC <sup>(1)</sup>	Figros (Malaysia) SDN BHD, Kuala Lumpur (MYS)	MYR	500	51.00 %	FC <sup>(1)</sup>
Keminer Remmers Spiehs Kartonhandels GmbH, Gernsbach (DEU)	EUR	1,280	100.00 %	FC <sup>(1)</sup>	Keminer Remmers Spiehs Kartonhandels GmbH, Gernsbach (DEU)	EUR	1,280	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Belgium N.V., Sint-Katelijne-Waver (BEL)	EUR	62	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Belgium N.V., Sint-Katelijne-Waver (BEL)	EUR	62	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Cartonboard UK Limited, Reading-Berkshire (GBR)	GBP	1,000	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Cartonboard UK Limited, Lincolnshire (GBR)	GBP	1,000	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof France SARL, Paris (FRA)	EUR	8	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof France SARL, Paris (FRA)	EUR	8	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Italia S.R.L., Milano (ITA)	EUR	51	75.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Italia S.R.L., Milano (ITA)	EUR	51	75.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Karton Polska Sp. z o.o., Poznan (POL)	PLN	50	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Karton Polska Sp. z o.o., Poznan (POL)	PLN	50	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Karton Schweiz GmbH, Worb (CHE)	CHF	20	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Karton Schweiz GmbH, Worb (CHE)	CHF	20	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Mediterra SARL, Tunis (TUN)	TND	80	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Mediterra SARL, Tunis (TUN)	TND	80	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Nederland B.V., Amstelveen (NLD)	EUR	91	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Nederland B.V., Amstelveen (NLD)	EUR	91	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof & Wilfried Heinzl Tehran Co., Tehran (IRN)	IRR	100,000	36.00 %	NC <sup>(2)</sup>	Mayr-Melnhof & Wilfried Heinzl Tehran Co., Tehran (IRN)	IRR	100,000	36.00 %	NC <sup>(2)</sup>
MM Guang Zhou Yue Ran Paper Co., Ltd., Guangzhou (CHN)	CNY	1,500	100.00 %	FC <sup>(1)</sup>	MM Guang Zhou Yue Ran Paper Co., Ltd., Guangzhou (CHN)	CNY	1,500	100.00 %	FC <sup>(1)</sup>
MM Karton Bulgaria EOOD, Sofia (BGR)	BGN	5	100.00 %	FC <sup>(1)</sup>	MM Karton Bulgaria EOOD, Sofia (BGR)	BGN	5	100.00 %	FC <sup>(1)</sup>
MM Karton Praha s.r.o., Prague (CZE)	CZK	820	100.00 %	FC <sup>(1)</sup>	MM Karton Praha s.r.o., Prague (CZE)	CZK	820	100.00 %	FC <sup>(1)</sup>
MM Karton Russia LLC, Moscow (RUS)	RUB	14,290	100.00 %	FC <sup>(1)</sup>	MM Karton Russia LLC, Moscow (RUS)	RUB	14,290	100.00 %	FC <sup>(1)</sup>
MM Kartonvertrieb GmbH, Neuss (DEU)	EUR	26	100.00 %	FC <sup>(1)</sup>	MM Kartonvertrieb GmbH, Neuss (DEU)	EUR	26	100.00 %	FC <sup>(1)</sup>
MM Prodaja Kartona d.o.o., Domzale (SVN)	EUR	30	100.00 %	FC <sup>(1)</sup>	MM Prodaja Kartona d.o.o., Domzale (SVN)	EUR	30	100.00 %	FC <sup>(1)</sup>
Varsity Packaging Limited, Reading-Berkshire (GBR)	GBP	300	100.00 %	FC <sup>(1)</sup>	Varsity Packaging Limited, Lincolnshire (GBR)	GBP	300	100.00 %	FC <sup>(1)</sup>

CONSOLIDATED FINANCIAL STATEMENTS

2016					2015				
Company name	Currency	Nominal capital in thousand currency units	Shareholding in %	Type of consolidation	Company name	Currency	Nominal capital in thousand currency units	Shareholding in %	Type of consolidation
<b>MM PACKAGING</b>					<b>MM PACKAGING</b>				
Al-Ekbal Printing & Packaging Co., Amman (JOR)	JOD	3,500	86.80 %	FC <sup>(1)</sup>	Al-Ekbal Printing & Packaging Co., Amman (JOR)	JOD	5,000	86.81 %	FC <sup>(1)</sup>
C.P. Schmidt GmbH, Kaiserslautern (DEU)	EUR	3,000	100.00 %	FC <sup>(1)</sup>	C.P. Schmidt GmbH, Kaiserslautern (DEU)	EUR	3,000	100.00 %	FC <sup>(1)</sup>
C.P. Schmidt Verpackungs-Werk Beteiligungsgesellschaft mbH, Kaiserslautern (DEU)	EUR	180	100.00 %	FC <sup>(1)</sup>	C.P. Schmidt Verpackungs-Werk Beteiligungsgesellschaft mbH, Kaiserslautern (DEU)	EUR	180	100.00 %	FC <sup>(1)</sup>
Gundlach GmbH, Bielefeld (DEU)	EUR	52	100.00 %	FC <sup>(1)</sup>	Gundlach GmbH, Bielefeld (DEU)	EUR	52	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Graphia Izmir Karton sanayi ve ticaret anonim sirketi, Izmir (TUR)	TRY	24,613	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Graphia Izmir Karton sanayi ve ticaret anonim sirketi, Izmir (TUR)	TRY	24,613	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Gravure GmbH, Trier (DEU)	EUR	7,000	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Gravure GmbH, Trier (DEU)	EUR	7,000	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Packaging Austria GmbH, Vienna (AUT)	EUR	3,050	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Packaging Austria GmbH, Vienna (AUT)	EUR	3,050	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Packaging Iberica SL, Valencia (ESP)	EUR	7,500	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Packaging Iberica SL, Valencia (ESP)	EUR	7,500	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Packaging Intemational GmbH, Vienna (AUT)	EUR	5,000	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Packaging Intemational GmbH, Vienna (AUT)	EUR	5,000	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Packaging Intemational GmbH / Jordan PSC, Amman (JOR)	JOD	500	100.00 %	FC <sup>(1)</sup>	-	-	-	-	-
Mayr-Melnhof Packaging Marinetti Limitada, Santiago de Chile (CHL)	CLP	5,000	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Packaging Marinetti Limitada, Santiago de Chile (CHL)	CLP	5,000	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Packaging Romania S.R.L., Blejoi (ROU)	RON	5,504	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Packaging Romania S.R.L., Blejoi (ROU)	RON	5,504	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Packaging UK Limited, Deeside (GBR)	GBP	9,700	100.00 %	FC <sup>(1)</sup>	Mayr-Melnhof Packaging UK Limited, Lincolnshire (GBR)	GBP	9,700	100.00 %	FC <sup>(1)</sup>
Mayr-Melnhof Printing and Packaging Tehran Company, Private Joint Stock, Tehran (IRN)	IRR	321,496,000	99.29 %	FC <sup>(1)</sup>	Mayr-Melnhof Printing and Packaging Tehran Company, Private Joint Stock, Tehran (IRN)	IRR	321,496,000	99.29 %	FC <sup>(1)</sup>
MM Graphia Beteiligungs- und Verwaltungs GmbH, Bielefeld (DEU)	EUR	5,538	100.00 %	FC <sup>(1)</sup>	MM Graphia Beteiligungs- und Verwaltungs GmbH, Bielefeld (DEU)	EUR	5,538	100.00 %	FC <sup>(1)</sup>
MM Graphia Bielefeld GmbH, Bielefeld (DEU)	EUR	526	100.00 %	FC <sup>(1)</sup>	MM Graphia Bielefeld GmbH, Bielefeld (DEU)	EUR	526	100.00 %	FC <sup>(1)</sup>
MM Graphia GmbH, Bielefeld (DEU)	EUR	25	100.00 %	FC <sup>(1)</sup>	MM Graphia GmbH, Bielefeld (DEU)	EUR	25	100.00 %	FC <sup>(1)</sup>
MM Graphia Innovaprint GmbH, Bielefeld (DEU)	EUR	500	100.00 %	FC <sup>(1)</sup>	MM Graphia Innovaprint GmbH, Bielefeld (DEU)	EUR	500	100.00 %	FC <sup>(1)</sup>
MM Graphia Trier GmbH, Trier (DEU)	EUR	3,500	100.00 %	FC <sup>(1)</sup>	MM Graphia Trier GmbH, Trier (DEU)	EUR	3,500	100.00 %	FC <sup>(1)</sup>
MM Packaging Behrens GmbH, Alfeld (Leine) (DEU)	EUR	3,000	100.00 %	FC <sup>(1)</sup>	MM Packaging Behrens GmbH, Alfeld (Leine) (DEU)	EUR	3,000	100.00 %	FC <sup>(1)</sup>
MM Packaging Beteiligungs- und Verwaltungs GmbH, Bielefeld (DEU)	EUR	500	100.00 %	FC <sup>(1)</sup>	MM Packaging Beteiligungs- und Verwaltungs GmbH, Baiersbronn (DEU)	EUR	500	100.00 %	FC <sup>(1)</sup>

2016					2015				
Company name	Currency	Nominal capital in thousand currency units	Shareholding in %	Type of consolidation	Company name	Currency	Nominal capital in thousand currency units	Shareholding in %	Type of consolidation
MM Packaging Caesar GmbH, Traben-Trarbach (DEU)	EUR	3,000	100.00 %	FC <sup>1)</sup>	MM Packaging Caesar GmbH, Traben-Trarbach (DEU)	EUR	3,000	100.00 %	FC <sup>1)</sup>
MM Packaging Colombia S.A.S., Santiago de Cali (COL)	COP	75,000,000	100.00 %	FC <sup>1)</sup>	MM Packaging Colombia S.A.S., Santiago de Cali (COL)	COP	75,000,000	100.00 %	FC <sup>1)</sup>
MM PACKAGING France S.A.S., Monéteau (FRA)	EUR	7,289	100.00 %	FC <sup>1)</sup>	MM PACKAGING France S.A.S., Monéteau (FRA)	EUR	7,289	100.00 %	FC <sup>1)</sup>
MM Packaging GmbH, Bielefeld (DEU)	EUR	26	100.00 %	FC <sup>1)</sup>	MM Packaging GmbH, Bielefeld (DEU)	EUR	26	100.00 %	FC <sup>1)</sup>
MM Packaging Malaysia SDN. BHD., Kuala Lumpur (MYS), i.l.	MYR	16,500	100.00 %	FC <sup>1)</sup>	MM Packaging Malaysia SDN. BHD., Kuala Lumpur (MYS)	MYR	16,500	100.00 %	FC <sup>1)</sup>
MM Packaging Schilling GmbH, Heilbronn (DEU)	EUR	2,500	100.00 %	FC <sup>1)</sup>	MM Packaging Schilling GmbH, Heilbronn (DEU)	EUR	2,500	100.00 %	FC <sup>1)</sup>
MM Packaging Tunisie S.A.R.L., Tunis (TUN)	TND	6,587	100.00 %	FC <sup>1)</sup>	MM Packaging Tunisie S.A.R.L., Tunis (TUN)	TND	6,587	100.00 %	FC <sup>1)</sup>
MM Packaging Ukraine LLC, Cherkassy (UKR)	UAH	56,896	100.00 %	FC <sup>1)</sup>	MM Packaging Ukraine LLC, Cherkassy (UKR)	UAH	56,896	100.00 %	FC <sup>1)</sup>
MM Packaging Vidon Limited Liability Company, Ho Chi Minh City (VNM)	VND	280,000,000	65.10 %	FC <sup>1)</sup>	MM Packaging Vidon Limited Liability Company, Ho Chi Minh City (VNM)	VND	280,000,000	65.10 %	FC <sup>1)</sup>
-	-	-	-	-	MM Polygrafoformlenie Limited, Nicosia (CYP), i.l.	EUR	7	100.00 %	NC <sup>2)</sup>
MM Polygrafoformlenie Packaging LLC, St. Petersburg (RUS)	RUB	565,851	100.00 %	FC <sup>1)</sup>	MM Polygrafoformlenie Packaging LLC, St. Petersburg (RUS)	RUB	565,851	100.00 %	FC <sup>1)</sup>
MM Polygrafoformlenie Rotogravure LLC, St. Petersburg (RUS)	RUB	33,000	100.00 %	FC <sup>1)</sup>	MM Polygrafoformlenie Rotogravure LLC, St. Petersburg (RUS)	RUB	33,000	100.00 %	FC <sup>1)</sup>
MMP Neupack Polska Sp.z.o.o., Bydgoszcz (POL)	PLN	28,700	100.00 %	FC <sup>1)</sup>	MMP Neupack Polska Sp.z.o.o., Bydgoszcz (POL)	PLN	28,700	100.00 %	FC <sup>1)</sup>
MMP Packetis SAS, Chazelles (FRA)	EUR	1,677	100.00 %	FC <sup>1)</sup>	MMP Packetis SAS, Chazelles (FRA)	EUR	1,677	100.00 %	FC <sup>1)</sup>
MMP Premium Printing Center GmbH, Trier (DEU)	EUR	500	100.00 %	FC <sup>1)</sup>	MMP Premium Printing Center GmbH, Trier (DEU)	EUR	500	100.00 %	FC <sup>1)</sup>
MMP Premium SAS, Ancenis (FRA)	EUR	6,686	100.00 %	FC <sup>1)</sup>	MMP Premium SAS, Ancenis (FRA)	EUR	25,566	100.00 %	FC <sup>1)</sup>
Neupack Gesellschaft m.b.H., Reichenau/Rax (AUT)	EUR	1,820	100.00 %	FC <sup>1)</sup>	Neupack Gesellschaft m.b.H., Reichenau/Rax (AUT)	EUR	1,820	100.00 %	FC <sup>1)</sup>
PacProject GmbH, Hamburg (DEU)	EUR	26	69.77 %	FC <sup>1)</sup>	PacProject GmbH, Hamburg (DEU)	EUR	26	69.77 %	FC <sup>1)</sup>
Public Joint Stock Company „Graphia Ukraina“, Cherkassy (UKR)	UAH	5,880	94.78 %	FC <sup>1)</sup>	Public Joint Stock Company „Graphia Ukraina“, Cherkassy (UKR)	UAH	5,880	94.78 %	FC <sup>1)</sup>
R + S Stanzformen GmbH, Niederdorfelden (DEU)	EUR	260	100.00 %	FC <sup>1)</sup>	R + S Stanzformen GmbH, Niederdorfelden (DEU)	EUR	260	100.00 %	FC <sup>1)</sup>
Superpak Ambalaj sanayi ve ticaret anonim sirketi, Izmir (TUR)	TRY	7,000	100.00 %	FC <sup>1)</sup>	Superpak Ambalaj sanayi ve ticaret anonim sirketi, Izmir (TUR)	TRY	7,000	100.00 %	FC <sup>1)</sup>
TEC MMP SARL, Sfax (TUN)	TND	11,021	100.00 %	FC <sup>1)</sup>	TEC MMP SARL, Sfax (TUN)	TND	21,400	100.00 %	FC <sup>1)</sup>
VTV Verpackungstechnische Verfahren GmbH, Kaiserslautern (DEU)	EUR	200	100.00 %	FC <sup>1)</sup>	VTV Verpackungstechnische Verfahren GmbH, Kaiserslautern (DEU)	EUR	200	100.00 %	FC <sup>1)</sup>

The voting rights are equal to the ownership interests. The parent company does not hold any preferred interests in the subsidiary.

<sup>1)</sup> FC ... fully consolidated company

<sup>2)</sup> NC ... non-consolidated company due to immateriality

34 — BOARD MEMBERS

During the financial year 2016, the Board Members were as follows:

**Management Board**

Wilhelm HÖRMANSEDER (Chairman)  
Andreas BLASCHKE (Member of the Management Board)  
Gotthard MAYRINGER (Member of the Management Board)  
Franz RAPPOLD (Member of the Management Board)

**Supervisory Board**

Rainer ZELLNER (Chairman)  
Romuald BERTL (Deputy Chairman)  
Johannes GOESS-SAURAU (Deputy Chairman)  
Nikolaus ANKERSHOFEN (Member of the Supervisory Board)  
Guido HELD (Member of the Supervisory Board)  
Alexander LEEB (Member of the Supervisory Board)  
Georg MAYR-MELNHOF (Member of the Supervisory Board)  
Michael SCHWARZKOPF (Member of the Supervisory Board)  
Andreas HEMMER (Works Council Representative, MM Karton)  
Gerhard NOVOTNY (Works Council Representative, MM Packaging)

Vienna, February 28, 2017

**The Management Board**

Wilhelm Hörmanseder m. p.

Andreas Blaschke m. p.

Gotthard Mayringer m. p.

Franz Rappold m. p.

# Auditor's Report

## **Report on the consolidated financial statements**

### **Audit opinion**

We have audited the consolidated financial statements of Mayr-Melnhof Karton Aktiengesellschaft, Vienna, and of its subsidiaries (the Group) comprising the consolidated balance sheet as of December 31, 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit, the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2016 and its financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of section 245 a of the Austrian Commercial Code.

### **Basis for opinion**

We conducted our audit in accordance with the Austrian Standards on Auditing. Those standards require that we comply with the International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the Austrian Generally Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Recoverability of property, plant and equipment**

The line item "Property, plant and equipment" in the consolidated financial statements of Mayr-Melnhof Karton Aktiengesellschaft includes tangible assets that are partly located in Turkey and in Great Britain (cf. Notes, section 6c). Owing to the uncertainty that has resulted from the changes in overall economic conditions in Great Britain and Turkey, Mayr-Melnhof Karton Aktiengesellschaft examined the recoverability of the associated net book values and, in addition, analyzed various scenarios and their effects on these valuations. In order to obtain the results and also to perform the analyses, the Management Board had to make estimates about the developments in the aforementioned countries, about current transaction prices (fair value less costs of disposal) as well as about future cash flows and discount rates used (value in use). The recoverability of the property, plant and equip-

ment located in the aforementioned countries is in our opinion of particular significance in view of the uncertainty that has resulted from the changes in overall economic conditions.

Insofar the Management Board of Mayr-Melnhof Karton Aktiengesellschaft has obtained external valuation reports in order to determine the fair value, we are convinced of the qualification of the valuation experts and satisfied by the suitability of the valuation methods, the adequacy of assumptions and parameters, and the validity of the base data by making appropriate random checks. With regard to the values in use for the relevant cash generating unit, we reconciled the future cash flows with each budget passed by the Management Board and approved by the Supervisory Board of Mayr-Melnhof Karton Aktiengesellschaft and with general and industry-specific market expectations. Furthermore, we reviewed the calculation method used to derive the discount rate, used database queries to test the plausibility of the parameters applied, and analyzed the effects of changes in parameters on the valuation results.

#### **Active deferred taxes**

Active deferred taxes totaling (net) EUR 27.2 million have been recognized in the consolidated balance sheet of Mayr-Melnhof Karton Aktiengesellschaft (of which EUR 7.7 million from tax loss carry-forward). Recoverability is assessed according to whether taxable temporary differences relating to the same tax authority and the same taxable entity exist, resulting in taxable amounts against which the unused tax losses may be offset before they expire, or whether it is likely that the company will generate taxable profits before the unused tax losses or the unused tax credits expire. In our view, this matter is of significant importance owing to the uncertainty associated with forecasting the amount and timing of future taxable results.

We involved tax specialists in our examination of deferred taxes. With their support, we examined the calculation models presented to us by the company for valuing deferred taxes, especially with regard to the recoverability of deferred tax claims arising from loss carry-forwards. The basis for this are the temporary differences and tax loss carry-forwards reported by each of the companies as well as the overall economic environment relating to their utilization. This information is confirmed by the relevant component auditors during their audit. Together with our tax specialists, we made random checks to examine country-specific disclosures and inspected the systematic methodology of the mathematical models used, in particular with regard to compliance with IAS 12. Insofar as the recoverability of the deferred tax claims depends on the generation of taxable profits, we compared the tax planning calculations with the planning approved for the Group as a whole and tested the plausibility of the assumptions involved therein.

### **Acquisition MMP Premium SAS**

In the final quarter of the financial year 2015, Mayr-Melnhof Karton Aktiengesellschaft acquired, through a subsidiary, a 100 % shareholding in Alliora SAS (now MMP Premium SAS) and its wholly owned subsidiary Packetis SAS (now MMP Packetis SAS), France. Details about this can be found in section 5 of the notes to the consolidated financial statements. Owing to the proximity of the date of acquisition to the balance sheet date, the purchase price, identifiable assets and liabilities and goodwill were included in the consolidated financial statements of the previous year using preliminary amounts. According to the assessment of the Management Board of Mayr-Melnhof Karton Aktiengesellschaft, no additional information concerning facts and circumstances existing at the date of acquisition emerged over the valuation period of one year that could have an influence on the calculated consideration or the original valuation of the assets, liabilities or goodwill estimated at the date of acquisition. In our view, this matter is of significant importance since the recognition and valuation of substantial assets and liabilities are based on estimates and assumptions provided by the Management Board.

With regard to the final reporting of the acquisition in the consolidated financial statements of Mayr-Melnhof Karton Aktiengesellschaft at December 31, 2016, we investigated the events and information that emerged during the assessment period. The basis for this was the final purchase price allocation prepared by Mayr-Melnhof Karton Aktiengesellschaft in the financial year 2016 with the assistance of engaged external consultants. We tested the plausibility of the assumptions involved therein, taking into account information received from the component auditor and the management of the French company and assessed whether any consequences arose from this for the calculated purchase price or recognition and valuation of the identified assets and liabilities. Furthermore, we examined the suitability of the valuation methods applied and the adequacy of the parameters used for calculation.

### **Responsibilities of Management and of the Audit Committee for the Consolidated Financial Statements**

The management is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of section 245 a of the Austrian Commercial Code, for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Austrian Standards on Auditing, which require the application of ISA, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

#### **Furthermore the following principles apply:**

We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

We conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such a communication.

## **Report on Other Legal and Regulatory Requirements**

### **Comments on the Management Report for the Group**

Pursuant to the Austrian Generally Accepted Accounting Principles, the Group management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether it was prepared in accordance with the applicable legal regulations.

The management is responsible for the preparation of the Group's management report in accordance with the Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with the Austrian Standards on Auditing for the audit of the Group's management report.

### **Opinion**

In our opinion, the management report for the group was prepared in accordance with the valid legal requirements and is consistent with the consolidated financial statements. The disclosures pursuant to section 243 a UGB (Austrian Commercial Code) are appropriate.

**Statement**

Based on the findings during the audit of the consolidated financial statements and the obtained understanding concerning the Group and its circumstances, no material misstatements in the Group's management report came to our attention.

**Other Information**

The management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the Group's management report and the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsible Austrian Certified Public Accountant**

The engagement partner on the audit resulting in this independent auditor's report is Christoph Zimmel, Austrian Certified Public Accountant.

Vienna, February 28, 2017

**Grant Thornton Unitreu GmbH**  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Christoph ZIMMEL m. p.

Eginhard KARL m. p.

Austrian Certified Public Accountants

# Statement of the Management Board

according to section 82 (4) of the Austrian Stock  
Exchange Act

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

Vienna, February 28, 2017

## **The Management Board**

Wilhelm Hörmanseder m. p.  
Chairman of the Management Board

Andreas Blaschke m. p.  
Member of the  
Management Board

Gotthard Mayringer m. p.  
Member of the  
Management Board

Franz Rappold m. p.  
Member of the  
Management Board

# Development in the 4<sup>th</sup> Quarter 2016

## QUARTERLY OVERVIEW

### Mayr-Melnhof Group (IFRS, unaudited)

(consolidated, in millions of EUR)	1 <sup>st</sup> Quarter 2016	2 <sup>nd</sup> Quarter 2016	3 <sup>rd</sup> Quarter 2016	4 <sup>th</sup> Quarter 2016	4 <sup>th</sup> Quarter 2015	+/-
Sales	576.0	566.2	571.6	558.9	563.8	-0.9 %
Operating profit	55.2	55.6	49.4	53.5	45.3	+18.1 %
Operating margin (%)	9.6 %	9.8 %	8.6 %	9.6 %	8.0 %	
Profit before tax	53.2	55.7	47.0	53.3	43.8	+21.7 %
Income tax expense	(13.8)	(14.7)	(11.9)	(15.4)	(9.9)	
Profit for the period	39.4	41.0	35.1	37.9	33.9	+11.8 %
Net profit margin (%)	6.8 %	7.2 %	6.1 %	6.8 %	6.0 %	
Basic and diluted earnings per share (in EUR)	1.96	2.05	1.75	1.91	1.72	

The fourth quarter was marked by continuity in the cartonboard division and a strong development in the packaging division, particularly as a result of a favorable product mix.

At 97 %, capacity utilization at MM Karton was at the level of the comparative period of the previous year (4<sup>th</sup> quarter 2015: 96 %). The division's operating margin amounted to 5.6 % (4<sup>th</sup> quarter 2015: 6.2 %).

MM Packaging achieved an operating margin of 11.7 % following 8.8 % in the fourth quarter of 2015.

Consolidated sales at EUR 558.9 million were slightly below the value of the previous year's period (4<sup>th</sup> quarter 2015: EUR 563.8 million). Higher sales in the packaging division contrasted with lower sales in the cartonboard division, primarily caused by the country mix at the end of the year.

The Group's operating profit totaled EUR 53.5 million (4<sup>th</sup> quarter 2015: EUR 45.3 million), resulting in an operating margin of 9.6 % (4<sup>th</sup> quarter 2015: 8.0 %).

Profit before tax amounted to EUR 53.3 million after EUR 43.8 million in the final quarter of 2015.

Profit for the period rose to EUR 37.9 million (4<sup>th</sup> quarter 2015: EUR 33.9 million).

# Glossary

## *DEFINITION OF FINANCIAL INDICATORS*

### **Cash earnings**

Sum of profit for the year before depreciation, amortization as well as impairment of property, plant and equipment and intangible assets and before deferred taxes.

### **Cash earnings margin**

Cash earnings divided by sales.

### **EBITDA (Earnings before interest, income taxes, depreciation and amortization)**

Profit before tax excluding net interest income/expenses, the respective profit attributable to non-controlling (minority) shareholders according to IAS 32 as well as depreciation, amortization and impairment of property, plant and equipment and intangible assets.

### **EBITDA margin**

EBITDA divided by sales.

### **Employees**

Employees at the year end, including apprentices and part-time employees on a pro-rata basis.

### **Enterprise value**

The sum of market capitalization and non-controlling (minority) interests subtracted by net debt (see definition net debt/net liquidity).

### **Total equity and non-current liabilities to PPE**

The sum of total equity and non-current liabilities divided by property, plant and equipment.

### **Total equity to total assets**

Total equity divided by total assets.

### **Net debt/net liquidity**

The sum of current and non-current interest-bearing financial liabilities including liabilities from finance lease less cash and cash equivalents as well as current and non-current securities.

In case the sum of cash and cash equivalents as well as securities exceeds financial liabilities, there is net liquidity. An existing net liquidity is not considered for the calculation of the enterprise value.

**Net profit margin**

Profit for the year divided by sales.

**Operating margin**

Operating profit divided by sales.

**Property, plant and equipment to total assets**

Property, plant and equipment divided by total assets.

**Return on assets (ROA)**

The sum of profit for the year, interest expense and the respective profit attributable to non-controlling (minority) shareholders according to IAS 32 divided by average total assets.

**Return on capital employed (ROCE)**

Profit before tax, excluding net interest income/expenses and excluding the respective profit attributable to non-controlling (minority) shareholders according to IAS 32, divided by the sum of average total equity, average current and non-current interest-bearing financial liabilities including liabilities from finance lease, average provisions for non-current liabilities and charges and average obligations with regard to non-controlling (minority) shareholders according to IAS 32, less average cash and cash equivalents as well as current and non-current securities.

**Return on equity (ROE)**

Profit for the year divided by average total equity.

**Return on investment (ROI)**

The sum of profit for the year, interest expenses and the respective profit attributable to non-controlling (minority) shareholders according to IAS 32 divided by the sum of average total equity plus average current and non-current interest-bearing financial liabilities including liabilities from finance lease.

**Sheet equivalent**

Production volume in sheets of offset printing and running meters of gravure printing and flexographic converted into a standardized unit.

**Working capital**

The sum of total current assets and non-current securities less total current liabilities (excluding revolving bank debt).

# Group Key Indicators

	2012	2013	2014	2015	2016
<b>Development of sales</b> (in millions of EUR)					
Total sales	2,293.1	2,343.3	2,455.6	2,567.7	<b>2,659.5</b>
less intersegment sales between the divisions	(105.5)	(104.0)	(103.2)	(102.5)	<b>(102.9)</b>
less intersegment sales in the divisions	(235.4)	(239.9)	(265.0)	(283.7)	<b>(283.9)</b>
Consolidated sales	1,952.2	1,999.4	2,087.4	2,181.5	<b>2,272.7</b>
<b>Earnings data</b> (in millions of EUR)					
Net value added	531.2	536.6	564.8	601.6	<b>650.8</b>
EBITDA	254.8	252.3	270.6 <sup>3)</sup>	298.7	<b>314.0</b>
Operating profit	170.5	165.4	180.2	199.9	<b>213.7</b>
Profit for the year	120.3	122.9	131.6	142.1	<b>153.4</b>
Cash earnings	204.8	204.1	221.3 <sup>3)</sup>	238.4	<b>256.3</b>
<b>Depreciation / capital expenditures</b> (in millions of EUR)					
Depreciation, amortization and impairment <sup>1)</sup>	85.8	89.6	93.9	99.6	<b>99.1</b>
Capital expenditures	102.7	116.2	139.8	128.0	<b>144.2</b>
<b>Employees</b>	8,836	9,477	9,399	9,938	<b>9,927</b>
<b>Profitability indicators</b>					
Return on equity	11.7 %	11.3 %	11.9 %	12.7 %	<b>12.8 %</b>
Return on assets	8.2 %	7.8 %	7.9 %	8.3 %	<b>8.4 %</b>
Net profit margin	6.2 %	6.1 %	6.3 %	6.5 %	<b>6.7 %</b>
EBITDA margin	13.1 %	12.6 %	13.0 % <sup>3)</sup>	13.7 %	<b>13.8 %</b>
Operating margin	8.7 %	8.3 %	8.6 %	9.2 %	<b>9.4 %</b>
Cash earnings margin	10.5 %	10.2 %	10.6 % <sup>3)</sup>	10.9 %	<b>11.3 %</b>
Return on capital employed	17.5 %	15.4 %	15.5 %	16.1 %	<b>15.9 %</b>
Return on investment	11.1 %	10.4 %	10.5 %	10.9 %	<b>11.0 %</b>
<b>Balance sheet indicators</b>					
Total equity to total assets	65.5 %	65.3 %	61.7 %	60.2 %	<b>63.5 %</b>
Property, plant and equipment to total assets	37.9 %	39.0 %	39.0 %	40.0 %	<b>40.0 %</b>
Total equity and non-current liabilities to property, plant and equipment	2.1	2.0	2.0	2.0	<b>2.0</b>
Working capital (in millions of EUR)	603.9	586.6	614.6	615.7	<b>710.5</b>
<b>Financial indicators</b>					
Net liquidity (+) / Net debt (-) (in millions of EUR)	178.0	133.9	58.3	-35.0	<b>-7.2</b>
<b>Share performance indicators</b> (in EUR)					
Enterprise value (in millions of EUR)	1,623.6	1,810.1	1,730.6	2,263.6	<b>2,013.6</b>
Basic and diluted earnings per share	6.00	6.11	6.54	7.08	<b>7.67</b>
Dividend per share	2.25	4.80 <sup>2)</sup>	2.60	2.80 <sup>4)</sup>	<b>3.00<sup>5)</sup></b>

<sup>1)</sup> of property, plant and equipment and intangible assets

<sup>2)</sup> incl. anniversary bonus of EUR 2.40

<sup>3)</sup> adjusted according to definition (see glossary)

<sup>4)</sup> thereof EUR 1.60 interim dividend per share

<sup>5)</sup> proposed for 2016

The information regarding the financial year 2012 has been adjusted due to the adoption of the revised standard IAS 19 and other reclassifications, where required, to ensure full comparability.

*FINANCIAL CALENDAR 2017*

April 16, 2017	Record date "Ordinary Shareholders' Meeting"
April 26, 2017	23 <sup>rd</sup> Ordinary Shareholders' Meeting – Vienna
May 2, 2017	Ex-dividend day
May 3, 2017	Record date "Dividends"
May 9, 2017	Dividend payment date
May 18, 2017	Results for the 1 <sup>st</sup> quarter of 2017
August 17, 2017	Results for the 1 <sup>st</sup> half-year of 2017
November 15, 2017	Results for the first three quarters of 2017

The English version of this annual report is a translation of the original German text. In case of doubt, the German version takes precedence.

The annual reports and interim reports can be requested from the Company and are also available on the Internet.

The financial statements of Mayr-Melnhof Karton AG prepared in accordance with Austrian Financial Reporting Standards were audited together with the management report by Grant Thornton Unitreu GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, and were approved without qualification. The financial statements have been submitted to the registrar of companies at the Vienna Commercial Court under registration number 81906a and will be published in the "Amtsblatt zur Wiener Zeitung" (Official Federal Gazette) as well as on the website of the Company.

We have prepared this report and reviewed the figures with the greatest possible care. Nevertheless, rounding, typographical and printing errors cannot be excluded. The aggregation of rounded amounts and percentages may result in rounding differences due to the use of automated computational aids. This report also contains forward-looking estimates and statements based on the information currently available to us. Please note that a wide variety of factors could cause actual circumstances – and hence actual results – to deviate from the expectations contained in this report.

Statements referring to people are valid for both men and women.

Website: <http://www.mayr-melnhof.com>

Cover: Silvawhite, 250g/m<sup>2</sup>, Mayr-Melnhof Eerbeek B.V., Netherlands



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