Mondi Finance plc

(Registration number: 05916680)

ANNUAL REPORT & FINANCIAL STATEMENTS

for the year ended 31 December 2018

Introduction

The Mondi Finance plc financial statements have been prepared in compliance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") and the requirements of the UK Companies Act 2006.

Mondi Finance plc is a public company limited by shares, incorporated in the United Kingdom and registered in England and Wales. The Company's ultimate parent company and ultimate controlling entity is Mondi plc. The Mondi Group Integrated report and financial statements 2018 are available at: www.mondigroup.com.

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Registered Address

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United Kingdom
KT15 2PG

Bankers

Deutsche Bank AG
Winchester House
1 Great Winchester Street
London
United Kingdom
EC2N 2DB

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
1 Embankment Place
London
United Kingdom
WC2N 6RH

Strategic report

Main business and operations

Mondi Finance plc (the "Company"), is a wholly-owned subsidiary of the Mondi Group (the "Group"), the ultimate parent company being Mondi plc.

The Company is a finance company with its principal activity being to provide financing and associated arrangements to companies within the Group. There have been no significant changes in the Company's principal activities during the year and the directors do not envisage any significant changes in the Company's activities in the foreseeable future.

The Company currently has two €500 million and one €600 million Eurobond outstanding at 31 December 2018 and is able to issue further Eurobonds under its existing €2.5 billion Euro Medium Term Note programme ("EMTN") subject to market conditions.

The Company's finance costs are disclosed in the Group's Integrated report and financial statements. The Company's directors believe that further key performance indicators of the Company are neither necessary nor appropriate for an understanding of the development, performance or position of the business.

The Company made a loss after tax for the financial year of €4.5 million (2017: profit of €3.4 million). The decrease in profit for the 2018 year was principally driven by the €3 million decrease in net interest income, a €2 million decrease in foreign exchange gain as well as a €2 million increase in fair value loss on foreign currency derivatives. An impairment provision of €1.8 million has been recognised in 2018 (2017: € nil) based on the expected credit losses for these financial assets.

Going concern

The Company will continue to act in line with its principal business activities and continue to act as a financing company for the Group. The directors believe that the Company will continue to be a going concern into the foreseeable future and have adopted the going concern basis of accounting.

Dividends

No dividend was declared and paid in 2018 (2017: none). The directors have not recommended any further dividends.

Risk management

The most important components of the Company's financial risk are interest rate risk, currency risk, credit risk and liquidity risk. The Company also enters into commodity contracts which are executed on a back-to-back basis with other Group companies and as such, it has no net exposure to commodity risk. Due to the Company's business and considering the assets and liabilities on the Company's balance sheet, the principal financial risks the directors consider relevant are currency and interest rate risk. The Company has entered into foreign currency swaps to hedge the foreign currency risk related to intercompany loans and other foreign exchange positions and, when deemed necessary, interest rate swaps to manage the Company's exposure to fluctuations in interest rates.

The Company meets its funding requirements from a variety of sources including three Eurobonds and a syndicated revolving credit facility which expires in July 2021. The availability of some facilities is dependent on the Group meeting certain financial covenants, all of which have been complied with. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate well within the level of its current facilities and related covenants.

Approved by the board of directors on 17 June 2019 and signed on behalf of the board by:

J C Paterson

Director

Directors' report

The directors submit their Annual Report together with the audited financial statements for the year ended 31 December 2018.

Company number

05916680

Directors

The directors who held office during the year and to the date of this report were as follows:

J L Hampshire (Company secretary)
A C W King
M A McHugh
J C Paterson

The Company's ultimate parent company, Mondi plc, made qualifying third party indemnity provisions for the benefit of the directors which remain in force at the date of this report.

Events occurring after 31 December 2018

There have been no material reportable events since 31 December 2018.

Information set out in the Strategic report

Disclosures relating to the following items have been included in the Strategic report which can be found on page 2:

- dividend payments and recommendations;
- financial risk management objectives, policies and related exposures to interest rate, currency, credit and liquidity risk; and
- likely future developments in the business of the Company.

Statement as to disclosure of information to auditors

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditors

PricewaterhouseCoopers LLP has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General meeting.

Approved by the board of directors on 17 June 2019 and signed on behalf of the board.

JL Hampshire

Company secretary

Directors’ responsibility statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 (Reduced Disclosure Framework) has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Mondi Finance plc (the "Company")

Report on the audit of the financial statements

Opinion

In our opinion, Mondi Finance plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2018; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

Materiality	- Overall materiality: €27 million (2017: €25 million), based on 1% of total assets
Audit scope	- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates. - The Company's principal activity is to conduct financing activities for the Mondi Group. Our detailed procedures are tailored to test material financial statement line items, together with the related financial statement disclosures.
Key audit matters	- Existence and valuation of external borrowings - Existence and valuation of intercompany balances.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the compliance with debt covenants on external borrowings, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the misappropriation of assets combined with unauthorised payments made through the treasury function.

Independent auditors' report to the members of Mondi Finance plc (continued)

Capability of the audit in detecting irregularities, including fraud (continued)

Audit procedures performed by the engagement team included:

- Performing substantive testing over journals posted by management based on a variety of risk criteria arising from our fraud risk assessment.
- Confirming the existence and value of external borrowings, cash and derivatives from financial institutions.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Existence and valuation of external borrowings The Company issues external borrowings on behalf of Mondi plc and fellow Mondi Group companies. This is the Company's principal activity and therefore a key audit matter. As at 31 December 2018 €1,987 million of external borrowings was held by the Company. Refer to notes 12 of the financial statements.	Our approach in respect of external borrowings involved reading existing contracts, procedures to validate maturity and issuance of bonds during the year, and ensuring covenant compliance. Through reading board minutes, discussions with management and obtaining confirmations we verified that the only new debt arrangements entered into during the year related to the issuance of a €600 million Eurobond. Confirmations for the existence and value of each external borrowing were obtained from each financial institution. Based on the procedures performed, we noted no material issues from our work.
Existence and valuation of intercompany balances The Company issues external borrowings on behalf of Mondi plc and fellow Mondi Group companies and lends the proceeds to fellow Group companies. This is the Company's principal activity and therefore a key audit matter. As at 31 December 2018, the Company had debtors due from Group undertakings of €1,430 million and loans receivable from Group undertakings of €1,998 million. In addition the Company has amounts owed to Group undertakings of €796 million and borrowings from Group undertakings of €220 million. Refer to notes 8, 9, 11,12 and 20 to the financial statements.	Our approach in respect of intercompany balances was underpinned by the testing of controls over the intercompany process to agree balances with fellow Mondi Group companies. We agreed the intercompany balances to respective counterparties by inspecting the intercompany mismatch report, and assessing evidence obtained related to mismatches identified related to the Company. We also substantively tested the classification of the intercompany balances by obtaining and reading loan contracts. We evaluated management's assessment of the recoverability of intercompany debtors and loans receivable from Group undertakings and reviewed an assessment of the ability of other Group companies to repay by comparison to net assets or forecast financial results of the counterparty Based on the procedures performed, we noted no material issues from our work.

How we tailored the audit scope

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

Independent auditors' report to the members of Mondi Finance plc (continued)

Materiality

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

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

Overall materiality	€27 million (2017: €25 million).
How we determined it	Based on 1% of total assets
Rationale for benchmark applied	The Company is a group treasury entity whose sole purpose is to support the group funding strategy and manage the various loan and cash arrangements of Mondi Group.

We agreed with the directors that we would report to them misstatements identified during our audit above €1 million (2017: €1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report to the members of Mondi Finance plc (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibility statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the directors, we were appointed on 11 May 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2017 to 31 December 2018.

Andrew Kemp (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

17 June 2019

Profit and loss account
for the year ended 31 December 2018

€ thousand	Note	2018	2017
Administrative expenses		(2,271)	(3,034)
Operating loss	2	**(2,271)**	(3,034)
Interest receivable and similar income	4	70,256	69,663
Foreign exchange (loss)/gain	5	(522)	3,010
Interest payable and similar expenses	6	(70,999)	(65,232)
Profit before taxation		**(3,536)**	4,407
Tax on (loss)/profit	7	(991)	(1,022)
(Loss)/profit for the financial year		**(4,527)**	3,385

Statement of comprehensive income
for the year ended 31 December 2018

€ thousand	2018	2017
(Loss)/profit for the financial year	(4,527)	3,385
Items that may subsequently be reclassified to profit or loss		
Cash flow hedges : amounts recycled to the profit and loss account	189	257
Total comprehensive (expense)/income for the year	**(4,338)**	3,642

Balance sheet
as at 31 December 2018

€ thousand	Note	2018	2017
Debtors	8	1,430,440	691,652
Loans receivable	9	1,995,735	1,786,568
Cash at bank and in hand		14,142	14,000
Derivative financial instruments	10	2,886	7,666
Total current assets		**3,443,203**	2,499,886
Other creditors	11	(813,435)	(639,681)
Borrowings	12	(377,074)	(347,014)
Derivative financial instruments	10	(11,917)	(9,356)
Total current liabilities		**(1,202,426)**	(996,051)
Borrowings	12	(1,830,236)	(1,088,956)
Total non-current liabilities		**(1,830,236)**	(1,088,956)
Total liabilities		**(3,032,662)**	(2,085,007)
Net assets		**410,541**	414,879
Equity			
Share capital	14	50,000	50,000
Cash flow hedge reserve	15	(813)	(1,002)
Profit and loss account		361,354	365,881
Total shareholder's funds		**410,541**	414,879

These financial statements on pages 9 to 20 were approved by the board of directors on 17 June 2019.

They were signed on behalf of the board by:

J C Paterson

Director

Company Number : 05916680

Statement of changes in equity
for the year ended 31 December 2018

€ thousand	Share Capital	Profit and loss account	Cash flow hedge reserve	Total equity
At 1 January 2017	50,000	362,496	(1,259)	411,237
Total comprehensive income for the year	—	3,385	257	3,642
At 31 December 2017	50,000	365,881	(1,002)	414,879
Total comprehensive expense for the year	—	(4,527)	189	**(4,338)**
At 31 December 2018	**50,000**	**361,354**	**(813)**	**410,541**

Notes to the financial statements
for the year ended 31 December 2018

1 Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (“FRS 100”). Accordingly, for the year ended 31 December 2018 the financial statements have been prepared in accordance with Financial Reporting Standard 101, ‘Reduced Disclosure Framework’ (“FRS 101”) and the UK Companies Act 2006. The Company is domiciled in the United Kingdom.

The financial statements are prepared on the historical cost basis, modified by the revaluation of financial instruments held at fair value through profit and loss. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are described in note 20. They have all been applied consistently throughout the year and the preceding year, with IFRS 9 being adopted in the current year.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective and related party transactions.

Where required, equivalent disclosures are given in the Group financial statements of Mondi plc. The Group financial statements are available to the public and can be obtained as set out in note 19.

The financial statements are separate financial statements and have been prepared on a going concern basis.

Critical accounting judgements and key estimates

The preparation of the Company’s financial statements includes the use of estimates and assumptions. Although the estimates used are based on management’s best information about current circumstances and future events and actions, actual results may differ from those estimates.

The most significant estimates and judgements are:

- Recoverability of intercompany debtors – the Company assesses the recoverability of intercompany debtors on an annual basis, as well as assessing the need to raise expected credit losses on these financial assets. The financial results and forward looking cashflows of intercompany debtors are used as part of this assessment – refer to notes 8 & 9.
- Fair value of derivatives – the Company values its outstanding derivatives at each reporting date with the valuation based on the present value of expected net cash flows arising from the outstanding derivative. Management's judgement is exercised in determining the discount rate and relevant exchange rates used in the valuations – refer to note 10.

2 Operating loss

Operating loss is stated after charging:

€ thousand	2018	2017
Mondi plc management fees	1,904	2,566

None of the directors received any remuneration during the year (2017: €nil) in respect of their services to the Company and the Company had no employees during the current and prior years.

3 Auditors' remuneration

Fees payable to PricewaterhouseCoopers LLP for the audit of the Company’s annual financial statements of €21,543 (2017: €21,000) have been borne by Mondi plc, the Company’s ultimate parent company. £50,306 non-audit service fees have been paid to PricewaterhouseCoopers LLP during the 2018 financial year (2017: nil).

4 Interest receivable and similar income

€ thousand	2018	2017
Interest receivable		
Loans and receivables owed by Group undertakings	69,479	68,911
Bank deposits	777	752
Total	**70,256**	69,663

Notes to the financial statements (continued)
for the year ended 31 December 2018

5 Foreign exchange (loss) / gain

€ thousand	2018	2017
Foreign exchange gain	26,980	28,913
Fair value loss on foreign currency derivatives	(27,502)	(25,903)
Total	**(522)**	3,010

6 Interest payable and similar expenses

€ thousand	2018	2017
Interest payable		
On loans, overdrafts and bonds	39,834	38,702
To other Group undertakings	29,352	26,530
Receivable impairment	1,813	—
Total	**70,999**	65,232

7 Tax on (loss) / profit

Analysis of tax charge for the year

€ thousand	2018	2017
Corporation tax		
Foreign withholding tax	991	1,022
Total tax charge for the year	**991**	1,022

Factors affecting tax charge for the year

The Company's total tax charge for the year can be reconciled to the tax on the Company's (loss)/profit before tax at the average UK corporation tax rate of 19% (2017: 19.25%), as follows:

€ thousand	2018	2017
(Loss)/Profit before tax	**(3,536)**	4,407
Tax on (loss)/profit before tax calculated at the average UK corporation tax rate of 19.00% (2017: 19.25%)	**(672)**	(848)
Tax effect of non-taxable income	672	(848)
Withholding tax recognised	991	1,022
Total tax charge for the year	**991**	1,022

8 Debtors

€ thousand	2018	2017
Amounts falling due within one year:		
Amounts owed by Group undertakings	1,430,301	691,429
Prepayments and accrued income	137	205
Other debtors	2	18
Total	**1,430,440**	691,652

There are no debtor balances past due as at the reporting date (2017: €nil). The allowance for doubtful debtors is €nil (2017: €nil).

9 Loans receivable

€ thousand	2018	2017
Financial assets carried at amortised cost:		
Loans to Group undertakings	1,995,735	1,786,568
Total	**1,995,735**	1,786,568

An impairment provision of €13.0 million (2017: €11.1 million) has been recognised based on the expected credit losses for these financial assets.

Interest is charged at a rate based on the Company's average cost of debt and adjusted for local country interest rates.

10 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including foreign exchange forward contracts and when deemed necessary, interest rate swaps. Derivatives are classified as current or non-current depending on their maturity. They are not used for speculative purposes.

Foreign exchange risk

The Company uses currency spot, forward and swap transactions to limit the effects of movements in exchange rates on foreign currency denominated assets and liabilities.

Interest rate risk

When deemed necessary, the Company uses interest rate swap contracts to manage its exposure to interest rate fluctuations on a portion of its existing debt.

Non-hedge transactions

Where the Company has chosen not to designate derivatives as hedges, fair value changes are recognised through the profit and loss account and are classified within foreign exchange gain/loss.

All derivatives are held at fair value through profit and loss. The fair value of derivative financial instruments is as follows:

€ thousand	2018		2017	
	Asset	Liability	Asset	Liability
Derivatives carried at fair value through profit or loss (FVTPL)				
Held for trading derivatives that are not designated in hedge accounting relationships:				
Foreign exchange contracts	2,886	(11,917)	7,666	(9,356)
Total	**2,886**	**(11,917)**	7,666	(9,356)

Further details of derivative financials instruments are provided in note 16.

11 Other creditors

€ thousand	2018	2017
Amounts owed to Group undertakings	795,998	629,212
Interest payable	16,796	10,076
Other accruals	641	393
Total	**813,435**	639,681

12 Borrowings

2018/€ thousand	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Borrowings from Group undertakings	220,141	—	—	—	220,141
Bonds	—	499,425	—	1,092,709	1,592,134
Syndicated credit facility	—	—	184,454	—	184,454
Other external borrowings	123,469	11,790	27,572	14,287	177,118
Bank overdrafts	33,464	—	—	—	33,464
Total borrowings	**377,074**	**511,215**	**212,026**	**1,106,996**	**2,207,311**

2017/€ thousand	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Borrowings from Group undertakings	262,984	—	—	—	262,984
Bonds	—	—	499,111	496,263	995,374
Syndicated credit facility	—	—	16,907	—	16,907
Other external borrowings	31,985	23,681	29,184	23,810	108,660
Bank overdrafts	52,045	—	—	—	52,045
Total borrowings	347,014	23,681	545,202	520,073	1,435,970

All borrowings are unsecured and recorded at amortised cost. The outstanding unamortised discount amount related to the Company's bond issues is €3.2 million (2017:€1.8 million). The outstanding unamortised debt issuance cost is €5.6 million (2017: €4.5 million). The principal loan arrangements in place include the following:

€ thousand	Maturity	Interest rate	Facility Amount	
		%	2018	2017
Financing facilities				
Syndicated Revolving Credit Facility	July 2021	EURIBOR/LIBOR + margin	750,000	750,000
€500 million Eurobond	September 2020	3.38%	500,000	500,000
€500 million Eurobond	April 2024	1.500%	500,000	500,000
€600 million Eurobond	April 2026	1.625%	600,000	—
European Investment Bank Facility	June 2025	EURIBOR + margin	61,905	71,429

The €500m 2020 Eurobond contains a step-up clause whereby the coupon will be increased by 1.25% per annum if Mondi Group fails to maintain at least one investment grade credit rating from either Moody's Investors Service or Standard & Poor's. Mondi Group currently has investment grade credit ratings from both Moody's Investors Service (Baa1, outlook Stable) and Standard & Poor's (BBB+, outlook Stable).

Notes to the financial statements (continued)
for the year ended 31 December 2018

13 Deferred tax

The Company has the following gross amounts in respect of which no deferred tax asset has been recognised:

€ thousand	2018	2017
At 1 January	22,068	22,325
Loss true-up for prior year tax return	—	—
Tax losses utilised	—	—
Other unrecognised timing differences	(189)	(257)
At 31 December	**21,879**	22,068

€ thousand	2018	2017
The gross deferred tax asset not recognised is presented as follows:		
Tax losses not recognised	21,066	21,066
Other unrecognised timing differences	813	1,002
At 31 December	**21,879**	22,068

The tax losses may be carried forward indefinitely.

14 Share capital

€ thousand	2018	2017
Issued, called up and fully paid		
50,000,000 ordinary shares of €1 each (2017: 50,000,000 ordinary shares of €1 each)	50,000	50,000

15 Cash flow hedge reserve

€ thousand	2018	2017
Balance at 1 January	(1,002)	(1,259)
Losses recycled to income	189	257
At 31 December	**(813)**	(1,002)

The cash flow hedge reserve represents the pre hedging of the bonds, and is amortised to the profit and loss account over the life of the bonds.

Gains and losses transferred from the hedging reserve into profit or loss during the year are included in the following line items in the profit and loss account:

€ thousand	2018	2017
Interest payable on loans, overdrafts and bonds	(189)	(257)

16 Financial instruments

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices .
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analyses using prices from observable current market transactions and dealer quotes for similar instruments.

16 Financial instruments (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value (continued)

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

- Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

17 Related party transactions

The Group and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with joint ventures, associates and others in which the Group has a material interest. These transactions are under terms that are no less favourable than those arranged with third parties.

The following shows transactions and balances with companies which are not wholly-owned by Mondi plc or Mondi Limited:

€ thousand	2018	2017
Loans to related parties	39,679	36,807
Payables due to related parties	(127,911)	(133,518)
Interest received from related parties	1,325	1,270
Interest paid to related parties	(8)	(2)

18 Events occurring after 31 December 2018

There have been no material reportable events since 31 December 2018.

19 Ultimate parent undertaking

The immediate parent company and controlling party is Mondi Investments Limited, a Company incorporated in Great Britain and registered in England and Wales. Copies of the financial statements of Mondi Investments Limited may be obtained from the directors, Building 1, 1st Floor, Aviator Park, Station Road, Addlestone, Surrey KT15 2PG.

The ultimate parent company and ultimate controlling entity is Mondi plc, a Company incorporated in Great Britain and registered in England and Wales. Mondi plc is the parent undertaking of the largest and smallest group which includes the Company and for which Group financial statements are prepared. Financial statements for Mondi plc may be obtained from the Company secretary, Building 1, 1st Floor, Aviator Park, Station Road, Addlestone, Surrey KT15 2PG.

20 Accounting policies

Basis of preparation

Going concern

After making enquiries, the directors have formed a judgement that, at the time of approving the financial statements and having considered the Company's forecasts, projections and support from the parent company, there is a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Foreign currency transactions

The financial statements are presented in Euros, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Foreign currency transactions are recorded in the functional currency at the exchange rates ruling on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the reporting date. Gains and losses arising on translation are included in the profit and loss account and are classified as either operating or financing depending on the nature of the monetary item giving rise to them.

20 Accounting policies (continued)

Interest income

Interest income (note 4)
Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the applicable effective interest rate.

Tax (note 7)

The tax expense represents the sum of the current tax charge and the movement in deferred tax.

Current tax
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Company's financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date. The carrying amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered within a reasonable period of time. Similarly, it is increased to the extent that it is probable that sufficient taxable profit will be available in the future for all or part of the deferred tax asset to be recovered within a reasonable period of time.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to other comprehensive income and accumulated in equity, in which case the deferred tax is also taken directly to other comprehensive income and accumulated in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Financial instruments (note 16)

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

The Company has adopted IFRS 9, 'Financial Instruments', on 1 January 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial asset investments (note 9)
Investments, other than investments in subsidiaries and associates, are either classified as financial assets at amortised cost or at fair value through other comprehensive income.

Investments held for trading are initially recorded at fair value. They are subsequently remeasured at each reporting date to fair value. Any unrealised gains and losses are recognised in other comprehensive income and deferred in equity until an investment is disposed of or impaired, at which time the cumulative gain or loss deferred in equity is included in the profit and loss account.

Loans and receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairments

20 Accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments of a maturity of three months or less from the date of acquisition that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short-term borrowings in current liabilities in the balance sheet.

Trade debtors and creditors (notes 8 and 11)
Trade debtors and creditors are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method.

Borrowings (note 12)
Interest bearing loans and overdrafts are initially recognised at fair value, net of direct transaction costs. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the term of the borrowings using the effective interest rate method.

Borrowing costs (note 6)
Where financial liabilities are measured at amortised cost using the effective interest method, interest expense is recognised on an effective yield basis in profit or loss within finance costs.

All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

Impairment of trade debtors
As per the newly adopted IFRS 9, a simplified lifetime Expected Credit Loss (ECL) model is used to assess trade debtors for impairment. ECL is the present value of all cash shortfalls over the expected life of a trade receivable. Expected credit losses are based on historical loss experience on trade debtors, adjusted to reflect information about current economic conditions and reasonable and supportable forecasts of future economic conditions. At the date of initial recognition, the credit losses expected to arise over the lifetime of a trade receivable are recognised as an impairment through the profit and loss account.

Derivative financial instruments and hedge accounting (note 10)

The Company enters into forward, option and swap contracts in order to hedge its exposure to foreign exchange, interest rate and commodity price risks. The Company does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and subsequently held at fair value in the balance sheet within derivative financial instruments, and are classified as current or non-current depending on the maturity of the derivative.

Changes in the fair value of derivative instruments that are not formally designated in hedge relationships are recognised immediately in the profit and loss account and are classified within operating profit or net finance costs, depending on the type of risk to which the derivative relates.

Cash flow hedges
The effective portion of changes in the fair value of derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. If the cash flow hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in the Company's cash flow hedge reserve in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of a non-financial asset or a non-financial liability, amounts deferred in the Company's cash flow hedge reserve in equity are recognised in the profit and loss account in the same period in which the hedged item affects profit and loss on a proportionate basis.

Fair value hedges
For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the profit and loss account. Gains or losses from remeasuring the associated derivative are also recognised in the profit and loss account.

Ineffective, expired, sold, terminated or exercised hedging instruments
Hedge accounting is discontinued when the hedge relationship is revoked or the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised in the profit and loss account when the forecast transaction is ultimately recognised. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss deferred in equity is included immediately in the profit and loss account.