**Mondi plc**

(Incorporated in England and Wales)
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# Full year results for the year ended 31 December 2019

## Highlights

- **Robust financial performance**
    - Underlying EBITDA of €1,658 million, with margin of 22.8%
    - Operating profit of €1,221 million
    - Cash generated from operations of €1,635 million
    - ROCE of 19.8%
    - Strong balance sheet at 1.3x net debt to 12-month trailing underlying EBITDA
    - Recommended full year ordinary dividend of 83.0 euro cents per share, up 9%
- **Strong cost control across the Group**
- **Good contribution from capital investments and acquisitions completed in 2018**
- **Capital investment pipeline to deliver further growth**
- **Simplification of corporate structure completed**
- **Uniquely positioned as a manufacturer of paper and flexible plastic packaging to help our customers transition to more sustainable packaging - paper where possible, plastic when useful**
- **Delivering against our 2020 Growing Responsibly commitments and updated science-based climate commitment**

## Financial summary[1]

| € million, except for percentages and per share measures | Year ended 31 December 2019 | Year ended 31 December 2018 | Change % | Six months ended 31 December 2019 | Six months ended 31 December 2018 | Change % |
|---|---|---|---|---|---|---|
| Group revenue | **7,268** | 7,481 | (3) | **3,497** | 3,754 | (7) |
| Underlying EBITDA[2] | **1,658** | 1,764 | (6) | **764** | 912 | (16) |
| Underlying operating profit[2] | **1,223** | 1,318 | (7) | **544** | 688 | (21) |
| Operating profit | **1,221** | 1,192 | 2 | **542** | 662 | (18) |
| Profit before tax | **1,103** | 1,105 | — | **471** | 615 | (23) |
| **Per share measures** | | | | | | |
| Basic underlying earnings per share[2] (euro cents) | **171.1** | 189.1 | (10) | | | |
| Basic earnings per share (euro cents) | **167.6** | 170.1 | (1) | | | |
| Total ordinary dividend per share (euro cents) | **83.0** | 76.0 | 9 | | | |
| Cash generated from operations | **1,635** | 1,654 | (1) | | | |
| Net debt[2] | **2,207** | 2,220 | | | | |
| Underlying EBITDA margin[2] | **22.8%** | 23.6% | | | | |
| Return on capital employed (ROCE)[2] | **19.8%** | 23.6% | | | | |

Notes:

1 As previously announced, the Group reorganised its business units to strengthen value chain integration and improve customer focus effective from 7 October 2019. Comparative business unit figures in this document have been restated to reflect the new organisational structure. The reorganisation had no impact on the overall Group result.

2 The Group presents certain measures of financial performance, position or cash flows that are not defined or specified according to International Financial Reporting Standards (IFRS). These measures, referred to as Alternative Performance Measures (APMs), are defined at the end of this document and where relevant, reconciled to IFRS measures in the notes to the condensed consolidated financial statements.

## Andrew King, Mondi Group Chief Executive Officer designate, said:

**"Mondi delivered a robust performance in 2019 against a backdrop of challenging trading conditions, with underlying EBITDA of €1,658 million and ROCE of 19.8%. A solid operational performance, strong cost control and a good contribution from acquisitions and capital investment projects, partially offset the effects of market pressures in a number of key pulp and paper grades.**

**Our capital investment programme to deliver value accretive growth and enhance the ongoing cost competitiveness of our operations remains on track. Having commissioned the pulp mill rebuild at our Ružomberok mill (Slovakia) in the second half of the year, we are making good progress on the related investment in a new 300,000 tonne kraft top white machine at the same site and previously announced major capital investment projects at our Syktyvkar (Russia) and Štětí (Czech Republic) mills. Smaller expansionary projects underway at a number of our converting packaging operations will further enhance our production capabilities and product offering to customers.**

**We completed the Simplification of our corporate structure from dual listed into a single holding company under Mondi plc in July 2019, simplifying cash and dividend flows, increasing transparency, removing the complexity associated with the previous structure and enhancing our strategic flexibility.**

**Offering sustainable packaging solutions has continued to be core to our strategy. With our unique product portfolio and our EcoSolutions approach, we remain well positioned to support our customers in meeting their sustainability goals with packaging that is sustainable by design - paper where possible, plastic when useful.**

**Looking ahead, we remain confident in the structural growth drivers in the packaging sectors in which we operate. Heightened macro-economic uncertainties are likely to continue to affect markets in the short term and, while we are seeing indications of stability in pricing in certain segments, we start the year with lower prices across our key paper grades. Input cost relief, our ongoing profit improvement programmes and customer-centric innovation initiatives, and the benefits from our capital expenditure pipeline will continue to support our performance.**

**With our robust business model, centred around our high-quality, cost-advantaged asset base, our culture of continuously driving performance and the strategic flexibility our strong cash generation and financial position bring, we continue to look to the future with confidence."**

## Group performance review

Delivering innovative, sustainable packaging solutions for our customers was again a key focus in 2019. We are uniquely positioned, as a manufacturer of paper, but also flexible plastic packaging, to create the best solutions for forward-thinking, consumer brands in collaboration with sustainable materials suppliers and recyclers. During the year we centred our efforts on developing paper-based packaging solutions to replace unnecessary plastic packaging, helping our customers to achieve their own sustainability targets and reduce their environmental footprint. Paper-based packaging is renewable and recyclable which means it is an optimal solution for many of today's applications. When certain functionality barriers are required, plastic-based flexible packaging can deliver many benefits when manufactured, used and disposed appropriately, from reducing food waste through shelf-life extension to resource efficiency.

Underlying EBITDA of €1,658 million was down 6% on the prior year. Strong performances from Flexible Packaging and Engineered Materials helped to mitigate the margin pressures seen in Corrugated Packaging and Uncoated Fine Paper in the face of market driven price decreases.

Group revenue was down 3% as a result of a combination of lower average selling prices and lower sales volumes, in turn primarily due to longer planned maintenance shuts and restructuring initiatives.

Input costs were generally higher year-on-year, although we did see some cost relief in the second half of the year, measured both on a sequential and year-on-year basis. On average, wood costs were higher in local currency terms. We saw higher wood costs in Russia, South Africa and northern Europe, while costs in some countries in central and eastern Europe were lower due to favourable regional wood supply dynamics. Driven by Chinese import policies, average benchmark paper for recycling costs were down 21% on the prior year, with the rate of decline accelerating in the second half of the year. Chemical costs were higher on average versus the prior year, albeit we did see them coming down over the course of the year, while energy costs were lower. Cash fixed costs were higher on average as a result of inflationary cost pressures and mill maintenance shut effects, although again we saw a positive trend over the course of the year.

The impact of planned maintenance shuts on underlying EBITDA in 2019 was around €150 million (2018: €110 million). Based on prevailing market prices, we estimate that the impact of planned maintenance shuts on underlying EBITDA in 2020 will be around €100 million, of which the first half year effect is estimated at around €55 million (2019: €80 million).

Currency movements had a net positive impact on underlying EBITDA versus the comparable prior year period. The negative impact of a weaker Turkish lira on translation of our domestically focused Turkish businesses was more than offset by the benefits to certain of our export orientated businesses of a stronger US dollar and weaker South African rand.

Depreciation and amortisation charges were marginally lower during the period as the effects of acquisitions and our capital investment programme were more than offset by the impact of a revision in the estimated useful lives on certain fixed assets (refer to note 2 of the condensed consolidated financial statements).

Basic underlying earnings of 171.1 euro cents per share were down 10% compared to 2018. After taking the effect of special items into account, basic earnings of 167.6 euro cents per share were down 1% compared to 2018.

The Group remains strongly cash generative with cash generated from operations of €1,635 million (2018: €1,654 million). The impact of lower underlying EBITDA generation was mitigated by a net working capital inflow. Net debt at 31 December 2019 was down to €2,207 million (2018: €2,220 million), 1.3 times (2018: 1.3 times) net debt to 12-month trailing underlying EBITDA, despite capital investments of €757 million or around 187% of depreciation, as we pursue our investment programme to continue to deliver value accretive growth.

Our Board has recommended payment of a final ordinary dividend of 55.72 euro cents per share, bringing the total ordinary dividend for the year to 83.0 euro cents per share, an increase of 9% on 2018.

## Corrugated Packaging

| € million | Year ended 31 December 2019 | Year ended 31 December 2018 | Change % | Six months ended 31 December 2019 | Six months ended 31 December 2018 | Change % |
|---|---|---|---|---|---|---|
| Segment revenue | **2,014** | 2,115 | (5) | **969** | 1,100 | (12) |
| Underlying EBITDA | **583** | 707 | (18) | **286** | 383 | (25) |
| Underlying EBITDA margin | **28.9%** | 33.4% | | **29.5%** | 34.8% | |
| Underlying operating profit | **459** | 582 | (21) | **224** | 317 | (29) |
| Capital expenditure cash payments | **257** | 157 | | **164** | 74 | |
| Operating segment net assets | **2,166** | 2,001 | | | | |
| ROCE | **24.9%** | 34.7% | | | | |

While margins and returns remain strong, underlying EBITDA was down 18% on the prior year to €583 million, with lower average containerboard selling prices and the effects of longer planned maintenance shuts more than offsetting the full year contribution from the acquisition of Powerflute (Finland) completed in 2018 and a strong performance in the downstream corrugated solutions business. Performance in the year was further supported by enhanced value chain alignment and our ongoing profit improvement programme.

Following sharp declines in the first half, containerboard prices stabilised in the third quarter before some further price erosion towards the end of the year. The magnitude of the decreases varied by grade. Average benchmark European prices for unbleached kraftliner were down 11% year-on-year while benchmark recycled containerboard prices were down around 18% year-on-year. Prices in the specialty grades of white top kraftliner and semi-chemical fluting were down around 3% year-on-year. Encouragingly, we saw a deceleration of customer de-stocking and improvement in order books as we progressed through the second half and into the new year. In response to these improved market conditions we are currently in discussions with customers around price increases for unbleached kraftliner and recycled containerboard.

Corrugated Solutions achieved 3% overall box volume growth, with strong growth in central and eastern Europe, underpinned by good demand in fast moving consumer goods, retail, e-commerce and specialised applications. This was partly offset by weaker volumes in Turkey. The business benefited from lower input paper prices while it remained focused on further enhancing its product offering, quality and service to customers and implementing continuous improvement initiatives to reduce conversion costs. Pleasingly, Corrugated Solutions won three 2020 WorldStar[1] awards, building on its success in winning twelve such awards in the prior two years, proof of our ambition to continue delivering innovative solutions that best meet our customers' needs.

Input costs were on average stable year-on-year. Cash fixed costs were modestly higher, driven by maintenance costs and inflationary cost pressures.

As part of our ongoing portfolio review, accelerated by weaker domestic market conditions, we shut a 65,000 tonne per annum recycled containerboard machine at our mill in Tire Kutsan (Turkey) in the second quarter, while continuing to operate the 75,000 tonne per annum machine on-site.

Planned maintenance shuts were completed during the first half of the year at Syktyvkar, Powerflute and Richards Bay (South Africa) and during the second half at Świecie (Poland). A similar maintenance shut plan is scheduled for 2020.

Note:
1 The WorldStar awards are open to packaging organisations from across the world; the competition acknowledges the best ideas, innovations and technologies in the market. Judges look for sustainable solutions to packaging challenges, demonstration of enhanced user convenience and reduced material waste. 2020 winners were announced in December 2019.

## Flexible Packaging

| € million | Year ended 31 December 2019 | Year ended 31 December 2018 | Change % | Six months ended 31 December 2019 | Six months ended 31 December 2018 | Change % |
|---|---|---|---|---|---|---|
| Segment revenue | **2,708** | 2,708 | — | **1,314** | 1,330 | (1) |
| Underlying EBITDA | **543** | 461 | 18 | **239** | 205 | 17 |
| Underlying EBITDA margin | **20.1%** | 17.0% | | **18.2%** | 15.4% | |
| Underlying operating profit | **389** | 301 | 29 | **160** | 125 | 28 |
| Special items | **(4)** | (102) | | **(4)** | (21) | |
| Capital expenditure cash payments | **248** | 360 | | **117** | 196 | |
| Operating segment net assets | **2,603** | 2,442 | | | | |
| ROCE | **15.7%** | 14.3% | | | | |

Underlying EBITDA was up 18% on the prior year to €543 million, with higher average selling prices, positive currency effects and good cost containment more than offsetting lower paper bags volumes.

Kraft paper prices were, on average, up around 6%, compared to the prior year as strong demand growth supported meaningful price increases during the second half of 2018 and into early 2019. Like-for-like sales volumes were higher versus the prior year period with an improved product mix, benefiting from the contribution of recently completed capital investment projects and our product development initiatives. The drive to replace plastic carrier bags with paper-based alternatives and consumer preferences for fibre based primary packaging continues to support good demand across our range of speciality kraft papers. However, slowing economic activity, particularly in the construction related sectors in various export markets, coupled with increased competition, resulted in kraft paper price reductions in the second half and into early 2020.

Paper bags sales volumes were down on a like-for-like basis, due to a combination of pricing discipline and weaker markets, in particular in the Middle East. Price increases were achieved in the early part of 2019 to compensate for higher paper input costs. Strong cost management and the benefit of rationalisation activities resulted in significant fixed cost savings during the period.

Consumer flexibles made progress during the year, benefiting from an improved product mix, previously implemented restructuring initiatives, and good cost control. The business has been focused on innovating with customers and other stakeholders along the value chain to develop recyclable plastic flexible packaging solutions and increase recycled plastic content in new packaging. Further product development and commercialisation will be a focus in 2020 and beyond.

We are pleased Flexible Packaging won two 2020 WorldStar awards for our StripPouch and Protector Bag innovations.

Input costs were stable year-on-year. While cash fixed costs were higher due to inflationary cost pressures and the impact of maintenance shuts, this was mitigated by our cost reduction programmes.

We continue to drive operational excellence initiatives to increase productivity and efficiency and reduce conversion costs. During the year we reorganised our US and Egyptian paper bag operations and streamlined production across our European network. In early 2020, we announced the proposed closure of our two consumer flexibles plants in the UK due to the change in demand for the niche products produced at these sites, leading to a special item charge estimated at over €10 million, of which €4 million was recognised in 2019.

All planned maintenance shuts at the kraft paper mills were completed in the second half of the year. In 2020, the majority of planned maintenance shuts are again scheduled for the second half.

## Engineered Materials

| € million | Year ended 31 December 2019 | Year ended 31 December 2018 | Change % | Six months ended 31 December 2019 | Six months ended 31 December 2018 | Change % |
|---|---|---|---|---|---|---|
| Segment revenue | **979** | 984 | (1) | **461** | 490 | (6) |
| Underlying EBITDA | **122** | 112 | 9 | **66** | 54 | 22 |
| Underlying EBITDA margin | **12.5%** | 11.4% | | **14.3%** | 11.0% | |
| Underlying operating profit | **86** | 73 | 18 | **48** | 35 | 37 |
| Special items | **—** | (3) | | **—** | (2) | |
| Capital expenditure cash payments | **32** | 31 | | **20** | 15 | |
| Operating segment net assets | **612** | 672 | | | | |
| ROCE | **13.8%** | 11.4% | | | | |

Underlying EBITDA of €122 million was up 9% on the prior year.

Engineered Materials benefited from an improved product mix, its continued focus on innovation with customers, previously implemented restructuring initiatives, good cost control and a one-off gain on disposal of a plant in Belgium of €9 million.

Performance in personal care components improved year-on-year, although we expect this area will continue to face pressure going forward as a key product matures. Release liner made progress as it benefited from an improved product mix, pricing discipline and good cost control. Extrusion solutions was impacted by lower like-for-like volumes in certain segments, which were partly offset by the benefits of cost reduction programmes. We continue to see strong demand for sustainable coating solutions for a range of packaging applications, an area of innovation and product development that offers further growth potential.

In September 2019, the Group sold a specialised extrusion coated products plant in Duffel (Belgium) serving customers across protective clothing, imaging, automotive and other speciality products markets. Mondi’s remaining extrusion coatings plants in Europe are primarily focused on consumer and other selected applications.

## Uncoated Fine Paper

| € million | Year ended 31 December 2019 | Year ended 31 December 2018 | Change % | Six months ended 31 December 2019 | Six months ended 31 December 2018 | Change % |
|---|---|---|---|---|---|---|
| Segment revenue | **1,758** | 1,877 | (6) | **845** | 936 | (10) |
| Underlying EBITDA | **444** | 516 | (14) | **190** | 286 | (34) |
| Underlying EBITDA margin | **25.3%** | 27.5% | | **22.5%** | 30.6% | |
| Underlying operating profit | **324** | 395 | (18) | **130** | 227 | (43) |
| Special items | **2** | (21) | | **2** | (3) | |
| Capital expenditure cash payments | **220** | 161 | | **117** | 77 | |
| Operating segment net assets | **1,758** | 1,494 | | | | |
| ROCE | **25.1%** | 31.9% | | | | |

Underlying EBITDA was down 14% to €444 million as the business was impacted by lower average selling prices, longer planned maintenance shuts and higher costs. This was partially compensated for by ongoing profit improvement initiatives, positive currency effects and a higher forestry fair value gain. ROCE remains strong at 25.1% and margins robust at 25.3%.

Uncoated fine paper sales volumes were lower, mainly due to planned extended maintenance shuts and the closure of a small machine in Merebank (South Africa) in 2018. We continue to see ongoing structural decline in demand for uncoated fine paper in mature markets, with demand in Europe estimated to have declined around 5% in 2019. Demand in Russia and South Africa was also softer during the year, although we expect broadly flat demand in the medium term in these markets. Our superior cost position and emerging market exposures continue to provide us with competitive advantage.

Average uncoated fine paper selling prices achieved by our European operations were flat year-on-year but down in the second half as a result of price pressures in European markets and a higher proportion of exports. Uncoated fine paper selling prices in Russia and South Africa were higher year-on-year, offsetting domestic cost inflation.

Average benchmark European bleached hardwood pulp prices were 13% lower than the prior year and 21% down in the second half compared to the first half. Encouragingly, prices have stabilised in early 2020, notably in the key Asian markets. On an annualised basis, and including the pulp sales in our packaging businesses, we estimate the Group's net long pulp position in 2020 will be around 400,000 tonnes.

We saw overall higher input costs, most notably for wood and chemicals while fixed costs were higher due to domestic inflationary cost pressures and the impact of maintenance shuts, partly compensated for by our ongoing cost reduction initiatives.

The forestry assets' fair value is dependent on a variety of external factors over which we have limited control, the most significant being the export price of timber, the exchange rate and domestic input costs. Higher export prices and net volume increases during the period resulted in a forestry fair value gain of €71 million, up €28 million on the prior year, but with the second half gain €33 million below that recognised in the first half of 2019. Based on current market conditions, we would expect a significantly lower forestry fair value gain in 2020 compared with 2019.

Planned maintenance shuts at our Syktyvkar and Richards Bay mills were completed during the first half of the year. In the second half, we completed a project related shut at Ružomberok and smaller planned maintenance shuts at our remaining operations. In 2020, our Syktyvkar and Richards Bay shuts are planned for the first half of the year while the remaining shuts are scheduled for the second half.

## Special items

The net special item charge before tax of €16 million (2018: €126 million) comprised the following by business unit:

- Flexible Packaging
  - Announced closure of two consumer flexibles plants in the UK. Restructuring and closure costs of €1 million and related impairment of assets of €3 million were recognised. Additional restructuring costs will be incurred in 2020 with total costs expected to exceed €10 million.
  - Release of restructuring and closure provisions of €5 million, partly offset by additional restructuring costs of €1 million, and reversal of impairment of assets of €1 million were recognised. All credits/(charges) related to special items from prior years.
  - Additional provision of €5 million relating to the 2012 Nordenia acquisition was recognised. The provision relates to a special item from prior years.
- Uncoated Fine Paper
  - Impairment of the Neusiedler operation in Austria. Impairment of assets of €39 million was recognised.
  - On 13 December 2018 a change in the Austrian Social Security Law was enacted. Effective 1 January 2020, the law states that the plan liabilities of the Group’s Austrian health insurance fund are assumed by the Republic of Austria. The effect of the change in law is classified as a third party taking on the obligation for future contributions which is a one-off non-cash benefit to the Group of €41 million. Further detail is provided in note 13 of the condensed consolidated financial statements.
- Corporate
  - To effect the Simplification of the corporate structure from a dual listed company ('DLC') structure into a single holding company structure under Mondi plc, the Group incurred one-off transaction costs of €20 million, of which €14 million were charged as a financing special item to the condensed consolidated income statement and €6 million were attributed to equity in accordance with IAS 32. Further detail is provided in note 11 of the condensed consolidated financial statements.

Further detail is provided in note 4 of our condensed consolidated financial statements.

## Tax

Our underlying tax charge for the year was €257 million (2018: €273 million) giving an effective tax rate of 23%, in line with our expectations. Tax relief on special items was nil (2018: €34 million).

Assuming a similar geographic profit mix and stable statutory tax rates, we expect our effective tax rate in 2020 to remain around 23%.

## Cash flow

Cash generated from operations of €1,635 million (2018: €1,654 million), reflects the continued strong cash generating capability of the Group.

Working capital as a percentage of revenue was 13.1%, in line with the prior year (13.0%) and within our expected range of 12% to 14%. The net cash inflow from movements in working capital during the year was €35 million (2018: €117 million outflow).

In 2019, capital expenditure amounted to €757 million (2018: €709 million), driven by our major capital expenditure programme. Tax paid of €248 million (2018: €248 million) was in line with the prior year.

Further outflows from financing activities included the payment of ordinary dividends of €396 million (2018: €309 million) and interest paid of €96 million (2018: €73 million).

## Capital investments

Investing in our cost-advantaged asset base to maintain and enhance our competitiveness is of particular importance for our pulp and paper operations where products are generally more standardised and relative cost competitiveness is a key value driver. We focus on driving organic growth, strengthening our cost competitiveness, enhancing our product offering, quality and service to customers and improving our environmental footprint.

Our disciplined approach to investigating, approving and executing capital projects is one of our key strengths and plays an important role in successfully delivering strong returns through the cycle.

During the year, we benefited from the contribution of the Štětí mill modernisation project, completed in late 2018, to replace the recovery boiler, rebuild the fibre lines and debottleneck the existing packaging paper machines. This project provides cost and energy efficiencies, an improved environmental footprint, and additional annual production of 90,000 tonnes of softwood market pulp and 55,000 tonnes of packaging paper once fully ramped up.

We have a focused capital expenditure project pipeline securing future organic growth:

- The investment in a new 300,000 tonne per annum kraft top white machine and related pulp mill upgrade at Ružomberok is making good progress. The pulp mill rebuild was successfully commissioned in the second half of 2019 while the kraft top white machine is expected to start up at the end of 2020.
- The project to convert a containerboard machine at Štětí to be fully dedicated to the production of speciality kraft paper with a mix of recycled and virgin fibre content for shopping bag applications is on track. The investment is supported by the drive to replace plastic carrier bags with paper-based alternatives and allows us to optimise productivity and efficiency at Świecie, where this grade is currently produced. The project will result in an additional 75,000 tonnes per annum of speciality kraft paper capacity while reducing our containerboard capacity by around 30,000 tonnes per annum. Start-up is expected by the end of 2020.
- Our investment programme to debottleneck production and avoid unplanned shuts at our Syktyvkar mill is progressing well, including various upgrades of the mill infrastructure, fibre lines and pulp dryer, and a new evaporation plant.
- We are investing in the modernisation of our Richards Bay mill, including upgrading the energy and chemical plants to improve reliability and avoid unplanned shutdowns.
- We continue to invest in our packaging and Engineered Materials' converting plants to grow with our customers, enhance our product and service offering and reduce conversion costs.

Our recently completed and planned major capital expenditure projects in the Czech Republic, Slovakia and Russia are expected to increase our current saleable pulp and paper production by around 8% when in full operation.

Over the past three years, our major capital projects have cumulatively contributed an estimated €75 million of annual incremental operating profit. The incremental operating profit contribution from capital investment projects in 2019 was around €30 million and we expect to generate a further €40 million in 2020.

Given the approved project pipeline, our capital expenditure is expected to be in the range of €700-800 million in 2020 and €450-550 million in 2021 in the absence of any other major investment.

## Treasury and borrowings

Net debt at 31 December 2019 was €2,207 million, down from €2,220 million at 31 December 2018, reflecting the strong cash generating capacity of our business, while we continue to deliver on our capital investment programme.

The Group's liquidity position remains robust. At the end of the year, €660 million of our €2.5 billion committed debt facilities were undrawn and the weighted average maturity of committed debt facilities was 3.2 years. Gearing at the same date was 33.5% and our net debt to 12-month trailing underlying EBITDA ratio was 1.3 times, well within our key financial covenant requirement of 3.5 times. In February 2020, the Group entered into an additional debt facility with a maturity of 18 months, increasing the undrawn, committed debt facilities available to the Group by €250 million, further strengthening the Group's liquidity position.

The Group's investment grade credit metrics were reaffirmed during the course of the year, at BBB+ and Baa1 for Standard & Poor's and Moody's Investors Service, respectively.

Underlying net finance costs of €104 million were €16 million higher than the previous year. While the effective interest rate was stable at 4.2% (2018: 4.2%), trailing 12-month average net debt of €2,243 million was higher (2018: €1,979 million) as a result of the special dividend paid to shareholders (€484 million) and acquisitions totalling €424 million completed during 2018.

## Simplification of corporate structure

At the end of July 2019, we completed the simplification of our corporate structure from a dual listed company structure into a single holding company under Mondi plc (the "Simplification"). We believe this has simplified cash and dividend flows, increased transparency, removed the complexity associated with the previous structure and enhanced strategic flexibility.

As a result of the Simplification, each Mondi plc shareholder has the same voting and capital interests in the Group as each Mondi plc ordinary shareholder and Mondi Limited ordinary shareholder had under the DLC structure. The Simplification did not result in any changes to management, operations, locations, activities or staffing levels of the Group. Nor did it, save for one-off expenses to effect the Simplification, have any significant impact on the reported profits or net assets of the Group.

## Dividend

The Board aims to offer shareholders long-term ordinary dividend growth within a targeted dividend cover range of two to three times on average over the business cycle. Given our strong financial position and confidence in the future of the business, the Board has recommended an increase in the final ordinary dividend to 55.72 euro cents per share (2018: 54.55 euro cents per share). The final ordinary dividend, together with the interim ordinary dividend of 27.28 euro cents per share, paid on 20 September 2019, amount to a total ordinary dividend for the year of 83.0 euro cents per share, an increase of 9% on the 2018 total ordinary dividend of 76.0 euro cents per share.

The final ordinary dividend is subject to the approval of the shareholders of Mondi plc at the Annual General Meeting scheduled for 7 May 2020 and, if approved, is payable on 14 May 2020 to shareholders on the register on 3 April 2020.

## Growing Responsibly

Sustainability lies at the centre of our strategy to drive value accretive growth. We believe that being part of the solution to global sustainability challenges will secure the long-term success of our business and benefit our stakeholders.

The attention to sustainable packaging continues to gain momentum. We have been making sustainable packaging products for our customers for over 50 years and we are pleased to see recent heightened awareness. As a leading producer of paper- and plastic-based packaging we are uniquely positioned to help our customers transition to more sustainable packaging through our customer-centric EcoSolutions approach, using paper where possible, plastic when useful.

Ensuring the safety of our people always comes first. Our employees and contractors work in potentially hazardous environments. We embed clearly defined methodologies, procedures and robust controls to ensure they, and other people who have reason to be on Mondi sites, stay safe. Above all we look to develop a safety mind-set across the Group. We sincerely regret two fatalities during 2019. In January, a contractor lost his life conducting pile drilling activities at the construction site of our new paper machine in Ružomberok and in August, a contractor was fatally injured during towing activities at our Russian forestry operations. We are also deeply saddened that a contractor died as a result of an incident during demolition activities at our Syktyvkar mill in January 2020. Thorough investigations are conducted after all incidents and action plans implemented to address root causes and prevent repeat incidents. We continue to focus on the top fatal risks at each site, implementing clearly defined methodologies, procedures and robust controls to drive continuous improvement in safety across the business.

In 2019, we had 222 recordable cases (2018: 262), which equates to a Total Recordable Case Rate (TRCR) of 0.59 (2018: 0.68) representing a 13% reduction compared to 2018 and a 22% improvement against our 2015 baseline, well ahead of our 2020 commitment to reduce TRCR by 5%.

Our Growing Responsibly model is the framework through which we respond to opportunities to address sustainability and societal challenges, especially by contributing to the UN SDGs and other global initiatives. It enables us to demonstrate, monitor and improve our sustainability performance across the value chain. The model comprises 10 Action Areas which reflect the aspects of sustainability that are most relevant for us and our stakeholders. Within these Action Areas we have made 16 public commitments, running to the end of 2020. In addition, we have updated our science-based climate commitment in line with the Paris agreement to keep global temperature rise below 2°C. Our science-based targets cover more than 95% of our total Scope 1 and 2 greenhouse gas emissions, including our energy sales. We have committed to reduce Scope 1 and 2 emissions 34% by 2025, and 72% by 2050 (per tonne of saleable production) against a 2014 baseline.

A number of our ongoing and recently completed major capital projects are expected to contribute to our sustainability commitments, in particular reducing greenhouse gas emissions and waste. As we continue to make progress in making our business less carbon intensive, we are pleased our total greenhouse gas emissions (per tonne of saleable production) have declined to 0.71, a 15.5% reduction against the 2014 baseline. The contribution of biomass-based renewable energy to the total fuel consumption of our mills has increased from 59% in 2014 to 64% in 2019.

In addition to climate change, we continue working closely with WWF in the sixth year of our global partnership on key focus areas such as responsible fibre sourcing and water security. Our initiatives include water stewardship in South Africa, protection of intact forest landscapes in Russia, sustainable forest management and biodiversity.

We are helping to lead the transformation towards circular thinking through our collaboration with customers and multi-stakeholder initiatives such as CEPI's 4evergreen, CEFLEX and the Ellen MacArthur Foundation's New Plastics Economy initiative. We signed up to the New Plastics Economy Global Commitment made by leading brand owners, retailers and packaging companies in 2018, pledging to ensure 100% of plastic-based packaging is reusable, recyclable or compostable and a minimum of 25% of post-consumer waste is incorporated across all our flexible packaging where food contact regulations allow by 2025. Our focus is on developing innovative plastic packaging solutions that are in line with circular design principles, and working with stakeholders across the value chain to address the current challenges we face in securing high quality recycled plastic input required to transition to a circular plastic economy.

We want to develop and inspire a diverse and inclusive workforce where opportunities for employment, engagement, promotion, training and any other benefits are based on skills and ability. During the year, we initiated several programmes across our operations to attract, retain, and develop our people and we also made progress on our diversity and inclusion journey introducing 'conscious inclusion' training designed to address unconscious bias and identify practical actions to create an inclusive work environment. In 2019, we joined the growing community of businesses publicly demonstrating their commitment to gender equality in the workplace by signing the UN Women's Empowerment Principles.

The social, economic and environmental health of local communities is important to our long-term success. During the year we supported local livelihoods and businesses to build strong, proactive and transparent relationships with local stakeholders. As part of our stakeholder engagement initiatives and to deepen the understanding of our relationship and impact on local communities, we conducted in-depth socio-economic assessments in two of our mills during the year.

As we come to the end of our current sustainability commitment period, we are working on our post-2020 commitments to build on our achievements and enable our future success.

## Coronavirus (COVID-19) outbreak

We have considered and will continue to closely monitor the potential impact of COVID-19 on our business. We have not seen any impact on the Group to date. The Group's direct exposure to China is limited, with revenues in the country accounting for less than 1% of the total. We continue to monitor its impact on global trade and the macro-economic outlook.

## Outlook

Looking ahead, we remain confident in the structural growth drivers in the packaging sectors in which we operate. Heightened macro-economic uncertainties are likely to continue to affect markets in the short term and, while we are seeing indications of stability in pricing in certain segments, we start the year with lower prices across our key paper grades. Input cost relief, our ongoing profit improvement programmes and customer-centric innovation initiatives, and the benefits from our capital expenditure pipeline will continue to support our performance.

With our robust business model, centred around our high-quality, cost-advantaged asset base, our culture of continuously driving performance and the strategic flexibility our strong cash generation and financial position bring, we continue to look to the future with confidence.

## Principal risks and uncertainties

The Board is responsible for the effectiveness of the Group's risk management activities and internal control processes. It has put procedures in place for identifying, evaluating, and managing the significant risks that the Group faces. In combination with the audit committee, the Board has conducted a robust assessment of the principal risks to which Mondi is exposed and has reviewed emerging risks during the year. The Board is satisfied that the Group has effective systems and controls in place to manage its key risks within the risk tolerance levels established.

Risk management is by nature a dynamic and ongoing process. Our approach is flexible to ensure that it remains relevant at all levels of the business, and dynamic to ensure we can be responsive to changing business conditions. This is particularly important given the diversity of the Group's locations, markets and production processes. Our internal control environment is designed to safeguard the assets of the Group and to provide reasonable assurance that the Group's business objectives will be achieved.

The majority of the Group's most significant risks are long term in nature and in general do not change significantly in the short term. The assessment of principal risks is updated annually to reflect the developments in our strategic priorities and Board discussions on emerging risks. During the year, we enhanced our understanding of the risks and implications related to climate change, demand for sustainable packaging solutions including substitution of plastic packaging and the UK's exit from the European Union. We recognise investors and other stakeholders are seeking a better understanding of how companies are evaluating and responding to climate change related risks. We have been evaluating the impact and reporting on these risks for a number of years and this year have included climate change related risk as a separate principal risk to provide further clarity on the key impacts on our business and our associated response. As we start 2020, we are also closely monitoring the outbreak of COVID-19 and the potential implications for our business.

## Strategic risks

The industries and geographies in which we operate expose us to specific long-term risks which are accepted by the Board as a consequence of the Group's chosen strategy and operating footprint.

We continue to monitor recent capacity announcements and demand developments, how consumers are demanding more sustainable packaging, the developments in the transition period after the UK ended its membership of the European Union, the stability of the Eurozone, the increasing prevalence of trade tariffs and economic sanctions and the potential impacts of the coronavirus outbreak. Furthermore, while we continue to increase our understanding of climate change related risks and the impacts become clearer, we will continue to improve our disclosures and develop our responses.

The executive committee and Board monitor our exposure to these risks and evaluate investment decisions against our overall exposures so that our strategic capital investments and acquisitions take advantage of the opportunities arising from our deliberate exposure to such risks.

**Industry productive capacity**
Plant utilisation levels are the main driver of profitability in paper mills. New capacity additions are usually in large increments, which influence market prices through their impact on the supply/demand balance. Unless market growth exceeds capacity additions, excess capacity may lead to lower selling prices. In the markets where our converting plants operate, investments in newer technology may lower operating costs and provide increased product functionality, increasing competition and impacting margins.

Our strategic focus on low-cost production and innovation aims to achieve cost advantages and produce higher value-added, sustainable and responsibly produced products. This is combined with our focus on growing markets and consistent investment in our existing asset base securing our competitiveness. We monitor industry developments in terms of changes in capacity, utilisation levels both short and long term, as well as market trends and trade flows in our own product markets. This helps us to establish target capacity utilisation levels in the short term and to evaluate capital investment projects in the long term. We maintain strong relationships with machine suppliers to identify current market developments and technologies, and we routinely review our asset portfolio and capacity utilisation levels to identify underperforming assets and take decisive action to drive performance.

**Product substitution**
Global socio-economic and demographic trends and changing consumption patterns, including increased public awareness of sustainability and increasing customer purchasing power, are driving changes in customers' needs and attitudes, and could affect the demand for Mondi products. The increased public and stakeholder focus on the impact of plastic-based packaging on marine and terrestrial ecosystems has led to heightened environmental considerations, changes in legislation and a shift in consumer attitudes towards packaging. While this could create opportunities for the Group, there could also be a risk of substitution, which may be to different solutions not produced by Mondi meeting the same customer requirements. Factors that may positively or negatively impact the demand for our products include reduced weight of packaging materials, electronic substitution of paper products, increased use of recycled raw materials, substitution of plastic packaging, substitution of rigid plastic by flexible packaging, increased demand for high-quality printed material, increased demand for paper based packaging, certified and responsibly produced goods, and changes in demand for specific material qualities such as recyclable/biodegradable packaging.

Our ability to meet changes in consumer demand depends on our capacity to correctly anticipate change and develop new products on a sustainable, competitive and cost-effective basis. Opportunities also exist for us to take market share from substitutes produced by our competitors. Our focus is on products enjoying positive substitution dynamics and growing regional markets. We regularly monitor trends, new developments and innovations in our product markets. We conduct customer surveys to get a better insight into our customers' needs. Our sustainability task force on EcoSolutions collaborates across the organisation to identify and respond to sustainability requirements from suppliers, customers and consumers. It also monitors the current market trends and legislative developments around sustainability of our plastic-based packaging. As a member of the Ellen MacArthur Foundation's New Plastics Economy initiative, we collaborate with stakeholders across the plastic value chain. Our research and development pipeline ensures that our products remain cutting-edge with added focus on sustainability properties (e.g. recyclable, compostable or biodegradable products, sourced responsibly). Our broad range of converting products provides some protection from the effects of substitution between paper- and plastic-based packaging products.

**Fluctuations and variability in selling prices or gross margins**
The Group operates in cyclical markets and fluctuations in our key packaging and paper prices or converting margins can have material profit and cash flow implications. Our selling prices are determined by changes in capacity and demand for our products, which are, in turn, influenced by macroeconomic conditions, competitive behaviour, consumer spending preferences, and inventory levels maintained by our customers. Changes in prices differ between products and geographic regions and the timing and magnitude of such changes have varied significantly over time. Gross margins in our downstream converting operations are impacted by fluctuations in key input costs, which cannot be passed on to customers in all cases.

Our strategic focus is on higher growth markets and products where we enjoy a competitive advantage through innovation, proximity or production cost. We continue to invest in our high-quality, cost-advantaged asset base to ensure we maintain our competitive cost position. We continue to further develop businesses in higher growth markets with better long-term fundamentals. Our high levels of vertical integration reduce our exposure to price volatility of our key input costs. In our downstream operations the focus is on passing through our main material costs to sales prices. Our financial policies and structures take the inherent price volatility of the markets in which we operate into consideration. We regularly review and monitor the current market fundamentals, market demand trends and market prices to evaluate price expectations in the short term but also to understand the long-term trends. We monitor our order intake to identify changing trends and developments in our own product markets.

**Country risk**
The Group has operations across more than 30 countries with differing political, economic and legal systems. In some countries, such systems are less predictable than in countries with more developed institutional structures. Political or economic upheaval, inflation, changes in laws, protectionism, nationalisation, or expropriation of assets may have a material effect on our operations in those countries. The current macroeconomic environment is impacted by a number of uncertainties, including the effects of increased protectionism, use of trade tariffs, economic sanctions, the stability of the Eurozone, the uncertainty over the outcome of agreements between the UK and the European Union after the UK ended its membership of the European Union and more recently the potential effects of the coronavirus outbreak in China (COVID-19).

In South Africa, the Group is subject to land claims and could face adverse land claims rulings. In February 2018, a motion was passed in the National Assembly in South Africa for Section 25 of the South African Constitution to be reviewed and amended to allow government to expropriate land without compensation. A process to have the South African Constitution amended accordingly has started and is expected to be finalised in 2020. There could be other changes in legislation governing land ownership in South Africa.

Our geographic diversity and decentralised management structure, utilising local resources in countries in which we operate, reduce our exposure to any specific jurisdiction. To mitigate the effect of country specific risks we structure our capital and debt in each country based on assessed risks and exposures. We regularly review our sales strategies to mitigate export risk in countries with less predictable environments and, where possible, we obtain credit insurance. The Board has approved specific country risk premiums to be added to the required returns on investment projects in those countries where risks are deemed to be higher and new investments are subject to rigorous strategic and commercial evaluation. Where we have large operations in higher risk locations, we maintain a permanent internal audit presence and operate asset protection units.

During the year, further analysis has been undertaken to better understand the possible consequences of the UK’s exit from the European Union. However, the Group's exposure to the UK is limited. The Group operates two Flexible Packaging plants in the UK, which are expected to be closed in 2020 and exports containerboard and uncoated fine paper to the UK. Revenues from customers in the UK represent around 3% of the Group's total. The impact on trade flows between the UK and the European Union continues to be monitored closely. We are continuously assessing the risks, analysing the supply chain and developing backup plans to manage any short-term disruptions. Given the limited direct trading exposure of the Group to the UK, we do not expect Brexit to materially impact our ability to continue normal business operations. Although the Group operates one Engineered Materials plant in China and its overall direct exposure is limited, with revenues in the country accounting for less than 1% of the Group's revenue, we continue to closely monitor the potential impact of the coronavirus outbreak. In South Africa the Group has settled a number of land claims structured as sale and leaseback arrangements which provide a framework for settling future land claims and continues to work with other stakeholders to engage with government on land matters. We actively monitor all countries and environments in which we operate. Regular formal and informal interaction with government officials, local communities, and business partners assists us to remain abreast of changes and new developments.

**Climate change related risk**
Climate change has the potential to affect our business in various ways. While these may not be severe in the short term, we believe climate change related risks are likely to have a medium and long-term impact on our business. Our manufacturing operations are energy-intensive, resulting in both Scope 1 and Scope 2 greenhouse gas emissions. In addition, fibre is the main raw material for our products and forests are an important carbon store, with sustainably managed forests having the opportunity to support a circular bioeconomy. Customers and consumers are increasingly concerned about the consequences of climate change and are looking for solutions produced from renewable materials and reduced carbon footprints. Our climate change related risks relate to transition and physical risks and are described below.

Governments and regulators are likely to take action to curb carbon emissions that may impact our business, such as the introduction of carbon taxes. For example, the EU Parliament recently declared a climate emergency and called on all EU countries to phase out all direct and indirect fossil fuel subsidies by 2020, in addition to encouraging an EU policy to reach climate neutrality as soon as possible, and latest by 2050. In Europe, all of our pulp and paper mills fall under the EU Emissions Trading Scheme (EU ETS) and in South Africa, the government has committed to introduce a carbon tax. In Russia, the strategy for the development of a low-carbon economy is currently under development.

Changes in precipitation patterns and extreme weather conditions such as floods, storms, droughts and fires may impact our plantations and the forests we source wood from and could result in fibre supply chain interruptions and higher fibre costs. Higher temperatures may also increase the vulnerability of forests to pests and disease. Increased severity of extreme weather events may also interrupt our operations. In water-scarce countries, we may see an impact on our production process as a result of limited water availability.

We focus on measures to reduce our GHG emissions by improving our energy efficiency, optimising the use of biomass-based fuels in order to reduce our use of fossil-based energy sources, and to decrease carbon-intensive energy sources such as coal. We do this with a combination of capital investments and ongoing efficiency programmes. We look to source our wood from diverse regions and forest types to mitigate the potential impacts of climate change on our wood supplies, in particular in Europe. In South Africa, we continue to investigate and develop wood species which require less rainfall and are more resistant to pests and disease. We monitor and measure our impact on climate change. Our reporting on GHG emissions and energy is independently assured and we have set science-based targets for our Scope 1 and Scope 2 emissions. We support WWF Climate Savers programme and the We Mean Business Coalition which aims to catalyse business action and drive policy ambition to accelerate the zero-carbon transition.

We are committed to adhering to internationally accepted recommendations, such as those published by the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD), to investigate and report on climate-related risks and opportunities. We will continue to investigate the financial implication of our mid- and long-term climate-related risks and opportunities using the International Energy Agency’s 2°C scenario and a business as usual scenario (RCP8.5).

## Financial risks

We aim to maintain an appropriate capital structure and to conservatively manage our financial risk exposures in compliance with all laws and regulations.

Despite ongoing short-term currency volatility and increased scrutiny of the tax affairs of multinational companies, our overall residual risk exposure remains similar to previous years, reflecting our conservative approach to financial risk management.

**Capital structure**
A strong and stable financial position increases our flexibility and provides us with the ability to take advantage of strategic opportunities as they arise. Our ability to raise debt and/or equity financing is significantly influenced by general economic conditions, developments in credit markets, equity market volatility, and our credit rating. Failure to obtain financing at reasonable rates could prevent us from realising our strategy and have a negative impact on our competitive position.

We operate a central treasury function under a board-approved treasury policy. We target investment grade credit ratings and we have access to diverse sources of funding with varying maturities. The majority of our external debt is issued centrally. We use a blend of floating and fixed rate debt contracts to mitigate the interest rate risk. We report regularly to the Board on our treasury management policies. Our central treasury function monitors compliance with treasury policies at operating level and we engage external advisors to review the treasury function at regular intervals.

**Currency risk**
As a multinational group, operating globally, we are exposed to the effect of changes in foreign currency rates. The impact of currency fluctuations affects us because of mismatches between the currencies in which our operating costs are incurred and those in which revenues are received.

Key operating cost currencies that are not fully offset by local currency denominated revenues include the South African rand, Polish zloty, Swedish krona and Czech koruna; whilst the fluctuations in the US dollar, Russian rouble, UK pound sterling and Turkish lira can also have a material impact as our revenues in these currencies are greater than operating costs incurred. Additionally, appreciation of the euro compared with the currencies of the other key paper-producing regions or paper pricing currencies, notably the US dollar, reduces the competitiveness of Mondi products in Europe compared with imports from such key paper-producing regions which can result in lower revenues and earnings.

Balance sheet exposures and material forecasted capital expenditures are hedged upon identification. We do not hedge our exposure to projected future sales or operating costs and our businesses respond to adverse currency fluctuations by increasing selling prices or increasing exports where competitiveness improves as operating currencies weaken. Entities also borrow in their local currencies to minimise translation risk. We continuously monitor exchange rate movements and sensitivities, and evaluate the impact of exchange variances on our results. We regularly review our prices and monitor the import and export trade flows.

**Tax risk**
We operate in a number of countries - all with different tax systems. In addition, the international tax environment is becoming more onerous, requiring increasing transparency and reporting and in-depth scrutiny of the tax affairs of multinational companies. We make significant intragroup charges, the basis for which is subject to review during tax audits.

We aim to manage our affairs conservatively and our operations are structured tax efficiently to take advantage of available incentives and exemptions. We have dedicated tax resources throughout the Group supported by a centralised Group tax team. Arm's length principles are applied in the pricing of all intragroup transactions in accordance with Organisation for Economic Cooperation and Development guidelines. The Board has approved the Group tax strategy and performs a formal review of the Group's tax affairs at least annually. We obtain external advisory opinions for all major tax projects, such as acquisitions and restructuring activities, and make use of external benchmarks where possible. We regularly engage with external advisors to stay up-to-date with changes in tax legislation and tax practice.

## Operational risks

A low residual risk tolerance is demonstrated through our focus on operational excellence, investment in our people and commitment to the responsible use of resources.

Our investments to improve our energy efficiency, engineer out our most significant safety risks, improve operating efficiencies, and renew our equipment continue to reduce the likelihood of operational risk events. However, the potential impact of any such event remains unchanged.

**Cost and availability of raw materials**
Access to sustainable sources of raw materials is essential to our operations. The raw materials used by the Group include significant amounts of wood, pulp, paper for recycling, polymers and chemicals. The prices for many of these raw materials generally fluctuate in correlation with global commodity cycles. Wood prices and availability may be adversely affected by reduced quantities of available wood supply that meet our standards for credibly certified or controlled wood, increased frequency of severe weather events, changes in rainfall or increased instances of pest and disease outbreaks and increasing use of wood as a biofuel.

We have access to our own sources of wood in Russia and South Africa and we purchase wood, paper for recycling, pulp, and polymers to meet our needs in the balance of our operations. Where we source our raw materials in areas of weaker governance, we may face potential social and environmental risks related to waste, pollution, poor safety and labour practices and human rights issues.

We are committed to acquiring our raw materials from sustainable, responsible sources and avoiding the use of any controversial or illegal supply. We are involved in multi-stakeholder processes to address challenges in meeting the global demand for sustainable, responsible fibre and we encourage legislation supporting the local collection of recycled materials. Sustainable management of our forestry operations is key in managing our overall social and environmental impact, helping to protect ecosystems, protect worker and community rights, and to develop resilient landscapes. We have multiple suppliers for each of our operations and our centralised procurement teams work closely with our operations in actively pursuing longer-term agreements with strategic suppliers. In Europe, we source our wood from diverse regions and forest types to mitigate the potential impacts of unforeseen events on our wood supplies. We have developed a responsible procurement process to assess and evaluate the performance of our suppliers and their adherence to our Code of Conduct for Suppliers. Supplier performance is evaluated through questionnaires and audits. Wood and pulp suppliers are assessed as part of our Due Diligence Management System which addresses the main legal and sustainability risks.

We have built strong forestry management resources in Russia and South Africa to actively monitor and manage our wood resources in those countries. We continue to certify our forests with credible external certifications. In South Africa, we have tree improvement programmes in place, which aim to produce stronger, more robust hybrids that are better able to resist disturbances such as drought, pests and diseases.

**Energy security and related input costs**
Mondi is a significant consumer of electricity which is generated internally and purchased from external suppliers. Where we do not generate electricity from biomass and by-products of our production processes, we are dependent on external suppliers for raw materials such as gas, oil and coal. Fossil-based energy sources could pose a sustainability and regulatory risk to our energy security. Higher energy costs contribute significantly to increasing chemical, fuel, and transportation costs which are often difficult to pass on to customers. As an energy-intensive business, operating globally and relying on global supply chains, we face potential physical and regulatory risks.

We focus on improving the energy efficiency of our operations by investing in improvements to our energy profile and increased electricity self-sufficiency, including the use of renewable energy sources, while reducing ongoing operating costs and carbon emission levels. Where we generate electricity surplus to our own requirements, we may sell such surplus externally. We also generate income from the sale of green energy credits in certain of our operations at prices determined in the open market. We focus on optimising the use of biomass-based fuels in order to reduce our use of fossil-based energy sources, and to decrease carbon-intensive energy sources such as coal. Energy costs are closely monitored and benchmarked against external sources and we monitor our electricity usage, carbon emission levels and use of renewable energy. Most of our larger operations have high levels of electricity self-sufficiency. We actively monitor the renewable energy market fundamentals and changes in legislation and maintain contact with local energy regulators. We have undertaken detailed compliance assessments regarding Industry Emissions and Energy Efficiency Directives to determine future investment requirements.

**Technical integrity of our operating assets**
We have five major mills which account for approximately 75% of our total pulp and paper production capacity, and a significant engineered materials manufacturing facility in Germany. If operations at any of these key facilities are interrupted for any significant length of time, it could have a material adverse effect on our financial position or performance. Incidents such as fires, explosions, or large machinery breakdowns or the inability of our assets to perform the required function effectively and efficiently whilst protecting people, business, the environment and stakeholders could result in property damage, loss of production, reputational damage, and/or safety and environmental incidents. We have established a central digital transformation function to drive operational efficiency through advanced analytics, automation and robotics.

Our capital investment programme supports the replacement of older equipment to improve both reliability and integrity, and our proactive repair and maintenance strategy is designed to improve production reliability and minimise breakdown risks. We conduct detailed risk assessments of our high-priority equipment and have specific processes and procedures in place for the ongoing management and maintenance of such equipment. Our Asset Management and Technical Integrity Management systems have contributed to a continuous improvement of our risk profile.

We continue to develop our Asset Management system to ensure best practices for maintenance procedures and we have a maintenance training programme for our employees. Benchmarking activities enable us to optimise our production throughout the organisation by learning from our best performing operations and to identify any emerging issues early.

We actively monitor all incidents and have a formal process which allows us to share lessons learned across our operations, identify emerging issues, conduct benchmarking, and evaluate the effectiveness of our risk reduction activities. We engage external experts to perform technical integrity assessments at our major sites and enhance our engineering and loss prevention competencies and capabilities. Our Fire Protection programme is supported by external experts and independent loss prevention audits and we take out property insurance cover for key risks.

**Environmental impact**
We operate in a sector where the environmental impact of our business can be high and we need to manage the associated risks. Our operations are water, carbon and energy intensive; consume materials such as fibre, polymers, metals and chemicals; and generate emissions to air, water and land. We are the custodian of more than two million hectares of forested land. We consider potential negative impacts on constrained resources and loss of biodiversity and ecosystems from our forestry and manufacturing operations. We are subject to a wide range of international, national and local environmental laws and regulations, as well as the requirements of our customers and expectations of our broader stakeholders. Costs of continuing compliance, potential restoration and clean-up activities, and increasing costs from the effects of emissions could have an adverse impact on our profitability.

We ensure that we are complying with all applicable environmental and health and safety requirements where we operate. Our own policies and procedures, at or above local policy requirements, are embedded in all our operations and are supported through the use of externally accredited environmental management systems. We focus on a clean production philosophy to address the impact from emissions, discharge, and waste. We manage our water resources responsibly to address risks related to water scarcity in some of our operations, and to ensure equitable use of water resources among local stakeholders wherever we operate. We emphasise the responsible management of forests and associated ecosystems and protect high conservation value areas. We ensure that we manage our forests responsibly and implement measures to protect biodiversity. We collaborate with customers and supply chain stakeholders to better understand the concerns related to the impact of plastics in the environment, and to work together on scaleable, meaningful solutions to address this. Our product design and innovation efforts focus on reducing the environmental impact of our products throughout their life cycle. We monitor our environmental performance indicators and report our progress against our 2020 commitments, with our GHG emissions independently assured to reasonable assurance level. We monitor regulatory developments to ensure compliance with existing operating permits and perform SEAT (Socio-economic Assessment Toolbox) assessments and water impact assessments locally to better understand our local environmental footprint and stakeholder needs.

**Employee and contractor safety**
We operate large facilities, often in remote locations. Incidents cause injury to our employees or contractors, property damage, lost production time, and/or harm to our reputation. Risks include fatalities, serious injuries, occupational diseases, and substance and drug abuse.

To ensure the safety of our employees and contractors, we apply safety management systems, including amongst others, risk assessments, safety procedures and controls. We have a goal of zero harm and aim to continuously advance our 24-hour safety mind-set and safety culture of sending everybody home safely. We continue with the project to engineer out the most significant risks in our operations supported by robust controls and procedures for operating those assets and conducting related tasks. We have a Permit to Work methodology across the Group to improve our safety performance. We provide extensive training to ensure that performance standards and practice notes are communicated and understood and our incentives are impacted by the non-achievement of safety milestones (lag indicators) as well as achievement of lead indicators. We continually investigate and monitor incidents and major close calls and actively transfer learnings across our operations. Our Task Risk Management Methodology provides a practical approach to conducting pre-task risk assessments, and our focus is on better understanding the high risk tasks in our operations. We apply externally accredited safety management systems and conduct regular audits of our operations to ensure our facilities remain fit-for-purpose.

**Attraction and retention of key skills and talent**
Our success is driven by our people. Key to our long-term success is attracting, retaining, recruiting and developing a skilled and committed workforce. Access to the right skills, particularly management and technical skills, is critical to support the performance and growth of our business. Operations in remote locations or highly competitive markets make attracting and retaining skilled employees challenging. Losing skills or failing to attract new talent to our business has the potential to undermine our ability to drive performance and deliver on our strategic objectives.

Our culture and values play a key role in empowering and inspiring our people. These are highlighted by various Inspire Programmes and collaboration initiatives throughout our operations. We have a zero tolerance policy towards discrimination and we provide equal opportunities for all employees. To attract skills and talent we are investing in employer branding. We are engaged in fair and transparent recruitment practices and have diversity and inclusion, labour and human rights policies in place. We ensure competitive compensation levels through benchmarking and continue to support and invest in group-wide as well as local training programmes. We have implemented measures to monitor and manage succession planning, staff turnover, internal placements and training. We perform 360° feedback at a management level and regularly conduct performance and development reviews at a local level. We carry out a group-wide employee survey approximately every two years. Through a confidential reporting hotline, Speakout, employees can raise concerns about conduct that may be contrary to our values.

## Compliance risks

We have a zero tolerance approach to compliance risks. Our strong culture and values, emphasised in every part of our business, with a focus on integrity, honesty, and transparency, underpin our approach.

**Reputational risk**
Non-compliance with the legal and governance requirements and globally established responsible business conduct in any of the jurisdictions in which we operate and within our supply chain could expose us to significant risk if not actively managed. Failure to successfully manage relationships with our stakeholders could disrupt our operations and adversely impact the Group's reputation. These requirements include laws relating to the environment, exports, price controls, taxation, competition compliance, data protection, human rights, and labour. Fines imposed by authorities for non-compliance are severe and, in some cases, legislation can result in criminal sanction for entities and individuals found guilty. Areas of weaker governance also present the challenge of addressing potential human rights issues in our operations and supply chain. The introduction of human rights legislation, such as the UK Modern Slavery Act 2015, has further highlighted the need to identify and address potential risks of child labour, forced or bonded labour and human trafficking in our supply chain.

We operate a comprehensive training and compliance programme, supported by self-certification and reporting, with personal sanction for failure to comply with Group policies. We engage with our stakeholders through formal and informal processes such as our SEAT assessment and Community Engagement Plans. We perform sustainable development risk assessments for our suppliers and have updated the Code of Conduct for Suppliers. Our legal and governance compliance is supported by a centralised legal compliance team and is subject to regular internal audit review. We have a confidential reporting hotline, Speakout, enabling employees, customers, suppliers, managers and other stakeholders to raise concerns about misconduct.

**Information technology risk**
Many of our operations are dependent on the availability of IT services and an extended interruption of such services may result in a plant shutdown and an inability to meet customer requirements. Cybercrime continues to increase and attempts are increasingly sophisticated, with the consequences of successful attacks including compromised data, financial fraud, and system shutdowns.

We have a comprehensive IT Security Policy approved by the Board and we operate an extensive training and awareness programme for all our users. The IT infrastructure is regularly tested and verified and where possible, we have redundancies in place. Our system landscape is based on well-proven products. We conduct regular threat assessments and utilise external providers to evaluate and review our security policies and procedures and we have cybercrime insurance in place.

## Going concern

The directors have reviewed the Group's budget, considered the assumptions contained in the budget, and reviewed and assessed the significant risks which may impact the Group's performance in the near term. This includes an evaluation of the current macroeconomic environment and reasonably possible changes in the Group's trading performance.

The Group's financial position, cash flows, liquidity position, and borrowing facilities are described in the condensed consolidated financial statements.

The Group's net debt at 31 December 2019 was €2,207 million (2018: €2,220 million) representing a gearing level of 33.5% (2018: 36.7%). The Group´s net debt to 12-month trailing underlying EBITDA at 31 December 2019 was 1.3 times, well within the key financial covenant requirement of 3.5 times.

At 31 December 2019, the Group had €660 million of undrawn, committed debt facilities. The Group's debt facilities have maturity dates of between less than 1 year and 7 years, with a weighted average maturity of 3.2 years. In February 2020, the Group entered into an additional debt facility with a maturity of 18 months, increasing the undrawn, committed debt facilities available to the Group by €250 million.

Based on our evaluation the Board considered it appropriate to prepare the condensed consolidated financial statements on the going concern basis.

## Enquiries

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## Conference call dial-in and webcast details

Please see below details of our dial-in conference call and webcast that will be held at 09:00 (UK) and 11:00 (SA) today.

The conference call dial-in numbers are:

| | |
|---|---|
| UK | 0800 3767 922 |
| South Africa | 0800 014 553 |
| Other | +44 2071 928 000 |
| Conference ID | 1049766 |

The webcast will be available via www.mondigroup.com/FYResults19.

The presentation will be available to download from the above website 30 minutes before the webcast commences. Questions can be submitted via the dial-in conference call or via the webcast.

Should you have any issues on the day with accessing the dial-in conference call, please call +44 2071 928 000.

For queries regarding access to the webcast, please e-mail group.communication@mondigroup.com and you will be contacted immediately.

A video recording of the presentation will be available on Mondi’s website during the afternoon of 27 February 2020.

## Directors' responsibility statement

The Group annual financial statements have been audited in accordance with the applicable requirements of the Companies Act 2006.

The responsibility statement has been prepared in connection with the Group's Integrated report and financial statements 2019, extracts of which are included within this announcement.

The directors confirm that to the best of their knowledge:

- the condensed consolidated financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and are derived from the audited consolidated financial statements of the Group, prepared in accordance with IFRS (they do not contain sufficient information to comply with IFRS);
- the Group's consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties it faces;
- the Integrated report and financial statements 2019, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy;
- there have been no significant individual related party transactions during the year; and
- there have been no significant changes in the Group's related party relationships from that reported in the half-yearly results for the six months ended 30 June 2019.

The Group's condensed consolidated financial statements, and related notes, including this responsibility statement, were approved by the Board and authorised for issue on 26 February 2020 and were signed on their behalf by:

**David Williams**
Chair

**Andrew King**
Director

## Audited financial information

The condensed consolidated financial statements and notes 1 to 19 for the year ended 31 December 2019 are derived from the Group annual financial statements which have been audited by PricewaterhouseCoopers LLP. The unmodified audit report is available for inspection at the Group's registered office.

# Condensed consolidated income statement

for the year ended 31 December 2019

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| **€ million** | **Notes** | **Underlying** | **Special items (Note 4)** | **Total** | **Underlying** | **Special items (Note 4)** | **Total** |
| **Group revenue** | 3 | **7,268** | **—** | **7,268** | **7,481** | **—** | **7,481** |
| Materials, energy and consumables used | | (3,449) | — | (3,449) | (3,526) | — | (3,526) |
| Variable selling expenses | | (549) | — | (549) | (534) | — | (534) |
| Gross margin | | 3,270 | — | 3,270 | 3,421 | — | 3,421 |
| Maintenance and other indirect expenses | | (363) | — | (363) | (346) | — | (346) |
| Personnel costs | | (1,072) | 40 | (1,032) | (1,039) | (15) | (1,054) |
| Other net operating expenses | | (177) | (1) | (178) | (272) | (30) | (302) |
| **EBITDA** | | **1,658** | **39** | **1,697** | **1,764** | **(45)** | **1,719** |
| Depreciation, amortisation and impairments | | (435) | (41) | (476) | (446) | (81) | (527) |
| **Operating profit** | 3 | **1,223** | **(2)** | **1,221** | **1,318** | **(126)** | **1,192** |
| Net profit from equity accounted investees | | — | — | — | 1 | — | 1 |
| Net finance costs | 6 | (104) | (14) | (118) | (88) | — | (88) |
| Profit before tax | | 1,119 | (16) | 1,103 | 1,231 | (126) | 1,105 |
| Tax (charge)/credit | 7 | (257) | — | (257) | (273) | 34 | (239) |
| **Profit for the year** | | **862** | **(16)** | **846** | **958** | **(92)** | **866** |
| Attributable to: | | | | | | | |
| Non-controlling interests | | **33** | **1** | **34** | **42** | **—** | **42** |
| Shareholders | | **829** | **(17)** | **812** | **916** | **(92)** | **824** |
| | | | | | | | |
| **Earnings per share (EPS) attributable to shareholders** (euro cents) | | | | | | | |
| Basic EPS | 8 | | | **167.6** | | | **170.1** |
| Diluted EPS | 8 | | | **167.6** | | | **170.0** |
| Basic underlying EPS | 8 | | | **171.1** | | | **189.1** |
| Diluted underlying EPS | 8 | | | **171.1** | | | **189.0** |

# Condensed consolidated statement of comprehensive income

for the year ended 31 December 2019

| € million | 2019 Before tax amount | 2019 Tax credit | 2019 Net of tax amount | 2018 Before tax amount | 2018 Tax charge | 2018 Net of tax amount |
|---|---|---|---|---|---|---|
| **Profit for the year** | | | **846** | | | **866** |
| **Items that may subsequently be reclassified to the condensed consolidated income statement** | | | | | | |
| Fair value (losses)/gains arising from cash flow hedges | (4) | — | (4) | 1 | — | 1 |
| Exchange differences on translation of foreign operations | 143 | — | 143 | (219) | — | (219) |
| **Items that will not subsequently be reclassified to the condensed consolidated income statement** | | | | | | |
| Remeasurements of retirement benefits plans | (21) | 3 | (18) | (12) | (1) | (13) |
| **Other comprehensive income/(expense) for the year** | **118** | **3** | **121** | **(230)** | **(1)** | **(231)** |
| Other comprehensive income/(expense) attributable to: | | | | | | |
| Non-controlling interests | (9) | — | **(9)** | (12) | — | **(12)** |
| Shareholders | 127 | 3 | **130** | (218) | (1) | **(219)** |
| Total comprehensive income attributable to: | | | | | | |
| Non-controlling interests | | | **25** | | | **30** |
| Shareholders | | | **942** | | | **605** |
| **Total comprehensive income for the year** | | | **967** | | | **635** |

# Condensed consolidated statement of financial position

as at 31 December 2019

| € million | Notes | 2019 | 2018 |
|---|---|---|---|
| Property, plant and equipment | | 4,800 | 4,340 |
| Goodwill | | 948 | 942 |
| Intangible assets | | 81 | 91 |
| Forestry assets | 10 | 411 | 340 |
| Other non-current assets | | 111 | 85 |
| **Total non-current assets** | | **6,351** | **5,798** |
| Inventories | | 984 | 968 |
| Trade and other receivables | | 1,111 | 1,190 |
| Cash and cash equivalents | 14b | 74 | 52 |
| Other current assets | | 20 | 34 |
| **Total current assets** | | **2,189** | **2,244** |
| **Total assets** | | **8,540** | **8,042** |
| | | | |
| Short-term borrowings | 12 | (780) | (268) |
| Trade and other payables | | (1,143) | (1,186) |
| Other current liabilities | | (157) | (214) |
| **Total current liabilities** | | **(2,080)** | **(1,668)** |
| Medium and long-term borrowings | 12 | (1,496) | (2,002) |
| Net retirement benefits liability | 13 | (225) | (234) |
| Deferred tax liabilities | | (301) | (253) |
| Other non-current liabilities | | (53) | (60) |
| **Total non-current liabilities** | | **(2,075)** | **(2,549)** |
| **Total liabilities** | | **(4,155)** | **(4,217)** |
| | | | |
| **Net assets** | | **4,385** | **3,825** |
| | | | |
| **Equity** | | | |
| Share capital and stated capital | | 97 | 542 |
| Retained earnings and other reserves | | 3,918 | 2,943 |
| **Total attributable to shareholders** | | **4,015** | **3,485** |
| Non-controlling interests in equity | | 370 | 340 |
| **Total equity** | | **4,385** | **3,825** |

The Group's condensed consolidated financial statements, and related notes 1 to 19, were approved by the Board and authorised for issue on 26 February 2020 and were signed on its behalf by:

**David Williams**
Chair

**Andrew King**
Director

# Condensed consolidated statement of changes in equity

for the year ended 31 December 2019

| € million | Equity attributable to shareholders | Non-controlling interests | Total equity |
|---|---|---|---|
| At 1 January 2018 | 3,683 | 324 | **4,007** |
| Total comprehensive income for the year | 605 | 30 | **635** |
| Dividends | (793) | (18) | **(811)** |
| Purchases of treasury shares | (15) | — | **(15)** |
| Other | 5 | 4 | **9** |
| **At 31 December 2018** | **3,485** | **340** | **3,825** |
| Total comprehensive income for the year | 942 | 25 | **967** |
| Dividends | (396) | (3) | **(399)** |
| Purchases of treasury shares | (12) | — | **(12)** |
| Issue of ordinary shares, net of expenses (see note 11) | (6) | — | **(6)** |
| Other | 2 | 8 | **10** |
| **At 31 December 2019** | **4,015** | **370** | **4,385** |

### Equity attributable to shareholders

| € million | 2019 | 2018 |
|---|---|---|
| Share capital and stated capital[1] | 97 | 542 |
| Treasury shares | (25) | (26) |
| Retained earnings | 3,963 | 3,589 |
| Cumulative translation adjustment reserve | (680) | (820) |
| Post-retirement benefits reserve | (52) | (75) |
| Share-based payment reserve | 20 | 22 |
| Cash flow hedge reserve | (4) | — |
| Merger reserve[1] | 667 | 259 |
| Other sundry reserves | 29 | (6) |
| **Total** | **4,015** | **3,485** |

Note:

1 The movement in the share capital and stated capital and merger reserve is driven by the Simplification of the corporate structure. Further detail is provided in notes 2 and 11

## Condensed consolidated statement of cash flows

for the year ended 31 December 2019

| € million | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 14a | 1,635 | 1,654 |
| Dividends received from other investments | | 1 | 1 |
| Income tax paid | | (248) | (248) |
| **Net cash generated from operating activities** | | **1,388** | **1,407** |
| **Cash flows from investing activities** | | | |
| Investment in property, plant and equipment | | (757) | (709) |
| Investment in intangible assets | | (12) | (10) |
| Investment in forestry assets | 10 | (48) | (53) |
| Investment in equity accounted investees | | (5) | (7) |
| Acquisition of businesses, net of cash and cash equivalents | | (2) | (402) |
| Proceeds from the disposal of businesses, net of cash and cash equivalents | | 20 | 3 |
| Other investing activities | | 10 | 21 |
| **Net cash used in investing activities** | | **(794)** | **(1,157)** |
| **Cash flows from financing activities** | | | |
| Proceeds from medium and long-term borrowings | 14c | — | 165 |
| Repayment of medium and long-term borrowings | 14c | (48) | — |
| Proceeds from Eurobonds | 14c | — | 600 |
| Net (repayment)/proceeds from short-term borrowings | | (20) | 9 |
| Repayment of lease liabilities | | (23) | (25) |
| Interest paid | | (96) | (73) |
| Transaction costs relating to the issue of share capital | 11 | (6) | — |
| Dividends paid to shareholders | 9 | (396) | (793) |
| Dividends paid to non-controlling interests | 9 | (3) | (18) |
| Purchases of treasury shares | | (12) | (15) |
| Financing special item | 4 | (14) | — |
| Net cash inflow/(outflow) from derivatives | | 3 | (25) |
| Other financing activities | | 5 | (8) |
| **Net cash used in financing activities** | | **(610)** | **(183)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(16)** | **67** |
| Cash and cash equivalents at beginning of year | | 8 | (66) |
| Cash movement in the year | 14c | (16) | 67 |
| Effects of changes in foreign exchange rates | 14c | 1 | 7 |
| **Cash and cash equivalents at end of year** | 14b | **(7)** | **8** |

# Notes to the condensed consolidated financial statements
for the year ended 31 December 2019

## 1 Basis of preparation

These condensed consolidated financial statements as at and for the year ended 31 December 2019 comprise Mondi plc and its subsidiaries (referred to as the 'Group'), and the Group's share of the results and net assets of its associates and joint ventures.

On 9 May 2019 the Group's shareholders approved the Simplification of the corporate structure from a dual listed company (DLC) structure into a single holding company structure under Mondi plc. With effect from 26 July 2019, Mondi plc became the holder of all the Mondi Limited ordinary shares while, by other related actions, the DLC arrangements were terminated. Prior to the Simplification, Mondi Limited and Mondi plc operated under a DLC structure as a single economic entity, and as such, together with their respective subsidiaries, were reported on a combined and consolidated basis as a single reporting entity. Post Simplification, the Group is reported on a consolidated basis. Further detail is provided in note 11.

The Group's condensed consolidated financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS). They have been derived from the audited consolidated financial statements of the Group, prepared in accordance with IFRS and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union (EU), and the Financial Pronouncements as issued by the Financial Reporting Standards Council. The Group complies with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group's condensed consolidated financial statements do not contain sufficient information to comply with IFRS.

The condensed consolidated financial statements have been prepared on a going concern basis as discussed in the commentary under the heading 'Going concern'.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts; its report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Copies of the unqualified auditor's report on the Integrated report and financial statements 2019 are available for inspection at the registered office of Mondi plc.

These condensed consolidated financial statements have been prepared on the historical cost basis of accounting, as modified by forestry assets and financial assets and financial liabilities held at fair value through profit and loss.

## 2 Accounting policies

The same accounting policies and alternative performance measures (APMs), methods of computation and presentation have been followed in the preparation of the condensed consolidated financial statements for the year ended 31 December 2019 as were applied in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except as set out below:

- A number of further amendments to IFRS became effective for the financial period beginning on 1 January 2019, but the Group did not have to change its accounting policies or make material retrospective adjustments as a result of adopting these new amendments.

Following its annual review of estimated useful economic lives as required under IAS 16, 'Property, plant and equipment', the Group has revised the estimated useful economic lives for items of plant and equipment to a range from three years to 25 years (previously: from three years to 20 years) effective from 1 January 2019. In accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', the effect of the change in accounting estimate has been recognised prospectively in the condensed consolidated income statement.

**Simplification accounting (note 11)**
With the effect of the Simplification, Mondi Limited became a wholly owned subsidiary of Mondi plc and subsequently the stated capital of Mondi Limited is eliminated in the condensed consolidated statement of changes in equity. The difference between the nominal value of new shares issued by Mondi plc (€23 million) and the stated capital of Mondi Limited recorded within the Group equity immediately prior to the Simplification (€431 million) is recognised in the merger reserve within equity.

The Simplification was accounted for outside the scope of IFRS 3, and consequently, the carrying values of the assets and liabilities of Mondi Limited were not adjusted to fair value, but continue to be reported under the same measurement principles as applied prior to the transaction.

Transaction costs incurred to effect the Simplification are charged as a financing special item in the condensed consolidated income statement, except for costs incremental and directly attributable to the issuance of new shares of Mondi plc, which are debited directly to retained earnings within equity in accordance with IAS 32.

The Simplification accounting is identified as a critical accounting judgement in terms of IAS 1 due to the exceptional nature of the underlying transaction and the limited guidance available in IFRS, in particular the judgement applied by management that the transaction does not represent a business combination and so assets and liabilities of the Mondi Limited group were not remeasured to their fair value as at the transaction date. Instead the assets and liabilities continued to be held at their previous carrying amounts.

## 2 Accounting policies (continued)

**Alternative Performance Measures**
The Group presents certain measures of financial performance, position or cash flows in the condensed consolidated financial statements that are not defined or specified according to IFRS. These measures, referred to as APMs, are defined at the end of this document and where relevant reconciled to IFRS in the notes to the condensed consolidated financial statements, and are prepared on a consistent basis for all periods presented.

## 3 Operating segments

The Group reorganised its business units to strengthen value chain integration and improve customer focus effective from 7 October 2019. The Group's four business units (previously three business units) are as follows:

- Corrugated Packaging, comprising the operations of containerboard and corrugated solutions;
- Flexible Packaging, comprising kraft paper, paper bags and consumer flexibles operations;
- Engineered Materials, comprising personal care components, extrusion solutions and release liner operations; and
- Uncoated Fine Paper, which remains unchanged.

Prior year figures have been restated to reflect the new organisational structure. The reorganisation has no impact on the overall Group result.

**Year ended 31 December 2019**

| € million, unless otherwise stated | Corrugated Packaging | Flexible Packaging | Engineered Materials | Uncoated Fine Paper | Corporate | Intersegment elimination | Total |
|---|---|---|---|---|---|---|---|
| Segment revenue | 2,014 | 2,708 | 979 | 1,758 | — | (191) | **7,268** |
| Internal revenue | (30) | (71) | (45) | (45) | — | 191 | **—** |
| External revenue | 1,984 | 2,637 | 934 | 1,713 | — | — | **7,268** |
| Underlying EBITDA | 583 | 543 | 122 | 444 | (34) | — | **1,658** |
| Depreciation and impairments | (118) | (142) | (28) | (118) | (1) | — | **(407)** |
| Amortisation | (6) | (12) | (8) | (2) | — | — | **(28)** |
| Underlying operating profit/(loss) | 459 | 389 | 86 | 324 | (35) | — | **1,223** |
| Special items | — | (4) | — | 2 | (14) | — | **(16)** |
| Operating segment assets | 2,407 | 3,094 | 723 | 2,082 | 7 | (117) | **8,196** |
| Operating segment net assets | 2,166 | 2,603 | 612 | 1,758 | (7) | — | **7,132** |
| Trailing 12-month average capital employed | 1,846 | 2,485 | 622 | 1,290 | (81) | — | **6,162** |
| Additions to non-current non-financial assets | 275 | 256 | 37 | 310 | — | — | **878** |
| Capital expenditure cash payments | 257 | 248 | 32 | 220 | — | — | **757** |
| *Underlying EBITDA margin (%)* | *28.9* | *20.1* | *12.5* | *25.3* | — | — | ***22.8*** |
| *Return on capital employed (%)* | *24.9* | *15.7* | *13.8* | *25.1* | — | — | ***19.8*** |
| Average number of employees (thousands)[1] | 6.7 | 10.4 | 2.4 | 6.3 | 0.1 | — | **25.9** |

Note:
1 Presented on a full time employee equivalent basis

## 3 Operating segments (continued)

### Year ended 31 December 2018 (restated)

| € million, unless otherwise stated | Corrugated Packaging | Flexible Packaging | Engineered Materials | Uncoated Fine Paper | Corporate | Intersegment elimination | Total |
|---|---|---|---|---|---|---|---|
| Segment revenue | 2,115 | 2,708 | 984 | 1,877 | — | (203) | **7,481** |
| Internal revenue | (41) | (69) | (45) | (48) | — | 203 | **—** |
| External revenue | 2,074 | 2,639 | 939 | 1,829 | — | — | **7,481** |
| Underlying EBITDA | 707 | 461 | 112 | 516 | (32) | — | **1,764** |
| Depreciation and impairments | (116) | (146) | (30) | (119) | (1) | — | **(412)** |
| Amortisation | (9) | (14) | (9) | (2) | — | — | **(34)** |
| Underlying operating profit/(loss) | 582 | 301 | 73 | 395 | (33) | — | **1,318** |
| Special items | — | (102) | (3) | (21) | — | — | **(126)** |
| Operating segment assets | 2,277 | 2,944 | 789 | 1,852 | 4 | (132) | **7,734** |
| Operating segment net assets | 2,001 | 2,442 | 672 | 1,494 | (9) | — | **6,600** |
| Trailing 12-month average capital employed | 1,679 | 2,112 | 640 | 1,240 | (88) | — | **5,583** |
| Additions to non-current non-financial assets | 535 | 396 | 35 | 280 | — | — | **1,246** |
| Capital expenditure cash payments | 157 | 360 | 31 | 161 | — | — | **709** |
| *Underlying EBITDA margin (%)* | *33.4* | *17.0* | *11.4* | *27.5* | — | — | **23.6** |
| *Return on capital employed (%)* | *34.7* | *14.3* | *11.4* | *31.9* | — | — | **23.6** |
| Average number of employees (thousands)[1] | 6.5 | 10.6 | 2.4 | 6.5 | 0.1 | — | **26.1** |

Note:
1 Presented on a full time employee equivalent basis

### External revenue by location of production and by location of customer

| € million | External revenue by location of production | | External revenue by location of customer | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Africa | | | | |
| South Africa | 539 | 609 | 402 | 459 |
| Rest of Africa | 50 | 43 | 289 | 264 |
| Africa total | 589 | 652 | 691 | 723 |
| Western Europe | | | | |
| Austria | 1,097 | 1,106 | 150 | 160 |
| Germany | 856 | 887 | 939 | 985 |
| United Kingdom | 43 | 64 | 205 | 233 |
| Rest of western Europe | 720 | 623 | 1,437 | 1,470 |
| Western Europe total | 2,716 | 2,680 | 2,731 | 2,848 |
| Emerging Europe | | | | |
| Czech Republic | 536 | 483 | 184 | 183 |
| Poland | 1,059 | 1,161 | 599 | 636 |
| Rest of emerging Europe | 891 | 952 | 829 | 867 |
| Emerging Europe total | 2,486 | 2,596 | 1,612 | 1,686 |
| Russia | 889 | 944 | 707 | 694 |
| North America | 490 | 525 | 757 | 731 |
| South America | — | — | 112 | 100 |
| Asia and Australia | 98 | 84 | 658 | 699 |
| **Group total** | **7,268** | **7,481** | **7,268** | **7,481** |

## 3 Operating segments (continued)

### Reconciliation of operating segment assets

| € million | 2019 Segment assets | 2019 Segment net assets | 2018 Segment assets | 2018 Segment net assets |
|---|---|---|---|---|
| **Group total** | **8,196** | **7,132** | **7,734** | **6,600** |
| **Unallocated** | | | | |
| Investment in equity accounted investees | 14 | 14 | 9 | 9 |
| Deferred tax assets/(liabilities) | 49 | (252) | 49 | (204) |
| Other non-operating assets/(liabilities) | 204 | (302) | 189 | (360) |
| **Group capital employed** | **8,463** | **6,592** | **7,981** | **6,045** |
| Financial instruments/(net debt) | 77 | (2,207) | 61 | (2,220) |
| **Total assets/equity** | **8,540** | **4,385** | **8,042** | **3,825** |

## 4 Special items

| € million | 2019 | 2018 |
|---|---|---|
| **Operating special items** | | |
| Impairment of assets | (42) | (83) |
| Reversal of impairment of assets | 1 | 2 |
| Restructuring and closure costs: | | |
| Personnel costs | (1) | (15) |
| Other restructuring and closure costs | 4 | (30) |
| Third party contribution relating to the Group's Austrian health insurance fund (see note 13) | 41 | — |
| Provision relating to the 2012 Nordenia acquisition | (5) | — |
| **Total operating special items** | **(2)** | **(126)** |
| **Financing special item** | | |
| Simplification of corporate structure (see note 11) | (14) | — |
| **Total special items before tax** | **(16)** | **(126)** |
| Tax credit (see note 7) | — | 34 |
| **Total special items** | **(16)** | **(92)** |
| Attributable to: | | |
| Non-controlling interests | 1 | — |
| Shareholders | (17) | (92) |

The special items during the year comprised:

- Flexible Packaging
  - Announced closure of two consumer flexibles plants in the UK. Restructuring and closure costs of €1 million and related impairment of assets of €3 million were recognised. Additional restructuring costs will be incurred in 2020 with total costs expected to exceed €10 million.
  - Release of restructuring and closure provisions of €5 million, partly offset by additional restructuring costs of €1 million, and reversal of impairment of assets of €1 million were recognised. All credits/(charges) related to special items from prior years.
  - Additional provision of €5 million relating to the 2012 Nordenia acquisition was recognised. The provision relates to a special item from prior years.
- Uncoated Fine Paper
  - Impairment of the Neusiedler operation in Austria. Impairment of assets of €39 million was recognised.
  - On 13 December 2018 a change in the Austrian Social Security Law was enacted. Effective 1 January 2020, the law states that the plan liabilities of the Group’s Austrian health insurance fund are assumed by the Republic of Austria. The effect of the change in law is classified as a third party taking on the obligation for future contributions which is a one-off non-cash benefit to the Group of €41 million. Further detail is provided in note 13.
- Corporate
  - To effect the Simplification of the corporate structure from a DLC structure into a single holding company structure under Mondi plc, the Group incurred one-off transaction costs of €20 million, of which €14 million were charged as a financing special item to the condensed consolidated income statement and €6 million were attributed to equity in accordance with IAS 32. Further detail is provided in note 11.

## 5 Write-down of inventories to net realisable value

| € million | 2019 | 2018 |
|---|---|---|
| Write-down of inventories to net realisable value | (37) | (21) |
| Aggregate reversal of previous write-downs of inventories | 21 | 13 |

## 6 Net finance costs

Net finance costs are presented below:

| € million | 2019 | 2018 |
|---|---|---|
| **Investment income** | | |
| Investment income | **8** | **8** |
| **Net foreign currency losses** | | |
| Net foreign currency losses | **(3)** | **(4)** |
| **Finance costs** | | |
| Interest expense | | |
| Interest on bank overdrafts and loans | (90) | (77) |
| Interest on lease liabilities | (13) | (14) |
| Net interest expense on net retirement benefits liability | (9) | (8) |
| **Total interest expense** | **(112)** | **(99)** |
| Less: Interest capitalised | 3 | 7 |
| **Total finance costs** | **(109)** | **(92)** |
| **Net finance costs before special item** | **(104)** | **(88)** |
| **Financing special item** | | |
| Simplification of corporate structure (see notes 4 and 11) | **(14)** | — |
| **Net finance costs after special item** | **(118)** | **(88)** |

Net interest expense, as defined at the end of this document, for the year was €95 million (2018: €83 million). The effective interest rate was 4.2% (2018 4.2%) based on trailing 12-month average net debt of €2,243 million (2018: €1,979 million).

The weighted average interest rate applicable to capitalised interest on general borrowings for the year ended 31 December 2019 was 4.9% (2018: 4.1%) and was related to investments in the Czech Republic (2018: the Czech Republic and South Africa).

## 7 Taxation

The Group's effective rate of tax before special items for the year ended 31 December 2019 was 23% (2018: 22%).

| € million | 2019 | 2018 |
|---|---|---|
| UK corporation tax at 19% (2018: 19%) | 1 | 1 |
| Overseas tax[1] | 218 | 265 |
| Current tax in respect of prior years | (1) | — |
| **Current tax** | **218** | **266** |
| Deferred tax in respect of the current year | 47 | 15 |
| Deferred tax in respect of prior years | (8) | (8) |
| **Tax charge before special items** | **257** | **273** |
| Current tax on special items | (1) | (2) |
| Deferred tax on special items | 1 | (32) |
| **Tax credit on special items (see note 4)** | **—** | **(34)** |
| **Tax charge for the year** | **257** | **239** |

Note:
1 Includes the SA corporation tax at a statutory rate of 28% reported separately prior to the Simplification of the corporate structure

## 8 Earnings per share (EPS)

| (euro cents) | EPS attributable to shareholders 2019 | 2018 |
|---|---|---|
| Basic EPS | 167.6 | 170.1 |
| Diluted EPS | 167.6 | 170.0 |
| Basic underlying EPS | 171.1 | 189.1 |
| Diluted underlying EPS | 171.1 | 189.0 |
| Basic headline EPS | 172.5 | 184.8 |
| Diluted headline EPS | 172.5 | 184.7 |

The calculation of basic and diluted EPS, basic and diluted underlying EPS and basic and diluted headline EPS is based on the following data:

| € million | Earnings 2019 | 2018 |
|---|---|---|
| **Profit for the year attributable to shareholders** | **812** | **824** |
| Special items attributable to shareholders (see note 4) | 17 | 126 |
| Related tax (see note 4) | — | (34) |
| **Underlying earnings for the year** | **829** | **916** |
| Special items not excluded from headline earnings | 25 | (45) |
| Gain on disposal of property, plant and equipment | (2) | (1) |
| Net (gain)/loss on disposal of businesses and equity accounted investees | (9) | 3 |
| Impairments not included in special items | 2 | 2 |
| Related tax | (9) | 20 |
| **Headline earnings for the year** | **836** | **895** |

| million | Weighted average number of shares 2019 | 2018 |
|---|---|---|
| **Basic number of ordinary shares outstanding** | **484.6** | **484.4** |
| Effect of dilutive potential ordinary shares | — | 0.2 |
| **Diluted number of ordinary shares outstanding** | **484.6** | **484.6** |

## 9 Dividends

An interim ordinary dividend for the year ended 31 December 2019 of 27.28 euro cents per ordinary share was paid on Friday 20 September 2019 to those shareholders on the register of Mondi plc on Friday 16 August 2019.

A proposed final ordinary dividend for the year ended 31 December 2019 of 55.72 euro cents per ordinary share will be paid on Thursday 14 May 2020 to those shareholders on the register of Mondi plc on Friday 3 April 2020.

The final ordinary dividend proposed has been recommended by the Board and is subject to the approval of the shareholders at the Annual General Meeting scheduled for 7 May 2020.

| euro cents per share | 2019 | 2018 |
|---|---|---|
| Final ordinary dividend paid (in respect of prior year) | 54.55 | 42.90 |
| Special dividend paid (in respect of prior year) | — | 100.00 |
| Interim ordinary dividend paid | 27.28 | 21.45 |
| **Final ordinary dividend proposed for the year ended 31 December** | **55.72** | **54.55** |

| € million | 2019 | 2018 |
|---|---|---|
| Final ordinary dividend paid (in respect of prior year) | 264 | 207 |
| Special dividend paid (in respect of prior year) | — | 484 |
| Interim ordinary dividend paid | 132 | 102 |
| **Total ordinary and special dividends paid** | **396** | **793** |
| **Final ordinary dividend proposed for the year ended 31 December** | **270** | **264** |
| Declared by Group companies to non-controlling interests | 3 | 18 |

## 9 Dividends (continued)

Dividends proposed and paid to the shareholders of Mondi Limited and Mondi plc prior to the effective date of the Simplification of the corporate structure (see note 11) are presented on a combined basis.

**Dividend timetable**

The proposed final ordinary dividend for the year ended 31 December 2019 of 55.72 euro cents per share will be paid in accordance with the following timetable:

| | |
|---|---|
| **Last date to trade shares cum-dividend** | |
| JSE Limited | Tuesday 31 March 2020 |
| London Stock Exchange | Wednesday 1 April 2020 |
| **Shares commence trading ex-dividend** | |
| JSE Limited | Wednesday 1 April 2020 |
| London Stock Exchange | Thursday 2 April 2020 |
| **Record date** | Friday 3 April 2020 |
| **Last date for receipt of Dividend Reinvestment Plan (DRIP) elections by Central Securities Depository Participants** | Thursday 9 April 2020 |
| **Last date for DRIP elections to UK Registrar and South African Transfer Secretaries** | |
| South African Register | Tuesday 14 April 2020 |
| UK Register | Tuesday 21 April 2020 |
| **Payment Date** | Thursday 14 May 2020 |
| **DRIP purchase settlement dates (subject to market conditions and the purchase of shares in the open market)** | |
| UK Register | Monday 18 May 2020 |
| South African Register | Wednesday 20 May 2020 |
| **Currency conversion date** | |
| ZAR/euro | Thursday 27 February 2020 |
| Euro/sterling | Tuesday 28 April 2020 |

Share certificates on Mondi plc's South African register may not be dematerialised or rematerialised between Wednesday 1 April 2020 and Friday 3 April 2020, both dates inclusive, nor may transfers between the UK and South African registers of Mondi plc take place between Tuesday 24 March 2020 and Friday 3 April 2020, both dates inclusive.

Information relating to the dividend tax to be withheld from Mondi plc shareholders on the South African branch register will be announced separately, together with the ZAR/euro exchange rate to be applied, on or shortly after Thursday 27 February 2020.

## 10 Forestry assets

| € million | 2019 | 2018 |
|---|---|---|
| At 1 January | 340 | 325 |
| Capitalised expenditure | 46 | 46 |
| Acquisition of assets | 2 | 7 |
| Acquired through business combinations | — | 14 |
| Fair value gains | 71 | 43 |
| Felling costs | (64) | (60) |
| Currency movements | 16 | (35) |
| **At 31 December** | **411** | **340** |
| Mature | 251 | 197 |
| Immature | 160 | 143 |

The fair value of forestry assets is a level 3 measure in terms of the fair value measurement hierarchy (see note 17), consistent with prior years. The fair value of forestry assets is determined using market approach.

## 11 Share capital and stated capital

Since its formation in 2007, the Group had been an integrated corporate group established under a DLC structure with dual holding companies, Mondi Limited and Mondi plc. The substance of the DLC structure was such that Mondi Limited, Mondi plc and their respective subsidiaries operated together as a single economic entity through a sharing agreement, with neither parent entity assuming a dominant role. Accordingly, Mondi Limited and Mondi plc were reported on a combined and consolidated basis as a single reporting entity.

On 9 May 2019 the Group's shareholders approved the Simplification of the corporate structure from a DLC structure into a single holding company structure under Mondi plc by way of a South African scheme of arrangement (the 'Scheme') proposed by the Mondi Limited board between Mondi Limited and the Mondi Limited ordinary shareholders. On 11 July 2019 the Scheme became unconditional and, with effect from 26 July 2019, Mondi plc became the holder of all the Mondi Limited ordinary shares while, by other related actions, the DLC arrangements were terminated. Pursuant to the Scheme, Mondi Limited shareholders received one new Mondi plc ordinary share in exchange for each Mondi Limited ordinary share held.

As a result of the Simplification, each Mondi plc shareholder has the same voting and capital interests in the Group as each Mondi plc ordinary shareholder and Mondi Limited ordinary shareholder had under the DLC structure. The Simplification did not result in any changes to the management, operations, locations, activities or staffing levels of the Group, nor, save for one-off expenses to effect the Simplification as disclosed below, did it have any significant impact on the reported profits or net assets of the Group.

Depending on the nature of costs incurred, the Group recognised related transaction costs of €6 million as a deduction from equity in accordance with IAS 32 and €14 million as a financing special item charge, as described in note 4, to effect the Simplification of the corporate structure.

## 12 Borrowings

Group liquidity is provided through a range of committed debt facilities. The principal loan arrangements in place include the following:

| € million | Maturity | Interest rate % | 2019 | 2018 |
|---|---|---|---|---|
| **Financing facilities** | | | | |
| Syndicated Revolving Credit Facility | July 2021 | EURIBOR/LIBOR + margin | 750 | 750 |
| €500 million Eurobond | September 2020 | 3.375% | 500 | 500 |
| €500 million Eurobond | April 2024 | 1.500% | 500 | 500 |
| €600 million Eurobond | April 2026 | 1.625% | 600 | 600 |
| European Investment Bank Facility | June 2025 | EURIBOR + margin | 52 | 62 |
| Export Credit Agency Facility | June 2020 | EURIBOR + margin | 2 | 15 |
| Other | Various | Various | 72 | 60 |
| **Total committed facilities** | | | **2,476** | **2,487** |
| Drawn | | | (1,816) | (1,871) |
| **Total committed facilities available** | | | **660** | **616** |

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| € million | Current | Non-current | Total | Current | Non-current | Total |
| **Secured** | | | | | | |
| Bank loans and overdrafts | — | — | — | 2 | — | 2 |
| Lease liabilities | 25 | 193 | 218 | 22 | 162 | 184 |
| **Total secured** | 25 | 193 | 218 | 24 | 162 | 186 |
| **Unsecured** | | | | | | |
| Bonds | 500 | 1,094 | 1,594 | — | 1,592 | 1,592 |
| Bank loans and overdrafts | 250 | 204 | 454 | 237 | 245 | 482 |
| Other loans | 5 | 5 | 10 | 7 | 3 | 10 |
| **Total unsecured** | 755 | 1,303 | 2,058 | 244 | 1,840 | 2,084 |
| **Total borrowings** | **780** | **1,496** | **2,276** | **268** | **2,002** | **2,270** |
| Committed facilities drawn | | | 1,816 | | | 1,871 |
| Uncommitted facilities drawn | | | 460 | | | 399 |

## 13 Retirement benefits

All assumptions related to the Group's defined benefit schemes and post-retirement medical plan liabilities were re-assessed individually for the year ended 31 December 2019. Due to changes in assumptions and exchange rate movements, the net retirement benefits liability decreased by €9 million and the net retirement benefits asset increased by €11 million. The assets backing the defined benefit scheme liabilities reflect their market values as at 31 December 2019. Net remeasurement losses arising from changes in assumptions and return on plan assets amounting to €18 million have been recognised in the condensed consolidated statement of comprehensive income.

**Developments in 2019**

On 13 December 2018 a change in the Austrian Social Security Law was enacted. Effective 1 January 2020, the law states that the plan liabilities of the Group's Austrian health insurance fund are assumed by the Republic of Austria. The law permitted the Group to establish an independent trust to which it could contribute the health insurance fund plan assets for the benefit of the plan participants. Following further assessment and clarification of the law, and necessary implementation steps, the Group elected to use this option in 2019 and applied the accounting policy as described below.

The accounting treatment and presentation in the condensed consolidated statement of financial position is considered a critical accounting judgement, in particular whether the change in law is accounted for as a reimbursement right or a third party contribution.

The impact of the change in law is presented at year end 31 December 2019 with analogy to paragraphs 92-94 of IAS 19 (Revised) due to a third party taking on the obligation for future contributions. As there is no requirement under the law for the Group to make continued contributions to fund the current deficit and the current deficit will be funded by another party (the Austrian State and an independent trust), none of that deficit is attributable to the Group at year end. In respect of the future service costs, there is no obligation for the Group to fund these costs. When, subsequent to 31 December 2019, the future service costs are recognised for this health insurance fund, those costs will be covered by the contributions of another party (the Austrian State and an independent trust) at that point in time and are not an obligation of the Group.

The effect of the change in law is classified as a third party taking on the obligation for future contributions which is a once-off non-cash benefit to the Group recognised as a special item reducing total personnel costs by €41 million in 2019. The third party contribution by the Austrian state and the contribution of the plan assets to an independent trust is classified as a special item and presented in the condensed consolidated income statement. An adjustment to the plan liability for the amount to be assumed by the Austrian state is reflected in the condensed consolidated statement of financial position, with a corresponding adjustment to the plan assets for the transfer of assets to an independent trust. The effect of the law change and establishment of an independent trust is presented on a 'net' basis in the condensed consolidated statement of financial position (a net nil position) at year end 2019.

## 14 Consolidated cash flow analysis

### (a) Reconciliation of profit before tax to cash generated from operations

| € million | 2019 | 2018 |
|---|---|---|
| **Profit before tax** | **1,103** | **1,105** |
| Depreciation and amortisation | 433 | 444 |
| Impairment of property, plant and equipment (not included in special items) | 2 | 2 |
| Share-based payments | 11 | 11 |
| Net cash flow effect of current and prior year special items | (6) | 97 |
| Net finance costs | 104 | 88 |
| Net profit from equity accounted investees | — | (1) |
| Decrease in provisions and net retirement benefits | (23) | (7) |
| Increase in inventories | (1) | (112) |
| Decrease/(increase) in operating receivables | 91 | (84) |
| (Decrease)/increase in operating payables | (55) | 79 |
| Fair value gains on forestry assets | (71) | (43) |
| Felling costs | 64 | 60 |
| Profit on disposal of property, plant and equipment | (2) | (1) |
| Net (profit)/loss from disposal of businesses and equity accounted investees | (9) | 3 |
| Other adjustments | (6) | 13 |
| **Cash generated from operations** | **1,635** | **1,654** |

## 14 Consolidated cash flow analysis (continued)

### (b) Cash and cash equivalents

| € million | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents per condensed consolidated statement of financial position | 74 | 52 |
| Bank overdrafts included in short-term borrowings | (81) | (44) |
| **Cash and cash equivalents per condensed consolidated statement of cash flows** | **(7)** | **8** |

The fair value of cash and cash equivalents approximate their carrying values presented.

The Group operates in certain countries (principally South Africa) where the existence of exchange controls may restrict the use of certain cash balances. These restrictions are not expected to have any material effect on the Group's ability to meet its ongoing obligations.

### (c) Movement in net debt

The Group's net debt position is as follows:

| € million | Cash and cash equivalents | Current financial asset investments | Debt due within one year | Debt due after one year | Debt-related derivative financial instruments | Total net debt |
|---|---|---|---|---|---|---|
| At 1 January 2018 | (66) | 1 | (187) | (1,280) | — | **(1,532)** |
| Cash flow | 67 | — | 16 | (765) | — | **(682)** |
| Additions to lease liabilities | — | — | (5) | (19) | — | **(24)** |
| Disposal of lease liabilities | — | — | 2 | 4 | — | **6** |
| Acquired through business combinations | — | — | (31) | (1) | — | **(32)** |
| Movement in unamortised loan costs | — | — | — | (2) | — | **(2)** |
| Net movement in derivative financial instruments | — | — | — | — | (2) | **(2)** |
| Reclassification | — | — | (39) | 42 | — | **3** |
| Currency movements | 7 | — | 20 | 19 | (1) | **45** |
| **At 31 December 2018** | **8** | **1** | **(224)** | **(2,002)** | **(3)** | **(2,220)** |
| Cash flow | (16) | — | 43 | 48 | — | **75** |
| Additions to lease liabilities | — | — | (10) | (48) | — | **(58)** |
| Disposal of lease liabilities | — | — | 2 | 9 | — | **11** |
| Disposal of businesses | — | — | 1 | — | — | **1** |
| Movement in unamortised loan costs | — | — | — | (2) | — | **(2)** |
| Net movement in derivative financial instruments | — | — | — | — | (3) | **(3)** |
| Reclassification | — | — | (517) | 517 | — | **—** |
| Currency movements | 1 | — | 6 | (18) | — | **(11)** |
| **At 31 December 2019** | **(7)** | **1** | **(699)** | **(1,496)** | **(6)** | **(2,207)** |

### (d) Cash flow generation

| € million | 2019 | 2018 |
|---|---|---|
| **Net cash generated from operating activities** | **1,388** | **1,407** |
| **Investing activities** | **(50)** | **(42)** |
| Net cash used in investing activities | (794) | (1,157) |
| Investment in property, plant and equipment | 757 | 709 |
| Investment in equity accounted investees | 5 | 7 |
| Proceeds from the disposal of businesses, net of cash and cash equivalents | (20) | (3) |
| Acquisition of businesses, net of cash and cash equivalents | 2 | 402 |
| **Financing activities** | **(123)** | **(139)** |
| Interest paid | (96) | (73) |
| Dividends paid to non-controlling interests | (3) | (18) |
| Purchases of treasury shares | (12) | (15) |
| Transaction costs relating to the issue of share capital | (6) | — |
| Financing special item | (14) | — |
| Net cash inflow/(outflow) from derivatives | 3 | (25) |
| Other financing activities | 5 | (8) |
| **Cash flow generation** | **1,215** | **1,226** |

## 15 Capital commitments

| € million | 2019 | 2018 |
|---|---|---|
| Contracted for but not provided | 442 | 434 |
| Approved, not yet contracted for | 1,214 | 1,606 |
| **Total capital commitments** | **1,656** | **2,040** |

These capital commitments relate to the following categories of non-current non-financial assets:

| € million | 2019 | 2018 |
|---|---|---|
| Intangible assets | 47 | 40 |
| Property, plant and equipment | 1,609 | 2,000 |
| **Total capital commitments** | **1,656** | **2,040** |

The expected maturity of these capital commitments is:

| € million | 2019 | 2018 |
|---|---|---|
| Within one year | 744 | 842 |
| One to two years | 487 | 663 |
| Two to five years | 425 | 535 |
| **Total capital commitments** | **1,656** | **2,040** |

Capital commitments are based on capital projects approved by the end of the financial year and the budget approved by the Board. Major capital projects still require further approval before they commence and are not included in the above analysis. The Group's capital commitments are expected to be financed from existing cash resources and borrowing facilities.

## 16 Contingent liabilities

Contingent liabilities comprise aggregate amounts as at 31 December 2019 of €3 million (2018: €6 million) in respect of loans and guarantees given to banks and other third parties. No acquired contingent liabilities have been recorded in the Group's condensed consolidated statement of financial position for either year presented.

The Group is subject to certain legal proceedings, claims, complaints and investigations arising out of the ordinary course of business. Legal proceedings may include, but are not limited to, alleged breach of contract and alleged breach of environmental, competition, securities and health and safety laws. The Group may not be fully, or partly, insured in respect of such risks. The Group cannot predict the outcome of individual legal actions or claims or complaints or investigations. The Group may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. The Group may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when it considers it has valid defences to liability. The Group considers that no material loss to the Group is expected to result from these legal proceedings, claims, complaints and investigations. Provision is made for all liabilities that are expected to materialise through legal and tax claims against the Group.

## 17 Fair value measurement

Assets and liabilities that are measured at fair value, or where the fair value of financial instruments has been disclosed in the notes to the condensed consolidated financial statements, are based on the following fair value measurement hierarchy:

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

The assets measured at fair value on level 3 of the fair value measurement hierarchy are the Group's forestry assets as set out in note 10.

There have been no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined using generally accepted valuation techniques. These valuation techniques maximise the use of observable market data and rely as little as possible on Group specific estimates.

Specific valuation methodologies used to value financial instruments include:

- the fair values of interest rate swaps and foreign exchange contracts are calculated as the present value of expected future cash flows based on observable yield curves and exchange rates;
- the fair values of the Group's commodity price derivatives are calculated as the present value of expected future cash flows based on observable market data; and
- other techniques, including discounted cash flow analysis, are used to determine the fair values of other financial instruments.

## 17 Fair value measurement (continued)

Except as detailed below, the carrying values of financial instruments at amortised cost as presented in the condensed consolidated financial statements approximate their fair values.

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| **€ million** | **2019** | **2018** | **2019** | **2018** |
| **Financial liabilities** | | | | |
| Borrowings | 2,276 | 2,270 | 2,343 | 2,287 |

## 18 Related party transactions

The Group and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with equity accounted investees 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. These transactions, in total, are not considered to be significant.

Transactions between Mondi plc and its subsidiaries, which are related parties, and transactions between its subsidiaries have been eliminated on consolidation. There have been no significant changes to related parties as disclosed in note 29 of the Group's annual financial statements for the year ended 31 December 2018.

## 19 Events occurring after 31 December 2019

In addition to the final ordinary dividend proposed for 2019 (see note 9), there have been the following material reportable events since 31 December 2019:

- The Group has concluded the consultation with employee representatives relating to the closure of two consumer flexibles plants in the UK. Restructuring and closure costs and related impairment of assets of €4 million were recognised as a special item in 2019. Total restructuring and closure costs are expected to exceed €10 million.
- In February 2020, the Group entered into a €250 million debt facility maturing in August 2021.

## Production statistics

| | | 2019 | 2018 |
|---|---|---|---|
| Containerboard | '000 tonnes | 2,524 | 2,530 |
| Kraft paper | '000 tonnes | 1,162 | 1,118 |
| Uncoated fine paper | '000 tonnes | 1,526 | 1,649 |
| Newsprint | '000 tonnes | 201 | 207 |
| Pulp | '000 tonnes | 4,387 | 4,330 |
| Internal consumption | '000 tonnes | 3,883 | 3,844 |
| Market pulp | '000 tonnes | 504 | 486 |
| Corrugated solutions | million m² | 1,653 | 1,635 |
| Paper bags | million units | 5,228 | 5,255 |
| Consumer flexibles | million m² | 2,457 | 2,711 |
| Engineered materials | million m² | 5,506 | 5,797 |

## Exchange rates

| | Average | | Closing | |
|---|---|---|---|---|
| versus euro | 2019 | 2018 | 2019 | 2018 |
| South African rand | 16.18 | 15.62 | 15.78 | 16.46 |
| Czech koruna | 25.67 | 25.65 | 25.41 | 25.72 |
| Polish zloty | 4.30 | 4.26 | 4.26 | 4.30 |
| Pound sterling | 0.88 | 0.88 | 0.85 | 0.89 |
| Russian rouble | 72.45 | 74.04 | 69.96 | 79.72 |
| Turkish lira | 6.36 | 5.71 | 6.68 | 6.06 |
| US dollar | 1.12 | 1.18 | 1.12 | 1.15 |

## Alternative Performance Measures

The Group presents certain measures of financial performance, position or cash flows in the condensed consolidated financial statements that are not defined or specified according to IFRS. These measures, referred to as APMs, are prepared on a consistent basis for all periods presented in this report.

The most significant APMs are:

**Special items (note 4)**
Those financial items which the Group considers should be separately disclosed on the face of the condensed consolidated income statement to assist in understanding the underlying financial performance achieved by the Group. Such items are generally material by nature and exceed €10 million and the Group, therefore, excludes these items when reporting underlying earnings and related measures in order to provide a measure of the underlying performance of the Group on a basis that is comparable from year to year. Subsequent adjustments to items previously recognised as special items continue to be reflected as special items in future periods even if they do not exceed the quantitative reporting threshold.

**Underlying EBITDA (condensed consolidated income statement)**
Operating profit before special items, depreciation, amortisation and impairments not recorded as special items. Underlying EBITDA provides a measure of the cash generating ability of the business that is comparable from year to year.

**Underlying EBITDA margin (note 3)**
Underlying EBITDA expressed as a percentage of revenue provides a measure of the cash-generating ability relative to revenue.

**Underlying operating profit (condensed consolidated income statement)**
Operating profit before special items. Underlying operating profit provides a measure of operating performance that is comparable from year to year.

**Underlying operating profit margin**
Underlying operating profit expressed as a percentage of revenue provides a measure of the profitability of the operations relative to revenue.

**Underlying profit before tax (condensed consolidated income statement)**
Profit before tax and special items. Underlying profit before tax provides a measure of the Group's profitability before tax that is comparable from year to year.

**Underlying earnings (and per share measure) (note 8)**
Net profit after tax attributable to shareholders, before special items. Underlying earnings (and the related per share measure based on the basic, weighted average number of ordinary shares outstanding), provides a measure of the Group's earnings that is comparable from year to year.

**Headline earnings (and per share measure) (note 8)**
The presentation of headline earnings (and the related per share measure based on the basic, weighted average number of ordinary shares outstanding) is mandated under the Listings Requirements of the JSE Limited and is calculated in accordance with Circular 1/2019, 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

**Return on capital employed (ROCE) (note 3)**
Trailing 12-month underlying operating profit, including share of equity accounted investees' net profit/(loss), divided by trailing 12-month average capital employed. ROCE provides a measure of the efficient and effective use of capital in the business.

**Capital employed (and related trailing 12-month average capital employed) (note 3)**
Capital employed comprises equity, non-controlling interests in equity and net debt providing a measure of the level of invested capital in the business. Trailing 12-month average capital employed is the average capital employed over the last 12 months adjusted for spend on major capital expenditure projects which are not yet in production.

**Net debt (note 14c)**
A measure comprising short, medium, and long-term interest-bearing borrowings and the fair value of debt-related derivatives less cash and cash equivalents, net of overdrafts, and current financial asset investments. Net debt provides a measure of the Group's net indebtedness or overall leverage.

**Operating segment assets and operating segment net assets (note 3)**
Operating segment assets and operating segment net assets comprise total assets (excluding financial instruments) and capital employed respectively but excludes investment in equity accounted investees, deferred tax assets and liabilities and other non-operating assets and liabilities, and provide a measure of the operating assets in the business.

**Working capital as a percentage of revenue**
Working capital, defined as the sum of trade and other receivables and inventories less trade and other payables, expressed as a percentage of annualised Group revenue. A measure of the Group's effective use of working capital relative to revenue.

## Alternative Performance Measures (continued)

**Net interest expense (note 6)**
Net interest expense comprises interest expense on bank overdrafts, loans and lease liabilities net of investment income providing an absolute measure of the cost of borrowings.

**Effective interest rate (note 6)**
Annualised net interest expense expressed as a percentage of trailing average net debt over the period provides a measure of the cost of borrowings.

**Effective tax rate (note 7)**
Underlying tax charge expressed as a percentage of underlying profit before tax. A measure of the Group's tax charge relative to its profit before tax expressed on an underlying basis.

**Net debt to 12-month trailing underlying EBITDA**
Net debt divided by trailing 12-month underlying EBITDA. A measure of the Group's net indebtedness relative to its cash-generating ability.

**Gearing**
Net debt expressed as a percentage of capital employed provides a measure of the financial leverage of the Group.

**Ordinary dividend cover**
Basic underlying EPS divided by total ordinary dividend per share paid and proposed provides a measure of the Group's earnings relative to its deployment towards ordinary dividend payments.

**Cash flow generation (note 14d)**
A measurement of the Group's cash generation before considering deployment of cash towards investment in property, plant and equipment ('capex' or 'capital expenditure'), acquisitions and disposals of businesses, investment in equity accounted investees and payment of dividends to shareholders. Cash flow generation is a measure of the Group's ability to generate cash through the cycle before considering deployment of such cash.

## Forward-looking statements

This document includes forward-looking statements. All statements other than statements of historical facts included herein, including, without limitation, those regarding Mondi's financial position, business strategy, market growth and developments, expectations of growth and profitability and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Mondi, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements and other statements contained in this document regarding matters that are not historical facts involve predictions and are based on numerous assumptions regarding Mondi's present and future business strategies and the environment in which Mondi will operate in the future. These forward-looking statements speak only as of the date on which they are made.

No assurance can be given that such future results will be achieved; various factors could cause actual future results, performance or events to differ materially from those described in these statements. Such factors include in particular but without any limitation: (1) operating factors, such as continued success of manufacturing activities and the achievement of efficiencies therein, continued success of product development plans and targets, changes in the degree of protection created by Mondi's patents and other intellectual property rights and the availability of capital on acceptable terms; (2) industry conditions, such as strength of product demand, intensity of competition, prevailing and future global market prices for Mondi's products and raw materials and the pricing pressures thereto, financial condition of the customers, suppliers and the competitors of Mondi and potential introduction of competing products and technologies by competitors; and (3) general economic conditions, such as rates of economic growth in Mondi's principal geographical markets or fluctuations of exchange rates and interest rates.

Mondi expressly disclaims a) any warranty or liability as to accuracy or completeness of the information provided herein; and b) any obligation or undertaking to review or confirm analysts' expectations or estimates or to update any forward-looking statements to reflect any change in Mondi's expectations or any events that occur or circumstances that arise after the date of making any forward-looking statements, unless required to do so by applicable law or any regulatory body applicable to Mondi, including the JSE Limited and the LSE.

Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's auditors.

## Editors' notes

Mondi is a global leader in packaging and paper, delighting its customers and consumers with innovative packaging and paper solutions that are sustainable by design. Our business is fully integrated across the packaging and paper value chain - from managing forests and producing pulp, paper and plastic films, to developing and manufacturing effective industrial and consumer packaging solutions. Sustainability is embedded in everything we do. In 2019, Mondi had revenues of €7.27 billion and underlying EBITDA of €1.66 billion.

Mondi has a premium listing on the London Stock Exchange (MNDI), and a secondary listing on the JSE Limited (MNP). Mondi is a FTSE 100 constituent, and has been included in the FTSE4Good Index Series since 2008 and the FTSE/JSE Responsible Investment Index Series since 2007.

Sponsor in South Africa: UBS South Africa Proprietary Limited.