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Socio-Economic ASSESSmEnt toolbox REpoRt | ExEcUtiVE SUmmARY

Mondi Packaging Štětí (MPS) is a unique and important Mondi Packaging community located in the Czech Republic in the town of Štětí, about 50 kilometres from the capital city of Prague. Two of the three Mondi Packaging businesses operate factories in Štětí.

Mondi Packaging acquired the Paper Mill, the Bags plant and Flexibles operation in February 2000. Mondi Packaging is the fourth private sector owner of the site. Since its acquisition, Štětí has been a key player in the Mondi Packaging story of successful growth.

Approximately 775 people are directly employed by Mondi Packaging at the Štětí site. The majority of the employees are from the local area and live within 30 kilometres of the site. Therefore, Mondi Packaging employs approximately 10% of the town.

The Paper Mill has historically led the community engagement effort of Mondi Packaging in Štětí. The Bags and Flexible Divisions were decidedly less active and they were perceived to be under the umbrella of the Paper Mill as it is the largest Division on-site.

Community engagement is not new to Štětí. A formal Community Engagement Plan (CEP) was put in place in 2003 for the Paper Mill. Under the CEP, the Paper Mill has created regular dialogues with a wide variety of stakeholders. Correspondingly, stakeholders and the company exchange information on any developments in the community or in their sphere of undertaking and the mill highlights any actions that are being planned that may affect the community including major capital expenditures, specifically investments which will have a positive impact on the environment and employment outlooks.

The Paper Mill invested CZK 4.4 million (€ 157,000) in community projects in the target area of Štětí and its satellite communities in 2005.

The key areas of engagement are the environmental impact Mondi has on the local community, improving educational facilities and curricula, youth development and individuals with mental and physical handicaps.

The Paper Mill and the town of Štětí also collaborate from time to time with elected municipal district officials on matters of infrastructure, for example in lobbying for improved or new roads and bridges to improve access to and from the mill to major European motorways in close proximity to Štětí. In the past, studies have been funded to obtain necessary support for such projects.

THE SOCIO-ECONOMIC ASSESSMENT TOOLBOX (SEAT) WAS DEVELOPED BY ANGLO AMERICAN PLC, MONDI PACKAGING’S PARENT COMPANY, TO HELP OPERATIONS IDENTIFY AND MANAGE THEIR SOCIAL AND ECONOMIC IMPACTS ON THE LOCAL COMMUNITIES IN WHICH THEY ARE LOCATED. A SEAT ASSESSMENT WAS CARRIED OUT AT THE MONDI SITE IN ŠTĚTÍ IN THE SPRING OF 2006.

OVERVIEW OF THE OPERATION AND SOCIAL MANAGEMENT SYSTEMS

EXECUTIVE SUMMARY
OVERVIEW OF THE LOCAL NEIGHBOURING COMMUNITY

The population of Štětí is approximately 8,300 including the satellites or 7,000 without them. The region’s population has remained stable despite the changing local employment levels. The key characteristics of the Štětí community as observed during the SEAT assessment include:

- Štětí is a stable, prosperous town;
- No abject poverty;
- Stable and improving education system;
- High quality local leadership;
- Open, flexible and entrepreneurial culture;
- Adapted to economic and social changes;
- Those residents who are not direct employees of MPS are often employed in other businesses that have been established to service the mill;
- Government services are sufficient but limited; and
- The population is relatively young.

Štětí lies in the Usti Region of the Czech Republic on the Labe (River Elbe) in the north-west of the country near the border of Germany. This area, known as Bohemia, is in close proximity to the capital city of Prague. The region is known for natural resources and manufacturing industries as well as agriculture.

The Czech Forestry Survey for 2001–2004 reports that the Usti region is over 30% forested, a level similar to the country as a whole. As this area has been a forest industry hub for over 50 years, the local economy has adapted to the industry. International forest product firms operate in Štětí. Also, Štětí has several local small and medium businesses that are forest industry specialists and material and service providers to MPS and the area’s paper, pulp and wood processing industry.

IMPaCTS IDENTIFIED BY MONDI PACKAGING ŠTĚTÍ

Senior management understands the community issues of Štětí very well. Several senior managers have lived in the Štětí area for more than 20 years. Most staff live and work in Štětí or the satellite communities. Through the structured community consultation process and on-going dialogue, the company has a good awareness of its impacts upon the local community. The principal impacts are the creation of stable local employment and environmental/quality of life issues such as odour and noise.
ISSUES RAISED BY STAKEHOLDERS

The SEAT team visited the internal and external stakeholders at their places of work and toured Štětí. The discussions were informal and held in the Czech language with English translation. All of the meetings were welcoming and open discussions. The stakeholders presented well-considered views on many aspects of the past, present and future relationship between the town and MPS.

The results of the consultation meetings were extremely positive. Each of the local community stakeholders interviewed expressed overall satisfaction with the company. MPS is seen as a responsible corporate citizen.

- Stakeholders acknowledged that the town relies heavily on MPS for jobs, taxes and additional support.
- MPS works well with the local government.
- MPS is perceived as approachable, open and ethical.
- MPS has a positive reputation as a good place to work and as a business partner.
- The significant environmental improvements over the last several years have greatly contributed to the quality of life in Štětí.

In summary, the internal and external stakeholders delivered the following messages to the SEAT team:

- Environment improvements are important and odour must continuously improve.
- More cooperation on local employment/skills development is needed.
- Better internal communication is needed.
- Increases in local procurement would be beneficial.
- Corporate social investment is not well known.

Based on the historic community engagement led by the Paper Mill and continuous stakeholder feedback, MPS Management (all Divisions) has adopted several management responses focusing on both internal and external changes where targeted actions can be beneficial to the well-being of the local community.

These management responses are meant to be concrete, realistic and measurable. Some of the responses address specific action plans which are already in place or are being developed and some are new initiatives. Many of these commitments require the cooperation of stakeholders and partners outside of MPS to be fully successful. The management of MPS commits to the following five actions:

- Changing the internal organisation of community engagement responsibilities to a joint approach.
- Continuous improvement on environmental issues, particularly odour.
- Catalyse job creation and economic development.
- Focus on education and try to establish Štětí as a paper making centre for the Czech Paper industry.
- Promote local procurement of goods and services.

MANAGEMENT RESPONSE TO ISSUES RAISED

MPS offers interesting and rewarding work
This report presents the findings of a Socio-economic Assessment Toolbox (SEAT) study at the Mondi Packaging production site in Štětí, Czech Republic (MPS). Anglo American, Mondi Packaging’s parent company, has developed the SEAT process for operations to identify their socio-economic impacts on local communities.

MPS is located in the northwest of the Czech Republic, north of the capital city of Prague. Two of the three Mondi Packaging businesses (Bags business and Flexibles business) operate plants at the Štětí site. There are four Mondi Packaging production plants in operation at Štětí. “MPS” refers to the collective Mondi Packaging Štětí including all Divisions.

The SEAT interviews were conducted in April and the report back to the community was completed in August 2006. The objectives of the SEAT assessment were to:

- Develop an understanding of the current and past operations at Štětí, the relationship between the community’s residents and Mondi Packaging, existing social management systems and current issues;
- Formally consult with several stakeholders of community groups, neighbours, business partners and Mondi staff to gain a clear view of social and economic issues from many perspectives;
- Broaden the community social engagement activities to include the Bags and Flexibles Divisions of Mondi Packaging; and
- Review and assess current corporate social responsibility activities and develop an appropriate management plan.

The SEAT Assessment Team consisted of:

- Mel Racinsky, who is responsible for corporate social responsibility and community liaison at the Paper Mill;
- Viv McMenamin, Sustainable Development Director for the Mondi Group; and
- Gillian Foster, Sustainable Development Manager for Mondi Packaging.
1.2 STRUCTURE OF THE REPORT

This document reports on the results of the SEAT. The structure of the SEAT approach and this report is as follows:

- Section 2 sets out the approach and objectives of the SEAT process, in particular identifying how the approach was applied at MPS;
- Section 3 provides an overview of the operation at Štětí, including detailed information about the existing Corporate Social Management System and Community Engagement Plan;
- Section 4 provides a description of the local community defined as the town of Štětí and its associated satellites (nine related towns) all within 10 kilometres of the MPS site;
- Section 5 details potential social impacts that the mill might have on the surrounding community;
- Section 6 identifies and discusses key issues raised by stakeholders during the consultation process;
- Section 7 outlines the management commitments agreed to by senior Mondi Packaging Managers at Štětí in response to the findings of the assessment team;
- Section 8 discusses the various indicators that were developed from the rapid assessment process and how they can be used in monitoring the operations’ social and economic performance; and
- Section 9 provides the contact details for further information on MPS’s corporate social responsibility initiatives.

1.3 ACKNOWLEDGEMENT

The SEAT Assessment Team would like to express its gratitude to the Mondi Packaging employees, contractors and community representatives, without whose assistance the study would not have been possible. MPS would particularly like to thank the Managing Directors who took this project to heart.
2 OBJECTIVES AND APPROACH

The approach taken for the assessment was in line with the five key steps of the SEAT process. These are defined in Box 2.1.

The rapid social and economic assessment approach is designed to:

- Identify and prioritise key social and economic impacts that need to be addressed;
- Assess the effectiveness and suitability of existing initiatives and identify where improvements might be made;
- Assess whether the operation is in line with ‘best practice’ in corporate social responsibility;
- Provide a planning tool for managing the operations’ social and economic impacts, including proposed reductions in workers, community investments, significant environmental impacts, or closure;
- Gather and collate data for corporate social reporting purposes, as well as to develop indicators that are relevant to operation and the community; and
- Identify examples of best practice that can be shared with the Anglo Group.

The critical element of rapid assessment is in-depth conversations with internal and external stakeholders. The SEAT team and Mondi Packaging Management consulted with staff at MPS and community representa-

Step 1: Define Objectives of the SEAT Process
Step 2: Profile Mondi Packaging Šteří and its Target Community and Identify Key Issues
Step 3: Evaluate Social and Economic Impacts
Step 4: Provide Guidance on Management Responses to Key Issues
Step 5: Report Back to Communities

Box 2.1 Key Steps in the SEAT Process.

The information reported in this document is a summary of the opinions shared by the stakeholders during the interviews in April 2006. The stakeholders were broadly representative of society at large in Šteří, representing education, economics, social development and recreation.

The summary of the interviews was reported back to the stakeholders in August 2006.

Father and son team working in the Flexibles Division
The issues gathered in the assessment may not be exhaustive or wholly representative of all residents in the area. However, the assessment team believes that the report provides a sound overview of the key issues concerning Mondi Packaging in the community of Štětí.

List of Stakeholders Interviewed During SEAT Visit April 24–27, 2006

1. Sportcentrum Račice – Mr. Zdeněk Pecka – Manager of the rowing complex and Olympic and World Champion rower
2. Elementary School – T.G. Masaryka – Principal/ Director Mrs. Bílková
3. Sports Club Mondi – President Karel Mencl plus Presidents of individual sports groups and involved volunteers – Václav Frey, Pavel Mueller, Mr. Langthaler, Janka Muellerová, Iva Plakačová, Petr Černý
4. Číchovice – Mental Health Care Institution – Karel Reismueller – Managing Director
5. Town of Štětí officials Mr. Antonín Böhm – Mayor, and Mr. Antonín Šimral, Deputy Mayor
6. Manager of the Štětí Unemployment Centre – Vendula Sachová
7. Elementary School – Školní – Principal/Director Mr. Pištora
8. Štětí Trades/Vocational School – Managing Director – Mr. Fišera
9. Trade Union representatives – Union Head Mr. Josef Jelínek, Members of the Trade Union – Zuzana Urbanová and Daniel Szilagyi of Mondi Packaging Paper and Karel Pavlinec of Mondi Packaging Coating and Mluše Bardová of Mondi Packaging Flexibles
10. Outsourcing Partner for Mechanical Maintenance – Scandinavian Mill Service (SMS) Managing Director Jouni Iikkanen
11. Elementary School – Ostrovní – Principal/Director Mr. Hladík
12. Medical Doctor and on-site Health Practitioner – Dr. Smoleňáková
13. Supplier Chvalis – Owner and Managing Director – Mr. Chvalina

The following Managing Directors or their representatives of the Mondi Divisions participated in the opening and closing meetings:
- Ron Traill – Mondi Packaging Paper Štětí a.s.
- David Chramosta – Mondi Coating Štětí
- Jaromír Perutka (CFO) – Mondi Bags Štětí
- Jiří Tyl – Mondi Flexibles Štětí

Box 2.2 Stakeholders Consulted.
3 OVERVIEW OF THE OPERATION AND SOCIAL MANAGEMENT SYSTEMS

3.1 BASIC INFORMATION ABOUT MONDI PACKAGING ŠTĚTI OPERATIONS

Two of Three Businesses Operate in Štětí

The Štětí site is located in the northwest of the Czech Republic about 50 kilometres north of the capital city of Prague. Two of the three Mondi Packaging Businesses (Bags Business and Flexibles Business) operate four factories at the Štětí site. The newest Mondi Packaging operation is the Flexible plant, which opened in 2004, moving its operations from nearby Zatec.

Approximately 775 people are directly employed by Mondi Packaging at the Štětí site. The majority of the employees are from the local area and live within 30 kilometres of the site. Therefore, Mondi Packaging employs approximately 10% of the town.

The Paper Mill operates two pulp lines and four paper machines that produce containerboard (PM1), machine glazed paper (PM2 and PM3) and sack paper (PM5). The Paper Mill was established as a state-owned entity in January 1, 1949 and has been expanding its base of operation up to the present time. In 2006, the Paper Mill celebrated its 57th anniversary.

The Bags plant started operations in September 1957 as part of the Paper Mill. In January 1997 it was separated from the Paper Mill and started operating as a separate legal entity.

Two Flexibles Division manufacturing plants are located on the Štětí site. One produces coated products and the other flexible materials such as carry bags and shopping bags. The Coating operation was started in 1988 as part of the Štětí Paper Mill and was established as its own legal entity in 1998. The carry bag business started in Zatec in the 1950s and moved its operations to Štětí in 2004.

Approximately 775 people are directly employed by Mondi Packaging at the Štětí site. The majority of the employees are from the local area and live within 30 kilometres of the site. Therefore, Mondi Packaging employs approximately 10% of the town.
Mondi Packaging Production Figures at Štětí

**Mondi Packaging Production Figures at Štětí**

<table>
<thead>
<tr>
<th>Production Site</th>
<th>Product (Unit of Measure)</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pulp + Paper Mill</td>
<td>Tonnes (thousand)</td>
<td>436</td>
<td>451</td>
</tr>
<tr>
<td>Sack Paper</td>
<td>Tonnes</td>
<td>156.0</td>
<td>161.4</td>
</tr>
<tr>
<td>Corrugated Case Material</td>
<td>Tonnes</td>
<td>92.1</td>
<td>97.3</td>
</tr>
<tr>
<td>Machine Glazed Paper</td>
<td>Tonnes</td>
<td>41.4</td>
<td>43.9</td>
</tr>
<tr>
<td>Market Bleached Pulp</td>
<td>Tonnes</td>
<td>140</td>
<td>142</td>
</tr>
<tr>
<td>Semi-bleached Pulp</td>
<td></td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Bags Plant</td>
<td>Million Pieces</td>
<td>106.3</td>
<td>112.3</td>
</tr>
<tr>
<td>Flexibles Coating</td>
<td>Tonnes</td>
<td>21.8</td>
<td>32.4</td>
</tr>
<tr>
<td>Flexibles Flex</td>
<td>Million Pieces</td>
<td>41.1</td>
<td>43.1</td>
</tr>
</tbody>
</table>

**2005 Financial Reporting Info**

(Mondi Packaging Paper Štětí a.s.)

<table>
<thead>
<tr>
<th></th>
<th>CZK million</th>
<th>EUR million</th>
</tr>
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<tbody>
<tr>
<td>Sales turnover</td>
<td>6,876</td>
<td>231</td>
</tr>
<tr>
<td>EBIT</td>
<td>971</td>
<td>33</td>
</tr>
<tr>
<td>Net profit</td>
<td>768</td>
<td>26</td>
</tr>
<tr>
<td>Total assets</td>
<td>7,949</td>
<td>274</td>
</tr>
<tr>
<td>Equity</td>
<td>4,101</td>
<td>142</td>
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</tbody>
</table>

(Mondi Packaging Bags Štětí a.s.)

<table>
<thead>
<tr>
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<th>CZK million</th>
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</tr>
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<tbody>
<tr>
<td>Sales turnover</td>
<td>705</td>
<td>24</td>
</tr>
<tr>
<td>EBIT</td>
<td>122</td>
<td>4</td>
</tr>
<tr>
<td>Net profit</td>
<td>91</td>
<td>3</td>
</tr>
<tr>
<td>Total assets</td>
<td>542</td>
<td>18</td>
</tr>
<tr>
<td>Equity</td>
<td>382</td>
<td>13</td>
</tr>
</tbody>
</table>

(Mondi Packaging Coating Štětí a.s.)

<table>
<thead>
<tr>
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<th>CZK million</th>
<th>EUR million</th>
</tr>
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<tbody>
<tr>
<td>Sales turnover</td>
<td>717</td>
<td>24</td>
</tr>
<tr>
<td>EBIT</td>
<td>14</td>
<td>0.5</td>
</tr>
<tr>
<td>Net profit</td>
<td>4</td>
<td>0.1</td>
</tr>
<tr>
<td>Total assets</td>
<td>550</td>
<td>19</td>
</tr>
<tr>
<td>Equity</td>
<td>133</td>
<td>5</td>
</tr>
</tbody>
</table>

(Mondi Packaging Flexibles Štětí a.s.)

<table>
<thead>
<tr>
<th></th>
<th>CZK million</th>
<th>EUR million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales turnover</td>
<td>125</td>
<td>4</td>
</tr>
<tr>
<td>EBIT</td>
<td>14</td>
<td>0.5</td>
</tr>
<tr>
<td>Net profit</td>
<td>10</td>
<td>0.3</td>
</tr>
<tr>
<td>Total assets</td>
<td>105</td>
<td>4</td>
</tr>
<tr>
<td>Equity</td>
<td>68</td>
<td>2</td>
</tr>
</tbody>
</table>

**Štětí – an Important Location for Mondi Packaging**

MPS is not the only major employer in the local area as the site is located near Prague. However, MPS is the main employer of the town of Štětí and its satellite communities.

**Štětí’s Industrious History and Future**

The settlement of Štětí has a long history going back to pre-mediaeval times but it was in 1314 that it became a town having been sold from King John of Luxembourg’s holdings to private farmers. The main economic driver in the area historically was agriculture. The main focus was sugar beet production in the days just prior to the building of the Paper Mill. In fact, the Paper Mill was built on a former sugar beet processing factory. Štětí is located in the Usti region, known for industrial development with paper, chemicals, coal, energy, glassmaking and the automobile industries.

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*At work in the Paper Mill*

Table 3.1 Production Figures

2005 Štětí Financial Reporting Information for all Divisions
(Source: Audited financial statements as of December 31, 2005).
The paper industry began in Štětí in 1949 with the establishment of the original Paper Mill, Sepap. At the time that the former Czechoslovakian government built the mill it was the largest paper factory in central Europe. Many of the housing developments which still form the heart of the residential areas of today’s Štětí were built as housing for workers to coincide with the mill opening. The majority of local employment is rooted on the Mondi Packaging site.

As a formerly state-run industry of a centrally planned economy, the Paper Mill and the town of Štětí have always had a symbiotic relationship. In the past, educational facilities in the town were closely linked with paper making. For example, the local technical schools focused on paper making skills and trained the majority of papermakers in the former Czechoslovakia.

Today, several basic municipal services are provided by Mondi Packaging such as the treating of the town’s wastewater and the operation of a landfill that accepts domestic waste from the local community.

Mondi Packaging Paper Mill is the title holder to the 135 hectare industrial site that adjoins the town and is the “landlord” to the other Mondi Packaging Divisions and to 19 other businesses directly involved in the paper industry or providers of services to the industry on the site. The site originally contained dozens of buildings used for many different purposes, but over time Mondi Packaging Paper removed many unused buildings and continues to eliminate idle dilapidated structures from the site. International companies such as Norske Skog (producing newsprint) Metso (Mondi Packaging’s maintenance service provider), and VA TECH / Siemens (electrical maintenance provider) are located on the MPS Štětí site. Czech firms located on the MPS Štětí site include Viamont, Neograph, Keratech, Pedus and Group 4 Falck.

Štětí Joins Mondi Packaging in 2000
Mondi Packaging, then known as Frantschach Group and Mondi Packaging Europe, expanded rapidly worldwide between 2000 and 2004. Mondi Packaging acquired the Paper Mill, the Bags plant and Flexibles operation in February 2000. Mondi Packaging is the fourth private sector owner of the site. Since its acquisition, Štětí has been a key player in the Mondi Packaging story of successful growth.

Mondi Packaging is part of the MONDI Group, a leading packaging, paper and pulp company. Anglo American plc, the diversified mining and natural resources group headquartered in London, owns Mondi.

3.2 EXISTING SOCIAL MANAGEMENT SYSTEM

The Paper Mill has historically led the community engagement effort of Mondi Packaging in Štětí. The Bags and Flexibles Divisions were decidedly less active for three reasons. First, they were perceived to be under the umbrella of the Paper Mill as it is the largest Division. In fact, most residents interviewed by the SEAT team see the operation as one unit rather than four separately managed entities. Second, the Paper Mill had a long history of community engagement already in place. Third, the Frantschach Group’s original Community Engagement Policy determined that only plants employing more than 250 people would develop and roll out a tailored Community Engagement Plan and appoint a community engagement champion.

The existing social management system actions described in this section are run almost entirely through the Paper Mill. Beginning with this SEAT assessment, all Mondi Packaging operations will participate more actively in community engagement. (See Section 7, Management Responses.)

Paper Mill Community Engagement Plan Since 2003
Community engagement is not new to Štětí. A formal Community Engagement Plan was put into place in 2003 for the Paper Mill.

3.3 CHARACTERISTICS OF THE EXISTING SOCIAL MANAGEMENT SYSTEM

Mondi Packaging Štětí a.s. focuses its social management through regular dialogue with a wide variety of stakeholders. Correspondingly, stakeholders and the company exchange information on any developments in the community or in their sphere of undertaking and the mill highlights any actions that are being planned that may affect the community including major capital expenditures, specifically investments which will have a positive impact on the environment and employment outlooks. The key areas of concern are the environmental impact Mondi has on the local community, improving educational facilities and curricula, youth development and individuals with mental and physical handicaps.
A close relationship has been built up over the years with the town of Štětí and a long-term arrangement, beyond the customary three year plan, has been in place since the late 90s. Funding under the community engagement programme (CEP) include: environmental improvements such as upgrading of waste disposal facilities, garbage removal, improvements to existing parks or other “green zones”, tree planting, supporting cultural events such as folk festivals, brass bands and majorettes, development of recreational areas such as the riverside park, support of the volunteer fire department, and special youth programmes to transport children to various recreational facilities such as ski hills and public swimming pools.

The Paper Mill and the town of Štětí also collaborate from time to time with elected Municipal District officials on matters of infrastructure for example in lobbying for improved or new roads and bridges to improve access to and from the mill to major European motorways in close proximity to Štětí. In the past, studies have been funded to obtain necessary support for such projects.

**Summary of Contributions to the Community in 2005**

The expenditure for 2005 was CZK 4.4 million (€ 157,000) for many purposes including:

- The town of Štětí, for investment into the various aspects of the engagement plan, environment, culture, etc., as described above. Based on a long-term agreement which expires in 2006.
• One technical school and three elementary schools received funds to invest into upgrading IT systems (hardware) and teaching materials such as electronic boards and English text books. This is based on a three-year plan.
• The Sportscentrum Račice is a neighbouring world class rowing centre that receives funding to assist with the costs of operation. This non-profit organisation has hosted at least six European and world class competitions in rowing. It is often the training course of choice for Olympic calibre teams from all parts of the globe. Part of a ten-year agreement.
• The Sports Club Mondi has ten different sports clubs under its umbrella dedicated in large part to youth. Each sport has its development programme. Funding falls under a three-year agreement.
• Čízkovice, a diagnostic mental and social care institute, received funding in 2005 for a special bathtub designed for severely physically handicapped persons under a three-year agreement.
• Equipment for the physically handicapped in Štětí received funding to purchase wheelchairs and walkers.
• Various smaller donations to local groups such as bird watchers, volunteer fire-fighters and an association dedicated to caring for children.

Communicating with Employees
Today the Paper Mill management meets regularly with the trade union on a monthly basis to address their concerns and to keep members informed about developments in the mill. The company and the trade union have a long history of working together in an open and business-like manner without labour disputes. The mill employed well over 4000 people in the early 1990s, but after extensive restructuring the number of people employed in the Mondi Group of companies is currently approximately 775. This was achieved through negotiations with employees characterised by give and take from both sides. Today, Mondi employees are among the best paid in the country with an interesting benefits package to compliment their salaries, all achieved through cooperation.

The Paper Mill issues a monthly newsletter for its employees, which is also distributed to the residents of Štětí. The newsletter focuses on developments in the mill including topics such as health, safety, the environment, quality issues, customer needs and activities or events undertaken by mill employees outside their immediate job responsibilities.

Publicly Available Environmental Monitoring and Green Line
The Paper Mill installed an atmospheric measuring unit in the centre of town whereby residents can see the amounts of emissions of SO₂, H₂S and TRS. The levels of emissions are displayed on an electronic board and should emissions approach limits which would breach acceptable limits the board indicates a warning in red and anyone can call the mill on its “Green Line” to give the management a warning that an unfavourable condition exists.

Flood Relief
The company provided extensive financial assistance to the town of Štětí and some of its satellites as well as to employees affected by the floods in 2002 and early 2006.

MPS is acutely aware of the possibility of noise pollution, malodorous gas emissions and discharges into the River Elbe and thus our need to be ever ready to communicate with the populace about environmental issues.

Štětí Paper Mill Community Engagement Plan
4.1 REGIONAL CONTEXT – USTI

The geographic location of MPS is an important factor in gaining an understanding of the economic and social framework. Štětí lies in the Usti Region of the Czech Republic in the northwest of the country near the border of Germany. This area, known as Bohemia, is in close proximity to the capital city of Prague. The region is known for natural resource and manufacturing industries as well as agriculture. The northern most part of the region is a coal mining centre and is a base for many energy-related industries. Also, the terrain and soil prove suitable for agriculture including cereal crops, commercial fruit and viticulture.

The natural environment of the region is characterised by the Elbe, Ohre and Vltava Rivers. It is a beautiful area with fertile green river valleys, robust forest and interesting rock formations. Of particular note is the largest natural rock archway known as the Pravcicka Gate.

The proximity of the Usti Region to the major central European centres of Dresden, Prague and Vienna is an advantage.

4.2 ŠTĚtí AND ASSOCIATED COMMUNITIES

The Czech Republic has undergone significant economic and social transformation in the last thirteen years. In 1993, the Czech Republic and Slovak Republic separated into independent countries. It joined the expansion of the European Union in May 2004.

The Usti Region’s economic development parallels the Czech Republic’s development as a whole, as the region has prospered through exports mainly to western Europe and tourism. One of Usti’s thirty industrial zones is Štětí.

MPS defines the area of community engagement as the town of Štětí and the adjoining nine small satellite villages of Brocno, Čakovice, Hněvice, Chcebus, Počeplice, Radouň, Stračí, Veselí and Újezd. The main focus is on Štětí as the facilities in Štětí are used by the surrounding inhabitants.
Stable Population
The population of Steti is approximately 8,300 including the satellites or 7,000 without them. The region’s population has remained stable despite the changing local employment levels.

The key characteristics of the Steti community as observed during the SEAT assessment include:

• Steti is a stable prosperous town;
• No abject poverty;
• Stable and improving education system;
• High quality local leadership;
• Open, flexible and entrepreneurial culture;
• Adapted to economic and social changes;
• Those residents who are not direct employees of MPS are often employed in other businesses that have been established to service the mill;
• Government services are sufficient but limited; and
• The population is relatively young.

Excellent Infrastructure and Transportation
Steti has excellent connections to major ports by river, road, or train. MPS and the town of Steti are located directly on the eastern bank of the Elbe, which connects to the seaport of Hamburg, Germany. The most common route to reach the site is by car across a concrete bridge over the river. Commercial traffic is able to connect to western Europe on major motorways via Prague. Also, a new motorway is under construction that will improve the connection to Dresden. The plants also use the rail line as an important mode of transporting finished goods and raw materials. A major north-south railway connection exists to Scandinavia and to Vienna.

The site is served by electricity generated locally by the national energy company. In addition, the mill generates its own electricity in its coal/biomass boiler. Steam power is generated on site from a recovery boiler using black liquor from the pulping process. Electricity is roughly 50% self generated and 50% is purchased from the national grid, however the Paper Mill will be almost entirely self sufficient for its energy needs after the completion of a major investment in late 2006. Adequate process water is available from the Elbe River.

Stable and Improving Education
There are three elementary schools and two technical schools in Steti. The schools have expanded over the last few years as Steti’s school age population has grown. The technical school was formerly operated by the state and its programmes were focused on providing skilled workers to the mill. The educators that the SEAT team met with as part of the stakeholder interviews reported that the Steti schools are benchmarked against other school districts in the Czech Republic. Student testing and secondary school placements have demonstrated that the quality of education in Steti is on par with the rest of the country. Educators also reported a recent improvement in the student test results.

Intermittent Flooding
Flooding is not generally a high risk; although, there have been several spectacular floods that have destroyed property. The Elbe flooded Steti in 1784, 1845, 2002 and 2006. In the most devastating flood in 2002, waters inundated the town and mill alike. The mill lost seven days of production time and the town suffered extensive damage to about 40% of its businesses and residential
buildings. All communities built along the Elbe River sustained severe damage including many of Mondi’s employees’ properties. Mondi donated more than CZK 3 million (€ 110,000) to the town and satellite communities for flood relief and to its employees affected by the flood, combined with a zero interest loan programme for additional assistance for residential property repairs.

Local Business Community

Despite the job cuts at the mill since reorganisation started in 1995, MPS remains the town’s largest employer. There is no other employer in the immediate area with over 400 employees. In Račice, 2 kilometres from Štětí, 2JC, a specialised maintenance service company, employs approximately 300 persons. Štětí is close to Prague and several other larger towns in the district, so there are numerous large employers in the region. Black and Decker (1200), Johnston Controls (1000), TRCZ (1200) Lafarge Cement and Mitsubishi are companies within 35 kilometres of Štětí employing a significant number of people in the region.

Many of the local businesses are directly or indirectly dependent on Mondi Packaging. Approximately 65 local businesses have contracts for goods and services with Mondi Packaging totalling CZK 95 million annually. In fact, several of the service providers to MPS are companies started by former employees of MPS or local providers of formally in-house tasks.

Joining the EU has been a boost to the local business environment. One stakeholder reported that he is able to make cross-border business deals much more conveniently now.

Main Industry in Štětí is Forest Products

Mondi Packaging, Norske Skog, Keratech and Neograph, all companies relying on wood as their main natural resource, operate in Štětí. The Czech Forestry Survey for 2001–2004 reports that the Usti region is over 30% forested, a level similar to the country as a whole. As this area has been a forest industry hub for over 50 years, the local economy has adapted to the industry. Many local small and medium businesses that are forest industry specialists are material and service providers to MPS and the area’s paper, pulp and wood processing industry.

4.3 LIFE IN ŠTĚTÍ – COMMUNITY GROUPS

There is no strong tradition of non-governmental operations (NGOs) working in Štětí. The local and the regional governments handle traditional social services for those in need such as the unemployed and the elderly, areas where NGOs often have a role.

As a result of the local situation, the SEAT team met with two non-profit recreation organisations and a non-profit institution serving the needs of the mentally and physically disabled.

Paper Mill employees and their families planted 500 trees in the Protected Landscape Area Kokorinsko in October 2006

Stakeholder meeting at the Cizkovice Mental Health Care Institution
Senior management understands the community issues of Štětí very well. Several senior managers have lived in the Štětí area for more than 20 years. Most staff live and work in Štětí or the satellite communities. Through the structured community consultation process and on-going dialogue, the company has a good awareness of its impacts upon the local community. An assessment of the principal impacts is described below.

The major impact of MPS is the creation of employment. Although there were significant lay-offs during the restructuring period in the late 1990s and early 2000s; MPS has also created employment in the recent past. Flexibles moved the production line from Zatec some 40 kilometres away from Štětí to the site in 2004. Since 1998, the Coating production facilities have increased staff numbers from 43 to 103 employees.

Although each Division has separate hiring practices this section discusses issues common to all Divisions.

The MPS payroll expenditure is approximately CZK 435 million annually. The majority of the Paper Mill employees come directly from Štětí and its satellites within 20 kilometres. Of particular note is that the average monthly salary in the Paper Mill is CZK 27,678 per month compared to the national average wage (August 2006) of CZK 20,036 per month and CZK 17,364 in the Ústí region. According to the most recent Hay Study on compensation in the Czech Republic, the Mondi Packaging Paper Štětí a.s. pay level is in the top range of the upper quartile of salaries paid in the chemical industry in the Czech Republic to which the Paper Mill belongs.

### 5 IMPACTS IDENTIFIED BY MONDI PACKAGING ŠTĚTÍ

#### 5.1 INTRODUCTION

#### 5.2 EMPLOYMENT

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<thead>
<tr>
<th>Category</th>
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</tr>
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</tr>
<tr>
<td>• Mondi Packaging Paper</td>
<td>498</td>
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</tr>
<tr>
<td>• Mondi Packaging Bags</td>
<td>103</td>
<td></td>
</tr>
<tr>
<td>• Mondi Packaging Coatings</td>
<td>105</td>
<td></td>
</tr>
<tr>
<td>• Mondi Packaging Flexibles</td>
<td>73</td>
<td></td>
</tr>
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<td>2. Indirect employment</td>
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<td></td>
</tr>
<tr>
<td>1. Contractors/Service providers on site</td>
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<td></td>
</tr>
<tr>
<td>2. Off site</td>
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<td></td>
</tr>
<tr>
<td>3. Induced employment</td>
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</tr>
<tr>
<td>• Assumed at 20% of direct and indirect employment</td>
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<td></td>
</tr>
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<td>Total</td>
<td>1,811</td>
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</tr>
</tbody>
</table>

Skill development is a priority – MPS employees attending world-class paper making institute in Steyrermuhl, Austria 2005
In order to compete in our demanding markets MPS places significant importance on quality. MPS believes that our people are the key to success in providing a quality product and quality service to our customers.

As a special initiative, the Paper Mill invested over CZK 2.5 million into the training and education of 12 of its key operators at Europe’s most recognised paper making institution, Ausbildungszentrum der Österreichischen Papierindustrie in Steyrermühl Austria. The 12 employees participated in the seven week programme, completing the courses with some of the highest academic results that Steyrermühl has seen.

This educational programme will continue for at least two more years and will be extended to train employees in pulp making, energy production and engineering.

MPS spends approximately CZK 5 million annually on the education of its employees, which includes the above-mentioned paper making, English language training, specialised courses for trades and professions, safety, information technology and soft skills.

5.4 SAFETY, HEALTH AND ENVIRONMENT

In addition to employment, management has also identified a healthy and safe work environment for its employees and a minimal environmental effect on the local community as its most important impacts. The Paper Mill has made significant improvements in safety, dramatically reducing lost time injuries compared to the recent past. Collectively, the Mondi Divisions have shown a remarkable improvement in safety performance.

5.3 HUMAN CAPITAL AND SKILLS DEVELOPMENT

In order to compete in our demanding markets MPS places significant importance on quality. MPS believes that our people are the key to success in providing a quality product and quality service to our customers.

As a special initiative, the Paper Mill invested over CZK 2.5 million into the training and education of 12 of its key operators at Europe’s most recognised paper making institution, Ausbildungszentrum der Österreichischen Papierindustrie in Steyrermühl Austria. The 12 employees participated in the seven week programme, completing the courses with some of the highest academic results that Steyrermühl has seen.
Safety – The Paper Mill is the flagship site for safety on-site and it was awarded the CEO “Gold” award for safety performance in the Mondi Group, for the third year in a row, and the Anglo American CEO “Silver Award” for safety performance in the Anglo Group of companies, for the second consecutive year. In addition, the Paper Mill won the prestigious 2005 DuPont Safety Award for the category of Felt Leadership for Europe, the Middle East and Africa.

Health – The Paper Mill has integrated occupational health into its safety programme with the aim of preventing occupational illnesses. In 2005, the Paper Mill invested CZK 3 million for a new world-class health centre to provide care for Mondi Packaging staff. The old health centre was in dire need of improvement. The renovated health centre was officially re-opened on September 1, 2005.

The centre is staffed by an occupational health specialist, Dr. Smoleňáková, who partnered with Mondi Packaging to run the centre. Each Mondi employee receives routine check-ups according to a risk assessment based on their job description. Hearing exams are conducted on site.

Environment – The only MPS operation with a material environmental impact is the Paper Mill. The mill recognises that noise and odour pollution remain a concern. The focus in the coming months and years will be to reduce or eliminate all impacts through investment and improved operational efficiency.

5.5 LOCAL PROCUREMENT

MPS is a major consumer of goods and services and procures a significant amount of its raw materials domestically and goods and services locally. Today, approximately CZK 95 million is spent annually for local goods and services from approximately 60 suppliers. In an effort to bolster the local economy, MPS is working on developing relationships with Štětí businesses in an effort to increase business demand locally for quality products and services.
6 KEY ISSUES RAISED BY STAKEHOLDERS

6.1 INTRODUCTION

About 13 interviews were held with approximately 20 people in April 2006. The stakeholder interviews included elected officials, educators and contractors (for a full list of stakeholders see Box 2.2). All stakeholders invited to participate in the rapid assessment meetings accepted the invitation. MPS met again with many of the same stakeholders in August 2006 to present the findings of the SEAT and to take comment on the proposed Management Commitments to address the stakeholders’ concerns.

The SEAT team visited the stakeholders at their places of work and toured Štětí. The discussions were informal and held in the Czech language with English translation. All of the meetings were welcoming and open discussions. The stakeholders presented well-considered views on many aspects of the past, present and future relationship between the town and MPS.

It should be noted that all external stakeholders (other than direct contractors) perceived and spoke of MPS as one unit. From a community engagement point of view, Štětí stakeholders believe MPS is one company with one management team.

The meetings were generally positive towards the role of MPS in Štětí. MPS is a respected multinational company, with a good reputation in the area. The stakeholders gave very informative and constructive feedback. Overall, no “key risks” were identified by stakeholders. The general observations stakeholders made about life in Štětí are:

- An operating paper industry on site is seen as the life blood of the town. It is important that MPS is a stable investor. Stakeholders were very optimistic about the future of Štětí. Štětí is perceived as a town that is constantly improving with a rising quality of life. There have been many positive changes in the last
decade including housing renovations, an influx of EU funding and the improvements in the roads to Prague.

- **Education/skills development is an important community value.** As the town has such a high proportion of young people, maintaining a robust education system is important. The two areas of interest most often noted were information technology and English language instruction. Education stakeholders noted that the investments made by Mondi in information technology infrastructure were useful and made additional leveraged investments possible. Contractor stakeholders noted that they are having problems finding skilled workers locally. These contractors noted that the local resources provided good basic skills and that they were handling additional on-the-job training in technical skills. The owner of MPS supplier Chváliš has had success hiring from the local technical school, but also intends to expand his own training programme because of a need for skilled workers.

- **Unemployment is a concern for the town.** The vast majority of redundancies in the Paper Mill took place in the mid 90s and early 2000s. Most stakeholders believed that the town has generally recovered. However, there is ongoing concern about unemployment and local people being able to join the workforce.

- **Maintaining and expanding activities for youth is important.** The SEAT team received mixed views on the availability of activities (particularly non-sport) for young people in Štětí. The common thread was that stakeholders are concerned about the recent increase in youth drug abuse/alcoholism and want to ensure that there are alternative, healthy activities.

### 6.2 MONDI PACKAGING ŠTĚTÍ’S IMPACTS ON THE LOCAL COMMUNITY

#### 6.2.1 Positive Findings

The results of the consultation meetings were extremely positive. Each of the local community stakeholders interviewed expressed overall satisfaction with the company. MPS is seen as a responsible corporate citizen.

- Stakeholders acknowledged that the town relies heavily on MPS for jobs, taxes and additional support. MPS is vital to the town’s stability and growth.

- MPS works well with the local government. The regular meetings held by the Paper Division were cited as examples of the accessibility and leadership of MPS.

- MPS is perceived as approachable, open and ethical. Many stakeholders mentioned the importance of transparency and approachability that Mondi Packaging has brought. Our relationships with contractors are perceived as diligent and ethical. The change to a more transparent and ethical contracting method was mentioned by two suppliers.

- MPS has a positive reputation as a good place to work and as a business partner. Worker safety transformation over the last few years was noted as an important factor in the positive MPS reputation. Staff stakeholders spoke with pride about the transformation from a culture that did not value safety to a safety-centred culture. The DuPont Safety award won by Štětí in 2005 was noted as an example of their achievements.

- The significant environmental improvements over the last several years have greatly contributed to the quality of life in Štětí. The drastic reductions in malodorous gases and improvements in water quality were recognised by all stakeholders. In particular, the Managing Director of Sportcentrum Račice, which uses the canal next to the
factory extensively, discussed the impact of the improvements. Also, the real-time atmospheric monitoring installed in the town's centre is a visible assurance that MPS is not producing harmful emissions.

6.2.2 Areas of Concern

Very few critical comments were made by stakeholders. The main issues of concern raised by stakeholders about MPS are:

Environment Improvements. Important – Odour Must Continuously Improve
- Environmental improvements and communication with the community have contributed greatly to the positive view of MPS. However, continuous improvement must be made on odour. The main concern of the stakeholders is the odour emanating from the mill from time to time. Stakeholders who mentioned odour prefaced their comments by stating the past improvements in odour control and the Green Line, which is perceived as a valuable tool for communicating with the Paper Mill on environmental issues. It is clear that should odour return, or if improvements are not made, stakeholders will be negatively impacted.

More Cooperation on Local Employment/Skills Development
- Mondi is seen as a stable investor and a world class firm that is quality focused. Most people in the area have adapted to the past layoffs. However, there are still concerns about employment. There is a 14% unemployment rate and the stakeholder representing the unemployment office stated that the goal is to find jobs for an additional 400 employable people. The Mayor and the Deputy Mayor emphasised that good communication on job growth is critical.
- The technical school director Mr. Fisera, Mr. Chavalina of Chvals and Mr. Iikkanen of Metso, all expressed an interest in cooperating to improve the technical skills of local workers.

Better Internal Communication Needed
- Management is seen as open and accessible in most cases. However, there can be improvements in communication and the “top-down style” of some parts of the company. At the consultation with union representatives, it was mentioned that the management styles in the different Divisions are more/less conducive to communication. For example, the Paper Division utilises a cascade form of communication that was perceived as effective and inclusive. The stakeholders suggested improving communication in the Coatings plant.

Local Procurement Increases Would be Beneficial
- Examples of more local procurement are desirable. Several stakeholders expressed the view that more local procurement would be beneficial. In addition, since the Paper Mill has recently hired Metso as the maintenance provider, some suppliers perceived that their open access to Mondi decision makers is now limited.

Corporate Social Investment is Not Well Known
- MPS Corporate Social Investments (CSI) are not generally known and understood in the community. Very few stakeholders were aware of the broad role of MPS in the community. Even MPS employees were not well briefed on the many facets of MPS investments other than the Mondi Sports Club. They indicated a desire to know more about MPS investments and how to access funding. Those who currently receive CSI appreciate the three-year commitments now in place. Several stakeholders noted that it allowed them to plan better and leverage additional funding.

Keeping an eye on the wood yard
The SEAT stakeholder consultations confirmed that management initiatives discussed and outlined during the course of the preceding months were addressing the concerns of the stakeholders. Management (all Divisions) is committed to continuing with the initiatives that focus on those internal and external changes where targeted actions can be beneficial to the well-being of the local community.

These management responses are meant to be concrete, realistic and measurable. Some of the responses address specific action plans which are already in place or being developed and some are new initiatives. Many of these commitments require the cooperation of stakeholders and partners outside of MPS to be fully successful. The management of MPS commits to the following five actions:

- Changing the internal organisation of community engagement responsibilities to a joint approach
- Continuous improvement on environmental issues, particularly odour
- Catalyse job creation and economic development
- Focus on education and try to establish Štětí as a paper-making centre for the Czech paper industry
- Promote local procurement of goods and services

7.2.1 Work Jointly Across MPS to Expand Community Engagement Information

- The Mondi Divisions based in Štětí have agreed to work jointly for the continued benefit of the local community. All of the SEAT management commitments were agreed to by MPS and will be carried out jointly.
- MPS will undertake a joint CSI programme with all Divisions on the Štětí site. In addition, MPS will promote the CSI programme to a greater degree in the community as well as to MPS employees, so that stakeholders are aware of MPS activities.
- Management has accepted from the feedback of stakeholders that the CSI programme is generally not known in the community and by employees. MPS will better inform its employees through its internal newsletter about the CSI programme.
- The Mondi newsletter will become a joint publication among the Divisions in order to present MPS as one entity.
- Management of all Divisions will become more actively involved in dialogue with stakeholders on community issues.

7.2.2 Improve Upon Robust Management of Environmental Issues – Odour

- The environmental issue will continue to be managed by Mondi Packaging as it is the sole source of emissions. The commitment is to continue to improve communications within the community, ensuring Mondi always clearly issues warnings of possible incidents when new technology is being installed or planned work stoppages.
are realised which may possibly create unacceptable noise or smell pollution. The management of the environmental programme includes continuing investments into new environmentally-friendly technology, as well as a vigorous examination of the root causes of environmental incidents with a subsequent action plan to reduce or eliminate those causes. Additionally, the company will clearly communicate the sensitivity of this aspect of our operations on the community to its employees and concentrate more on adopting the Zero Tolerance principle going forward in the environment. MPS will measure the incidents and complaints to track the progress being made.

**7.2.3 Catalyse Job Creation and Economic Development**

Utilise state employment programmes and participate in job creation or re-training programmes in cooperation with local officials and the Chamber of Commerce by acting in an advisory or consultation role with stakeholders on this issue.

- Mondi will utilise the local and regional unemployment offices and the regional Chamber of Commerce in order to explore all avenues where MPS could participate in programmes that would create jobs, provide re-training or help in establishing self help centres for the unemployed.
- MPS is able to act in an advisory or consultation role with stakeholders on this job creation issue.

**7.2.4 Focus on Education and Try to Establish Štětí as a Paper Making Centre**

The MPS management considers education to be a priority and will focus on continuing its support of the educational institutions in Štětí, as well as committing to commencing a process to explore the possibility of developing a paper making centre in Štětí for the Czech pulp and paper industry. It is clear from stakeholder feedback that a number of service companies and suppliers in the community, as well as MPS, require a supply of skilled labour. The opportunity exists for establishing cooperation among all companies to support a quality educational programme that will produce a well-qualified work force.

- Mondi will cooperate with Steyermuhl of Austria to transfer paper making education programmes to Štětí on a step-by-step basis. This process has already commenced.
- The company will contact local industrial companies to investigate the possibility of mutual cooperation to support the technical/vocational schools in Štětí for training and educating tradesmen.

**7.2.5 Promote increased local procurement of goods and services**

- An open house day for suppliers will be organised in order to increase procurement from local businesses. In order to utilise synergies, the Mondi Divisions will clearly outline the amount and types of goods and services they purchase to provide local companies the opportunity to do business with MPS.
8 INDICATORS AND MONITORING

Standard SEAT Key Performance Indicators
Certain findings of the SEAT process can be used as indicators to monitor and measure performance. These are shown in Table 8.1 and are known as key corporate performance indicators.

Local Key Performance Indicators
The SEAT process allows for local key performance indicators to be developed to monitor and measure the performance of the operation in achieving its community engagement goals. Several potential indicators were identified during the SEAT assessment at MPS:

- Number of calls to report problems on Green Line and follow-up of resolving the Green Line calls
- Official unemployment rate in Štětí
- Spending on community projects, sponsorships and donations
- Memberships of sports clubs, recreation and health activities
- Proportion of local suppliers to non-local
- Number of education and training recipients

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<th>Indicators</th>
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<td>(b) Taxes and royalties paid by MPS</td>
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<td>(c) Direct employment</td>
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<td>779</td>
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<tr>
<td>(d) Indirect contractor and supplier employment</td>
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<td>–</td>
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<tr>
<td>(e) Spend on social and community programmes</td>
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<td>(f) Capital expenditure</td>
<td>28</td>
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Table 8.1 Key Corporate Performance Indicators
9 CONTACT DETAILS AND FURTHER INFORMATION

For further details on Mondi Packaging Štětí social management initiatives please contact:

Mel Racinsky
who will coordinate for all Divisions

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