



# **Mondi Finance plc**

(Registration number: 05916680)

## **ANNUAL REPORT & FINANCIAL STATEMENTS**

**for the year ended 31 December 2020**



# Introduction

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

Mondi Finance plc is a public company limited by shares, incorporated in the United Kingdom and registered in England and Wales. The Company's ultimate parent company and ultimate controlling entity is Mondi plc. The Mondi Group Integrated report and financial statements 2020 are available at: [www.mondigroup.com](http://www.mondigroup.com).

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### Registered Address

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Aviator Park  
Station Road  
Addlestone  
Surrey  
United Kingdom  
KT15 2PG

### Bankers

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

### Independent auditors

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

# Strategic report

## Main business and operations

Mondi Finance plc is a wholly-owned subsidiary of Mondi plc. The Company is a finance company with its principal activity being to provide financing and associated treasury services to companies within the Mondi Group (the "Group"). There have been no significant changes in the Company's principal activities during the year and the directors do not envisage any significant changes in the Company's activities in the foreseeable future. No dividend was declared or paid in 2020 (2019: none). The directors have not recommended any further dividends.

During the year, a €750 million Eurobond was issued by a fellow subsidiary of the Mondi Group, based in Austria. The proceeds of the Eurobond have been on lent to the Company under an intercompany loan. The Company settled a €500 million Eurobond that matured in September 2020. At 31 December 2020 the Company has one €500 million and one €600 million Eurobond.

The Company's finance costs are disclosed in the Group's Integrated report and financial statements, and are considered to be key performance indicators by the directors. The Company's directors believe that there are no other meaningful financial or non financial key performance indicators that are either necessary or appropriate.

The Company made a loss after tax for the financial year of €1.7 million (2019: profit of €1.7 million). The decrease in profit for the 2020 year was principally driven by a €7 million reduction in intercompany interest income as a result of lower interest rates, partially offset by a €1 million increase in external interest income. The total equity at year end is €411 million (2019: €412 million). There has been no overall change to the impairment provision in 2020 (2019: nil) based on the expected credit losses for the Company's financial assets. The provision amounts to €13.0 million (2019 : €13.0 million) at year end.

During the year a decision was made to change the accounting policy for presenting the financial statements from using the Companies Act format to using the IFRS format, as allowed under FRS 101: 'Reduced Disclosure Framework'. This policy change has resulted in the prior period loan receivable amounts being analysed between current and non-current, based on the requirements of IFRS, in order to improve the reliability and relevance of the ageing of the loans receivable. The restatement has no impact on the Income statement, the Statement of comprehensive income, nor on the Statement of changes in equity. The details can be found in Note 20.

## Section 172 statement

This section of the strategic report describes how the directors have had regard to the matters set out in Section 172 (1) of the Companies Act 2006 ("s172") when performing their duty to promote the success of the Company for the benefit of its shareholders. As the Company is a wholly-owned subsidiary of the Group, its parent company and other members of the Group are key stakeholders of the Company. Accordingly, the interests of the Group have been taken into account by the directors and decisions have been made in agreement with the Board of Mondi plc.

The Company's other main stakeholders are the banks and debt investors who provide capital to the Mondi Group. The Company's relationship with these stakeholders ensures the Group has access to funding for investment opportunities through the business cycle. The Group CFO and the Group Treasurer actively engage with and have held regular meetings with these stakeholders over the past year. The Company does not have any employees.

For more information on the Group, please see the s172 statement on pages 40 to 43 of the Group's Integrated report 2020, which does not form part of this report but provides details of the consideration given to stakeholders by the Group.

## Going concern

The Company will continue to act in line with its principal business activities and continue to act as a financing company for the Group. The directors believe that the Company will continue to be a going concern into the foreseeable future, with the support of Mondi plc and have adopted the going concern basis of accounting. Refer to note 20 of these financial statements.

## Risk management

The most important components of the Company's financial risk are interest rate risk, currency risk, credit risk and liquidity risk. The Company also enters into foreign exchange commodity contracts which are executed on a back-to-back basis with other Group companies and as such, it has no net exposure to commodity risk. Due to the Company's business and considering the assets and liabilities on the Company's balance sheet, the principal financial risks the directors consider relevant are currency and interest rate risk. The Company has entered into foreign currency swaps to hedge the foreign currency risk related to intercompany loans and other foreign exchange positions and, when deemed necessary, interest rate swaps are used to manage the Company's exposure to fluctuations in interest rates. No interest rate swaps were entered into in 2020 (2019: none).

The Company funds itself from a variety of sources including two Eurobonds, an intercompany loan, and a syndicated revolving credit facility which expires in July 2022. The availability of some facilities are dependent on the Group meeting certain financial covenants, all of which have been complied with. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate well within the level of its current facilities and related covenants.

Approved by the board of directors on 17 May 2021 and signed on behalf of the board by:



J C Paterson  
Director

# Directors' report

The directors submit their Annual Report together with the audited financial statements for the year ended 31 December 2020.

## Company number

05916680

## Directors

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

J L Hampshire (Company secretary)  
A C W King  
M A McHugh (resigned 25 March 2021)  
J C Paterson  
M Powell (appointed 1 December 2020)

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

## Events occurring after 31 December 2020

There were no significant events that happened after year end.

## Information set out in the Strategic report

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

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

## Statement as to disclosure of information to auditors

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

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

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

## Independent auditors

PricewaterhouseCoopers LLP (PwC) have expressed their willingness to continue in office as auditor and a resolution to reappoint PwC will be proposed at the forthcoming Annual General meeting.

Approved by the board of directors on 17 May 2021 and signed on behalf of the board.



JL Hampshire  
Company secretary

# Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' confirmations

Each of the directors, whose names and functions are listed in Directors' report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Approved by the board of directors on 17 May 2021 and signed on behalf of the board.



JL Hampshire  
Company secretary

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

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2020; the Income statement, the Statement of comprehensive income, and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Directors of the Company and the Audit Committee of Mondi plc, the ultimate parent of the Company.

### Basis for opinion

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

### Independence

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

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

Other than those disclosed in Note 3 Auditors' remuneration, we have provided no non-audit services to the Company in the period under audit.

### Our audit approach

#### Overview

<b>Audit scope</b>	<ul style="list-style-type: none"><li>- We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.</li><li>-The Company's principal activity is to conduct financing activities for the Mondi Group. Our detailed procedures were tailored to test material financial statement line items, together with the related financial statement disclosures. Materiality used in the audit is outlined in further detail in the "Materiality" section below.</li></ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"><li>- Existence and valuation of external borrowings.</li><li>- Existence, valuation and classification of balances with Group undertakings.</li><li>- Covid-19.</li></ul>
<b>Materiality</b>	Overall materiality: €30 million (2019: €28 million) based on approximately 1% of total assets. Performance materiality: €22.5 million

#### The scope of our audit

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

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

## Key audit matters

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

This is not a complete list of all risks identified by our audit.

Covid-19 is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><b>Existence and valuation of external borrowings</b></p> <p>The Company issues external borrowings on behalf of Mondi plc and fellow Mondi Group companies and lends the proceeds to fellow Mondi Group companies. The issuance of external borrowings is part of the Company's principal activity and, therefore, a key audit matter.</p> <p>As at 31 December 2020 the Company held €1,131 million of external borrowings. In April 2020, the Company extended €675 million of its €750 million Syndicated Revolving Credit Facility to July 2022. The remaining €75 million will mature in July 2021.</p> <p>Refer to notes 12 and 20 of the financial statements.</p>	<p>Our approach in respect of external borrowings involved reading existing contracts, performing procedures to validate the maturity of borrowings and testing covenant compliance.</p> <p>We have read board minutes, held discussions with management and obtained confirmations in order to verify whether there were any new or amended external debt arrangements entered into during the year.</p> <p>Confirmations for the existence and value of each external loan were obtained from each lender. The existence of external bonds was agreed to external market data, which is publicly available.</p> <p>We assessed compliance with the covenants associated with the Company's external debt facilities. We agreed the terms of the covenants to the external loan agreements and re-performed the associated calculations.</p> <p>Based on the procedures performed, we noted no material issues from our work.</p>
<p><b>Existence, valuation and classification of balances with Group undertakings</b></p> <p>The Company issues external borrowings on behalf of Mondi plc and fellow Mondi Group companies and lends the proceeds to fellow Mondi Group companies. The provision of financing to companies within the Mondi Group is part of the Company's principal activity and, therefore, a key audit matter.</p> <p>As at 31 December 2020, the Company had trade and other receivables due from Group undertakings of €337 million and loans receivable from Group undertakings of €2,341 million. In addition, the Company had trade and other payables owed to Group undertakings of €577 million and borrowings from Group undertakings of €867 million.</p>	<p>Our approach in respect of balances with Group undertakings was underpinned by the testing of controls over the intercompany process to agree balances with fellow Mondi Group companies.</p> <p>We agreed the balances with Group undertakings to respective counterparties by inspecting the intercompany mismatch report, and assessing evidence obtained related to mismatches identified related to the Company. We also substantively tested the classification of the balances with Group undertakings by obtaining and reading loan contracts.</p>

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Existence, valuation and classification of balances with Group undertakings (continued)</b></p> <p>During the year, management has adopted a change in accounting policy to align the application of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law) more closely to International Financial Reporting Standards ("IFRS"), under an election provided within FRS 101, which allows for a choice in financial statement presentation formats between the format prescribed within The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 No. 410 Schedule 1 or an adapted format, which is in line with International Accounting Standard 1: Presentation of Financial Statements ("IAS 1"). This change was made on the basis that the Mondi Group consolidated financial statements are prepared under IFRS and management believes that this change will provide more relevant information to the users of the financial statements</p> <p>Refer to notes 8, 9, 11, 12 and 20 of the financial statements.</p>	<p>We audited this change in accounting policy, including the associated prior period restatement and disclosures by obtaining and reading loan contracts. We assessed the timeframe in which the assets are expected to be realised based on contractual maturity dates, historical evidence of repayment, board minutes, and the financial position of the counterparties. We have read the disclosures and agreed them to the testing we performed.</p> <p>We evaluated management's process in estimating the expected credit loss provision for trade and other receivables and loans receivable from Group undertakings and considered management's assessment of the ability of other Mondi Group companies to repay by comparison with the net assets or forecast financial results of the counterparty.</p> <p>Based on the procedures performed, we noted no material issues from our work.</p>
<p><b>Covid-19</b></p> <p>Management has considered the impact of Covid-19 on the Company.</p> <p>As the Company is a financing company and does not trade, there is no direct impact on the Company's operations.</p> <p>Notwithstanding this, management's way of working, including the operation of controls, has been impacted by Covid-19 as a result of employees working remotely and using technology enabled working practices.</p> <p>Our own ways of working have also changed which has meant virtual meetings, electronic review processes (instead of hard copy reviews) and walkthroughs performed using virtual technology tools.</p>	<p>We assessed our ability to execute the audit when operating under lockdown and the related travel restrictions. We implemented alternative communication and review protocols with management and within our audit team. We also held a planning meeting ahead of the year-end audit with management and agreed ways to facilitate a remote audit, including determining how we could ensure appropriate access to the relevant documentation needed for our audit. We also assessed the design and implementation of management's controls relating to business processes that have a material impact on the financial statements.</p> <p>We assessed management's disclosures in the Annual Report in relation to the impact of Covid-19, considering whether the disclosures were consistent with our underlying audit procedures.</p> <p>We also evaluated management's accounting estimates in light of Covid-19, including assessing the recoverability of amounts owed by Group undertakings. We also considered its impact on the Company's ability to continue as a going concern.</p> <p>Based on the procedures performed, we noted no material issues from our work.</p>



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

## How we tailored the audit scope

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

In establishing the overall approach to the statutory audit, we determined the nature, timing and extent of work that needed to be performed. Mondi Finance plc is a subsidiary, and the main financing arm, of the Mondi Group. The Company's principal activity is to provide financing and associated treasury services to the Group. The Company and its management are primarily based in the United Kingdom. As such, we were able to directly obtain sufficient appropriate audit evidence and were not required to engage any component auditors. The combination of audit procedures performed was designed to address the risk of material misstatement in the financial statements as a whole, with specific focus on those line items and disclosures that are material. The materiality of these amounts was determined on the basis described in the section below.

## Materiality

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

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

<b>Overall Company materiality</b>	€30 million (2019: €28 million).
<b>How we determined it</b>	approximately 1% of total assets.
<b>Rationale for benchmark applied</b>	The Company is a group treasury entity whose purpose is to support the Group funding strategy and manage the various loan and cash arrangements of the Mondi Group. Considering the nature of the business and activities of the Company, we have used total assets as the basis for the calculation of the overall materiality level.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to €22.5 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the directors of the Company and the Audit Committee of Mondi plc, the ultimate parent of the Company, that we would report to them misstatements identified during our audit above €1.5 million (2019: €1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We evaluated management's future cash flow forecasts for the Company. As the Group's treasury entity, these are intrinsically linked with the projected funding requirements of Mondi plc and its related undertakings, which have been assessed at a Group level. The procedures performed at a Group level included agreeing the cash flows to the latest Board approved forecasts and agreeing underlying assumptions to external evidence;
- We assessed forecast compliance with the covenants associated with the Company's external debt facilities. We agreed the terms of the covenants to the external loan agreements and re-performed the associated calculations;
- We inspected the terms of the loan agreements and agreed these to the maturity profile of the Company's available funding included within the cash flow forecasts throughout the going concern period;
- We read the letter of support provided by the ultimate parent company, Mondi plc, to the Company indicating that Mondi plc will provide financial support to the Company such that the Company is able to operate as a going concern and to settle its liabilities as they fall due for at least 12 months from the date of approval of the Company's financial statements. We assessed Mondi plc's ability to provide this support including its role as guarantor to the external debt agreements held by the Company;
- We considered the impact of Covid-19 including whether this was appropriately considered in the going concern assessment; and
- We read the basis of preparation note to the financial statements and validated that it accurately described management's going concern considerations.

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

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## Conclusions relating to going concern (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

## Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of tax regulations and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006.

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

## Auditors' responsibilities for the audit of the financial statements (continued)

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manage the entity's financial performance and management bias in accounting estimates within the financial statements. Audit procedures performed by the engagement team included:

- Holding discussions with management, internal audit and Mondi Group's internal legal counsel, including consideration of potential instances of non-compliance with laws and regulation and fraud;
- Obtaining an understanding of the design and implementation of controls relating to the IT systems used in the financial reporting process, in part to identify if opportunities exist to carry out fraud through inappropriate access to systems and data;
- Testing a sample of journal entries based on specific risk criteria;
- Challenging assumptions and judgements made by management related to accounting estimates; and
- Independently confirming the existence and valuation of external borrowings, cash balances and derivatives directly with the associated financial institutions.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

## Use of this report

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

## Other required reporting

### Companies Act 2006 exception reporting

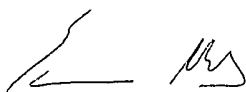
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the Directors of the Company and the Audit Committee of Mondi plc, the ultimate parent of the Company, we were appointed by the directors on 11 May 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 December 2017 to 31 December 2020.



Simon Morley (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
17 May 2021

## Income statement for the year ended 31 December 2020

€ thousand	Note	2020	2019
Operating expenses		(2,387)	(2,476)
<b>Operating loss</b>	2	<b>(2,387)</b>	(2,476)
Interest and similar income	4	80,546	87,094
Foreign currency loss	5	(13,271)	(8,569)
Finance costs	6	(65,435)	(73,123)
<b>(Loss)/profit before taxation</b>		<b>(547)</b>	2,926
Tax charge	7	(1,121)	(1,252)
<b>(Loss)/profit for the financial year</b>		<b>(1,668)</b>	1,674

# Statement of comprehensive income for the year ended 31 December 2020

	2020	2019
€ thousand		
(Loss)/profit for the financial year	(1,668)	1,674
Items that may subsequently be reclassified to income statement		
Cash flow hedges : amounts recycled to the profit and loss account	189	190
<b>Total comprehensive (expense)/income for the year</b>	<b>(1,479)</b>	<b>1,864</b>

# Statement of financial position as at 31 December 2020

€ thousand	Note	2020	2019 Restated
Trade and other receivables	8	338,816	676,991
Loans receivable	9	4,529	5,346
Cash and cash equivalents		315,267	17,825
Derivative financial instruments	10	10,470	3,595
<b>Total current assets</b>		<b>669,082</b>	<b>703,757</b>
Loans receivable	9	2,336,591	2,181,802
<b>Total non-current assets</b>		<b>2,336,591</b>	<b>2,181,802</b>
<b>Total assets</b>		<b>3,005,673</b>	<b>2,885,559</b>
Trade and other payables	11	(589,368)	(480,043)
Short term borrowings	12	(126,261)	(762,360)
Derivative financial instruments	10	(7,375)	(8,464)
<b>Total current liabilities</b>		<b>(723,004)</b>	<b>(1,250,867)</b>
Medium and long term borrowings	12	(1,871,743)	(1,222,287)
<b>Total non-current liabilities</b>		<b>(1,871,743)</b>	<b>(1,222,287)</b>
<b>Total liabilities</b>		<b>(2,594,747)</b>	<b>(2,473,154)</b>
<b>Net assets</b>		<b>410,926</b>	<b>412,405</b>
<b>Equity</b>			
Share capital	14	50,000	50,000
Cash flow hedge reserve	15	(434)	(623)
Retained earnings		361,360	363,028
<b>Total equity</b>		<b>410,926</b>	<b>412,405</b>

These financial statements on pages 11 to 22 were approved by the board of directors on 17 May 2021.

They were signed on behalf of the board by:



J C Paterson

Director

Company Number : 05916680

## Statement of changes in equity for the year ended 31 December 2020

€ thousand	Share capital	Retained earnings	Cash flow hedge reserve	Total equity
At 1 January 2019	50,000	361,354	(813)	410,541
Total comprehensive income for the year	—	1,674	190	1,864
At 31 December 2019	50,000	363,028	(623)	412,405
Total comprehensive (expense)/income for the year	—	(1,668)	189	(1,479)
<b>At 31 December 2020</b>	<b>50,000</b>	<b>361,360</b>	<b>(434)</b>	<b>410,926</b>

# Notes to the financial statements for the year ended 31 December 2020

## 1 Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100"). Accordingly, for the year ended 31 December 2020 the financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") and the UK Companies Act 2006. The Company is domiciled in the United Kingdom.

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

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

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

The financial statements are separate financial statements and have been prepared on a going concern basis. Refer to note 20 for further details.

## Critical accounting judgements and key estimates

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

The most significant estimates are:

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

The Company does not consider the above mentioned estimates to be significant accounting estimates in terms of IAS 1, and therefore the incremental sensitivity disclosure has not been provided. No material change is expected in the next 12 months.

## 2 Operating loss

Operating loss is stated after charging:

€ thousand	2020	2019
Mondi plc management fees	1,944	1,952

None of the directors received any remuneration during the year (2019: €nil) in respect of their services to the Company and the Company had no employees during the current and prior years.

## 3 Auditors' remuneration

Fees payable to PricewaterhouseCoopers LLP for the audit of the Company's annual financial statements of €67,672 (2019: €52,549) have been borne by Mondi plc, the Company's ultimate parent company. £30,000 (2019: £nil) was paid by Mondi plc to PricewaterhouseCoopers LLP during the current financial year for non-audit services related to work associated with the EMTN programme renewal.



# Notes to the financial statements (continued)

## for the year ended 31 December 2020

### 4 Interest and similar income

€ thousand	2020	2019
<b>Interest receivable</b>		
Loans and receivables owed by Group undertakings	78,706	86,200
Bank deposits	1,840	894
<b>Total</b>	<b>80,546</b>	<b>87,094</b>

### 5 Foreign currency loss

€ thousand	2020	2019
Foreign currency loss	(52,841)	(22,767)
Fair value gain on foreign currency derivatives	39,570	14,198
<b>Total</b>	<b>(13,271)</b>	<b>(8,569)</b>

### 6 Finance costs

€ thousand	2020	2019
<b>Interest payable</b>		
Loans, overdrafts and bonds	49,791	42,343
Other Group undertakings	15,644	30,780
<b>Total</b>	<b>65,435</b>	<b>73,123</b>

### 7 Tax charge

#### Analysis of tax charge for the year

€ thousand	2020	2019
<b>Corporation tax</b>		
Foreign withholding tax	1,121	1,252
<b>Total tax charge for the year</b>	<b>1,121</b>	<b>1,252</b>

#### Factors affecting tax charge for the year

The Company's total tax charge for the year can be reconciled to the tax on the Company's (loss)/profit before tax at the average UK corporation tax rate of 19% (2019: 19%), as follows:

€ thousand	2020	2019
<b>(Loss)/profit before tax</b>	<b>(547)</b>	<b>2,926</b>
<b>Tax on (loss)/profit before tax calculated at the average UK corporation tax rate of 19% (2019: 19%)</b>	<b>(104)</b>	<b>556</b>
<b>Tax effects of:</b>		
Tax losses not recognised	104	—
Relief for double taxation	—	(556)
Foreign withholding tax	1,121	1,252
<b>Total tax charge for the year</b>	<b>1,121</b>	<b>1,252</b>

# Notes to the financial statements (continued) for the year ended 31 December 2020

## 8 Trade and other receivables

€ thousand	2020	2019
<b>Amounts falling due within one year:</b>		
Amounts owed by Group undertakings	337,492	664,797
Prepayments	1,304	206
Other debtors	20	11,988
<b>Total</b>	<b>338,816</b>	<b>676,991</b>

The provision for expected credit losses is €nil (2019: €nil). The Other debtors at 31 December 2019 relates to delayed settlement of matured derivative financial instruments from two banks. Both amounts were received shortly after year end.

## 9 Loans receivable

€ thousand	2020	2019 Restated
<b>Financial assets carried at amortised cost:</b>		
Loans to Group undertakings		
Amounts falling due in one year	4,529	5,346
Amounts falling due after one year	2,336,591	2,181,802
<b>Total</b>	<b>2,341,120</b>	<b>2,187,148</b>

An impairment provision remains unchanged at €13.0 million, based on the expected credit losses for these financial assets.

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

The prior period figures have been restated due to a change in accounting policy. The analysis between current and non-current loan receivables has been affected based on the disclosure requirements of FRS 101 prepared using an IFRS format, yet the total balances remain unchanged. Please refer to note 20 for details of this change.

## 10 Derivative financial instruments

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

### Foreign exchange risk

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

### Interest rate risk

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

### Non-hedge transactions

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

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

€ thousand	2020		2019	
	Asset	Liability	Asset	Liability
<b>Derivatives carried at fair value through profit or loss (FVTPL)</b>				
Held for trading derivatives that are not designated in hedge accounting relationships:				
Foreign exchange contracts	10,470	(7,375)	3,595	(8,464)
<b>Total</b>	<b>- 10,470</b>	<b>(7,375)</b>	<b>3,595</b>	<b>(8,464)</b>

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

# Notes to the financial statements (continued)

## for the year ended 31 December 2020

### 11 Trade and other payables

€ thousand	2020	2019
Amounts owed to Group undertakings	576,800	463,014
Interest payable	12,259	16,699
Other accruals	309	330
<b>Total</b>	<b>589,368</b>	<b>480,043</b>

### 12 Borrowings

2020/€ thousand	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Borrowings from Group undertakings	116,700	—	—	750,000	866,700
Eurobonds	—	—	498,046	590,363	1,088,409
Other external borrowings	9,524	9,524	23,810	—	42,858
Bank overdrafts	37	—	—	—	37
<b>Total borrowings</b>	<b>126,261</b>	<b>9,524</b>	<b>521,856</b>	<b>1,340,363</b>	<b>1,998,004</b>

2019/€ thousand	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	After 5 years	Total
Borrowings from Group undertakings	93,797	—	—	—	93,797
Eurobonds	499,739	—	497,450	596,419	1,593,608
Syndicated credit facility	—	99,561	—	—	99,561
Other external borrowings	111,791	9,523	14,571	4,763	140,648
Bank overdrafts	57,033	—	—	—	57,033
<b>Total borrowings</b>	<b>762,360</b>	<b>109,084</b>	<b>512,021</b>	<b>601,182</b>	<b>1,984,647</b>

All borrowings are unsecured and recorded at amortised cost. The outstanding unamortised discount amount related to the Company's bond issues is €5.5 million (2019: €2.7 million). The outstanding unamortised debt issuance cost is €6.1 million (2019: €4.0 million). The principal loan arrangements in place include the following:

€ thousand	Maturity	Interest rate	Facility Amount	2020	2019
<b>Financing facilities</b>					
Syndicated revolving credit facility <sup>1</sup>	July 2022 *	EURIBOR/LIBOR + margin	750,000	750,000	
€500 million Eurobond	September 2020	3.375 %	—	500,000	
€500 million Eurobond	April 2024	1.500 %	500,000	500,000	
€600 million Eurobond	April 2026	1.625 %	600,000	600,000	
European Investment Bank facility	June 2025	EURIBOR + margin	42,858	52,381	

Mondi Group currently has investment grade credit ratings from both Moody's Investors Service (Baa1, outlook Stable) and Standard & Poor's (BBB+, outlook Stable).

<sup>1</sup> The Syndicated revolving credit facility was undrawn at 31 December 2020.

\* €75 million of the €750 million Syndicated revolving credit facility will mature in July 2021. The balance will mature in July 2022.

# Notes to the financial statements (continued)

## for the year ended 31 December 2020

### 13 Deferred tax

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

€ thousand	2020	2019
At 1 January	24,870	21,879
Tax losses not recognised in the prior period	547	3,181
Other unrecognised timing differences	(190)	(190)
<b>At 31 December</b>	<b>25,227</b>	<b>24,870</b>

€ thousand	2020	2019
<b>The gross deferred tax asset not recognised is presented as follows:</b>		
Tax losses not recognised	24,794	24,247
Other unrecognised timing differences	433	623
<b>At 31 December</b>	<b>25,227</b>	<b>24,870</b>

The tax losses may be carried forward indefinitely.

### 14 Share capital

€ thousand	2020	2019
<b>Issued, called up and fully paid</b>		
50,000,000 ordinary shares of €1 each (2019: 50,000,000 ordinary shares of €1 each)	50,000	50,000

There were no dividends declared or paid in the current year (2019: nil).

### 15 Cash flow hedge reserve

€ thousand	2020	2019
Balance at 1 January	(623)	(813)
Losses recycled to income	189	190
<b>At 31 December</b>	<b>(434)</b>	<b>(623)</b>

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

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

€ thousand	2020	2019
Interest payable on loans, overdrafts and bonds	(189)	(190)

### 16 Financial instruments

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

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

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

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

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

# Notes to the financial statements (continued)

## for the year ended 31 December 2020

### 17 Related party transactions

The Company, in the ordinary course of business, enters into loans and cash related transactions with joint ventures, associates and others in which the Group has a material interest. These transactions are under terms that are no less favourable than those arranged with third parties.

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

€ thousand	2020	2019
Loans to related parties	45,969	42,785
Payables due to related parties	(29,951)	(33,241)
Interest received from related parties	1,484	1,446

### 18 Events occurring after 31 December 2020

There were no significant events that happened after year end.

### 19 Ultimate parent undertaking

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

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

### 20 Accounting policies

#### Basis of preparation

##### Going concern

After making enquiries, the directors have formed a judgement that, at the time of approving the financial statements, there are no material uncertainties that cast doubt on the Company's going concern status. The directors believe that the Company will continue to act in line with its principal business activity as a treasury entity supporting the Group's operations. The ultimate parent company confirmed their intention to provide financial support to Mondi Finance plc so as to enable it to operate as a going concern and to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. The directors have also considered the Company's forecasts, projections, compliance with debt covenants, and assessment of the plausible future impact of the covid-19 pandemic in making this assessment.

##### Change in accounting policy

During the year a decision was made to change the accounting policy for presenting the financial statements from using the Companies Act format to using the IFRS format as allowed under FRS 101: 'Reduced Disclosure Framework'. This policy change principally impacts the classification of loan receivable balances between current and non-current and was deemed appropriate as management's intention now more closely reflects the reported Statement of financial position, and it has brought the financial statements more in line with that of the Mondi Group financial statements. IAS 1 provides guidance that states management's intention determines whether a receivable is current or non-current, in addition to consideration of the legal maturity of loans. This change in policy has resulted in a restatement of the analysis between current and non-current loans receivable. The restatement has no impact on the Income statement, the Statement of comprehensive income or on the Statement of changes in equity. By applying this change in policy, the directors view that the ageing of the loan receivables are both more reliable and more relevant. The restated Statement of financial position is described further in note 9.

The following table summarises the impact of the restatement on the statement of financial position.

2019 /€ thousand	As previously reported	Effect of restatement	As restated
<b>Financial assets carried at amortised cost:</b>			
Loans to Group undertakings			
Amounts falling due in one year	2,187,148	(2,181,802)	5,346
Amounts falling due after one year	—	2,181,802	2,181,802
<b>Total</b>	<b>2,187,148</b>	<b>—</b>	<b>2,187,148</b>

# Notes to the financial statements (continued)

## for the year ended 31 December 2020

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### 20 Accounting policies (continued)

#### Foreign currency transactions

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

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

#### Interest income (note 4)

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

#### Tax (note 7)

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

##### Current tax

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

##### Deferred tax

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

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

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

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

#### Financial instruments (note 16)

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

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

#### Financial assets (note 9)

Loans and receivables are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less expected credit losses.

# Notes to the financial statements (continued)

## for the year ended 31 December 2020

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### 20 Accounting policies (continued)

#### Cash and cash equivalents

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

#### Trade and other receivables and payables (notes 8 and 11)

Trade and other receivables and trade and other payables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method.

#### Borrowings (note 12)

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

#### Borrowing costs (note 6)

Where financial liabilities are measured at amortised cost using the effective interest method, interest expense is recognised on an effective yield basis in profit or loss within finance costs. All other borrowing costs are recognised in the Income statement in the period in which they are incurred.

#### Impairment of trade and other receivables and loans receivable ("receivables")

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

#### Derivative financial instruments and hedge accounting (note 10)

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

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

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

#### Cash flow hedges

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

#### Fair value hedges

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

#### Ineffective, expired, sold, terminated or exercised hedging instruments

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