**Mondi SCP, a. s.**

**INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS ADOPTED BY THE EU**

**FOR THE YEAR ENDED**

**31 DECEMBER 2020**

## CONTENT

# Independent Auditor's Report

To the Shareholders, Supervisory Board, and Board of Directors of Mondi SCP, a.s.:

## Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mondi SCP, a.s. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated 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 are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (Code of Ethics) and the ethical requirements of the Slovak Act on Statutory Audit No. 423/2015 and on amendments and supplements to Slovak Act on Accounting No. 431/2002, as amended (hereafter the "Act on Statutory audit") that are relevant to our audit of the consolidated financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the ethical requirements of Act on Statutory audit.

## Reporting on other information including the consolidated Annual Report

Management is responsible for the other information. The other information comprises the consolidated Annual Report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information.

PricewaterhouseCoopers Slovensko, s.r.o., Karadžičova 2, Bratislava, 815 32, Slovak Republic
T: +421 (0) 2 59350 111, F: +421 (0) 2 59350 222, www.pwc.com/sk

The firm's ID No.: 35 739 347. The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.
IČO Spoločnosti je 35 739 347. Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated Annual Report, we considered whether it includes the disclosures required by the Slovak Act on Accounting No. 431/2002, as amended (the "Accounting Act").

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the consolidated Annual Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the consolidated Annual Report has been prepared in accordance with the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated Annual Report. We have nothing to report in this regard.

## Management's responsibilities for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Slovenská komora audítorov SKAU Č. licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

PricewaterhouseCoopers Slovensko, s.r.o.
Licence SKAU No. 161

Ing. Eva Hupková, FCCA
Licence SKAU No. 672

31 March 2021
Bratislava, Slovak Republic

Note

Our report has been prepared in Slovak and in English. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

**Mondi SCP, a. s.**
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**for the year ended 31 December 2020**

| *(EUR'000)* | Note | Year Ended 31 December 2020 | Year Ended 31 December 2019 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenues | 5 | 690,632 | 776,366 |
| Raw materials and consumables | 6 | (443,541) | (489,789) |
| Transportation costs | | (47,071) | (48,186) |
| Changes in inventories of finished goods and work in progress | | (3,793) | (5,417) |
| Other services | 7 | (39,596) | (40,306) |
| Personnel expenses | 8 | (90,772) | (88,727) |
| Depreciation, amortisation expenses and impairment | 12,13,26 | (51,862) | (53,565) |
| Impairment of non-current assets | 13 | - | (39,028) |
| Other operating expenses and income | 9 | 8,005 | 62,458 |
| **Operating profit** | | **22,002** | **73,806** |
| Finance income | 10 | 118 | 417 |
| Finance costs | 10 | (2,164) | (2,326) |
| Share of profit of joint ventures accounted for using the equity method | 15 | (70) | (71) |
| **Profit before income tax** | | **19,886** | **71,826** |
| Income tax expense | 11 | (579) | (5,430) |
| **Net profit for the reporting period** | | **19,307** | **66,396** |
| **Other comprehensive income** | | | |
| *Items reclassified to profit or loss:* | | | |
| Gains from revaluation of non-current financial assets | 28 | - | - |
| Net change in hedging derivatives, net of tax | | 2 | 2 |
| Total items reclassified to profit or loss | | 2 | 2 |
| *Items not reclassified to profit or loss:* | | | |
| Gains/(losses) from revaluation of defined benefit plans, net of tax | 21 | 822 | (22,223) |
| Total items not reclassified to profit or loss: | | 822 | (22,223) |
| **Other comprehensive income/(expenses), net of tax** | | **824** | **(22,221)** |
| **Comprehensive income for the year** | | **20,131** | **44,175** |
| **Net profit for the reporting period attributable to:** | | **19,307** | **66,396** |
| - Non-controlling interests | | (9) | 32 |
| - Holders of the parent company's shares | | 19,316 | 66,364 |
| **Comprehensive income for the year attributable to:** | | **20,131** | **44,175** |
| - Non-controlling interests | | (9) | 30 |
| - Holders of the parent company's shares | | 20,140 | 44,145 |

**Mondi SCP, a. s.**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**as at 31 December 2020**

| *(EUR'000)* | *Note* | *31 December 2020* | *31 December 2019* |
|---|---|---|---|
| **Assets** | | | |
| ***Non-current assets*** | | | |
| Intangible assets | 12 | 1,522 | 1,129 |
| Property, plant and equipment | 13 | 732,966 | 641,343 |
| Non-current assets with a right to use | 26 | 28,857 | 31,228 |
| Investments in Joint Ventures accounted for using the equity method | 15 | 377 | 447 |
| Financial assets accounting using FVTPL | 28 | 4,268 | 4,182 |
| Deferred tax assets | 23 | 1,022 | 479 |
| | | **769,012** | **678,808** |
| ***Current assets*** | | | |
| Inventories | 16 | 93,888 | 102,037 |
| Trade and other receivables | 17 | 86,070 | 93,790 |
| Current tax assets | | 2,533 | 2,582 |
| Cash and cash equivalents | 18 | 425 | 589 |
| Assets from Cash pooling | 29 | - | 54,390 |
| Derivative financial instruments | | 13 | - |
| | | **182,929** | **253,388** |
| **TOTAL ASSETS** | | **951,941** | **932,196** |
| **Equity and liabilities** | | | |
| ***Capital and reserves*** | | | |
| Share capital | 19 | 153,855 | 153,855 |
| Other reserves | 20 | 91,733 | 84,022 |
| Retained earnings | | 381,236 | 368,807 |
| Equity attributable to the parent company's owners | | **626,824** | **606,684** |
| Non-controlling interests | | 281 | 290 |
| **TOTAL EQUITY** | | **627,105** | **606,974** |
| ***Non-current liabilities*** | | | |
| Loans and credits | 22,29 | 34,832 | 33,886 |
| Leasing commitments | 26 | 21,300 | 23,055 |
| Employee benefit plan obligations | 21 | 33,847 | 35,721 |
| Deferred tax liabilities | 23 | 32,169 | 33,551 |
| Provisions | 24 | 2,519 | 2,459 |
| Other non-current liabilities | 25 | 269 | 5,225 |
| | | **124,936** | **133,897** |
| ***Current liabilities*** | | | |
| Liabilities from Cash pooling | 29 | 43,624 | 14,982 |
| Loans and credits | 22 | 19 | - |
| Leasing commitments | 26 | 2,135 | 5,460 |
| Trade and other payables | 25 | 153,416 | 170,233 |
| Provisions | 24 | 699 | 637 |
| Derivative financial instruments | | 7 | 13 |
| | | **199,900** | **191,325** |
| **TOTAL LIABILITIES** | | **324,836** | **325,222** |
| **TOTAL EQUITY AND LIABILITIES** | | **951,941** | **932,196** |

**Mondi SCP, a. s.**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**for the year ended 31 December 2020**

| *(EUR'000)* | *Share capital* | *Other reserves* | *Retained earnings* | *Total equity attributable to the parent company's owners* | *Non-controlling interest* | *Total* |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2019** | **153,855** | **75,952** | **332,732** | **562,539** | **260** | **562,799** |
| Profit for the current year | - | - | 66,364 | 66,364 | 32 | 66,396 |
| Other comprehensive income | | | | | | |
| *Actuarial loss on provisions from employee benefits program* | - | *(22,221)* | - | *(22,221)* | *(2)* | *(22,223)* |
| *Transfer of actuarial loss from restructuring of the pension fund* | - | *30,289* | *(30,289)* | - | - | - |
| *Revaluation of hedging derivatives* | - | *2* | - | *2* | - | *2* |
| **Total comprehensive income after tax for the year** | - | **8,070** | **36,075** | **44,145** | **30** | **44,175** |
| **Balance as at 31 December 2019** | **153,855** | **84,022** | **368,807** | **606,684** | **290** | **606,974** |
| Profit for the current year | - | - | 19,316 | 19,316 | (9) | 19,307 |
| Other comprehensive income | | | | | | |
| *Actuarial loss on provisions from employee benefits program* | - | *7,709* | *(6,887)* | *822* | - | *822* |
| *Revaluation of hedging derivatives* | - | *2* | - | *2* | - | *2* |
| **Total comprehensive income after tax for the year** | - | **7,711** | **12,429** | **20,140** | **(9)** | **20,131** |
| **Balance as at 31 December 2020** | **153,855** | **91,733** | **381,236** | **626,824** | **281** | **627,105** |

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements

| *(EUR'000)* | Note | Year Ended 31 December 2020 | Year Ended 31 December 2019 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | | 19,886 | 71,826 |
| Non-cash transactions | | | |
| - Depreciation, amortisation | 12,13,26 | 51,862 | 53,565 |
| - Impairment of non-current assets | 13 | - | 39,028 |
| - Loss/(profit) from the sale of non-current assets | 9, 27 | (80) | (542) |
| - Financial liability revaluation | 9 | (4,821) | (17,764) |
| - Impairment of financial assets | | (86) | (410) |
| - Interest costs | | 2,164 | 2,326 |
| - Interest income | | (32) | (7) |
| - Dividends received from joint ventures | | 70 | 71 |
| - Revenues related to the restructuring of the pension fund | 9, 21 | - | (40,799) |
| - Other non-cash transactions | | (1,291) | (2,222) |
| **Operating cash flows before movements in working capital** | | **67,672** | **105,072** |
| Effect of movements in working capital | | | |
| - Decrease/(increase) of inventories | 16 | 8,155 | (4,802) |
| - Decrease/(increase) of receivables | 17 | 7,561 | 14,930 |
| - Decrease/(increase) of payables | 25 | 70 | (8,607) |
| **Cash flows from operating activities before taxation and interest** | | **83,458** | **106,593** |
| Interest paid | | (851) | (441) |
| Income tax expense paid | | (2,441) | (15,554) |
| **Cash flows from operating activities, net** | | **80,166** | **90,598** |
| **Investing activities** | | | |
| Payments for the purchase of property, plant and equipment and intangible assets | 12,13,26 | (157,951) | (180,517) |
| Payments on the acquisition of subsidiaries | | (229) | - |
| Proceeds from sales of tangible fixed assets | | 455 | 1,059 |
| Proceeds from sales of financial investments | | - | 85 |
| Interest received | | 3 | 7 |
| Decrease/increase in Assets/Liabilities from cash pooling | 29 | 83,032 | 94,202 |
| **Cash flows from investing activities, net** | | **(74,690)** | **(85,164)** |
| **Financing activities** | | | |
| Loan repayments | 22 | (5) | - |
| Payments of lease obligations | 26 | (5,571) | (6,441) |
| Share-based payments | | (64) | (82) |
| **Cash flows from financing activities, net** | | **(5,640)** | **(6,523)** |
| **Net increase/(decrease) in cash and cash** | | **(164)** | **(1,089)** |
| Cash and cash equivalents at the beginning of the year | 18 | 589 | 1,678 |
| Foreign exchange gains/(losses) from cash and cash equivalents | | - | - |
| **Cash and cash equivalents at the end of the year** | 18 | **425** | **589** |

## 1. GENERAL INFORMATION

### a) Essential Information on the Parent Company

| | |
|---|---|
| **Business name and seat** | Mondi SCP, a. s.<br>Tatranská cesta 3<br>034 17 Ružomberok |
| **Date of establishment** | 7 September 1995 |
| **Date of incorporation (according to the Commercial Register)** | 1 October 1995 |
| **Business activity of the parent company and its consolidated subsidiaries and joint ventures (hereinafter only the "Group")** | - Production of pulp<br>- Production of paper and cardboard products;<br>- Saw production, wood waterproofing;<br>- Production of wood wrappings;<br>- Production of corrugated paper, cardboard and<br>- cardboard wrapping materials;<br>- Manufacture of printing templates;<br>- Other printing industry services, graphic designs;<br>- Locksmithing, metalworking;<br>- Wiring;<br>- Operating of railway and transport by rail, and<br>- related services performed by a rail transport<br>- operator;<br>- Handling waste in the scope of waste treatment;<br>- Designs of electric appliances;<br>- Wholesale with timber;<br>- Mediation of wood trade;<br>- Waste transport and disposal and<br>- - Other. |

### b) Employees

| | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| **Average number of employees** | **2,020** | **1,952** |
| *of which: managers* | *20* | *30* |

### c) Approval of the 2019 Consolidated Financial Statements

The 2019 consolidated financial statements of Mondi SCP, a.s. were approved at the General Shareholders' Meeting held on 28 May 2020 and filed subsequently with the Court Register. The profit for 2019 was transferred to the retained earnings based on the Shareholders' resolution. No dividend was declared nor paid in 2020.

The Board of Directors may propose to the Company's shareholders the amendment of the financial statements even after their approval by the General Meeting of shareholders. However, according to §16, sections 9 to 11 of the Slovak Act on Accounting No. 431/2002 Coll., an entity's accounting records cannot be reopened after the financial statements have been prepared and approved. If, after the financial statements have been approved, management identifies that the comparative information would not be consistent, the Slovak Act on Accounting No. 431/2002 Coll. allows entities to restate comparative information in the accounting period in which the relevant facts are identified.

## d) Members of the Parent Company's Bodies

Members of the Parent Company's Bodies during financial year ending 31 December 2020:

| *Body* | *Function* | *Name* |
|---|---|---|
| Boards of Directors | Chairman | Miloslav Čurilla |
| | Deputy Chairman | Peter Orisich till 19 March 2020 |
| | Deputy Chairman | Gunilla Saltin since 20 March 2020 |
| | Member | Bernhard Peschek |
| | Member | Miroslav Vajs |
| | Member | Gabriele Schalleger till 11 November 2020 |
| | Member | Thomas Seidl since 12 November 2020 |
| Supervisory Board | Chairman | Peter Josef Oswald |
| | Deputy Chairman | Milan Fiľo |
| | Member | Ján Krasuľa |
| Executive Management | President | Bernhard Peschek |

Members of the Parent Company's Bodies during financial year ending 31 December 2019:

| *Body* | *Function* | *Name* |
|---|---|---|
| Boards of Directors | Chairman | Miloslav Čurilla |
| | Deputy Chairman | Peter Orisich |
| | Member | Bernhard Peschek |
| | Member | Miroslav Vajs |
| | Member | Gabriele Schalleger |
| Supervisory Board | Chairman | Peter Josef Oswald |
| | Deputy Chairman | Milan Fiľo |
| | Member | Ján Krasuľa |
| Executive Management | President | Bernhard Peschek |

## e) Structure of shareholders and their share in the Share Capital

| | *Share in Share Capital* | | *Voting Rights* |
|---|---|---|---|
| *Shareholders* | *EUR'000* | *in %* | *in %* |
| ECO-INVESTMENT, a. s., Prague | 75,389 | 49 | 49 |
| Mondi SCP Holdings, B.V., Maastricht | 78,466 | 51 | 51 |

During years ending 31 December 2020 and 31 December 2019 there was no change in the structure of shareholders and their share in the share capital.

### f) Consolidated Financial Statements for Mondi Group

The Group consists of the parent Company Mondi SCP, a.s., subsidiaries and joint ventures presented in Notes 15 and 16. Mondi SCP, a.s. prepares both separate financial statements and consolidated financial statements for the Group Mondi SCP, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the Slovak Act on Accounting No. 431/2002 Coll.

Mondi SCP, a.s. is a subsidiary of Mondi SCP Holdings, B. V., based in Maastricht, the Netherlands, which owns a 51% shareholding in the Company's registered capital.

The consolidated financial statements for the biggest and the smallest group of companies are prepared by Mondi, plc., with its registered office Building 1, 1st Floor, Aviator Park, Station Road, Addlestone, Surrey, KT15 2PG, Great Britain.

The consolidated financial statements are available at the seat of this company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

**Standards, interpretations and revised standards effective for the first time for the year ending 31 December 2020**

***Amendments to the Conceptual Framework for Financial Reporting*** *(issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).* The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group has assessed the impact of the interpretation on its financial statements as insignificant.

***Definition of a business – Amendments to IFRS 3*** *(issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).*The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The Group has assessed the impact of the interpretation on its financial statements as insignificant.

***Definition of materiality – Amendments to IAS 1 and IAS 8*** *(issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).*The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group has assessed the impact of the interpretation on its financial statements as insignificant.

***Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7** (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).* The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The Group has assessed the impact of the interpretation on its financial statements as insignificant.

***Covid-19-Related Rent Concessions – Amendments to IFRS 16** (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020).* The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before 30 June 2021; and c) there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. The Group has assessed the impact of the interpretation on its financial statements as insignificant.

**Standards, interpretations, and revised standards effective for the first time for the year ending 31 December 2020 and which were not early adopted by the Group**

***IFRS 14, Regulatory Deferral Accounts*** *(issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).* IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28*** *(issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).* These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The EU endorsement is postponed as IASB effective date is deferred indefinitely. EU has not yet endorsed this amendment. The Group is currently assessing the impact of the amendments on its financial statements.

***IFRS 17 "Insurance Contracts"****(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).* IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The EU has not yet approved this new standard. The Group is currently assessing the impact of the amendments on its financial statements.

***Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).*** These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The EU has not yet approved this new standard. The Group is currently assessing its impact on its financial statements.

***Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).***

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The EU has not yet approved this new standard. The Group is currently assessing the impact of the amendments on its financial statements.

***Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).***
The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- Effective date: The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

- Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The EU has not yet approved this new standard. The Group is currently assessing the impact of the amendments on its financial statements.

***Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1*** *(issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).* The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group is currently assessing the impact of the amendments on its financial statements.

**Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The EU has not yet approved this new standard. The Group is currently assessing the impact of the amendments on its financial statements.

## 3. SIGNIFICANT ACCOUNTING PRINCIPLES

### a) Statement of Compliance

The financial statements represent the annual consolidated financial statements of Mondi SCP a.s., which have been prepared for the reporting period from 1 January 2020 to 31 December 2020 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the Slovak Act on Accounting No. 431/2002 Coll. IFRS as adopted by the EU do not differ from IFRS as issued by the International Accounting Standards Board (IASB), except for certain standards and interpretations, which were not endorsed by the EU, as stated above.

The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

### b) Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements are prepared under the historical cost convention, except for certain financial instruments that are remeasured to fair value. The principal accounting policies adopted are set out below. The reporting currency used in these financial statements is the euro (EUR) rounded to the nearest thousand (EUR '000) unless indicated otherwise.

The rapid spread of COVID-19 has materially impacted the Mondi SCP business in 2020. Since the start of the COVID-19 pandemic, the health, safety and welfare of the employees have remained the top priority. The Management and the Board continue to monitor the exposure and the impact of COVID-19 on Mondi SCP and evaluates and imposes actions to mitigate the risk. In future, these actions will enable Mondi SCP to be dynamic in its reaction to the risk of a pandemic as it develops.

These financial statements were prepared under the going concern assumption.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are discussed in Note 4.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

### c) Unlimited Liability

The Group is not an unlimited liability partner in another company.

## d) Accounting policies

*(i) Subsidiaries*

The consolidated financial statements incorporate the financial statements of the Company and reporting entities (including special-purpose entities) controlled by the Company (hereinafter the "subsidiaries"). The right to control arises if the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that the control commences until the date when the control ceases.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of the respective assets, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the subsidiary. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on consolidation is recognised as an asset and is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the statement of profit or loss and other comprehensive income.

Goodwill is initially recognised as an asset and is measured subsequently at cost less any accumulated impairment loss. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the business combination. The impairment of goodwill is tested annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of the goodwill and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On the disposal of a subsidiary, the attributable amount of goodwill is included in the profit or loss on disposal.

All intra-group transactions, balances, unrealised profits or losses from transactions have been eliminated on consolidation.

Non-controlling interests in the equity of the consolidated subsidiaries are recognised separately from the Group's shares in equity. Non-controlling interests comprise the amount of such interests at the date of origin of the business combination and of the minority shareholders' share in changes in equity as of the combination date. A loss attributable to a non-controlling interest that exceeds the value of the minority interest in the subsidiary's equity is reversed against the Group's interest, except for the amount that represents the binding obligation of minority shareholders and can represent an additional investment to cover the losses. Non-controlling interests are recognised as a separate item in equity.

*Acquisition of subsidiaries under common control*

The acquisition of subsidiaries (being businesees in the meaning of IFRS 3) under common control is accounted for using predecessor accounting method. The predecessor accounting method is used prospectively from the acquisition date and the results of the acquiree are consolidated only from the date of the acquisition. Assets acquired and liabilities assumed are recognised using the carrying values from the common controlling party's consolidated financial statements. The difference between the cost of the business combination and the value of the Group's interest in the carrying amount of the identifiable assets, liabilities and contingent liabilities recognized in the acquired entity is recognized directly in equity under the line "Other equity".

A list of consolidated subsidiaries in the Group can be found in Note 14.

*(ii) Joint ventures*

Joint ventures are undertakings in which the group has joint control. Joint control means the power to take part in decisions on the financial and operational objectives of the Joint venture and the right to exercise joint control over such intentions. Investments in joint ventures are accounted for using the equity method from the date of the joint control until the date of its termination. Under the equity method, investments in joint ventures are recognized in the consolidated statement on financial position at acquisition cost adjusted for the Group's interest in changes in the joint venture's equity after the acquisition date, minus any write-off of individual investments. The losses of the joint venture that exceed the Group's share of the joint venture are not recognized.

Any excess of the cost of acquisition over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities of the joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the statement of profit or loss and other comprehensive income.

Where a Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

The Group's interest in the net assets of a joint venture is recognised in "Investments in Joint Ventures" in the accompanying consolidated statement of financial position, and the Group's share of the net profit of the associate is disclosed in "Share of Profit of Joint Ventures" in the accompanying statement of profit or loss and other comprehensive income.

A list of consolidated joint ventures in the Group can be found in Note 15.

*(iii) Profit/loss on disposal of subsidiaries and joint ventures*

Gain or loss on sale of shares in subsidiaries is determined as the difference between subsidiary's net asset value adjusted for unwritten-off portion of goodwill and the sale price.

Profit or loss on sale of interests in joint ventures is the difference between carrying amount and their sale price.

**e) Foreign Currency**

*(i) Functional and presentation currency of the financial statements*

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in EUR, which is the functional currency and also the presentation currency of the Group's financial statements.

*(ii) Transactions in Foreign Currencies*

Transactions in foreign currencies are translated into euros using the rates on the exchange rate list of the European Central Bank (ECB) that are valid on the transaction date. Monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Exchange differences arising on the retranslation of monetary items are included in the statement of profit or loss and other comprehensive income for the period. Non-monetary items denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are translated to the reporting currency at the rates prevailing on the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in the statement of profit or loss and other comprehensive income for the period except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income.

**f) Financial instruments**

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a contractual party to the financial instrument.

Financial assets and financial liabilities are initially recognized at fair value.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is market in which transactions for the asset or liability take place with sufficient frequency and sufficient volume to provide pricing information on an ongoing basis Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is cost that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost is the amount for which a financial instrument was recognized on initial recognition less any principal repayments plus accrued interest and for financial assets less any write-down for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Initial recognition of financial instruments***. All financial instruments are initially recognized at fair value adjusted for transaction costs. The fair value at initial recognition is best demonstrated by the transaction price. A gain or loss on initial recognition is recognized only when there is a difference between fair value and transaction price that can be evidenced by other current market transactions of the same instrument or valuation technique whose inputs include only observable market data.

***Financial assets - classification and subsequent valuation - valuation categories.*** The Group classifies amortized cost financial assets at fair value through profit or loss ("FVTPL"). The classification and subsequent measurement of financial assets depends on: (i) the Group's business model of related asset management and (ii) properties of assets cash flows.

***Financial assets - classification and subsequent valuation - business model.*** The business model reflects the way the Group manages assets for the purpose of generating cash flows, i.e. whether it is the purpose of the Group to: (i) exclusively collect contractual cash flows from these assets (held for the purpose of collecting contractual cash flows), or (ii) collecting contractual cash flows from the sale of assets (held for the purpose of collecting contractual cash flows from selling these assets) or if none of the items (i) and (ii) is applicable, financial assets are classified as part of an "other" business model and measured at fair value through profit or loss. („FVTPL").

The business model is designed for an asset group (at the portfolio level) based on all relevant evidence of the Group's operations to achieve the objective set for the portfolio available on the valuation date. The factors considered by the Group when determining a business model include the purpose and composition of the portfolio and past experience of how cash flows for the relevant assets have been collected. The business model used by the Group is intended to hold financial assets to maturity and to collect contractual cash flows.

***Financial assets - classification and subsequent valuation - cash flow characteristics***. If the business model is intended to hold assets to collect contractual cash flows or to hold financial assets to collect cash flows and sales, the Group assesses whether cash flows represent solely principal and payments of interest ("SPPI"). In making this assessment, the Group assesses whether the contractual cash flows are consistent with the underlying loan arrangements, i. j. interest includes only taking into account credit risk, time value of money, other underlying credit risks and profit margins.

If the terms and conditions impose a risk or volatility exposure that is inconsistent with the underlying lending arrangements, the financial asset is classified and measured on an FVTPL basis. The SPPI assessment is carried out on initial recognition of the asset and is not subsequently reviewed.

The Group holds only trade receivables, cash pooling assets and cash and cash equivalents. The characteristics of these financial assets are short-term and contractual cash flows represent the principal and interest payments that reflect the time value of money and are therefore valued by the Group at amortized cost.

**Financial assets - reclassification.** Financial instruments are reclassified only when the business model changes to portfolio management as a whole. This reclassification is applied prospectively and is applicable from the beginning of the first reporting period following the change of business model. The Group did not change its business model during the current period and did not perform any reclassifications

***Impairment of Financial Assets - Allowance for Expected Credit Losses („ECL").***
The Group applies a simplified ECL model under IFRS 9 to trade receivables to assess impairment of receivables. ECL is defined as the present value of all impairments during the expected life of the receivable. The Group designates ECL, based on historical experience of impairment of trade receivables, adjusted for information about current economic conditions and reasonable estimates of future economic conditions. In the initial recognition of a receivable, credit losses expected by the total useful life of the receivable are recognized as a provision.

***Financial assets - depreciation.*** The Group will write off all or part of the financial assets when the Group has used all the practical options for recovering those assets and there is no reasonable expectation of recovering those assets.

***Financial assets - derecognition.*** The Group ceases to recognize financial assets when (i) the assets have been repaid or the right to cash flows from those assets has expired or (ii) the Group has transferred the rights to cash flows from the financial asset to another person.

### g) Transaction Costs

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 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 the consolidated statement of comprehensive statement.

### h) Property, Plant and Equipment

*(i) Own Assets*

Property, plant and equipment (hereinafter "non-current tangible assets") are stated at cost less any subsequent accumulated depreciation and provisions (accumulated impairment losses). The cost includes all directly-attributable costs of bringing the asset into working condition for its intended use. Internally developed non-current tangible assets are measured at own costs, which include the cost of the material, direct wages and overheads directly associated with the development of the non-current tangible assets up to the moment of putting the asset into use.

Significant components of property, plant and equipment with different useful lives are accounted for and depreciated on an individual basis taking into account its economic useful life.

*(ii) Leased assets*

Leases of non-current tangible assets under the terms of which the Group assumes substantially all of the risks and rewards associated with the ownership of such assets are classified as finance leases. Plant and equipment acquired by a finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described in the accounting policy (p).

*(iii) Subsequent Expenditures*

Subsequent expenditures incurred to replace a component of non-current tangible assets that is accounted for individually, including inspections and overhaul expenditure, are capitalised if it is probable that the future economic benefits embodied with the items will flow to the Group exceeding its original performance and the cost of the item can be measured reliably. Other subsequent expenditures are capitalised only when they increase the future economic benefits embodied in the Item of assets exceeding their original performance. All other expenditures made after the acquisition of non-current tangible assets to restore or maintain the extent of future economic benefits are recognised as expenses when incurred.

*(iv) Depreciation*

| | |
|---|---|
| Buildings | 12 - 40 years |
| Plant and equipment | 4 - 20 years |
| Transportation means | 4 - 12 years |
| Fixtures and fittings | 4 - 12 years |

Depreciation is charged evenly on a straight-line basis.

Gains or losses arising on the disposal or liquidation of an item of non-current tangible assets are fully reflected in the statement of profit or loss and other comprehensive income.

### i) Intangible Assets

The Group owns intangible assets with both definite and indefinite useful lives.

Intangible assets acquired separately are stated at cost less accumulated amortisation and impairment provisions. Intangible assets are amortised over their useful lives, i.e. four years, using the straight-line method. The estimated useful lives and method of amortisation are assessed at the end of each reporting period, with the impacts of changes in estimates reflected in the next reporting period.

Subsequent expenditures are capitalised only when it may be expected that this will increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred.

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually or more frequently if circumstances arise that indicate a potential impairment.

Goodwill is initially recognized as the excess of the consideration paid over the amount of the net identifiable assets acquired. If this consideration is less than the fair value of the net assets of the acquiree, the difference is recognized in the consolidated statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less accumulated impairment losses as described in point n) of this paragraph.

For the purposes of the impairment test, goodwill is acquired in a business combination from the acquisition date allocated to each cash-generating unit.

### j) Trade and other receivables

Trade receivables are initially measured at fair value and are subsequently recognised at the carrying amount obtained using the effective interest rate method, while their value is reduced by a provision. The recoverable amount of Group receivables is calculated as the present value of expected future cash flows discounted at their original effective interest rate inherent in the asset. Short-term receivables are not discounted.

Receivables measured at amortized cost are presented in the statement of financial position of trade receivables and other receivables less a provision. The Group applies a simplified IFRS 9 approach to trade receivables towards third parties. j. measures ECL using lifetime expected losses.

Estimated recoverable amounts are based on historical experience, taking into account current economic conditions and reasonable and demonstrable forecasts of future economic conditions.

### k) Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value represents the estimated selling price less the estimated costs of completion and costs of sale.

Raw material is measured at the weighted average cost, which includes the cost of acquisition of the materials and other costs related to the acquisition that arose on bringing the assets to their current condition and location.

Work in progress, semi-finished goods and finished goods are measured at own costs, which include the costs of material, wages and salaries, other direct expenses and production overheads depending on the stage of completion of the inventory.

A provision is created for slow moving and obsolete inventory.

### l) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, placements and other short-term highly-liquid investments that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Overdraft facilities payable on demand, which form an integral part of the Group's cash management represent part of cash and cash equivalents for the purposes of the statement of cash flows.

### m) Impairment of Non-financial Assets

At each reporting date, the Group assesses the carrying amounts of its non-financial tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less the costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, except for the goodwill, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income.

### n) Dividends

Dividends are recognised as a liability in the period in which they are declared.

### o) Interest-Bearing loans and Borrowings

Interest-bearing loans and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### p) Leases

Where there is a right to manage the use of an identified asset for more than one year, a right of use that represents the Group's right to use the underlying leased asset and a lease obligation that represents the company's obligation to pay the lease payments is recognized in the Group's balance sheet at the beginning lease.

An asset with a right to use is initially measured at cost and includes the amount of the initial measurement of the lease obligation, any lease payments made before the start date, and an estimate of the costs incurred by the lessee to dismantle and remove the asset and to restore the location where it is located or restore the asset to the condition required by the lease conditions. Subsequently, the right to use assets is measured at cost less accumulated depreciation and accumulated revaluation losses adjusted for revaluation of the lease obligation as a result of a reassessment of the lease, a change in the extent of the lease or a change in the lease payment.

Depreciation of an asset with a right to use is presented in the statement of profit or loss and other comprehensive income from the beginning of the lease term to either the end of the asset's life or the end of the lease period, whichever comes first. The lease period includes an option to extend the lease where it is reasonably certain that the option will be exercised. Where a lease also includes a call option, the asset is depreciated over its useful life if it is reasonably certain that the call option will be exercised. Assets with a right of use are depreciated as follows:

| | |
|---|---|
| Buildings | 12-40 years |
| Machinery and equipment | 4-20 years |
| Vehicles | 4-12 years |
| Inventory | 4-12 years |

A lease obligation is measured at the present value of future lease payments net of rental discounts, including variable payments that depend on the index or rate and the call option price, if it is sufficiently certain that the option will be exercised and the prices of the early termination of the lease if the lease term reflects the exercise of that option, discounted using the lease interest rate that is easy to determine. If it is not easy to determine, the incremental interest rate is applied to the lessor.

The minimum lease payments are divided into the financial expense and the repayment of the liability. The financial expense is spread over the lease term so that a constant interest rate is recognized in respect of the residual amount of the liability. The interest component of the finance lease payments is recognized in the statement of profit or loss and other comprehensive income during the lease term using the effective interest rate method.

The carrying amount of the liability is revalued to reflect the reassessment of the lease, the change in the extent of the lease or the change in the lease payment.
Lease payments with a lease term of up to one year or small lease payments up to the value of total instalments in the present value of no more than EUR 10 thousand are charged on a straight-line basis over the lease term. Lease costs are presented as other services in the statement of profit or loss and other comprehensive income.

### q) Employee Benefit Plans obligation

(i) Costs of Pension Schemes

Some Group companies make contributions to a number of pension funds. Financing is usually made via contributions to insurance or management companies. The contributions are set based on actuarial calculations. The Group makes contributions to defined pension benefit funds and to defined contribution funds. As regards the defined benefit pension funds, the defined benefit amount an employee receives upon retirement usually depends on one or several factors, i.e. age, number of years worked and final salary. The defined contribution fund is a pension fund to which the Group makes fixed contributions. The Group has no statutory or other obligation to make additional contributions if the amount of the fund's assets is insufficient to pay all of the benefits to employees, to which they are entitled for the current and past periods.

The liability recognised in the balance sheet in relation to the defined benefit pension plan represents the present value of the defined benefit obligation as at the balance sheet date less the fair value of plan assets, net of unrecognized gains or losses from adjustments of actuarial estimates and unrecognized costs of the past service. The liability is calculated on an annual basis by third party actuaries using a Projected Unit Credit Method. The liability's present value is determined by discounting future estimated cash benefits using interest rates of high-quality corporate bonds denominated in a currency in which the benefits will be paid and whose maturity approximates maturity of the relevant pension liability. Plans' assets are measured using market values at the end of the reporting period.

Any increase in the present value of plan liabilities expected to arise from employee service during the year is charged to operating profit as service costs. Past service costs resulting from plan amendments or curtailments and gains or losses on settlements are charged to operating profit. A net interest expense or net interest income is calculated by applying the discount rate to the net defined benefit liability or asset and recognised in the consolidated statement of profit or loss and other comprehensive income within net finance costs.

Actuarial remeasurements arising from change in assumptions and experience adjustments are recognised in other comprehensive income and loss in the period in which they are earned or incurred.

(ii) Other Post-Employment Benefits

Some Group companies provide their employees with healthcare after retirement. An entitlement to such a benefit depends on certain conditions being met, i.e. an employee remaining in employment until they reach their retirement age and working a minimum number of years for the relevant company. Estimated expenditures are accrued over the employment period using the same accounting policy as for defined benefit pension plans.

Any increase in the present value of plan liabilities expected to arise from employee service during the year is charged to operating profit as service costs. Past service costs resulting from plan amendments or curtailments and gains or losses on settlements are charged to operating profit. A net interest expense or net interest income is calculated by applying the discount rate to the net defined benefit liability or asset and recognised in the consolidated statement of profit or loss and other comprehensive income within net finance costs.

Actuarial remeasurements arising from change in assumptions and experience adjustments are recognised in other comprehensive income and loss in the period in which they are earned or incurred.

Such liabilities are annually calculated by third party qualified actuaries.

(iii) Retirement Payment

The Group operates a long-term employee benefit plan consisting of a lump-sum retirement payment for which no specified funds were allocated. Under IAS 19 "Employee Benefits", the expenses for employee benefits were determined using "Projected Unit Credit Method". The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, which have terms to maturity approximating the terms of the related liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula.

Actuarial remeasurements on post-employment benefits arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise, and are immediately reclassified to retained earnings in the statement of changes in equity.

(iv) Other long term employee benefits

The Group has an obligation to pay work anniversary long service bonuses. These obligations are recognised as liabilities estimated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined (a) by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, which have terms to maturity approximating the terms of the related liability and (b) then attributing the calculated present value to the periods of service based on the plan's benefit formula. Actuarial remeasurements of the obligation to pay work anniversary long service bonuses are recognised in profit or loss for the year as employee benefits expense when incurred. Past service costs, if any, are expensed when incurred.

As explained in IAS 19, *Employee Benefits*, paragraph 133, the Group does not distinguish current and non-current portions of defined benefit obligations and presents the estimate as a whole within non-current liabilities.

## r) Mandatory Insurance and Social Security and Pension Schemes

The Group is required to make contributions to various mandatory insurance schemes, in addition to the contributions made by employees. The expenses for social security are recognised through the statement of profit or loss and other comprehensive income in the period when the related salary cost is incurred.

## s) Provisions

Provisions for liabilities are recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation, and the amount of obligation can be estimated reliably. Provisions are measured on the basis of the Management's best estimate of the cost of the liability settlement as at the reporting date. Where the effect is material, provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## t) Emission Rights

Green energy subsidies are received based on the quantity of generated and sold MWh of electricity generated by eligible turbines, net of own consumption, for which a certification of the regulatory body is issued based on the requirements of the relevant legislation.

Emission granted are recorded at their nominal value, i.e., zero.

The Group had an obligation to deliver emissions rights for actually produced emissions. The Group has opted to record emission rights received using the net liability method. The Group does not record any liability for actual emissions on the basis that the Group has received adequate emission rights to cover its actual emissions.

### u) Trade and Other Payables

Trade and other payables are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

### v) Revenue Recognition

***Revenue from contracts with customers***

*(i) Goods Sold and Merchandise*

For sales of goods and merchandise, revenues are recognised when all significant risks and rewards of ownership have been transferred to the buyer and no significant uncertainties remain regarding the collection of consideration, associated costs and possible claims or returning of goods. Revenues are stated net of taxes and discounts after eliminating sales within the Group. No revenue is recognised if there are significant uncertainties regarding the settlement of the consideration due, the associated costs or the possible return of goods, or the continuous involvement of the Group in managing the goods.

*(ii) Sales of services*

Revenue from services is recognised in the accounting period in which the services are provided, with respect to the degree of completion of a particular transaction that is estimated on the basis of the service actually provided as a proportion of the total service to be provided.

***Other revenues***

(iii) *Sale of green energy and greenhouse gas emission allowances*

The revenues from the sale of green energy and greenhouse gas emission rights are recognized when all significant risks and rewards of ownership have been transferred to the buyer. The rights are quoted and sold on an active market.

### w) Expenses

*(i) Finance Costs and Income*

Finance costs and income comprise interest payable on borrowings calculated using the effective interest rate method, interest received, dividend income and foreign exchange gains and losses, and bank fees. Borrowing costs directly attributable to the acquisition of non-current tangible assets are recognised through profit and loss when incurred.

Interest income is recognised in the statement of profit or loss and other comprehensive income on an accrual basis using the effective yield method. Dividend income is recognised through profit and loss on the date when the dividend is declared.

### x) Government Grants

A government grant is recognised in the statement of financial position when it is certain that the grant will be received and that the Group complies with the conditions attached thereto. Grants for the reimbursement are recognized as income over the period necessary to compensate for the systematic grant with the costs on which payment of the grant is intended. Grants for the acquisition of non-current tangible assets are recognised through the statement of profit or loss and other comprehensive income in Other income on a systematic basis over the useful life of the asset.

## y) Income Tax

Income tax for the year represents current tax and deferred tax.

Current tax is based on the taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in another years and it further excludes items that are not taxable or deductible. The Group's current tax liability is calculated using the tax rates that are valid or enacted until the preparation date of the statement of financial position.

Deferred tax assets and liabilities are provided, using a balance sheet method, on temporary differences between the tax bases of assets and liabilities and their values arising from the statement of financial position. 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences which are a result of investments in subsidiaries and associates and for shares in joint ventures, except for cases when the Group controls the release of the temporary difference, while it is probable that the temporary difference will not be realized in near future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised. The expected tax rate of 21% and 25% effective in the Slovak Republic and Austria, respectively, valid for the following years was used to calculate deferred income tax. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally-enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The Group applies income tax relief on the basis of a decision by the competent authority to implement investment plans related to the procurement of a new regeneration boiler and a new paper machine, including the related infrastructure. This income tax allowance is considered an investments tax incentive and is recognized as a reduction in the income tax as the credit is realized and a reduction in the income tax liability in the consolidated statement of financial position of the Group. No deferred tax asset is recognized when a tax credit arises.

Fulfilment of the conditions for the application of the relief is shown by the Group annually by the end of April of the current year for the previous year to the competent authority in the form of a report on the assessment of the eligible costs related to the project for which relief has been granted.

## z) Comparatives

Some comparatives for the prior period in the current-year financial statements were changed in order to ensure better comparability with data presented for the current period. The changes in the presentation of the comparatives did not affect the total amount of assets, equity or the result of operations of the previous period.

## 4. CRITICAL ACCOUNTING JUDGMENTS, KEY SOURCES OF ESTIMATION UNCERTAINTY AND ERRORS

### a) Critical accounting estimates

In the process of applying the Group's accounting policies, which are described in Note 3, the Group has made the following estimates on aspects that have the most significant effect on the amounts recognised in the financial statements. There are risks that potential adjustments in future periods relating to such matters will be necessary, including the following:

*(i) Useful Lives*

Non-current tangible and intangible assets are depreciated in accordance with their estimated actual useful life. The straight-line depreciation method is used (further details are described in Note 3 h).

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is economic useful life of non-current tangible assets. The economic useful life of tangible fixed assets stated in Note 3 h) was based on the best estimate of the Group's management. Should the estimated full useful life of non-current tangible assets be shorter by 10%, the Group would record additional annual depreciation charge of non-current tangible assets of EUR 5,346 thousand (2019: EUR: 5,120 thousand). Should the estimated full useful life of non-current tangible assets be longer by 10%,the Group would record depreciation charge lower by EUR 4,383 thousand (2019: EUR 4,190 thousand).

*(ii) Calculation of employee benefits obligation*

The Group recognises a significant amount as a provision for long-term employee benefits for its current employees. The valuation of this provision is sensitive to the assumptions used in the calculations, such as future levels of earnings and benefits, discount rates, fluctuations, retirement age, mortality and average life expectancy. Further details are described in Note 21. Assumptions used are based on Austrian indicators since employee benefit plans are used by Austrian subsidiaries.

On 13 December 2018, an Act was adopted amending the Social Security Act in Austria. It is effective from 1 January 2020 and defined that the obligations of the retirement health care plan were to be assumed by the Republic of Austria. The act allowed the Group to set up an independent deposit, to which it could contribute the assets of a retirement health care plan, to the benefits for plan participants. Based on further review and clarification of the Act and the necessary implementation steps, the Group decided to use this option in 2019 and to applied an accounting policy as described in Note 21.

## 5. REVENUES

An analysis of the Group's revenues for the year:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| **Revenue from contracts with customers** | | |
| Revenues from the sale of group's main activity products | 656,671 | 741,138 |
| Revenues from the sale of group's secondary activities products | 15,183 | 17,417 |
| **Total revenue from contracts with customers** | **671,854** | **758,555** |
| **Other revenues** | | |
| Revenues from green energy sales and CO2 emissions | 13,567 | 12,713 |
| Revenues from services, other revenues | 5,211 | 5,098 |
| **Total other revenues** | **18,778** | **17,811** |
| **Total** | **690,632** | **776,366** |

Revenues from the sale of Group's main activity products include sales of office paper, wrapping paper and pulp. Revenues from the sale of group's secondary activities products include revenue from sales of energy, wood, paper for recycling, and material inventories. Other revenues are mainly revenues from the provision of services.

Analysis of revenues from contracts with customers from production sales from principal and subsidiary activities:

The Group mainly generates revenues from the sale of its own products, which are office paper, packaging paper and pulp. Revenue is generally recognized at a particular time, typically when the goods are delivered to a contractually agreed location. Customer payment terms do not include significant financial components.

The Group provides transport services related to the delivery of goods to the customer prior to the transfer of control over the goods to the customer. These transport services do not constitute a separate obligation to perform and the Group has assessed them as insignificant.

Revenues from contracts with customers outside the Mondi Group by country and region:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| East Europe | 46,185 | 24,341 |
| Slovakia | 31,652 | 34,351 |
| West Europe | 12,406 | 12,034 |
| Asia | 3,087 | 3,932 |
| **Total** | **93,330** | **74,658** |

Revenue from contracts with customers outside the Mondi Group by product:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| Pulp | 62,211 | 39,898 |
| Paper | 19,535 | 20,137 |
| **Revenues from the sales of production from the principal activities of the Group** | **81,746** | **60,035** |
| Energy | 6,400 | 6,763 |
| Paper for recycling | 1,835 | 1,793 |
| Wood | 1,813 | 3,850 |
| Other | 1,536 | 2,217 |
| **Revenues from the sales of production from the subsidiary activities of the Group** | **11,584** | **14,623** |
| **Total** | **93,330** | **74,658** |

None of the external customers had sales of more than 10% of total external sales for both years.

The Group has no significant assets or liabilities arising from customer contracts in any one year. No customer contract costs were capitalized. The Group does not disclose in the notes about other liabilities arising from contracts with customers that have an original expected duration of one year or less, as permitted by IFRS 15.

Revenues from contracts with Group´s related parties by client:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| Mondi Paper Sales, Austria | 567,335 | 670,213 |
| Mondi Syktyvkar, Russia | 7,640 | 10,938 |
| Mondi Swiecie, Poland | 3,520 | 2,746 |
| Euro Waste, Czech Republic | 27 | - |
| Mondi Frantschach, Austria | 2 | - |
| **Total** | **578,524** | **683,897** |

Revenues from contracts with Group´s related parties by products:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| Paper | 574,925 | 681,103 |
| **Revenues from the sales of production from the principal activities of the Group** | **574,925** | **681,103** |
| Paper for recycling | 2,424 | 2,745 |
| Wood | 1,123 | - |
| Other | 52 | 49 |
| **Revenues from the sales of production from the subsidiary activities of the Group** | **3,599** | **2,794** |
| **Total** | **578,524** | **683,897** |

## 6. RAW MATERIALS AND CONSUMABLES

An analysis of raw materials and consumables of the Group for the year:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| Raw materials, direct and auxiliary materials (wood, pulp, chemicals, others) | 318,890 | 358,561 |
| Energy | 45,039 | 52,568 |
| Maintenance, felts and screens | 42,521 | 42,044 |
| Packages | 19,996 | 21,843 |
| Other (operating overhead, merchandise, manufacturing services, other) | 17,095 | 14,773 |
| **Total** | **443,541** | **489,789** |

## 7. OTHER SERVICES

An analysis of consumption of other services of the Group for the year:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| Management and marketing services | 10,037 | 9,288 |
| Legal, advisory and auditing services | 3,875 | 3,995 |
| IT and telecommunication services | 3,322 | 3,437 |
| Outsourcing | 3,029 | 2 662 |
| Safety and health at work | 2,515 | 2,023 |
| Hire of employees and contractor costs | 2,168 | 2,161 |
| Insurance | 2,154 | 3,901 |
| Selling costs | 1,523 | 1 616 |
| Maintenance of non-production facilities | 1,333 | 1 607 |
| Rent | 1,195 | 832 |
| Taxes and fees | 1,055 | 1,040 |
| Cleaning of technological equipment | 1,032 | 967 |
| Transport of third parties | 987 | 260 |
| Personnel services, travel expenses | 784 | 1,089 |
| Advertising costs | 762 | 1,114 |
| Other | 3,837 | 3,715 |
| **Total** | **39,596** | **41,922** |

Legal, advisory and auditing services contain fees paid to the auditor in the amount of EUR 241 thousand (2019: EUR 219 thousand).

## 8. PERSONNEL EXPENSES

Personal costs of the Group incurred in the reporting period include the following categories:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| Wages | 68,343 | 66,893 |
| Social expenses and other personal expenses | 22,429 | 21,834 |
| **Total** | **90,772** | **88,727** |

## 9. OTHER OPERATING EXPENSES AND INCOME

Other operating income and expenses of the Group for the period are as following:

| *(EUR'000)* | *Note* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|---|
| Revenues related to the restructuring of the pension fund | | - | 40,799 |
| Gain on revaluation of the variable consideration regarding the acquisition of subsidiaries | 25 | 4,821 | 17,764 |
| Profit / (loss) on sale of non-current assets | | 80 | (1,242) |
| State compensation for electricity prices for the previous year | | 3,104 | 3,121 |
| Insurance benefits | | 54 | 2,234 |
| Other | | (54) | (218) |
| **Total** | | **8,005** | **62,458** |

Revenues related to the restructuring related to the fact that on 13 December 2018, an Act was adopted amending the Social Security Act in Austria. It was effective from 1 January 2020 and defines that the obligations of the retirement health care plan were to be assumed by the Republic of Austria. The effect of a change in the law was classified as a liability for future contributions by a third party, which was a one-off non-monetary benefit to the Group. Further details are described in note 22.

## 10. FINANCE INCOME AND FINANCE COSTS

Analysis of finance income and finance costs of the Group for the year:

| *Finance income* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| Interest income | 32 | 7 |
| Provision for non-current financial assets | 86 | 410 |
| **Finance income total** | **118** | **417** |

| *Finance costs* | *Note* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|---|
| Interest expense | | 2,135 | 2,236 |
| Interest expense related to the contingent consideration from the acquisition of Austrian subsidiaries (unwinding of the discount) | 25 | 29 | 90 |
| **Total finance costs** | | **2,164** | **2,326** |

## 11. INCOME TAX

Group's income tax analysis for:

| *(EUR'000)* | *Note* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|---|
| Current tax | | 2,489 | 9,746 |
| Deferred tax | 23 | (1,910) | (4,316) |
| **Income tax for the year** | | **579** | **5,430** |

Income tax is calculated at 21% rate applied in the Slovak Republic and 25% applied in Austria for Austrian subsidiaries (2019: 21% in the Slovak Republic and 25% in Austria) of the taxable profit.

The total charge for the year can be reconciled to the accounting profit as follows:

| | *Year Ended 31 December 2020* | | *Year Ended 31 December 2019* | |
|---|---|---|---|---|
| | *(EUR'000)* | *%* | *(EUR'000)* | *%* |
| Profit before tax | 19,886 | | 71,826 | |
| Share of profit/(loss) of joint ventures | (70) | | (71) | |
| **Profit before tax adjusted for profit/(loss) of joint ventures** | **19,956** | | **71,897** | |
| Tax calculated at the local income tax rate | 4,191 | 21 | 15,098 | 21 |
| Difference in overseas tax rate | 140 | 25 | (114) | 25 |
| Permanent differences | (2,515) | | (5,931) | |
| Tax relief | (1,234) | | (3,616) | |
| Accruals and other differences | (3) | | (7) | |
| **Income tax and effective tax rate for the year** | **579** | **2.9** | **5,430** | **7.6** |

Within the permanent differences for 2020, the Group reported a tax loss on the company Mondi Neusiedler, GmbH, which is not included in deferred tax assets of EUR 1,496 thousand (2019: EUR 1,123 thousand).

Furthermore, within the permanent differences for the year 2020, the Group reported the effect of the revaluation tax related to the acquisition of a financial investment in Austrian companies for 2020 in the amount of EUR (1,012) thousand (2019: EUR (7,182) thousand.

In 2020, the Group applied income tax relief of EUR 1,234 thousand received under the investment aid provided in the total amount of EUR 48,836 thousand for the realization of an investment project related to the acquisition of a new paper machine and the related infrastructure (2019: EUR 3,616 thousand). Due to the change in the law, valid from 2020 and concerning the application of the tax relief, the final decision on the application of the tax relief for 2020 will be taken in the preparation of the tax return for 2020.

## 12. INTANGIBLE ASSETS

Analysis of the Group's intangible assets for the year ended 31 December 2020:

| *(EUR'000)* | *Goodwill* | *Other Intangible Assets* | *Total* |
|---|---|---|---|
| ***Cost*** | | | |
| As at 1 January 2020 | 371 | 23,738 | 24,109 |
| Additions | 141 | 690 | 831 |
| Transfers and reclassification | - | 3 | 3 |
| Disposals | - | (1,262) | (1,262) |
| **As at 31 December 2020** | **512** | **23,169** | **23,681** |
| ***Amortisation & impairments*** | | | |
| As at 1 January 2020 | 169 | 22,811 | 22,980 |
| Annual amortisation | - | 441 | 441 |
| Disposals | - | (1,262) | (1,262) |
| **As at 31 December 2020** | **169** | **21,990** | **22,159** |
| ***Carrying amount*** | | | |
| **As at 1 January 2020** | **202** | **927** | **1,129** |
| **As at 31 December 2020** | **343** | **1,179** | **1,522** |

Analysis of the Group's intangible assets for the year ended 31 December 2019:

| *(EUR'000)* | *Goodwill* | *Other Intangible Assets* | *Total* |
|---|---|---|---|
| ***Cost*** | | | |
| As at 1 January 2019 | 371 | 23,456 | 23,827 |
| Additions | - | 279 | 279 |
| Transfers and reclassification | - | 22 | 22 |
| Disposals | - | (19) | (19) |
| **As at 31 December 2019** | **371** | **23,738** | **24,109** |
| ***Amortisation & impairments*** | | | |
| As at 1 January 2019 | 169 | 22,458 | 22,627 |
| Annual amortisation | - | 372 | 372 |
| Disposals | - | (19) | (19) |
| **As at 31 December 2019** | **169** | **22,811** | **22,980** |
| ***Carrying amount*** | | | |
| **As at 1 January 2019** | **202** | **998** | **1,200** |
| **As at 31 December 2019** | **202** | **927** | **1,129** |

Goodwill represents intangible assets with indefinite useful lives, valued at cost less accumulated impairment losses.

Other intangible assets comprise software, licenses, rights for energy supplies and non-current intangible assets in acquisition. Such assets have limited useful lives over which they are amortised.

The amortisation period for other intangible assets is four years.

The Group as at 31 December 2020 have intangible assets in acquisition and advances for intangible assets in the amount of EUR 5 thousand (2019: EUR 29 thousand).

## 13. PROPERTY, PLANT AND EQUIPMENT

Analysis of the Group's property, plant and equipment for the year ended 31 December 2020:

| *(EUR'000)* | *Land and Buildings* | *Machines and Equipment* | *Assets under Construction and Advance Payments* | *Other Non-Current Tangible Assets* | *Total* |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| As at 1 January 2020 | 348,864 | 1,470,359 | 156,467 | 53,554 | 2,029,244 |
| Additions | 2 | 61 | 140,283 | 7 | 140,353 |
| Disposals | (265) | (2,495) | - | (696) | (3,456) |
| Transfers and reclassification | 9,253 | 33,000 | (45,078) | 2,822 | (3) |
| **As at 31 December 2020** | **357,854** | **1,500,925** | **251,672** | **55,687** | **2,166,138** |
| ***Accumulated depreciation and impairment*** | | | | | |
| As at 1 January 2020 | 204,592 | 1,135,894 | - | 47,415 | 1,387,901 |
| Annual depreciation charge | 7,727 | 39,360 | - | 1,467 | 48,554 |
| Impairment | - | - | - | - | - |
| Disposals | (109) | (2,491) | - | (683) | (3,283) |
| **As at 31 December 2020** | **212,210** | **1,172,763** | **-** | **48,199** | **1,433,172** |
| **Carrying amount** | | | | | |
| **As at 1 January 2020** | **144,272** | **334,465** | **156,467** | **6,139** | **641,343** |
| **As at 31 December 2020** | **145,644** | **328,162** | **251,672** | **7,488** | **732,966** |

Additions to non-current tangible assets mainly comprise acquisition of new paper machine PM19 at the Ružomberok plant.

The Group did not recognise any pledged assets. The Group's assets are not subject to any liens that restrict the Group's handling of non-current assets.

The useful lives of relevant assets are described in Note 3 h).

Analysis of the Group's property, plant and equipment for the year ended 31 December 2019:

| *(EUR'000)* | *Land and Buildings* | *Machines and Equipment* | *Assets under Construction and Advance Payments* | *Other Non-Current Tangible Assets* | *Total* |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| As at 1 January 2019 | 339,254 | 1,396,465 | 66,842 | 51,538 | 1,854,099 |
| Additions | - | - | 207,285 | - | 207,285 |
| Disposals | (1,087) | (30,704) | - | (327) | (32,118) |
| Transfers and reclassification | 10,697 | 104,598 | (117,660) | 2,343 | (22) |
| **As at 31 December 2019** | **348,864** | **1,470,359** | **156,467** | **53,554** | **2,029,244** |
| ***Accumulated depreciation and impairment*** | | | | | |
| As at 1 January 2019 | 198,135 | 1,085,822 | - | 46,537 | 1,330,494 |
| Annual depreciation charge | 7,087 | 41,701 | - | 1,203 | 49,991 |
| Impairment | - | 39,028 | - | - | 39,028 |
| Disposals | (630) | (30,657) | - | (325) | (31,612) |
| **As at 31 December 2019** | **204,592** | **1,135,894** | **-** | **47,415** | **1,387,901** |
| **Carrying amount** | | | | | |
| **As at 1 January 2019** | **141,119** | **310,643** | **66,842** | **5,001** | **523,605** |
| **As at 31 December 2019** | **144,272** | **334,465** | **156,467** | **6,139** | **641,343** |

In 2019, the Group decided and recognized impairment of fixed assets within the Austrian subsidiary Mondi Neusiedler, GmbH., in the amount of EUR 39,028 thousand.

Details of the type of insurance and insured amount of non-current assets and inventories (EUR '000):

| *Insured Object* | *Type of Insurance* | *Amount 31 December 2020* | *Amount 31 December 2019* |
|---|---|---|---|
| Passenger vehicles | Against theft, motor hull insurance | 82 | 82 |
| Property, plant and equipment | Against natural disasters | 2,800,126 | 1,583,515 |
| Plant and equipment | Against machine breakage | 2,096,242 | 1,738,919 |
| Inventories | Against natural disasters | 109,743 | 82,949 |

## 14. SUBSIDIARIES

Overview of the Group's subsidiaries as at 31 December 2020:

| *Name of Subsidiary* | *Place of Registration and Operation* | *Principal Activity* | *Ownership Share in %* | *Year of First Consolidation* |
|---|---|---|---|---|
| Obaly S O L O, s r. o. | Tatranská cesta 3, 034 17 Ružomberok, | Production and trading in paper goods | 100 | 2001 |
| Strážna služba VLA-STA, s r. o. | Tatranská cesta 3, 034 17 Ružomberok | Security services | 100 | 2006 |
| SLOVWOOD Ružomberok, a. s. | Tatranská cesta 3, 034 17 Ružomberok | Mediation in timber trade | 66 | 2008 |
| Mondi Neusiedler, GmbH | Hausmening, Austria | Production and trading in paper goods | 100 | 2016 |
| Ybbstaler Zellstoff, GmbH | Kematen, Austria | Production and trading in paper goods | 100 | 2016 |
| Slovpaper Recycling, s r. o. | L. Kassáka 10, 940 01 Nové Zámky | Waste management | 100 | 2017 |
| Slovpaper Collection, s. r. o. | Tatranská cesta 3, 034 17 Ružomberok | Waste management | 100 | 2020 |

In 2020, subsidiary Obaly S O L O, s. r. o. did not carry out business activities, as at 1 October 2019 it transferred a part of the company "Production Activities" to the parent company.

The company Slovpaper Collection, s. r. o. was settled on 1 August 2020, as a 100% subsidiary of the subsidiary Slovpaper Recycling, s. r. o. New company is included in the consolidation by full consolidation.

The company Slovpaper Collection, s. r. o. bought a part of the company 3R Group, s. r. o., settled in Trenčín, dealing with the collection and sorting of waste paper. The effective date for the sale of part of the business was 1 October 2020. The goodwill in the amount of EUR 141 thousand was recognised as part of intangible assets.

Net assets of part of the company 3R Group, s. r. o., at fair value as at 1 October 2020 (EUR '000):

| Balance sheet item | Fair value |
|---|---|
| ***Non-current assets*** | |
| Property, plant and equipment | 71 |
| | **71** |
| ***Current assets*** | |
| Inventories | 7 |
| Trade and other receivables | 47 |
| Cash and cash equivalents | 1 |
| | **55** |
| ***Current liabilities*** | |
| Current bank loans and credits | 24 |
| Trade and other payables | 13 |
| | **37** |
| **Net assets of part of the company 3R Group, s. r. o.** | **89** |

Calculation of goodwill:

| | |
|---|---|
| Expenditure on the acquisition of a part of the company | 230 |
| The Group 's share of the net assets of a part of the company 3R Group, s. r. o. | 89 |
| **Goodwill** | **141** |

During the year ended 31 December 2020, there were no other changes in the structure of subsidiaries and their ownership interests. The address of the subsidiary Slovpaper Recycling, s. r. o. was changed.

## 15. INVESTMENTS IN JOINT VENTURES

Overview of the Group's joint ventures as at 31 December 2020:

| *Name of Associate* | *Place of Registration and Operation* | *Principal Activity* | *Ownership Share in %* | *Share in Voting Rights in %* | *The Carrying Value of The Investment* |
|---|---|---|---|---|---|
| RECOPAP, s. r. o. | Bratislavská 18, Zohor | Sorting and pressing of waste paper | 50 | 50 | 210 |
| East Paper, s. r. o. | Rastislavova 98, Košice | Waste management business | 51 | 50 | 167 |

Investments in joint ventures were acquired in 2017 as part of the acquisition of 100% share of Slovpaper Recycling s. r. about. They are charged using the equity method.

During the year ended 31 December 2020, there were no changes in the structure of investments in joint ventures and their ownership interests

During the year ended 31 December 2019, the share in the joint venture KB Paper, s. r. o. was sold for the price of EUR 85 thousand, profit from the sale amounted to EUR 24 thousand.

## 16. INVENTORIES

Overview of the Group's inventories:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Raw materials, consumables and spare parts | 48,076 | 52,331 |
| Work in progress and semi-finished goods | 23,806 | 24,729 |
| Finished goods | 21,726 | 24,501 |
| Merchandise | 280 | 476 |
| **Total** | **93,888** | **102,037** |

The inventory listed in the table above is recognised net of provision.

Cost of inventories charged as an expense is disclosed in Note 6.

As at 31 December 2020, the Group recorded provisions in the amount of EUR 26,342 thousand (2019: EUR 25,320 thousand) for obsolete and slow-moving inventory based on a detailed analysis of individual items of inventories. The analysis was prepared by the stocktaking committee as at the year-end, which was based on an assessment of the net realisable value of inventories. Group entities re-assessed the recorded provisions for inventories and came to the conclusion that the amount of the provisions is sufficient.

Movements in the provision for inventories:

| *(EUR'000)* | *2020* | *2019* |
|---|---|---|
| As at 1 January | 25,320 | 24,972 |
| Charge | 1,228 | 554 |
| Used and released | (206) | (206) |
| **Total** | **26,342** | **25,320** |

## 17. TRADE AND OTHER RECEIVABLES

Overview of the Group's current trade receivables and other receivables:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Receivables from the sale of finished goods and services | 71,655 | 78,594 |
| Tax receivables | 12,722 | 12,499 |
| Advance payments made | 977 | 1,302 |
| Other receivables | 716 | 1,395 |
| **Total** | **86,070** | **93,790** |

The Group created a provision for estimated irrecoverable receivables from the sale of finished goods and other receivables in the amount of EUR 166 thousand (2018: EUR 200 thousand). The management believes that the carrying amount of trade and other receivables approximates their fair value.

The table below presents a breakdown of receivables from the sale of goods and services and other receivables by maturity (gross):

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Within maturity | 85,243 | 93,221 |
| Overdue | 1,678 | 735 |
| **Total** | **86,921** | **93,956** |

The Group received no collateral or other forms of security in respect of its receivables. Risk of noncollection is covered by the insurance program of the Mondi Group and EXIM Bank. Information about insurance coverage claims contains Note 28, section Credit Risk.

The Group recorded no receivables under lien.

## 18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank accounts and cash on hand, including the Group's cash and current bank deposits with original maturity not exceeding three months. The carrying amount of the assets approximates their fair value.

No encumbrance is attached to cash and cash equivalents that would result in any restrictions of the Group's asset handling.

For the purpose of the statement of cash flows, cash and cash equivalents also include overdraft facilities.

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Cash and cash equivalents | 425 | 589 |
| **Total** | **425** | **589** |

## 19. SHARE CAPITAL

Share capital was issued in the form of bearer shares. As at 31 December 2020 and 2019, the total number of issued shares was 4,635,034 and the face value per share was EUR 33.193919. All of the Company's shares were paid. None of the Company's shares are quoted on the stock exchange.

## 20. OTHER COMPONENTS OF EQUITY

As at 31 December 2020, other components of equity consisted of capital funds and other funds.

Capital funds consisted of legal reserve fund in amount of EUR 48,330 thousand, statutory funds in amount of EUR 36,152 thousand, additional paid in capital in amount of EUR 3,068 thousand and other deposits not increasing the share capital in amount of EUR 1,861 thousand. The total amount of capital funds was EUR 89,411 thousand.

Other funds include funds created from actuarial gain on employee benefits after termination of employment, and post-employment health care in amount (EUR 3,828 thousand) and the difference arising from the acquisition of Austrian companies Mondi Neusiedler and Ybbstaller Zellstof in amount EUR 6,426 thousand and Other funds in amount (EUR 276 thousand). The total amount of other funds was EUR 2,322 thousand.

## 21. EMPLOYEE BENEFIT PLANS

The Group provides retirement benefit plans and health care retirement plans for employees of both Austrian companies, as well as defined benefit retirement benefit plans for all its employees except the employees of subsidiaries Slovpaper Recycling and s. r. o. a Slovpaper Collection, s. r. o.

*Pension benefits*

The Group contributes to a pension plan for both Austrian companies.

*Post-employment health care plans*

The Group contributes to the post-retirement health care plan for both Austrian companies. The accounting method, the assumption and the valuation interval are similar to those for retirement benefit plans.

Development in 2019

On 13 December 2018, an Act was adopted amending the Social Security Act in Austria. It was effective from 1 January 2020 and defined that the obligations of the retirement health care plan are to be assumed by the Republic of Austria. The act allowed the Group to set up an independent deposit, to which it could contribute the assets of a retirement health care plan, to the benefits for plan participants. Based on further review and clarification of the Act and the necessary implementation steps, the Group decided to use this option in 2019 and to applied an accounting policy as described below.

Accounting and presentation in the consolidated statement of financial position and in this note is considered to be a significant accounting estimate, in particular whether to account for a change in the law as a claim for compensation or as a third party contribution.

The impact of the amendment is presented in 2019 with an analogy to paragraphs 92-94 of IAS 19 (revised) due to the assumption of obligations on future contributions by a third party. As there is no legal requirement for the Group to make further contributions to the fund and the current deficit will be covered by another party (the Austrian State and independent deposits), there is no deficit at the end of the year. There is also no obligation for the Group to finance these service costs in respect of future service costs. All future service costs incurred after 31 December 2019 for a retirement benefit plan will be covered by contributions from another person (the Austrian State and independent deposits) at that time, and at this time these are not considered as a liability of the Group.

The effect of the amendment to the Act is classified as the assumption of the obligation to pay future contributions by a third party, which is a one-off non-monetary benefit of the Group reported within Other operating expenses and income of EUR 40,799 thousand in 2019 (see note 10). Third-party contributions by the Austrian State and the transfer of plan assets to an independent deposit are classified as an extraordinary item and recognized in the consolidated income statement. The adjustment to the liabilities of the plan by the amount assumed by the Austrian State is shown in the consolidated statement of financial position, with a corresponding adjustment to the assets of the plan to transfer the assets to an independent deposit. The impact of a change in the law and the establishment of an independent deposit is presented on a "net" basis in the consolidated statement of financial position ("net" zero position) in 2019.

Development in 2020

In 2020, there was no other significant change in the functioning of these plans.

*Retirement pension obligation*

The long-term employee benefits plans are a defined benefit Group plans whereby employees are entitled to a one-time retirement or disability pension contribution equal to a certain percentage of the company's average annual wage, depending on the conditions set.

As at 31 December 2020, this plan applied to all Group employees, except the employees of subsidiaries Slovpaper Recycling, s. r. o. and Slovpaper Collection, s. r. o. To this date, the plan was called not covered by financial resources, which means, without specifically designated assets to cover the obligation arising from it.

*Other long-term employee benefits obligation*

The other long-term employee benefit obligation represents a commitment to regular jubilee remuneration, which the Group is required to pay and a commitment to support for partial retirement for Austrian company employees.

The Group estimated a provision for pensions, post-employment health care, retirement payment and other long-term employee benefits based on an actuarial valuation.

Defined benefit plans typically expose the Group to the following actuarial risks:

*Investment risk (Asset volatility)*

The present value of the net retirement benefit liability/asset is calculated using a discount rate determined by reference to high-quality corporate bond yields. Currently, the plan assets have a relatively balanced investment in equity and bonds. Due to the non-current nature of the plan liabilities, the boards of trustees consider it appropriate that a reasonable portion of the plan assets should be invested in equities.

*Interest risk*

A decrease in the corporate bond interest rate will increase plan liabilities, however, this will be partially offset by an increase in the value of the plan's fixed rate debt instruments.

*Longevity risk*

The present value of the net retirement benefit liability/asset is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan liabilities.

*Salary risk*

The present value of the net retirement benefit liability/asset is calculated by reference to the expected future salaries of plan participants. An increase in the salary of the plan participants will increase the plan liabilities.

*Medical cost inflation risk*

The present value of the post-retirement medical plans is calculated by reference to expected future medical costs. An increase in medical cost inflation will increase the plan liabilities.

The expected maturity analysis of undiscounted retirement benefits is as follows:

***31 December 2020***

| (EUR '000) | *Pension Benefits* | *Health Care Plans* | *Retirement Payment & Jubilee Benefit* | *Total* |
|---|---|---|---|---|
| Less than a year | 234 | - | 2,135 | **2,369** |
| Between one and two years | 120 | - | 1,034 | **1,154** |
| Between two to five years | 368 | - | 5,508 | **5,876** |
| After five years | 3,036 | - | 30,383 | **33,419** |
| | | - | | |
| **Total** | **3,758** | **-** | **39,060** | **42,818** |

***31 December 2019***

| (EUR '000) | *Pension Benefits* | *Health Care Plans* | *Retirement Payment & Jubilee Benefit* | *Total* |
|---|---|---|---|---|
| Less than a year | 231 | - | 1,479 | **1,710** |
| Between one and two years | 109 | - | 1,071 | **1,180** |
| Between two to five years | 334 | - | 5,031 | **5,365** |
| After five years | 2,727 | - | 30,755 | **33,482** |
| **Total** | **3,401** | **-** | **38,336** | **41,737** |

The average duration of defined employee benefits liabilities is 15 years (2019: 15 years).

It is expected that the Group's share of contributions will increase as the plans' members age. The expected contributions to be paid to defined benefit pension plans, other post-employment benefits and the other non-current benefits during 2021 are EUR 2,102 thousand.

The employee benefits plan liabilities recognised in the consolidated statement of financial position by categories:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Fair value of liabilities not covered by the funds | (33,847) | (35,721) |
| Fair value of liabilities covered by the funds | - | - |
| Total fair value of liabilities | (33,847) | (35,721) |
| Fair value of fund assets | - | - |
| **Net value of employee benefits liabilities** | (33,847) | **(35,721)** |

*Amounts recognised in the consolidated statement of financial position:*

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| **Total employee benefits assets** | - | - |
| Pension benefits | (7,107) | (8,002) |
| Post-employment health care | - | - |
| Entitlement to lump-sum payment upon retirement | (20,272) | (21,000) |
| Payable from other non-current employee benefits (jubilee benefits) | (6,468) | (6,719) |
| **Total employee benefits liabilities** | **(33,847)** | **(35,721)** |

Country-based employee benefits plan liabilities recognized in the balance sheet:

| *(EUR'000)* | *31 December 2020* | | | *31 December 2019* | | |
|---|---|---|---|---|---|---|
| | Austria | Slovakia | Total | Austria | Slovakia | Total |
| Pension benefits | 7,107 | - | 7,107 | 8,002 | - | 8,002 |
| Post-employment health care | - | - | - | - | - | - |
| Entitlement to lump-sum payment upon retirement | 18,189 | 2,083 | 20,272 | 19,052 | 1,948 | 21,000 |
| Payable from other non-current employee benefits (jubilee benefits) | 4,280 | 2,188 | 6,468 | 4,435 | 2,284 | 6,719 |
| **Total** | **29,576** | **4,271** | **33,847** | **31,489** | **4,232** | **35,721** |

Charged to the consolidated statement of profit or loss and other comprehensive income according to changes in current value of liabilities and at fair value of plan assets:

| *(EUR'000)* | ***Plan Liabilities*** | | ***Plan Assets*** | | ***Net Liability*** | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| As at 1 January | (35,721) | (70,206) | - | 16,017 | (35,721) | (54,189) |
| **Included in the statement of profit or loss** | | | | | | |
| Current service costs | (1,052) | (1,754) | - | - | (1,052) | (1,754) |
| Interests | (241) | (1,134) | - | 273 | (241) | (861) |
| Plan participants contributions | - | (3,360) | - | 3,360 | - | - |
| Paid benefits | 2,337 | 5,917 | - | (3,359) | 2,337 | 2,558 |
| Cancellation of provisions | 23 | 57,057 | | (16,258) | 23 | 40,799 |
| **Included in the other comprehensive income** | | | - | | | |
| Revaluation gains/(losses) | 807 | (22,241) | - | (33) | 807 | (22,274) |
| **As at 31 December** | **(33,847)** | **(35,721)** | **-** | **-** | **(33,847)** | **(35,721)** |

Key actuarial assumptions:

| | ***Year ended 31 December 2020*** | ***Year ended 31 December 2019*** |
|---|---|---|
| Real discount rate p. a. | 0.6% | 0.4% |
| Inflation | 1.5% - 1.7% | 1.6% - 1.9% |
| Staff turnover p.a | 1.0 % - 3.1% | 1.0 % - 3.1% |
| Retirement age, men/women | 60 - 63/60 - 63 | 60 - 63/60 - 63 |
| Mortality and disability table | Pagler & Pagler | Pagler & Pagler |
| Future growth of wages | 2.5% | 2.5% |
| Future growth of pensions | 2.0% | 2.0% |

Sensitivity analysis for the year ended 31 December 2020:

| | ***Sensitivity 1*** | ***The Main Assumption*** | ***Sensitivity 2*** |
|---|---|---|---|
| Discount rate | (0.4%) | 0.6% | 1.6% |
| Net liability of defined employee benefits (without liabilities from other non-current benefits) | 31,393 | 27,379 | 24,254 |
| Inflation | 0.5%-0.7% | 1.5%-1.7% | 2.5%-2.7% |
| Net liability of defined employee benefits (without liabilities from other non-current benefits) | 24,327 | 27,379 | 31,649 |

Sensitivity analysis for the year ended 31 December 2019:

| | *Sensitivity 1* | *The Main Assumption* | *Sensitivity 2* |
|---|---|---|---|
| Discount rate | (0.6)% | 0.4% | 1.4% |
| Net liability of defined employee benefits (without liabilities from other non-current benefits) | 33,527 | 29,002 | 25,489 |
| Inflation | 0.6%-0.9% | 1.6%-1.9% | 2.6%-2.9% |
| Net liability of defined employee benefits (without liabilities from other non-current benefits) | 25,590 | 29,002 | 33,355 |

## 22. LOANS AND CREDITS

Group's current loans analysis:

| *(EUR'000)* | *Note* | *31 December 2020* | *31 December 2019* |
|---|---|---|---|
| Short-term bank loans | 14 | 19 | - |
| **Total** | | **19** | **-** |

Movement of current loans from third parties:

| *(EUR'000)* | *2020* | *2019* |
|---|---|---|
| As at 1 January | - | - |
| Reclassification | (5) | - |
| Proceeds from loans | 24 | - |
| **As at 31 December** | **19** | **-** |

Group's non-current loans analysis:

| *(EUR'000)* | *Note* | *31 December 2020* | *31 December 2019* |
|---|---|---|---|
| Other non-current loans from related parties | 29 | 34,832 | 33,886 |
| **Total** | | **34,832** | **33,886** |

Movement of non-current loans from related parties:

| *(EUR'000)* | *2020* | *2019* |
|---|---|---|
| As at 1 January | 33,886 | 33,041 |
| Interest accrued | 946 | 845 |
| **As at 31 December** | **34,832** | **33,886** |

The Group did not draw any current or non-current bank loans in 2020 except the bank loans acquired by purchase of the part of the business in the amount of EUR 24 thousand (see Note 14).

As at 31 December 2020 and 31 December 2019, the Group drew an operating loan within the Mondi Group granted by Mondi Finance plc., London.

## 23. DEFERRED TAX ASSET AND LIABILITY

The following are the major deferred tax liabilities and assets recognised by the Group and their movements during the current reporting periods.

| *Deferred tax asset* | *Difference in NBV of Non-current Assets* | *Other Temporary Differences* | *Tax Loss* | *Total* |
|---|---|---|---|---|
| As at 1 January 2020 | - | 408 | 71 | 479 |
| Recognised in the profit or loss | (71) | (25) | 676 | 580 |
| Reclassification | (244) | 207 | - | (37) |
| **As at 31 December 2020** | **(315)** | **590** | **747** | **1 022** |

| *Deferred tax liability* | *Difference in NBV of Non-current Assets* | *Other Temporary Differences* | *Tax Loss* | *Total* |
|---|---|---|---|---|
| As at 1 January 2020 | 39,952 | (6,401) | - | 33,551 |
| Recognised in the profit or loss | (1,744) | 414 | - | (1,330) |
| Recognised in equity | - | (15) | - | (15) |
| Reclassification | (244) | 207 | - | (37) |
| **As at 31 December 2020** | **37,964** | **(5,795)** | **-** | **32,169** |

The following are the major deferred tax liabilities and assets recognised by the Group and their movements during the previous reporting periods.

| *Deferred tax asset* | *Difference in NBV of Non-current Assets* | *Other Temporary Differences* | *Tax Loss* | *Total* |
|---|---|---|---|---|
| As at 1 January 2019 | - | 486 | 18 | 504 |
| Recognised in the profit or loss | - | (41) | 53 | 12 |
| Recognised in equity | - | (37) | - | (37) |
| **As at 31 December 2019** | **-** | **408** | **71** | **479** |

| *Deferred tax liability* | *Difference in NBV of Non-current Assets* | *Other Temporary Differences* | *Tax Loss* | *Total* |
|---|---|---|---|---|
| As at 1 January 2019 | 40,166 | (2,222) | - | 37,944 |
| Recognised in the profit or loss | (214) | (4,090) | - | (4,304) |
| Recognised in equity | - | (89) | - | (89) |
| **As at 31 December 2019** | **39,952** | **(6,401)** | **-** | **33,551** |

Deferred tax assets ageing structure:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| - over 12 months | 1,022 | 479 |
| **Total** | **1,022** | **479** |

Deferred tax liabilities ageing structure:

| *V tis. €* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| - over 12 months | 37,964 | 39,952 |
| - due within 12 months | (5,795) | (6,401) |
| **Total** | **32,169** | **33,551** |

## 24. PROVISIONS

Movement of a non-current part of a provision for restoration of a landfill:

| *(EUR'000)* | *2020* | *2019* |
|---|---|---|
| As at 1 January | 2,459 | 2,370 |
| Additions | 96 | 89 |
| Use | (36) | - |
| **As at 31 December** | **2,519** | **2,459** |

Additions to non-current provision for the restoration of a landfill represents the recognition of interest to adjust the value of the provision for the third stage of the landfill in the amount of EUR 124 thousand and reckoning of interest to adjust the provision to net present value as at 31 December 2020 in the amount of EUR 96 thousand.

The use of the provision represents the cost of monitoring of the storage yard.

Environmental provision is made for the reclamation of landfills pursuant to the applicable environmental legislation in the Slovak Republic. The Group owns and operates the three stages of the landfill where it is legally obliged to reclaim them after their capacity has been reached. The Group creates the provision for the estimated future payments based on the expected date of closure of these landfills.

The provision balance for the first stage of the landfill is EUR 31 thousand, this has been closed and is being used to remedy the costs associated with its monitoring. The second stage of the landfill, which has a balance of EUR 1,015 thousand was closed according to the plan by the end of 2017, and restoration started in 2018. Provision was calculated using a discount rate of 8% and an average annual inflation of 4.4%. The third stage of the landfill, for which a provision of EUR 1,473 thousand is created, was planned to close by the end of 2025. The new estimated closing is planned in the end of 2021. It used a discount rate of 6.97% and an average annual inflation of 1.4%.

Movements of current part of the provision for restoration of a landfill and other current provisions:

| *(EUR'000)* | *Environmental Provision* | *Onerous Contracts Provision* | *Current Provisions Total* |
|---|---|---|---|
| As at 1 January 2020 | - | 637 | 637 |
| Creation | - | 138 | 138 |
| Release | - | (76) | (76) |
| **As at 31 December 2020** | **-** | **699** | **699** |

| *(EUR'000)* | *Environmental Provision* | *Onerous Contracts Provision* | *Current Provisions Total* |
|---|---|---|---|
| As at 1 January 2019 | 67 | 1,990 | 2,057 |
| Use | (67) | - | (67) |
| Release | - | (1,353) | (1,353) |
| **As at 31 December 2019** | **-** | **637** | **637** |

The balance of the current environmental reserve was a provision created for remedy the costs associated with the environmental burden of the parent company's former oil operation.

## 25. TRADE AND OTHER PAYABLES

Overview of trade and other payables:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Trade payables | 111,447 | 111,058 |
| Trade payables of an investment nature | 27,347 | 44,326 |
| Other payables | 14,622 | 14,849 |
| **Total** | **153,416** | **170,233** |

Breakdown of trade payables by maturity:

| *Item* | *Within Maturity Period* | *Retentive* | *Maturity Within Maturity Period* | *Over 365 Days Overdue* | *Within Maturity Period* |
|---|---|---|---|---|---|
| ***As at 31 December 2020*** | | | | | |
| Trade payables (including of an investment nature) | 114,492 | 10,385 | 13,886 | 31 | **138,794** |
| ***As at 31 December 2019*** | | | | | |
| Trade payables (including of an investment nature) | 127,654 | 6,422 | 21,175 | 133 | **155,384** |

In 2020 retentive trade payables in amount of EUR 10,385 thousand were overdue up to one year after the maturity, in amount of EUR 3,190 thousand – overdue over one year after the maturity (in 2019 overdue up to one year in amount of EUR 5,834 thousand, overdue over one year in amount of EUR 588 thousand).

Other current payables comprise the following items:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Payables to employees, from social security insurance and other taxes | 12,298 | 12,182 |
| Accrued liabilities | 699 | 695 |
| Social fund | 260 | 371 |
| Other | 1,365 | 1,601 |
| **Total** | **14,622** | **14,849** |

The Group's recorded payables to creditors are not secured by a lien.

Other non-current liabilities comprise the following:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Payable associated with the acquisition of financial investments | - | 4,821 |
| Other | 269 | 404 |
| **Total** | **269** | **5,225** |

A decrease in other non-current liabilities is caused mainly by revaluation of a non-current part of liability to Mondi AG from the purchase of subsidiaries. The payable was set based on the anticipated EBITDA ratios of the acquired subsidiaries over the following six-year period from the date of acquisition exceeding the agreed EBITDA amount, net of dividends paid and adjusted to the present value.

The amount payable depends on the expected operating results of the acquired subsidiaries.

Movement of the non-current portion of payable associated with the acquisition of financial investments:

| *(EUR'000)* | *2020* | *2019* |
|---|---|---|
| As at 1 January | 4,821 | 22,495 |
| Repayments | - | - |
| Unwinding of interest associated with payable from acquisition of subsidiaries | 29 | 90 |
| Gain from revaluation of financial liability at FVTPL | (4,850) | (17,764) |
| **As at 31 December** | - | **4,821** |

## 26. LEASES

The Group has entered into various leasing contracts. Leases of buildings and land have an average lease term of 40 years, machines and equipment 12 years and other leased assets 4 years.

### Assets with a right to use

The analysis of movements of the Group's leased assets with the right to use for the year ended 31 December 2020:

| *(EUR'000)* | *Land and Buildings* | *Machinery and Equipment* | *Other Tangible Fixed Assets* | *Total* |
|---|---|---|---|---|
| ***Cost*** | | | | |
| As at 1 January 2020 | 204 | 32,406 | 2,387 | 34,997 |
| Additions | - | 81 | 465 | 546 |
| Disposals | (136) | (94) | (1,477) | (1,707) |
| **As at 31 December 2020** | **68** | **32,393** | **1,375** | **33,836** |
| ***Accumulated depreciation and impairment*** | | | | |
| As at 1 January 2020 | 129 | 1,872 | 1,768 | 3,769 |
| Annual depreciation and impairment | 3 | 2,450 | 412 | 2,865 |
| Disposals | (123) | (94) | (1,438) | (1,655) |
| **As at 31 December 2020** | **9** | **4,228** | **742** | **4,979** |
| ***Carrying amount*** | | | | |
| **As at 1 January 2020** | **75** | **30,534** | **619** | **31,228** |
| **As at 31 December 2020** | **59** | **28,165** | **633** | **28,857** |

The analysis of movements of the Group's leased assets with the right to use for the year ended 31 December 2019:

| *(EUR'000)* | *Land and Buildings* | *Machinery and Equipment* | *Other Tangible Fixed Assets* | *Total* |
|---|---|---|---|---|
| ***Cost*** | | | | |
| As at 1 January 2019 | 201 | 34,925 | 2,989 | 38,115 |
| Additions | 3 | 30,703 | 430 | 31,136 |
| Disposals | - | (33,222) | (1,032) | (34,254) |
| **As at 31 December 2019** | **204** | **32,406** | **2,387** | **34,997** |
| ***Accumulated depreciation and impairment*** | | | | |
| As at 1 January 2019 | 103 | 32,566 | 2,152 | 34,821 |
| Annual depreciation and impairment | 26 | 2,528 | 648 | 3,202 |
| Disposals | - | (33,222) | (1,032) | (34,254) |
| **As at 31 December 2019** | **129** | **1,872** | **1,768** | **3,769** |
| ***Carrying amount*** | | | | |
| **As at 1 January 2019** | **98** | **2,359** | **837** | **3,294** |
| **As at 31 December 2019** | **75** | **30,534** | **619** | **31,228** |

Additions to assets with the right to use amounted to EUR 546 thousand (in 2019: EUR 31,136 thousand). The most significant increase were the passenger cars.

**Lease commitments**

Analysis of maturity of undiscounted lease commitments:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Less than a year | 2,776 | 6,184 |
| Between one and five years | 8,270 | 8,693 |
| After five years | 17,136 | 19,108 |
| **Total** | **28,182** | **33,985** |

Lease commitments by residual maturity:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Current liabilities | 2,135 | 5,460 |
| Non-current liabilities | 21,300 | 23,055 |
| **Total** | **23,435** | **28,515** |

Total payments for the lease in 2020 amounted to EUR 5,571 thousand (in 2019: EUR 6,441 thousand).

Amounts recognized in the consolidated statement of profit or loss and other comprehensive income:

| (EUR '000) | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Annual depreciation and impairment | (2,865) | (3,202) |
| Interest on lease commitments | (758) | (343) |
| Current rental costs and the cost of rentals assets with low value | (1,196) | (832) |
| Revenue from derecognised leased asset | 55 | - |
| Value of derecognised leased asset | (51) | - |
| **Total** | **(4,815)** | **(4,377)** |

The Group leases various machinery and equipment and also land under the ECO+ project for the PM19 paper machine and related infrastructure.

The main rental conditions are listed below:

Lease contracts are generally concluded for fixed period; machinery and equipment for 4 to 15 years; land for a longer period of 30 years or more. The rental terms are agreed on an individual basis and include fixed payment terms; when the lease payment is usually agreed for a current period for machinery and equipment on monthly basis, for land it is a longer period. Leases do not contain components that are not related to the lease of an asset with a right to use (maintenance, insurance), and therefore do not include variable payments related to these components. Machinery and equipment, vehicles and land are classified as separate asset classes with rights to use in accordance with IFRS 16.

Lease contracts can be terminated in general only by mutual agreement or by notice from the Group. The Group may terminate these contracts without giving any reason, the notice period being 3 months. Lease contracts do not contain any liabilities, and leased assets cannot be used as collateral for loans or credits.

The right to extend and terminate the contract is described above, the termination of the contract does not involve any further expenses of the Group, on the contrary, in the event of cancellation of the contract before the expiration of the lease period, the Group is entitled to repay proportional part of the rent already paid.

The most significant lease agreement is the agreement concluded between the parent company Mondi SCP, a. s., and Linde GAS, k. s., for the supply of oxygen and ozone, which also includes the lease of equipment for the production of compressed oxygen and ozone. The rental period is agreed for 15 years, after the end of the rental period the equipment remains the property of the lessor, the contract does not include an option to purchase the leased object after the end of the rental period. Fixed monthly payments for the media are agreed, which also include rental payments and also fixed monthly payments for maintenance, which are not part of the lease obligations.

## 27. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it is able to continue as a going concern with the aim of achieving the maximum return for the shareholders through an optimum debt and equity balance.

The gearing ratio at the year-end was as follows:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Debt (i) | 101,910 | 77,383 |
| Cash and cash equivalent and Assets from Cash-pooling | 425 | 54,979 |
| Net debt | 101,485 | 22,404 |
| Equity | 627,105 | 606,974 |
| **Net debt to equity ratio** | **16%** | **4%** |

*(i) Debt is defined as current and non-current credits and loans, cash pool payables and lease commitments.*

The Treasury department monitors the structure of the Group's capital on a regular basis. Based on these reviews and the approval by the General Meeting, the Group revises its overall capital structure by means of dividend pay-outs and the drawing of loans and/or repayment of existing debts.

## 28. FINANCIAL RISK MANAGEMENT

### Financial assets

Overview of Group's financial assets for the current reporting periods.

| *(EUR'000)* | *Assets at FVTPL* | *Assets at Amortised Cost* |
|---|---|---|
| **31 December 2020** | | |
| Receivables (including assets from cash-pooling) | - | 88,603 |
| Non-current financial assets | 4,268 | - |
| Receivables from financial derivatives | 13 | - |
| Cash and cash equivalents | - | 425 |
| **Financial assets** | **4,281** | **89,028** |

Overview of Group's financial assets for the previous reporting periods.

| *(EUR'000)* | *Assets at FVTPL* | *Assets at Amortised Cost* |
|---|---|---|
| **31 December 2019** | | |
| Receivables (including assets from cash-pooling) | - | 150,762 |
| Non-current financial assets | 4,182 | - |
| Receivables from financial derivatives | - | - |
| Cash and cash equivalents | - | 589 |
| **Financial assets** | **4,182** | **151,351** |

Group's non-current financial assets movements analysis:

Non-current financial assets are non-current available-for-sale securities. There was no sale in 2020 and a provision for non-current financial assets was created.

Amounts included in the consolidated statement of profit or loss and other comprehensive income:

| *(EUR'000)* | *2020* | *2019* |
|---|---|---|
| Gains/(losses) recognized in the statement of other comprehensive income | 86 | 410 |
| **Total** | **86** | **410** |

**Financial liabilities:**

Overview of Group's financial liabilities for the current reporting periods.

| *(EUR'000)* | *Liabilities at FVTPL* | *Liabilities at Amortised Cost* |
|---|---|---|
| **31 December 2020** | | |
| Non-current investment purchase commitment | - | - |
| Liabilities from financial derivatives | 7 | - |
| Trade and other payables | - | 153,416 |
| Loans and credits | - | 34,851 |
| Liabillities from cash-pooling | - | 43,624 |
| Leasing commitments | - | 23,435 |
| Other financial liabilities | - | 269 |
| **Financial liabilities** | **7** | **255,595** |

Overview of Group's financial liabilities for the previous reporting periods.

| *(EUR'000)* | *Liabilities at FVTPL* | *Liabilities at Amortised Cost* |
|---|---|---|
| **31 December 2019** | | |
| Non-current investment purchase commitment | 4,821 | - |
| Liabilities from financial derivatives | 13 | - |
| Trade and other payables | - | 170,233 |
| Loans and credits | - | 33,886 |
| Liabillities from cash-pooling | - | 14,982 |
| Leasing commitments | - | 28,515 |
| Other financial liabilities | - | 404 |
| **Financial liabilities** | **4,834** | **248,020** |

## *a) Financial Risk Factors*

The Group is exposed to a variety of financial risks, which include the effects of changes in foreign currency exchange rates and loan interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Following the adoption of the euro in Slovakia, the exchange rate risk was eliminated to a large extent.

The use of financial derivatives is governed by the Group's policies and approved by the Group's Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of derivative financial and non-financial instruments, and the investment of excess liquidity. The Group is not involved in trading with financial instruments and it does not use derivative financial instruments for speculative purposes.

**Market Risk**

Market risk includes interest rate risk and exchange rate risk

- **Interest Rate Risk**

The Group's operating income and operating cash flows are relatively independent of changes in market interest rates.

*Interest Rate Sensitivity*

The Group drew only a current and non-current loan from related parties and was exposed to only immaterial interest rate risk during 2020. Therefore, no sensitivity analysis was performed. As at 31 December 2020, the Group has no open interest rate derivatives.

- **Foreign Currency Risk**

The share of monetary assets and liabilities denominated in a foreign currency to the total liabilities/assets has not been significant and represents a minor currency risk for the Group. Therefore, no sensitivity analysis was performed. The Group ensures that its net exposure is maintained at an acceptable level by buying or selling foreign currencies at spot rates when it is necessary to address current fluctuations.

As at 31 December 2020, the Group has no open derivative transaction.

**Credit Risk**

The management of the Group has adopted a credit policy under which credit risk exposures are monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain limit. The risk of non-collection of the receivables is covered by the insurance programme of the Mondi Group. At the reporting date, there were no significant risk concentrations in the financial assets. Derivative and cash transactions are carried out only through high-credit quality financial institutions. The Group did not limit the amount of credit exposure to any financial institution.

Group's customer structure requires individual approach to credit risk assessment. Before the conclusion of the contractual relationship, the credit risk analysis is performed. Taking into account the results of the analysis and other risk-sensitive aspects, the customer is assigned a credit limit for trading, which may be external, provided by the insurance company or internal, provided by the Group. For smaller customers, prepayments are used. The methods used to analyze, evaluate and manage credit risk are effective and adequately eliminate credit risk.

The Group creates a write-off for impairment, which represents an estimate of Group losses resulting from trade and other receivables and investments. The Group creates a specific provision for receivables that assess individually and at the same time a general allowance for other receivables by applying ECL (expected credit losses), using lifetime expected losses.

Analysis of receivables:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Impaired receivables | 145 | 166 |
| Receivables due but not impaired | 69,833 | 77,693 |
| Receivables overdue but not impaired | 1,677 | 736 |
| *of which 30 days overdue* | 1,566 | 540 |
| *of which over 30 days overdue* | 111 | 196 |
| **Total trade receivables (Note 17)** | **71,655** | **78,595** |

The Group secures trade receivables from external customers. The security table is illustrated by the following table:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Total external trade receivables | 11,566 | 7,377 |
| Insured receivables | (9,642) | (6,704) |
| **Total unsecured external trade receivables** | **1,924** | **673** |

Analysis of bank accounts by rating:

| *(EUR'000)* | *31 December 2020* | *31 December 2019* |
|---|---|---|
| Baa2 (Moody's) | 425 | 589 |
| **Total** | **425** | **589** |

**Liquidity Risk**

Prudent liquidity risk management assumes the maintenance of a sufficient amount of cash with adequate maturity and marketable securities, availability of financing through an appropriate amount of credit lines, and an ability to close open market positions. The Group maintains a sufficient amount of funds and marketable securities and has no open market positions.

The following tables summarise the residual maturity of the Group's non-derivative financial liabilities. The tables were prepared based on undiscounted cash flows from financial liabilities assuming the earliest possible dates on which the Group can be required to settle the liabilities.

| *(EUR'000)* | *Weighted Average Effective Interest Rate* | *Up to 1 Month* | *1-3 Months* | *3 Months – 1 year* | *1-5 years* | *5 Years and More* | *Total* |
|---|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | | |
| Interest-free | - | 107,043 | 9,019 | 34,122 | 3,236 | - | 153,416 |
| Floating interest rate instruments | EONIA + 0.5% | - | - | 46,419 | 42,156 | 17,136 | 105,711 |
| **Total** | | **107,043** | **9,019** | **80,541** | **45,392** | **17,136** | **259,127** |
| **31 December 2019** | | | | | | | |
| Interest-free | - | 110,817 | 7,404 | 51,291 | 5,561 | - | 175,073 |
| Floating interest rate instruments | EONIA + 0.5% | - | - | 21,166 | 42,579 | 19,108 | 82,853 |
| **Total** | | **110,817** | **7,404** | **72,457** | **48,140** | **19,108** | **257,926** |

The Group has access to overdraft facility within cash pooling mechanism provided by ECO-INVESTMENT, a.s. (EUR 49,000 thousand) and Mondi Finance plc. (EUR 51,000 thousand); as at the date of the statement of financial position, the total undrawn amount is EUR 66,328 thousand. The Group assumes that the operating cash flows and proceeds from financial assets due will be used to settle their liabilities.

As at 31 December 2020, the Group reported lower current assets than current liabilities, which is proved by the liability balance of cash pooling against Mondi Finance London and the minority shareholder for the purpose of co-financing the PM19 paper machine. Management does not see the risk regarding the financial position of the Group, liquidity for the repayment of liabilities based on the positive future development of the Group.

### *b) Fair Value Estimation*

The fair values of publicly-traded derivative instruments and financial instruments are based on quoted market prices as at the reporting date.

To determine the fair values of non-traded derivative instruments and other financial instruments, the Group uses techniques and market assumptions based on the conditions existing on the market as at the reporting date. Other methods, mainly the estimated discounted value of future cash flows, are used to determine the fair value of the remaining financial instruments.

Face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

*The Fair Value Hierarchy*

The Group uses the following hierarchy to determine and recognize the fair value of financial instruments and non-financial assets using the valuation method:

Level 1: Quoted prices (unadjusted) in active markets for the same assets and liabilities.

Level 2: Other techniques where all purchases that have a significant effect on fair value are observable on the market, whether directly or indirectly.

Level 3: Techniques where inputs that have a significant impact on fair value are not based on observable market data.

Fair value revaluation at 31 December 2020:

| *(EUR'000)* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|
| Non-current financial assets measured at fair value through profit or loss | 4,268 | - | - |
| Financial assets measured at fair value through profit or loss | 13 | - | - |
| **Financial assets** | **4,281** | **-** | **-** |
| Financial liabilities measured at fair value through profit or loss | 7 | - | - |
| **Financial assets** | **7** | **-** | **-** |

Fair value revaluation at 31 December 2019:

| *(EUR'000)* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|
| Non-current financial assets measured at fair value through profit or loss | 4,182 | - | - |
| **Financial assets** | **4,182** | **-** | **-** |
| Financial liabilities measured at fair value through profit or loss | 13 | - | 4,821 |
| **Financial assets** | **13** | **-** | **4,821** |

*Fair value revaluation using significant unobservable inputs (level 3).*

Changes for level 3 items are disclosed in Note 25.

## 29. RELATED PARTY TRANSACTIONS

### *a) Shareholders Structure*

Direct shareholders of the Company include: Mondi SCP Holdings B. V., with its registered office at Maastricht, the Netherlands, which owns a 51% share in the Company's share capital, and ECO-INVESTMENT, a.s., with its registered office at Náměstí Republiky 1037/3, Nové Město, 110 00 Prague 1, Czech Republic, which owns a 49% share in the Company's share capital.

Transactions between the parent company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in these Notes. The details of the transactions between the Group and their related parties are disclosed below

### *b) Business and Other Transactions*

During the reporting period, the Group entities entered into the following business transactions as part of operating activities with related parties that are joint venture or are not members of the Group:

| *(EUR'000)* | *Year ended 31 December 2020* | | | |
|---|---|---|---|---|
| *Company* | *Sales of Goods and Services* | *Purchase of Goods and Services* | *Receivables* | *Payables* |
| ***Joint ventures*** | | | | |
| Recopap, s. r. o. | 1 | 722 | - | 179 |
| East Paper, s. r. o. | 4 | 132 | - | 47 |
| ***Other related parties*** | | | | |
| MUFP Sales GmbH-Slovakia | 568,717 | 53,971 | 57,604 | 6,320 |
| SHP Harmanec, a. s. | 8,368 | - | 2,238 | - |
| Mondi Syktyvkar OJSC | 7,640 | - | 2,041 | - |
| Mondi Swiecie S.A. | 3,520 | 5,109 | 406 | 1,128 |
| Harmanec-Kuvert, Spol., s.r.o. | 2,878 | - | - | - |
| Mondi Finance plc | 1,932 | - | - | 2 |
| SCP PAPIER, a.s. | 1,790 | - | 404 | - |
| SCP-PSS, s. r. o. | 1,382 | 3,026 | 159 | 330 |
| Papierholz Austria GmbH | 575 | 966 | 67 | 1,737 |
| WOOD & PAPER a.s. | 537 | 2,915 | -8 | 612 |
| Mondi AG | 397 | 2,264 | 104 | 1,564 |
| Mondi Uncoated Fine & Kraft Paper | 365 | 5,965 | 64 | 820 |
| FK INVEST, a. s., Košice | 106 | 348 | 106 | 204 |
| SHP Slavosovce a.s. | 73 | - | - | - |
| Mondi Bags Steti a.s. | 43 | - | 10 | - |
| Euro Waste a.s. | 27 | 21 | 4 | 15 |
| Mondi Release Liner Austria GmbH | 6 | - | - | - |
| Mondi Steti a.s. | 5 | 96 | 2 | 20 |
| Mondi Frantschach GmbH | 2 | - | 2 | - |
| Mondi Grünburg GmbH | 2 | - | 1 | - |
| ECO Invest SVK, a. s. | - | 3,724 | - | 337 |
| Mondi Corrugated Swiecie Sp.z o.o. | - | 3,447 | - | 647 |
| Mondi Packaging BZWP Sp zoo | - | 1,357 | - | 230 |
| M Coating Steti a.s. | - | 359 | - | 52 |
| Mondi Plc | - | 153 | - | 23 |
| Mondi Bupak s.r.o. | - | 61 | - | 4 |
| Mondi Napiag GmbH | - | 33 | - | 4 |
| Mondi Coating GmbH | - | 15 | - | 15 |
| **Total** | **598,370** | **84,684** | **63,204** | **14,290** |

During the previous reporting period, the Group entities entered into the following business transactions as part of operating activities with related parties that are joint venture or are not members of the Group:

| *(EUR'000)* | *Year ended 31 December 2019* | | | |
|---|---|---|---|---|
| ***Company*** | ***Sales of Goods and Services*** | ***Purchase of Goods and Services*** | ***Receivables*** | ***Payables*** |
| ***Joint ventures*** | | | | |
| Recopap, s. r. o. | 8 | 1,158 | - | 52 |
| KB Paper, s. r. o. | 5 | 24 | - | - |
| East Paper, s. r. o. | 4 | 175 | - | 19 |
| ***Other related parties*** | | | | |
| Mondi Paper Sales, GmbH | 671,885 | 59,809 | 67,460 | 7,524 |
| Mondi Syktyvkar OJSC | 10,939 | 1,559 | 3,584 | - |
| SHP Harmanec a. s. | 8,177 | - | 1,263 | - |
| Mondi Swiecie | 2,745 | 6,048 | 194 | 652 |
| Mondi Finance plc. | 2,249 | 277 | - | - |
| Harmanec-Kuvert, spol. s r. o. | 2,104 | - | 70 | - |
| WOOD & PAPER, a. s. | 1,651 | 5,698 | 57 | 106 |
| Papierholz Austria, GmbH | 1,574 | 11,288 | 220 | 1,529 |
| SCP-PSS, s. r. o. | 1,560 | 2,826 | 273 | 318 |
| Mondi Uncoated Fine & Kraft Paper, GmbH | 457 | 6,844 | 81 | 2,363 |
| SHP Slavošovce, a. s. | 324 | - | - | - |
| Mondi AG | 268 | 4,398 | 49 | 6,628 |
| FK INVEST, a. s., Košice | 112 | 1,098 | 113 | 273 |
| Mondi Šteti, a. s. | 109 | 12 | 5 | 6 |
| Mondi Bags Štětí, a. s. | 46 | - | 11 | - |
| Mondi Release Liner Austria, GmbH | 14 | - | - | - |
| Mondi Ltd. | 1 | - | - | - |
| Mondi Inncoat, GmbH | 1 | - | - | - |
| Mondi Grunburg, GmbH | 1 | - | - | - |
| Mondi Industrial Bags, GmbH | 1 | - | - | - |
| ECO-INVEST SVK a. s., | - | 3,757 | - | 347 |
| Mondi Corrugated Swiecie, sp Zoo | - | 3,339 | - | 449 |
| Mondi Packaging BZWP, sp Zoo | - | 1,751 | - | 295 |
| Mondi Coating Štětí, a. s. | - | 354 | - | 19 |
| Mondi Bupak, s. r. o. | - | 60 | - | 6 |
| Harvestia Oy | - | 59 | - | - |
| Mondi Napiag, GmbH | - | 22 | - | 3 |
| Mondi plc. | - | 17 | - | 40 |
| Mondi Bag Austria, GmbH | - | 4 | - | - |
| Mondi Coating, GmbH | - | 2 | - | 2 |
| **Total** | **704,235** | **110,579** | **73,380** | **20,631** |

Operating activities represent sale of paper, pulp and paper products, sale of energy, and provision of services.

Other transactions result from Group cash-pooling system, loans and credits with related parties and dividends flow towards Group Shareholders.

| | *Year Ended 31 December 2020* | | | |
|---|---|---|---|---|
| *Company* | *Interests income* | *Interests expense* | *Receivables* | *Payables* |
| **Group Shareholders** | | | | |
| ***Investing activities*** | | | | |
| ECO-INVESTMENT, a. s., Prague | - | 25 | - | 17,700 |
| **Other related parties** | | | | |
| ***Investing activities*** | | | | |
| Mondi Finance Limited | - | 68 | - | 25,924 |
| ***Financing activities (Note 22)*** | | | | |
| Mondi Finance Limited | - | 946 | - | 34,832 |
| **Total** | **-** | **1,039** | **-** | **78,456** |

Other transactions with the Group´s related parties for previous reporting period:

| | *Year ended 31 December 2019* | | | |
|---|---|---|---|---|
| *Company* | *Interests income* | *Interests expense* | *Receivables* | *Payables* |
| **Other related parties** | | | | |
| ***Investing activities*** | | | | |
| Mondi Finance Limited | - | 90 | 54,390 | 14,982 |
| ***Financing activities (Note 22)*** | | | | |
| Mondi Finance Limited | - | 845 | - | 33,886 |
| **Total** | **-** | **935** | **54,390** | **48,868** |

Investing activities represent the assets and liabilities operations from cash-pooling towards the Group Shareholders.

Financing activities represent loan related operations. Further details are described in note 22.

Movement of cash pool liabilities from related parties:

| *(EUR'000)* | *2020* | *2019* |
|---|---|---|
| As at 1 January | 14,982 | 10,768 |
| Interest accrued | 93 | 90 |
| Interest paid | (93) | (90) |
| Repayments | (8,590) | - |
| Proceeds from cash pool | 37,232 | 4,214 |
| **As at 31 December** | **43,624** | **14,982** |

In 2020 Group capitalized costs in total amount of EUR 147 thousand from the company Mondi AG. These costs are connected with new paper machine PM19 within the ECO+ project in the amount of EUR 70 thousand (2019: EUR 87 thousand). Group capitalized costs from the company Mondi Uncoated Fine & Craft GmbH also related to new paper machine PM19 within the ECO+ project in total amount of EUR 618 thousand (2019: EUR 260 thousand). In 2020, the capitalized costs of Mondi Štětí amounted to EUR 89 thousand (2019: EUR 12 thousand).

Board of Directors makes decisions on related party transactions. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expenses have been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

## 30. REMUNERATIONS TO KEY MANAGEMENT PERSONNEL

The salaries and remuneration of the Group's bodies were represented by short-term employee benefits as follows:

| *(EUR'000)* | *Year Ended 31 December 2020* | *Year Ended 31 December 2019* |
|---|---|---|
| Key Management Personnel (Top Management) | 1,445 | 1,953 |
| ***Total*** | **1,445** | **1,953** |

## 31. COMMITMENTS AND CONTINGENCIES

### *a) Litigation and Potential Losses*

The Group is involved in a number of active and passive legal cases that arise from ordinary business activities. It is not expected that such activities should have, individually or in aggregate, a significant negative impact on the accompanying financial statements.

### *b) Emissions Allowances*

In 2005, the EU-wide greenhouse gas emissions rights trading scheme came into effect together with the Act on Emissions Rights Trading passed by the National Council of the Slovak Republic in order to implement the related EU Directive in Slovakia. Under this legislation, the Group is required to deliver emissions rights to the Slovak Environmental Office to offset actual greenhouse gas emissions.

The Group has decided to record received emissions rights using the net liability method. As it does not record any liability for actual emissions. The Group has received adequate emissions allowances to cover its actual emissions. The Group had an obligation to cover emissions rights for actually produced emissions. This obligation was fulfilled by delivering emissions rights by 30 April 2020 for the 2019 reporting period. The Group received emissions rights in February 2020 for the 2020 reporting period.

### *b) Bank Guarantees*

UniCredit Bank a.s. issued bank guarantees to Slovenská elektrizačná prenosová sústava, a.s. (SEPS, a.s.) in the total amount of EUR 129,996 and EUR 96,480 to secure liabilities resulting from the agreement made between Mondi SCP, a.s. and SEPS, a.s. In the event of default, the Group is obliged to pay UniCredit Bank.

Deutsche bank issued bank guarantee in the total amount of EUR 2,400,000 to Stredoslovenská energetika, a. s. (SSE, a. s.) to secure liabilities resulting from the agreement concluded with Mondi SCP, a.s. and SSE, a. s. In the event of default, the Group is obliged to pay to UniCredit Bank.

Deutsche Bank has provided a bank guarantee in the sum of EUR 14,000,000 to secure liabilities resulting from the agreement concluded with Lesy Slovenskej republiky, š.p. In the event of default of debt, the Group is obliged to pay Deutsche Bank.

UniCredit Bank, a. s. issued a bank guarantee of up to EUR 30,000 on behalf of Slovwood Ružomberok, a. s. to secure the obligations arising from customs procedures. In the event of default, the Group is obliged to pay to UniCredit Bank.

### *c) Capital expenditures*

The value of open investment contracts at 31 December 2020 is EUR 62,384 thousand (2019: EUR 145,855 thousand).

## 32. POST- BALANCE SHEET EVENTS

After 31 December 2020, there were no significant events that would affect the Group's assets and liabilities reported in these financial statements.

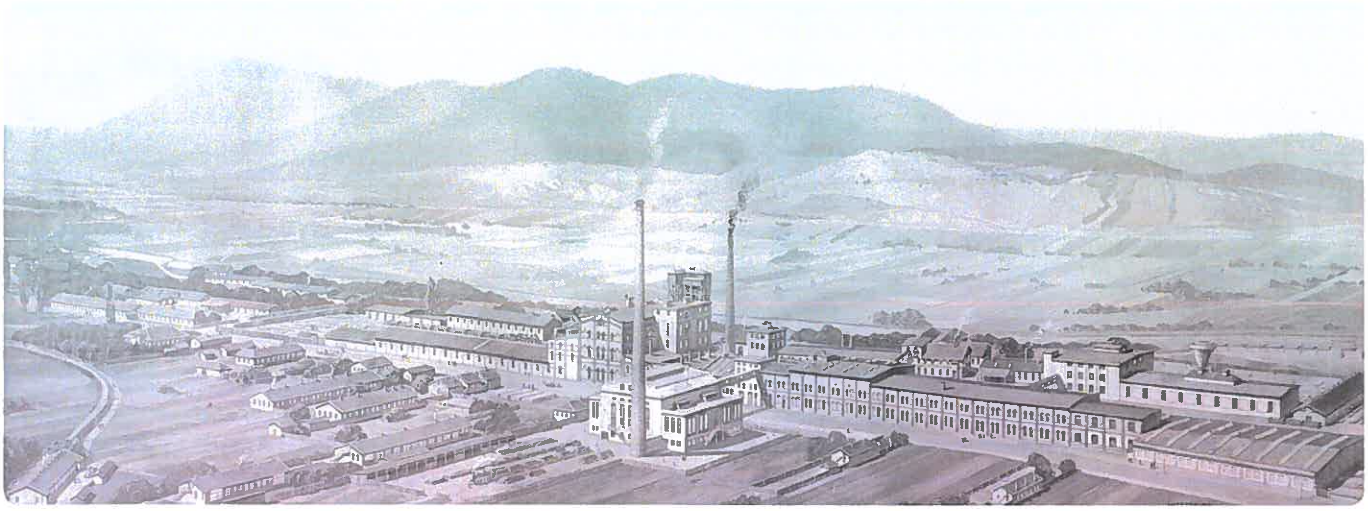
| ***Prepared on:*** | ***Signature of the Person Responsible for Bookkeeping:*** | ***Signature of the Person Responsible for the Preparation of the Financial Statements:*** | ***Signature of a Member of the Statutory Body of the Reporting Enterprise or a Natural Person Acting as a Reporting Enterprise:*** |
|---|---|---|---|
| 1 March 2021 | | | |
| ***Approved on:*** | n. z. Lu Lucia Scholtz | OKSANA VERETIUK | BERNHARD PESCHEK |
| | | | MILOSLAV ČURILLA |

Mondi SCP

# Annual report 2020

Together we make MONDI SCP SUSTAINABLE by DESIGN

mondigroup.com


Old SOLO area

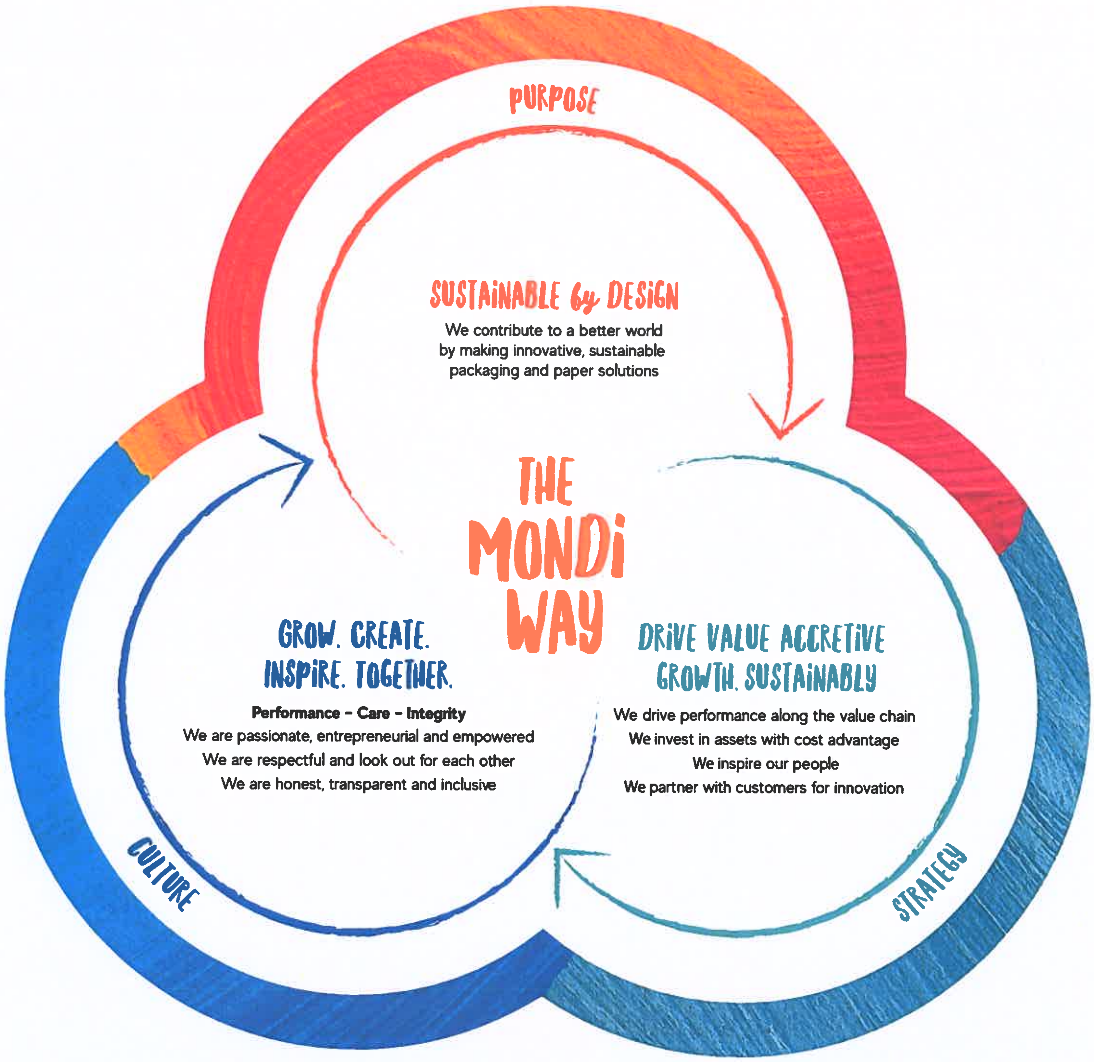
More than 140 YEARS of paper making tradition in Slovakia


Mondi SCP at present

# Mondi SCP is part of Mondi, a leading global packaging and paper group employing around 26,000 people across more than 30 countries with a focus on being sustainable by design.

Mondi is contributing to a better world by making innovative solutions using paper where possible, plastic when useful. Mondi owns fifty-one percent of the shares.

Forty-nine percent of Mondi SCP shares are owned by ECO-INVESTMENT, a private investment holding company with a central seat in Prague. It was established in 1996 and has been operating successfully in the market for more than 20 years. The company invests primarily in Slovakia and the Czech Republic. The portfolio of ECO-INVESTMENT, a.s., includes investments in paper, packaging, food, energy, real estate and services.



# DRIVE VALUE-ACCRETIVE GROWTH SUSTAINABLY

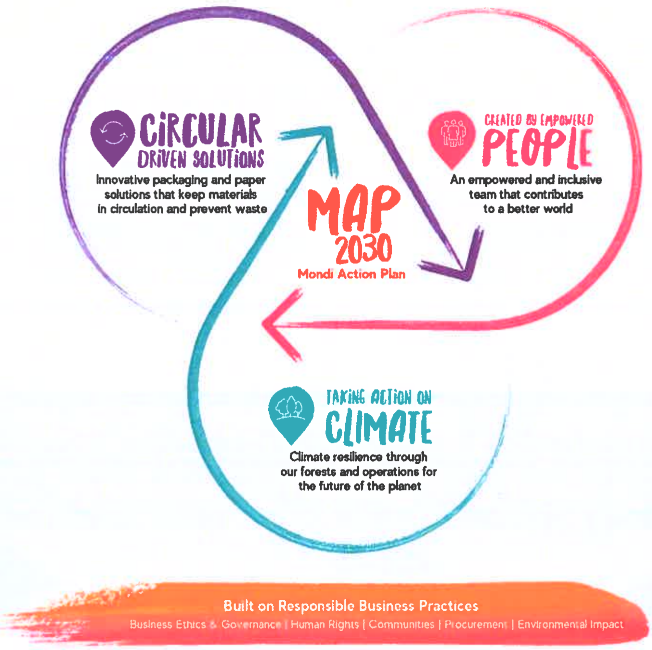
Mondi SCP is the largest wood processor and the largest producer of pulp and paper in Slovakia. For several centuries, papermaking has been inseparable from the region of Lower Liptov. The nearby availability of raw materials such as wood, water and energy has had a positive effect on the mill's development. For many years, we have been giving a high added value to our domestic renewable raw material – wood, which comes from well-managed forests certified by FSC and PEFC or from controlled sources.

# GROW. CREATE. INSPIRE. TOGETHER.

We are the biggest private employer in the region. We currently employ more than 1,400 employees internally and several thousand externally within the supply chain. Qualified and hardworking people stand behind the success of the Mondi SCP story. We do not forget the region in which we operate, either. We support various projects in the areas of environment, sport, health, social services, culture and education.

# SUSTAINABLE BY DESIGN

In recent years, our company has taken several measures to minimise the impact of our production on the environment. We are constantly investing in the best available technology (so-called BAT technologies). We are almost energy self-sufficient and produce green energy. After all these investments, we can see positive trends leading to a reduction of emissions from Mondi SCP. The water quality also achieves excellent parameters. Our company constantly monitors the development of technology in the market. With every investment we make, besides technology improvements we are also caring for the environment. The quality of what we do is demonstrated by the numerous prestigious awards we have won, including PPI Awards for efficiency improvements, supply chain management, managing risk and safety, as well as for our environmental strategy.

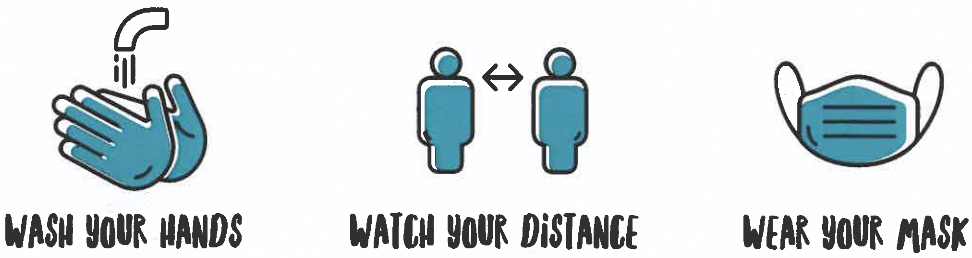


# 2020 – THE YEAR OF A GLOBAL PANDEMIC

At the beginning of 2020 the coronavirus pandemic reached almost every country in the world and affected almost every area of our everyday lives. Ever since the outbreak of the pandemic, Mondi SCP has taken the situation very seriously. We created a multi-function response team that has been closely monitoring developments, assessing risks, providing guidance, and implementing preventative policies in line with government regulations and recommendations. Our first priority is always the health and safety of our people and the community in which we live and work.

Our customers, which produce food and personal hygiene products, were relying on Mondi to continue providing materials such as pulp and packaging paper to be able to secure their supply throughout these challenging times. We also had a responsibility to maintain the vital services we provide to inhabitants of the region, including energy production, wastewater treatment, heat supply for Ružomberok and landfill operations for our neighbouring villages.

Alongside governmental initiatives to prevent further spread of the virus, Mondi SCP took as many precautions as possible in the plant. The same also applied to the project of our new paper machine PM 19, which was under construction throughout 2020. We regularly disinfected the premises, measured colleagues' temperatures at the entrance to the mill, minimised contacts among colleagues by supporting remote work where possible, ensured social distancing, required that all colleagues on site wear masks, encouraged regular handwashing, posted information throughout the plant, and used digital forms of communication.




The company regularly offered voluntary covid-19 testing for employees from all different parts of the organisation.

COVID-19 testing in the mill

# Strategic INVESTMENTS


## PROJECT ECO PLUS

Our latest investment in a new 300,000-tonne containerboard machine and related pulp mill upgrades will increase our sustainable production by using state-of-the-art technologies and producing new products from recycled paper.

**Mondi SCP has completed the pulp mill upgrade project, which was a part of an extensive modernisation programme at our Ružomberok mill called Project ECO plus. In addition to the pulp mill upgrade, the € 370 million investment also includes a brand-new paper machine called PM 19 capable of producing 300,000 tonnes of kraft top white paper per year.**

When it comes to the pulp mill upgrade project itself, within the plant it represents the largest modernisation of the pulp mill since its construction. It has touched almost every area of the pulp mill - starting from the woodyard, through pulp production including cooking, bleaching and washing, to causticisation and evaporation. Within the entire project scope, some key elements were new chipping and screening equipment, three additional digesters, five new wash presses, an extensive drying machine rebuild, a new ozone bleaching stage, and an additional evaporation stage with a turbo compressor.

The upgraded pulp mill was put into trial operation in 2019 after the annual shutdown. After tuning and optimisation, the final upgrades and modifications were completed in August 2020 during the annual shutdown. The aim of the project was to increase the production of bleached pulp from 1,620 tonnes to almost 2,000 tonnes per day. The pulp mill is now able to produce 100,000 tonnes more pulp per year than before, which will also cover the needs of the new PM 19 paper machine.

Project 2000

eco plus

employment+development+stability

For every company, it is very important to have a clear and consistent strategy with a strong track record of delivering value, sustainably, through the economic cycle. We are part of a robust international Group with a strong and committed workforce, enabling a bright future in which state-of-the-art solutions for our customers go hand in hand with ecologically friendly production.

The new paper machine will open up new processing capacities for recycled paper, mainly of local origin.

The central location of the production facility guarantees short lead times to our clients all over Europe. The investment in the new paper machine is only one aspect of an extensive modernisation programme at our mill. It also includes the establishment of an automatic warehouse storage area for end products, a recycled paper line and recycled storage area, as well as an effluent treatment plant. This investment will enable us to further develop our containerboard portfolio and serve a growing market with innovative and sustainable containerboard solutions.

New paper machine PM 19 and related investments

# New job OPPORTUNITIES

**The new paper machine has brought new jobs to the region. Mondi SCP has hired a total of 125 new employees. The recruiting for individual vacancies began in 2018, when assembly of the paper machine started. We therefore began with the recruitment of supervisors and specialists, such as a technical service specialist, logistics specialist, production planner and quality assurance manager. Other colleagues gradually joined in positions such as operators, locksmiths and electricians.**

Current employees also showed interest in new job positions related to PM 19. It was a great opportunity for employees to advance in their careers. We appreciated the fact that these employees already knew the plant, had experience with production, and could use this experience and pass it on.

A special tailormade training programme was prepared for new colleagues, which provided them with the opportunity to get acquainted with live operation on other paper machines, even in other Mondi Group plants (executed before the lockdown). The new paper machine has brought a variety of jobs to the region, where experienced employees as well as high school and university graduates, men as well as women, found employment.

## COOPERATION WITH THE POLYTECHNIC SCHOOL IN RUŽOMBEROK

**The cooperation between Mondi SCP and the Secondary Vocational Polytechnic School in Ružomberok has also continued in 2020. The new field of chemist-operator, which the school opened with Mondi SCP the previous year, is included in the dual education system. This system aims primarily to increase the employability of students in the labour market. Students receive more practical teaching than theory during their studies. For the first two years, practical teaching takes place directly at the school in a chemistry classroom. Mondi SCP thus contributed a total of € 100,000 to finance the reconstruction of a new modern classroom, cloakroom, teacher's office and aids for laboratory experiments. A new chemical laboratory with equipment was also finished this year.**

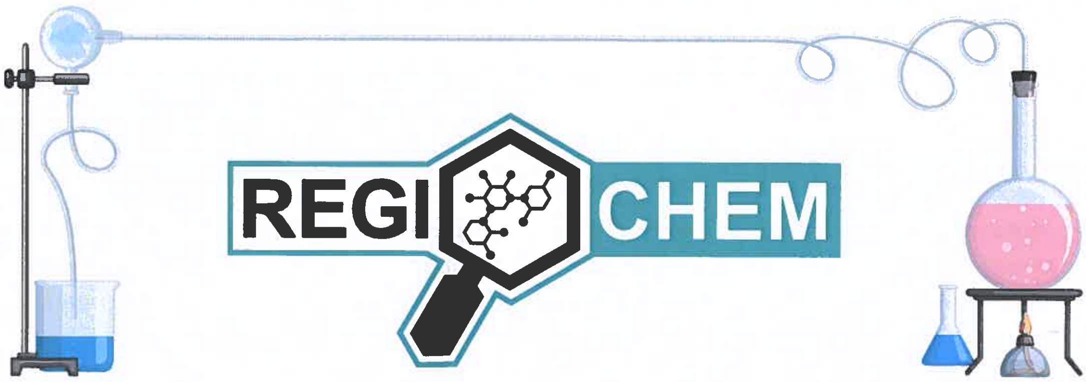
Students can experience a modern method of education in which they can practice chemistry on the school premises. Based on their experience gained in the laboratory during the first two years, students then go directly on to practical work during the third and fourth years.

Chemical laboratory at Polytechnic school

The chemist-operator department is the most recent joint project between the school and Mondi SCP. An intensive cooperation has been in effect for several years. Students from several fields, such as machine and equipment mechanic, mechanic-electrician, and mechanic-mechatronics, work in Mondi SCP. During their practical training, they have the opportunity to see and work on modern technology and gain skills from experienced employees.

# REGIOCHEM - THE REGIONAL COMPETITION OF PRIMARY SCHOOLS IN CHEMISTRY

**Despite the unfavourable situation of the coronavirus pandemic, Mondi SCP managed to conclude the second year of the REGIOCHEM regional competition. The last round took place in a non-traditional online format. Mondi SCP organised the competition to support the not-very-popular subject of chemistry, which is taught in the second stage of primary schools, and to promote a new field of study for chemist-operators.**




This year, a total of 31 teams from 15 primary schools entered the competition, which is six more teams than last year. Teams of four students were able to take part in three competition rounds in which they competed against each other with various tasks on the topic of oxygen. In the finals, students competed for valuable prizes.


First meeting of competitors in February 2020 before COVID-19 measures

# Support for TOWN and REGION

## MONDI SCP AND THE TOWN OF RUŽOMBEROK HAVE SIGNED A FRAMEWORK AGREEMENT ON MUTUAL COOPERATION

In November, representatives of the town and the Mondi SCP paper mill met to sign a Framework Agreement on Mutual Cooperation. The year 2020 will forever be recorded in history as the year of the coronavirus crisis. The priority objective of the agreement was therefore to mitigate the adverse impact of the pandemic on the lives of citizens in the region.

**In 2020, Mondi SCP supported the region with a total amount of nearly € 1.4 million. We supported our community in various areas. As the key initiative, we supported our hospital, which built a new covid pavilion, with a contribution of € 250,000. We also helped the healthcare sector throughout Slovakia with our paper, which was used for increased hospital administration and for nationwide testing organised by the state.**


I. Čombor, Mayor of Ružomberok - M. Lazar, Vice Mayor of Ružomberok


I. Keyzlarová, HR Director Mondi SCP - V. Krajči, Technical Director Mondi SCP

Support also went to the field of education, for which our company contributed over € 90,000.

Our mill has been one of the most socially responsible companies in Slovakia for many years. It also provides vital services for inhabitants of the region. At the time of the coronavirus crisis, we prepared for every possible scenario where the main goal was to provide these services for the region. In the event that we would not be able to operate our plant and thus produce heat, we provided a mobile boiler room within the plant that would be able to continue to supply heat to citizens in the town. The equipment and its maintenance cost our company € 150,000.

Mobile boiler room

Good news for the region was the signing of an agreement between Mondi SCP and CZT Ružomberok, with effect from 1 January 2021, which provides citizens with an additional discount on heat. We regularly provide a heat discount of € 300,000, to which we have added an additional discount of € 200,000 that will also be reflected in the final price for the customer. Part of the discount will also go toward the technical renewal and maintenance of the heat systems.

In addition to the above, the company decided to support other areas and sectors that were most affected by the corona crisis. This was mainly in the areas of culture and sports, where we contributed € 50,000, as well as our traditional support for the city's football club with a sum of € 350,000.

| FINANCIAL SUPPORT FOR COMMUNITY IN 2020 | amount |
|---|---|
| **HEALTH** | **€ 255 000** |
| Military hospital Ružomberok | € 250 000 |
| Paper for administration | € 5 000 |
| **EDUCATION** | **€ 91 400** |
| Polytechnic school | € 60 000 |
| Paper for schools | € 1 400 |
| REGIOCHEM competition | € 30 000 |
| **SPORT AND CULTURE** | **€ 400 000** |
| Football club | € 350 000 |
| Other cultural and sports activities | € 50 000 |
| **SUPPORT FOR HEAT SUPPLY** | **€ 500 000** |
| **MOBILE BOILER ROOM** | **€ 150 000** |
| **TOTAL:** | **€ 1 396 400** |

We have a clear VISION

# MONDI SCP GROUP KEY INDICATORS

**Mondi SCP, a.s. prepares its standalone and consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.**

Underlying EBITDA was down 42% to €74 million with lower average selling prices, lower uncoated fine paper volumes partially offset by lower input costs.

| PULP AND PAPER PRODUCTION DEVELOPMENT in thousands of tons | 2020 | 2019 |
|---|---|---|
| Pulp | 599 | 542 |
| Paper | 806 | 847 |

* Including Mondi Neusiedler and Ybbstaller

Pulp production increased to 599 thousand tons in 2020. Main driver of this growth is a significant upgrade of the fibre line, wood yard and drying machine as an outcome of a key investment project.

In 2020 the production of paper reached 806 thousand tons which is a 5% decrease compared to 2019. The drop was caused by the COVID-19 pandemic as related lockdown measures impacted the demand for professional and office printing papers and resulted in commercial shutdowns. Order books improved throughout the third quarter and were stable in the fourth quarter, albeit they remained below pre-pandemic levels.

Our capital investment program to generate value accretive growth, enhance our cost competitiveness and deliver sustainability benefits is progressing well. We are finalising the complex testing of a new 300 thousand tons containerboard paper machine dedicated to the production of Kraft Top White - a new product with a top layer of white virgin fibre and a bottom layer of recycled fibre. The new paper machine PM19, which started up at the end of January 2021, is making good progress ramping up and is an important milestone in the mill's development plan.

In the future, we will continue to focus on bringing excellent products to market and having a low cost production structure and the right people on board, working in safe environment and bringing innovative ideas to life. Mondi SCP does not have its own research and development (R&D) center, these activities are done by a parent company.

Mondi SCP did not acquire own treasury shares, temporary certificates, ownership interests and shares, or temporary certificates or ownership interests of a parent entity.

Mondi purpose is to contribute to a better world by making innovative packaging and paper that is sustainable by design.Safety and our ambition of sending everybody home safely every day remains our top priority. We are among the safety leaders in our industry but there are still instances of unsafe behaviour. There can simply be no exceptions and no shortcuts.

The main risks identified by Mondi SCP is the unfavourable market situation with declining paper consumption and pressure on sales prices. Solving the aging of the existing workforce together with need for new employees in connection with investments is also difficult given the limited availability of a skilled workforce in Slovakia.

By the end of 2019, the first reports on a limited number of cases of unknown disease in China (later referred to as COVID-19, Coronavirus) were reported to the World Health Organization. During the first months of 2020, the virus spread worldwide. The rapid spread of COVID-19 materially impacted the Mondi SCP business in 2020. Since the start of the COVID-19 pandemic, the health, safety and welfare of the employees have remained our top priority. The Board continues to monitor our exposure and the impact of COVID-19 on the Mondi SCP and evaluates actions to mitigate the risk. In the future, these actions will enable the Mondi SCP to be dynamic in its reaction to the risk of a pandemic as it develops.

We are optimistic about the future. Mondi SCP investment in a new containerboard machine extends our product portfolio with a favourable cost position in UFP, containerboard, speciality kraft paper and market pulp.

| | Mondi SCP | | Mondi SCP group | |
|---|---|---|---|---|
| **BASIC FINANCIAL INDICATORS (IFRS) in thousands of EUR** | 2020 | **2019** | 2020 | **2019** |
| Earnings from sales and services and other earnings | 447 927 | 501 786 | 690 692 | 776 366 |
| Net profit | 15 077 | 65 632 | 19 307 | 66 396 |
| **Total assets** | **883 395** | **867 260** | **951 941** | **932 196** |
| Non-current assets | 768 713 | 681 368 | 769 012 | 678 808 |
| Current assets | 114 682 | 185 892 | 182 929 | 253 388 |
| **Total liabilities** | **883 395** | **867 260** | **951 941** | **932 196** |
| Total payables | 214 581 | 213 467 | 324 836 | 325 222 |
| Equity | 668 814 | 653 793 | 627 105 | 606 974 |
| Average number of employees | 1 312 | 1 216 | 2 020 | 1 952 |

Group operating profit for the year 2020 dropped comparing to the prior year level. Significantly lower sales prices, coupled with demand deterioration driven by COVID-19 pandemic and related lockdown measures, negatively impacted operating income. On the other hand, increase in saleable dry pulp production as a result of the successful completion of the pulp mill upgrade, lower wood consumption and lower gas prices had a positive impact on operational results.

The decrease in current assets is mainly driven by lower receivables due to lower sales, lower inventories and lower cash. Mondi SCP Group duly fulfilled its obligations towards all its creditors in 2020.
The growth in shareholder's equity is attributable to the movement in net profit. As of December 31, 2020, the share of equity in the total assets reached the level of 66% underscoring the stability and financial strength of the Mondi SCP Group.
Mondi SCP does not have a branch office in a foreign country.

**The management of the company will propose the 2020 profit distribution at the Annual General Meeting.**

# SUBSIDIARIES

**The subsidiaries - SLOVWOOD Ružomberok, a.s., Slovpaper Recycling s.r.o., Strážna služba VLA - STA, s.r.o. and Obaly S O L O, s.r.o. are under obligation to prepare independent financial statements in accordance with Slovak Accounting Standards (SAS).**

**The daughter companies Mondi Neusiedler GmbH and Ybbstaler Zellstoff GmbH are under the obligation to prepare the independent financial statements in accordance with Austrian Accounting Standards.**

The differences between IFRS and SAS or Austrian Accounting Standards are immaterial for the comments describing the development of the individual companies.

As well in 2020 the subsidiaries of Mondi SCP Group were closely connected with their parent company since a substantial part of their production and performance was realised directly with the parent company. Mondi SCP Group thus used the competitive advantage of this connection to improve the results of the whole Group.

## MONDI NEUSIEDLER GmbH

In 2016 Mondi SCP group acquired a 100% stake of Mondi Neusiedler GmbH with the seat in Hausmening, Austria. The main production segment is copy paper of higher quality, colour paper for printing machines and professional print.

## YBBSTALER ZELLSTOFF GmbH

In 2016 Mondi SCP group acquired a 100% stake of Ybbstaler Zellstoff GmbH with the seat in Kematen, Austria. The company produces pulp, mainly for the sister company Mondi Neusiedler GmbH.

## SLOVWOOD RUŽOMBEROK, a.s.

SLOVWOOD Ružomberok, a.s. is a fully consolidated subsidiary of Mondi SCP, a.s. It is the largest trading company for wood and biomass on the Slovak market. It provides its clients with professional and competitive solutions while maintaining ethical values and sustainable development of the forests where the company focuses on increasing the share of the certified raw materials from sustainable forestry. All activities of the company are carried out with the full support and in cooperation with the parent company Mondi SCP, a.s.

SLOVWOOD Ružomberok, a.s. ensures supplies of wood used for the production of pulp from both domestic and foreign markets.

In 2020 SLOVWOOD Ružomberok, a.s. purchased 2 million m3 of wood which is comparable to 2019. Almost the entire volume of the purchased wood was delivered to Mondi SCP, a.s. while the largest share was hardwood pulpwood.

# SLOVPAPER RECYCLING s.r.o

In 2017 Mondi SCP group acquired a 100% stake of Slovpaper Recycling s.r.o. with the seat in Ružomberok, Slovakia. The company is collecting and trading recycled paper. Slovpaper Recycling s.r.o. has a share in two joint ventures.

# SLOVPAPER COLLECTION s.r.o

Slovpaper Recycling s.r.o. has 100% ownership in newly founded company Slovpaper Collection s.r.o., established in 2020. Slovpaper Collection s.r.o. acquired the depot business with the terminal in Trenčín on October 1, 2020.

# OBALY S O L O, s.r.o.

Obaly S O L O, s.r.o. is a subsidiary of Mondi SCP, a.s. In October 2019 Mondi SCP, a.s. acquired the production part of the business from Obaly Solo, s.r.o aiming for synergies and the decrease of complexity. Obaly SOLO owns minority shares from Mondi Neusiedler GmbH and Ybbstaler Zellstoff GmbH.

# The Events of Particular Importance that Occurred after the End of the Accounting Period

After December 31, 2020, to the date of authorisation of the annual report no significant events occurred which would affect the group's assets and liabilities recognised in these financial statements.

In Ružomberok, March 31, 2021

The Slovak version is the official document.

Printed on MAESTRO® PRINT

**Mondi SCP**
Tatranská cesta 3 | 034 17 Ružomberok | Slovakia
**T** +421 44 436 22 22
mondiscp@mondigroup.com
**mondigroup.com**