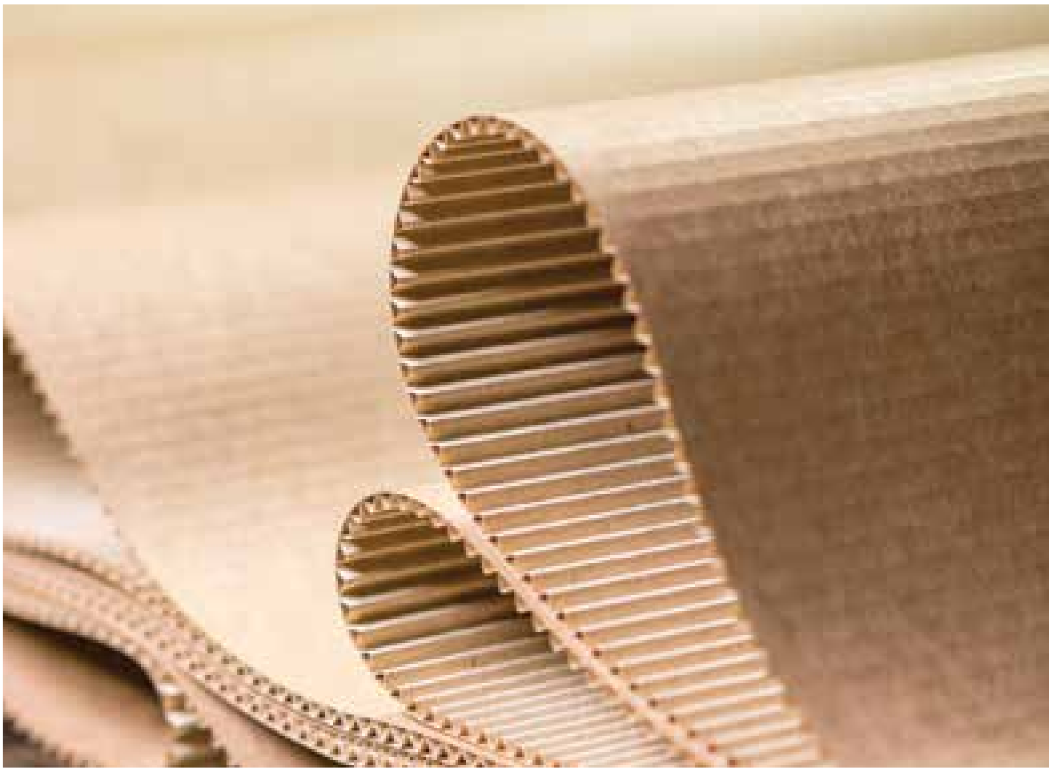
mpact

smarter, sustainable solutions



Mpact Limited Group Audited Annual Financial Statements

for the year ended 31 December

2 0 1 7

Financial statements

Directors' responsibility statement and basis of preparation

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

These audited financial statements have been prepared using accounting policies compliant with International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and are in compliance with the Companies Act of South Africa.

The preparation of these annual financial statements for the year ended 31 December 2017 was supervised by the Chief Financial Officer, Mr BDV Clark CA(SA).

In preparing the consolidated financial statements of Mpact Limited and its subsidiaries ("Group"), International Accounting Standard 1, 'Presentation of Financial Statements', requires that the directors:

- select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosure when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

APPROVAL OF THE FINANCIAL STATEMENTS

The directors confirm, that to the best of their knowledge, the consolidated financial statements are prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa, fairly present the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole.

The directors believe that the Group has adequate resources to continue in operation for the foreseeable future and the financial statements have therefore been prepared on a going concern basis.

The financial statements and related notes, which appear on pages 14 to 69 were approved by the Board of Directors and authorised for issue on 6 March 2018 and were signed on its behalf by:

AJ Phillips
Chairman

BW Strong
Chief Executive Officer

Certificate by company secretary

In terms of section 88(2)(e) of the Companies Act, I certify that Mpact Limited Group has lodged with the Companies and Intellectual Property Commission all such returns, as are required of a Company in terms of the Act and, that such returns are true, correct and up to date.

Noriah Sepuru
Company Secretary

6 March 2018

Report of the directors

The directors have pleasure in presenting their report on the consolidated annual financial statements of Mpact Limited and its subsidiaries ("Group") for the year ended 31 December 2017.

NATURE OF BUSINESS

Mpact is one of the largest paper and plastics packaging businesses in southern Africa, with leading market positions in recovered paper collection, corrugated packaging, recycled-based cartonboard and containerboard, polyethylene-terephthalate ("PET") preforms and trays, recycled PET ("rPET") and plastic jumbo bins. The principal activities of the Group remain unchanged from the previous year.

Mpact Limited is incorporated in the Republic of South Africa and is listed on the JSE.

SEGMENT ANALYSIS

An analysis of results by each operating segment can be found in note 2 of the annual financial statements.

STATED CAPITAL

The authorised share capital is 217,500,000 ordinary shares of no par value.

On 31 December 2017 the issued share capital of the Company was 171,461,623 ordinary shares of no par value.
(2016: 168,485,360 ordinary shares of no par value).

REGISTER OF SHAREHOLDERS

The register of shareholders of the Company is open for inspection to members and the public, during normal office hours, at the office of the Company's transfer secretaries, Link Market Services South Africa Proprietary Limited.

CASH DIVIDEND AND CAPITALISATION SHARE ALTERNATIVE

Scrip distribution and cash dividend alternative

1. **Introduction**

   Notice is hereby given that the Board has declared a final distribution for the year ended 31 December 2017, by way of the issue of fully-paid Mpact ordinary shares of no par value each ("the Scrip Distribution") as a scrip distribution payable to ordinary shareholders ("Shareholders") recorded in the register of the Company at the close of business on the Record Date, being Thursday, 29 March 2018.

   Shareholders will be entitled, in respect of all or part of their shareholding, to elect to receive a gross cash dividend of 40 cents per ordinary share in lieu of the Scrip Distribution, which will be paid only to those Shareholders who elect to receive the cash dividend, in respect of all or part of their shareholding, on or before 12:00 on Thursday, 29 March 2018 ("the Cash Dividend").

   The Cash Dividend has been declared from income reserves. A dividend withholding tax of 20% will be applicable to all Shareholders not exempt therefrom, after deduction of which the net Cash Dividend is 32 cents per Mpact ordinary share.

   The new ordinary shares will, pursuant to the Scrip Distribution, be settled by way of capitalisation of the Company's distributable retained profits.

   The Company's total number of issued ordinary shares as at 6 March 2018 is 171,461,623. Mpact's income tax reference number is 9003862175.

2. **Terms of the Scrip Distribution**

   The number of Scrip Distribution shares to which each of the Shareholders will become entitled pursuant to the Scrip Distribution (to the extent that such Shareholders have not elected to receive the Cash Dividend) will be determined by reference to such Shareholder's ordinary shareholding in Mpact (at the close of business on the Record Date, being Thursday, 29 March 2018 in relation to the ratio that 40 cents bears to the volume weighted average price ("VWAP") of an ordinary Mpact share traded on the JSE during the 30-day trading period ending on Thursday, 15 March 2018). Where a Shareholder's entitlement to new Mpact ordinary shares calculated in accordance with the above formula gives rise to a fraction of a new ordinary share, such fraction of a new ordinary share will be rounded down to the nearest whole number, resulting in allocations of whole ordinary shares and a cash payment for the fraction.

   The applicable cash payment will be determined with reference to the VWAP of an ordinary Mpact share traded on the JSE on Tuesday, 27 March 2018, (being the day on which an ordinary Mpact share begins trading 'ex' the entitlement to receive the Scrip Distribution or the Cash Dividend alternative), discounted by 10%.

The applicable cash payment will be announced on the Stock Exchange News Service ("SENS") on Wednesday, 28 March 2018.

Details of the ratio will be announced on the SENS of the JSE in accordance with the timetable below.

3. Circular and salient dates

Shareholders are advised that a circular, setting out, inter alia, the terms of the Scrip Distribution and Cash Dividend (and including a Form of Election) will be posted to shareholders on Friday, 9 March 2018 ("the Circular"). The Circular is also available on the Company's website, www.mpact.co.za. The salient dates of events thereafter are as follows:

	2018
Announcement released on the SENS in respect of the ratio applicable to the Scrip Distribution, based on the 30-day volume weighted average price ending on Thursday, 15 March 2018, by 11h00 on	Friday, 16 March
Announcement published in the press of the ratio applicable to the Scrip Distribution, based on the 30-day volume weighted average price ending on Thursday, 15 March 2018 on	Monday, 19 March
Last day to trade in order to be eligible for the Scrip Distribution and the Cash Dividend alternative	Monday, 26 March
Ordinary shares trade "ex" the Scrip Distribution and the Cash Dividend alternative on	Tuesday, 27 March
Listing and trading of maximum possible number of ordinary shares on the JSE in terms of the Scrip Distribution from the commencement of business on	Tuesday, 27 March
Announcement released on the SENS in respect of the cash payment applicable to fractional entitlements, based on the volume weighted average price on Tuesday, 27 March 2018, discounted by 10%, by 11h00 on	Wednesday, 28 March
Last day to elect to receive the Cash Dividend alternative instead of the Scrip Distribution, Forms of Election to reach the Transfer Secretaries by 12h00 on	Thursday, 29 March
Record Date in respect of the Scrip Distribution and the Cash Dividend alternative	Thursday, 29 March
Scrip Distribution certificates posted and Cash Dividend payments made, CSDP/broker accounts credited/updated, as applicable, on	Tuesday, 3 April
Announcement relating to the results of the Scrip Distribution and the Cash Dividend alternative released on the SENS on	Tuesday, 3 April
Announcement relating to the results of the Scrip Distribution and the Cash Dividend alternative published in the press on	Wednesday, 4 April
JSE listing of ordinary shares in respect of the Scrip Distribution adjusted to reflect the actual number of ordinary shares issued in terms of the Scrip Distribution at the commencement of business on or about	Thursday, 5 April

All times provided are South African local times. The above dates and times are subject to change. Any material change will be announced on the SENS.

Share certificates may not be dematerialised or rematerialised between Tuesday, 27 March 2018 and Thursday, 29 March 2018, both days inclusive.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's properties are the subject of land claims. Mpact is in the process of discussions with the Land Claims Commissioner and awaits the outcome of claims referred to the Land Claims Court. The claims, if successful, are not expected to have a material impact on the Group's operations.

At 31 December 2017 the net investment in property, plant and equipment amounted to R3,822.0 million (2016: R3,489.0 million), details of which are set out in note 8 to the annual financial statements. Capital commitments at year-end for the Group amounted to R733.3 million (2016: R934.4 million), details of which are set out in note 28 to the annual financial statements. There has been no change in the nature of the property, plant and equipment or to the policy relating to the use thereof during the year.

Report of the directors continued

BORROWINGS

In terms of the Memorandum of Incorporation, the directors are permitted to borrow or raise for the purposes of the Group such sums as they deem fit for the operation of the business. At the close of business on 31 December 2017, the total borrowings less cash resources was R2,243.7 million (2016: R2,001.3 million). At 31 December 2017, the Group had approved committed facilities of R2.9 billion (2016: R2.7 billion). Refer to note 16.

EVENTS OCCURRING AFTER THE REPORTING DATE

There were no significant or material subsequent events which would require adjustment to or disclosure of in the annual financial statements.

DIRECTORS

The following directors have held office during the year ended 31 December 2017 and to the date of this report:

AJ Phillips (*Chairman*)	Independent Non-executive
NP Dongwana	Independent Non-executive
NB Langa-Royds	Independent Non-executive
M Makanjee	Independent Non-executive
TDA Ross	Independent Non-executive
AM Thompson	Independent Non-executive
BW Strong (*Chief Executive Officer*)	Executive
BDV Clark (*Chief Financial Officer*)	Executive

COMPANY SECRETARY

The Group's Company secretary of Mpact Limited is MN Sepuru.

Registered Office	**Postal address**
4th Floor	Postnet Suite #179
3 Melrose Boulevard	Private Bag X1
Melrose Arch, 2196	Melrose Arch, 2076

AUDITOR

Deloitte & Touche is the appointed auditor to the Company, with MH Holme the designated auditor.

SPECIAL RESOLUTIONS PASSED BY SUBSIDIARY COMPANIES

Notwithstanding the title of section 45 of the Companies Act, 71 of 2008, being "Loans or Other Financial Assistance to Directors" and an interpretation thereof, the body of the section also applies to financial assistance provided by the company to any related or inter-related company or corporation and a member of a related or inter-related corporation.

On 2 March 2017, all the subsidiaries of the Company passed special resolutions to authorise the companies to provide any direct or indirect financial assistance, including by way of lending money, guaranteeing a loan, or other obligations as it may be required or otherwise to any of its present or future related or inter-related companies or corporations for such amounts and such terms and conditions as the Board/s may determine.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee ("the committee") operates on a Group-wide basis. The committee, in terms of the Companies Act of South Africa, and King IV, has the responsibility, among other things, for monitoring the integrity of Mpact's financial statements. It also has the responsibility for reviewing the effectiveness of the Group's system of internal controls and risk management systems. An internal audit function has been established which is responsible for advising the Board of Directors on the effectiveness of the Group's risk management process.

The committee oversees the relationship with the external auditors; is responsible for their appointment and remuneration; reviews the effectiveness of the external audit process; and ensures that the objectivity and independence of the external auditors is maintained.

The committee has concluded that it is satisfied that auditor independence and objectivity has been maintained.

The comprehensive report of the committee is included on pages 6 to 9.

BOARD OF DIRECTORS' STATEMENT OF EFFECTIVENESS OF CONTROLS

Based on the recommendation of the Audit and Risk Committee, nothing has come to the attention of the Board that caused it to believe that the Group's system of internal control and risk management is not effective, or that the internal controls do not form a sound basis for the preparation of reliable financial statements.

GOING CONCERN

The directors consider that the Group has adequate resources to continue operating for the foreseeable future and that it is, therefore, appropriate to adopt the going concern basis in preparing the consolidated financial statements. The directors have satisfied themselves that the Group is in a sound financial position, and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements.

INTEREST OF DIRECTORS AND PRESCRIBED OFFICERS IN SHARE CAPITAL

The aggregate beneficial holdings as at 31 December 2017 and 31 December 2016 of the directors and prescribed officers of the Company in the issued ordinary shares of the Company are detailed below. There have been no material changes in these shareholdings between 31 December 2017 and 6 March 2018, the date of approval.

	2017		2016	
	Direct Number of shares	**Indirect Number of shares**	Direct Number of shares	Indirect Number of shares
Executive directors				
BW Strong	**497,699**	**–**	420,489	–
BDV Clark	**–**	**77,678**	–	18,890
Non-executive director				
AJ Phillips	**8,730**	**1,486**	8,502	1,448
Prescribed officers				
RP Von Veh	**60,329**	**–**	116,547	–
HM Thompson	**359,488**	**–**	296,960	–
JW Hunt	**199,219**	**–**	158,995	–
Total	**1,125,465**	**79,164**	1,001,493	20,338

There are no associate interests for the above directors and prescribed officers.

INTEREST OF MAJOR SHAREHOLDERS IN SHARE CAPITAL

Major shareholders

(5% and more of the shares in issue)

	2017		2016	
	Number of shares	**% of total issue share capital**	Number of shares	% of total issue share capital
Allan Gray	35,847,426	20.95	15,671,309	7.33
Prudential Investment Managers	22,170,664	12.96	19,674,921	11.68
Public Investment Corporation	18,832,463	11.01	19,412,239	11.52
Visio Capital Management	11,038,019	6.45	22,058,268	13.09

Audit and risk committee report

INTRODUCTION

The Audit and Risk Committee has pleasure in submitting its report for the year ended 31 December 2017 in compliance with section 94(7) of the Companies Act.

The Audit and Risk Committee acts for the Company and all its subsidiaries, and is an independent entity accountable to the Board. It operates within a documented charter and complies with all relevant legislation, regulation and governance codes and executes its duties in terms of the requirements of King IV.

The committee's terms of reference were approved by the Board and are reviewed annually.

COMPOSITION

The Audit and Risk Committee comprises three non-executive directors, all of whom are independent. Tim Ross is the Chairman and Neo Dongwana and Andrew Thompson are the current members. The CEO, the CFO, the Head of ICT, the Group Risk and Sustainability Manager, a representative of KPMG, the independent Internal Auditor, and a representative of Deloitte & Touche, the independent External Auditor, and other senior managers all attend meetings by invitation.

The committee members are appointed annually by the shareholders at the Annual General Meeting.

MEETINGS

The Audit and Risk Committee held four meetings during the year. Members attended all meetings of the committee during the year.

COMMITTEE ACTIVITIES

The Audit and Risk Committee attended to the following during the year:

External auditors

The committee reviewed the independence of Deloitte & Touche as the Group's external auditor with MH Holme as the independent individual registered auditor who undertook the Group's audit for the current year. The committee considered all information as required by the JSE Listings Requirements in assessing Deloitte & Touche's re-appointment and the registered auditor's appointment.

After considering the below factors and the auditor's tenure, the committee is satisfied that Deloitte & Touche is independent of the Group.

The committee proposes the re-appointment of Deloitte & Touche as External Auditor. Following the mandatory rotation of MH Holme, the committee has proposed SJ Nelson as the new individual registered auditor and shareholders of the Group are requested to vote at the Annual General Meeting.

Independence of external auditors

This assessment was made after considering the following:

- Confirmation from the external auditors that they, or their immediate family, do not hold any significant direct or indirect financial interest or have any material business relationship with Mpact. The external auditors also confirmed that they have internal monitoring procedures to ensure their independence.
- The auditors do not, other than in their capacity as external auditors or rendering permitted non-audit services, receive any remuneration or other benefits from Mpact.
- The auditor's independence was not impaired by the non-audit work performed having regard to the quantum of audit fees relative to the total fee based and the nature of the non-audit work undertaken.
- The auditor's independence was not prejudiced as a result of any previous appointment as auditor. In addition, an audit partner rotation process is in place in accordance with the relevant legal and regulatory requirements.
- The criteria specified for independence by the Independent Regulatory Board for Auditors.
- The audit firm and the designated auditor are accredited with the JSE.

The committee confirms that the external auditor has functioned in accordance with its terms of reference for the 2017 financial year.

External auditor's fees

The committee:

- approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2017 financial year;

- reviewed and approved the non-audit services fees for the year under review and ensured that the fees were within limit and in line with the non-audit service policy; and
- determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services.

External auditor's performance

The committee:

- Reviewed and approved the external audit plan, ensuring that material risk areas were included and that coverage of the significant business processes was acceptable.
- Monitored the effectiveness of the external auditors in terms of audit quality and expertise.
- Reviewed the external audit reports and management's response, considered their effect on the financial statements and internal financial control.

Financial statements

The committee reviewed the interim results and year-end financial statements, including the public announcements of the Group's financial results, and made recommendations to the Board for their approval. In the course of its review, the committee:

- took appropriate steps to ensure that the financial statements were prepared in accordance with IFRS;
- considered the appropriateness of accounting policies and disclosures made;
- in accordance with the JSE Listing Requirements approved the Group financial reporting procedure; and
- completed a detailed review of the going concern assumption, confirming that it was appropriate in the preparation of the financial statements.

The committee was not required to deal with any complaints relating to accounting practices or internal audit, nor to the content or audit of the financial statements, nor internal financial controls and related matters.

Key audit matters

The figures disclosed in the annual financial statements in certain circumstances are arrived at using judgment. These are explained in detail in the accounting policies. The committee has considered the qualitative and quantitative aspects of the information presented in the statement of financial position and other items that require significant judgment and noted the following:

Recognition of section 12I allowance on property, plant and equipment

Mpact Operations Proprietary Limited, a major subsidiary of the Group, applied for S12I incentives for its Felixton project. In the prior financial year, management deferred the recognition of the allowance in respect of phase 1 of the project. In the current financial year, the full tax benefit of the S12I incentive allowance has been recognised. The impact on tax amounts to R114.2 million. The committee is satisfied that the work done by the external auditors in accessing the qualifying criteria. This, together with discussions with management concludes that the qualifying criteria will be met.

Impairment of Polymers

The Mpact Polymers plant has continued to make losses during the year, with throughput being constrained and targeted production volumes not achieved. The continuation of losses is an indicator of possible impairment of the Mpact Polymers plant. Taking the above into account, the Directors have performed an impairment test on the plant as at 31 December 2017. The recoverable amount was determined by calculating the net present value of forecast operating cash flows (discounted cash flows).

In determining the discounted cash flow, a weighted average cost of capital range of between 15.8% and 16.5% was used. The result of the impairment testing reflects no impairment on the Mpact Polymers plant, however the testing was sensitive to the following variables:

- Growth rate used in the discounted cash flows, and
- Production volumes.

Improvements to the front end of the plant are planned for the current financial year which is expected to significantly increase production volumes. The operating cash flows used in the impairment testing were based on production volumes which represented an achievable capacity utilisation forecast.

The cash flows beyond the five year forecast were based on production volumes of 21,000 tons which management expects to achieve.

Audit and risk committee report continued

The projected cash flows based on the production volumes resulted in the recoverable amount exceeding the cost of PPE.

In assessing the impairment of the plant the benefit of the unrecognized tax losses were not taken into account. Based on the above, the directors are of the opinion that it is not necessary to impair the plant at Mpact Polymers.

Goodwill

Goodwill is assessed annually for impairment. Key assumptions used are operating and capital expenditure cash flow projections, growth rates and discount rates. The cash flow projections are approved by senior management. The discount rate is calculated using market information, taking into account the geographic and other risk factors relating to the particular cash-generating unit being assessed. The committee considered the impairment test noting the assumptions used, its sensitivities and the resultant headroom. It is the Committee's opinion that the carrying value of the goodwill is fairly stated. Refer to note 7 of the consolidated annual financial statements.

Internal audit

The committee:

- Reviewed and approved the existing internal audit charter, which ensures that the Group's internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties.
- Satisfied itself of the credibility, independence and objectivity of the internal audit function.
- Ensured that internal audit had direct access to the committee, primarily through the committee's Chairman.
- Reviewed and approved the annual internal audit plan, ensuring that material risk areas were included and that the coverage of significant business processes was acceptable.
- Reviewed the quarterly internal audit reports, covering the effectiveness of internal control, material fraud incidents and material non-compliance with Mpact's policies and procedures. The committee is advised of all internal control developments and advised of any material losses, with none being reported during the year.
- Considered and reviewed with management and internal auditors, any significant findings and management responses thereto in relation to reliable financial reporting, corporate governance and effective internal control to ensure appropriate action is taken.
- The internal audit function provided a written assessment of the effectiveness of the Company's system of internal controls and confirmed that based on their results of work undertaken, they provided reasonable assurance regarding adequacy and effectiveness of systems of internal control.

The committee has reviewed the independence of KPMG and the audit executive of internal audit as the Group's internal auditor and is satisfied with their independence.

Internal financial control and compliance

The committee:

- Reviewed and approved the existing treasury policy and reviewed the quarterly treasury reports prepared by management.
- Reviewed the quarterly legal and regulatory reports setting out the latest legislative and regulatory developments impacting the Group.
- Reviewed the quarterly report on taxation.
- Reviewed IT reports.
- Considered and, where appropriate, made recommendations on internal financial control.
- Monitored the outsourced internal audit service provided by KPMG internal audit, risk and compliance services.

KPMG performed the internal audit for the year ended 31 December 2017 and provided a written assessment of the effectiveness of Mpact's system of internal controls. A combined assurance model and risk management processes are a work in progress; risk management will be assessed as the function matures.

Risk management

Management is regularly developing and enhancing the Group's risk and control procedures to improve the mechanisms for identifying, assessing and monitoring risks given that effective risk management is integral to the Group's objective of consistently adding value to the business. The Board approves strategies and budgets and monitors progress against the budget. It also considers the identified business risks.

Risk management is addressed in the areas of physical and operational risks, human resource risks, technology risks, business continuity and disaster recovery risks, credit and market risks and compliance risks.

The Group has implemented several policies and procedures to manage its governance, operations and information systems with regard to the:

- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of assets; and
- compliance with laws, regulations and contracts.

The committee assessed the effectiveness of the controls and determined how well management perceived the identified controls. The Likelihood rating tables and Potential Loss Impact Rating were reviewed and approved.

The Risk Management Review is available on the website, www.mpact.co.za.

Combined assurance

A combined assurance map was developed by management in collaboration with internal audit and external audit. The mapping was compiled to help understand the level of coverage achieved by each assurance provider in terms of the third level of defence in the Combined Assurance Model. Although, the committee approved the Integrated Risk Assurance Framework it is noted that further improvements will be incorporated in the combined assurance map.

INTEGRATED REPORT

The committee fulfils an oversight role regarding the report and the reporting process. Accordingly, it has:

- considered the Integrated Report and has assessed the consistency with operational, financial and other information known to the Audit and Risk Committee members, and for consistency with the annual financial statements. The committee is satisfied that the Integrated Report is materially accurate, complete and reliable and consistent with the annual financial statements; and
- the committee has, at its meeting held on 1 March 2018, recommended the Integrated Report for the year ended 31 December 2017 to the Board for approval.

GOVERNANCE

The Board has assigned oversight of the risk management function to the committee, which has an oversight role with respect to financial reporting risks arising from internal financial controls, fraud and IT risks.

In line with the terms of the JSE Listings Requirements, the committee is satisfied that Brett Clark CA(SA) has the appropriate expertise and experience to meet the responsibilities of his appointed position as CFO as required by the JSE.

The committee is satisfied:

- that the resources within the finance function are adequate to provide the necessary support to the CFO; and
- with the expertise and experience of the Group Financial Manager.

In making these assessments, the committee has obtained feedback from the external and internal auditors.

Based on the processes and assurances obtained, the committee believes that the accounting practices are effective.

ASSURANCE

The Audit and Risk Committee confirmed that they were prudent in exercising their duties of care and skill and they have taken reasonable steps to ensure that they performed their duties in accordance with the mandate.

On behalf of the Audit and Risk Committee

Tim Ross
Audit and Risk Committee Chairman

6 March 2018

Independent auditor's report

To the shareholders of Mpact Limited Group

Report on the Audit of the Financial Statements

OPINION

We have audited the consolidated financial statements of Mpact Limited and its subsidiaries ("the Group") set out on pages 14 to 69, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

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 are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">Recognition of the Section 12I ("S12I") incentive allowance</td></tr>
<tr><td>The Group has invested in several capital expansion projects, many of which are subject to various special tax incentive allowances.

The largest project, in recent times, was the upgrade of the Felixton Paper Mill in Richards Bay ("The Mill") where a S12I incentive allowance was claimed, and approved, by the Department of Trade and Industry ("DTI") and the South African Revenue Service ("SARS").

The full after tax benefit of the incentive allowance amounting to R114 million has been recognised in the current financial year, refer to note 5.

Despite the up-front approval, the incentive allowance is subject to the Mill achieving certain qualifying criteria, set out in its original application. The achievement of the criteria is dependent on the operating performance of the Mill, which has only recently been commissioned and is not yet operating at full capacity.

Therefore, the decision to recognise the benefit of the allowance involves judgement and estimation as the final SARS verification process has not yet taken place.

The Directors had previously deferred recognising the financial effect of the allowance due to these uncertainties.

Given the materiality of the allowance, the effect on the Group's effective tax rate and the judgement exercised, this was considered a key audit matter.</td><td>We engaged our Tax Incentives team to assist us in assessing the risks of recognising the full S12I allowance in the 2017 financial year. Our Incentives team included an individual with engineering experience. Our procedures included:

• Inspecting correspondence with the DTI and ITAC to ensure that the required initial approvals were in place and to understand their composition and requirements;
• Evaluating the risk of not meeting the targets based on progress to date;
• Visiting the Mill and inspecting the plant in operation. We traced a sample of material expenses to supporting documentation and board approvals to validate the capital cost;
• Assessing the competence of the Directors and management experts used to measure progress against the targets; and
• Testing the accuracy of the internal reports compiled by plant management, and approved by Mpact executive management, relating to the progress achieved in meeting the targets and by comparing the achieved results to the targets.

We concurred with the Directors' view that based on all available evidence, the qualifying criteria will most likely be met. Consequently recognising the full S12I incentive allowance with preferred status for accounting purposes, in the current financial year, is appropriate.

We refer to the Director's disclosures in the financial statements.</td></tr>
</table>

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2"><h2>Impairment Indicator at the Polymers plant</h2></td></tr>
<tr><td>
The Mpact Polymers plant produces plastic products where re-cycled material is an important input. The process represents a new technology to the Group and, to some extent, the country. Since the initial commissioning of the plant in December 2015, it has experienced ongoing operating losses and forecast production volumes have not been achieved. This is an indicator of potential impairment of the Polymers plant and equipment.
The Directors have performed a discounted cashflow exercise to assess the recoverable amount of the Polymers plant as required by IAS 36: Impairment of Assets, to determine the plant's value in use.
The assumptions with the most significant impact on the cash flow forecasts are presented in the accounting policies:

The production volumes are considered to be highly subjective since they are based on Director's experience and expectations rather than observable, achieved statistics;
The discount rate is based on the weighted average cost of capital. The calculation of the weighted average cost of capital is complex.

Due to the materiality of the carrying value of the plant assets and the fact that forecast production tonnages were proving difficult to forecast in the extended start-up phase, the impairment assessment of the Polymers plant gave rise to a key audit matter.
</td><td>
We evaluated the assumptions used by the Directors' in their valuation model to determine the value in use of the Polymers plant.
We concluded that the key management assumption is the ability of the Polymers plant ability to produce sufficient tonnages of finished product necessary to produce positive cash flows.
Our audit procedures included:

Challenging the impairment calculations prepared by the Directors and auditing the validity of the key variables applied in the models;
Performing an independent sensitivity analysis of the production volumes and discount rates and assessing their impact on the value in use computation; and
Discussions with management, and obtaining written representations, in relation to their confidence in, and ongoing support for, the project.

We considered that the plant is a start-up operation which utilises new production techniques which take time to implement.
We considered the manufacturer's reports which confirmed that the plant, when running optimally, can produce the quantity of finished goods required to generate positive returns.
We considered that the use of recycled plastic is a popular "green" technology and all product produced is being sold.
We considered the Board's stated ongoing financial support for the project and their view that this phase of implementation, although taking longer than expected, will ultimately be successful in the foreseeable future.
We concur with the Directors' decision not to impair is appropriate in the circumstances in combination with the disclosures provided.
</td></tr>
<tr><td colspan="2"><h2>Valuation of goodwill</h2></td></tr>
<tr><td>
The Group's goodwill balance of R1 044.0 million makes up 11% of total assets.
The Directors have allocated goodwill to the cash generating units ("CGUs") identified in note 7.
Goodwill is required to be tested annually for impairment; the Group uses a value in use model to test for impairment, as required by IAS 36: Impairment of Assets.
The assumptions with the most significant impact on the cash flow forecasts are:

The growth rate is considered to be highly subjective since it is based on Director's experience and expectations rather than observable market data.
The discount rate is based on the weighted average cost of capital. The calculation of the weighted average cost of capital is complex.

Given that the valuation assumptions are complex and require significant judgement, the impairment test was considered a key audit matter.
</td><td>
We evaluated the assumptions used in the valuation model to determine the value in use of the cash generating units.
Our audit procedures included:

Challenging the impairment calculations prepared by the Directors and assessing the validity and reasonableness of the assumptions applied in the respective models, by comparing them to historical information and Board approved budgets;
Performing an independent sensitivity analysis of the valuations by increasing the discount rates and assessing the impact on the carrying value of goodwill;
Performing an independent assessment of the book value of assets and liabilities, including goodwill, compared with the market capitalisation of the Group; and
Assessing the disclosure requirements.

We found that the Director's assumptions were within reasonable ranges and consider the disclosures for goodwill to be appropriate and useful.
</td></tr>
</table>

Independent auditor's report continued

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the Directors' Report, Audit and Risk Committee's Report and Certificate by Company Secretary, as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report and the Integrated Report, which is expected to be made available to us on this date. Other information 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 and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the Directors determine 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, the Directors are 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 the Directors either intend to liquidate the Group or to cease operations, or have 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 judgement 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 the Directors.
- Conclude on the appropriateness of the Directors' 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 Audit and Risk Committee 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.

We also provide the Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in the Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Mpact Limited for 13 years.

Deloitte & Touche
Registered Auditor

Per: MH Holme
Partner

6 March 2018

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2017

		Notes	2017 R'm	2016 R'm
Revenue			**10,119.7**	10,098.6
Cost of sales			**(6,473.8)**	(6,281.4)
Gross margin			**3,645.9**	3,817.2
Administration and other operating expenses			**(2,646.7)**	(2,566.9)
Depreciation, amortisation and impairments			**(555.5)**	(504.0)
Operating profit		3	**443.7**	746.3
Share of profit from equity accounted investees		9	**20.0**	16.2
Profit on sale of equity accounted investees			**–**	0.8
Total profit from operations and equity accounted investees			**463.7**	763.3
Net finance costs		4	**(202.6)**	(191.0)
Investment income			**11.4**	18.4
Finance costs			**(214.0)**	(209.4)
Fair value gain		22	**–**	7.2
Profit before taxation			**261.1**	579.5
Tax income/(expense)		5	**26.4**	(182.7)
Profit for the year			**287.5**	396.8
Other comprehensive income/(loss):				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains on post-retirement benefit scheme			**4.9**	3.6
Tax effect			**(1.4)**	(1.0)
Items that may be reclassified subsequently to profit or loss				
Effects of cash flow hedges			**(5.1)**	(18.3)
Tax effect			**1.4**	5.1
Exchange differences on translation of foreign operations			**1.8**	(5.6)
Other comprehensive income/(loss) for the financial year net of tax			**1.6**	(16.2)
Total comprehensive income for the year			**289.1**	380.6
Profit attributable to:				
Equity holders of Mpact			**275.2**	391.1
Non-controlling interests			**12.3**	5.7
Profit for the year			**287.5**	396.8
Total comprehensive income attributable to:				
Equity holders of Mpact			**276.6**	374.3
Non-controlling interests			**12.5**	6.3
Total comprehensive income for the year			**289.1**	380.6
Earnings per share (EPS) for profit attributable to equity holders of Mpact				
Basic EPS	(cents)	6	**162.1**	234.6
Diluted EPS	(cents)	6	**162.0**	234.0

Consolidated statement of financial position

as at 31 December 2017

	Notes	**2017 R'm**	2016 R'm
ASSETS			
Goodwill and other intangible assets	7	**1,110.2**	1,126.1
Property, plant and equipment	8	**3,822.0**	3,489.0
Investments in equity accounted investees	9	**102.0**	102.1
Financial asset investments	10	**50.0**	41.5
Deferred tax assets	18	**6.9**	4.9
Non-current assets		**5,091.1**	4,763.6
Inventories	11	**1,431.2**	1,393.2
Trade and other receivables	12	**2,266.2**	2,103.1
Cash and cash equivalents	13	**350.6**	405.7
Derivative financial instruments	14	**2.1**	2.9
Current tax receivable		**40.4**	30.9
Disposal group asset	26	**–**	12.8
Current assets		**4,090.5**	3,948.6
Total assets		**9,181.6**	8,712.2
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	15	**2,621.4**	2,532.7
Retained earnings		**1,470.7**	1,346.3
Other reserves		**41.3**	28.3
Total attributable to equity holders of Mpact		**4,133.4**	3,907.3
Non-controlling interests in subsidiaries		**109.5**	113.3
Total equity		**4,242.9**	4,020.6
Interest and non-interest-bearing borrowings	16	**1,387.6**	1,417.0
Retirement benefits obligation	17	**48.9**	51.6
Deferred tax liabilities	18	**212.2**	342.5
Deferred income	19	**23.5**	29.0
Derivative financial instruments	14	**9.5**	4.4
Non-current liabilities		**1,681.7**	1,844.5
Short-term portion of borrowings	20	**1,206.7**	990.0
Trade and other payables	21	**2,021.7**	1,772.1
Other current liabilities	22	**–**	51.8
Provisions	23	**4.6**	5.1
Deferred income	19	**5.5**	5.5
Derivative financial instruments	14	**17.1**	8.6
Current tax liabilities		**1.4**	3.3
Disposal group liability	26	**–**	10.7
Current liabilities		**3,257.0**	2,847.1
Total liabilities		**4,938.7**	4,691.6
Total equity and liabilities		**9,181.6**	8,712.2

Consolidated statement of cash flows

for the year ended 31 December 2017

	Notes	2017 R'm	2016 R'm
Cash flows from operating activities			
Operating cash flows before movements in working capital		**1,019.4**	1,275.6
Net decrease/(increase) in working capital		**5.6**	(288.9)
Cash generated from operations	27a	**1,025.0**	986.7
Dividends from equity accounted investees		**20.1**	5.6
Taxation paid		**(113.6)**	(142.3)
Net cash inflows from operating activities		**931.5**	850.0
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash	25	**–**	(89.8)
Additions to property, plant and equipment and other intangibles	7/8	**(856.4)**	(836.5)
Proceeds from the disposal of property, plant and equipment		**16.7**	8.7
Proceeds from disposal of associates		**–**	1.0
Loan (advances to)/repayments from external parties		**(3.5)**	3.6
Interest received		**11.4**	18.4
Financial asset investment		**–**	(20.5)
Net cash outflows from investing activities		**(831.8)**	(915.1)
Cash flows from financing activities			
Net borrowings raised		**196.3**	307.4
Finance costs paid		**(232.0)**	(212.7)
Acquisition of non controlling interest		**(18.1)**	–
Dividends paid to non-controlling interests		**(6.5)**	(6.3)
Dividends paid to equity holders of Mpact		**(46.5)**	(76.5)
Purchase of treasury shares		**(50.1)**	(25.0)
Payment of deferred settlement charge		**–**	(4.6)
Net cash outflows from financing activities		**(156.9)**	(17.7)
Net decrease in cash and cash equivalents		**(57.2)**	(82.8)
Net cash and cash equivalents at beginning of year		**400.0**	482.8
Net cash and cash equivalents at end of year	27b	**342.8**	400.0

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Stated capital R'm	Share-based payment reserve R'm	Cash flow hedge reserve R'm	Post-retirement benefit reserve R'm	Other reserves[1] R'm	Treasury shares R'm	Retained earnings R'm	Total attributable to equity holders of Mpact Ltd R'm	Non-controlling interest R'm	Total equity R'm
Balance at 31 December 2015	2,426.2	33.8	10.0	12.7	14.9	(63.6)	1,170.8	3,604.8	107.0	3,711.8
Total comprehensive income for the year	–	–	(13.2)	2.6	(6.2)	–	391.1	374.3	6.3	380.6
Dividends paid[2]	106.5	–	–	–	–	(0.6)	(182.4)	(76.5)	–	(76.5)
Purchase of treasury shares[3]	–	–	–	–	–	(25.0)	–	(25.0)	–	(25.0)
Share plan charges for the year	–	23.1	–	–	–	–	–	23.1	–	23.1
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(6.3)	(6.3)
Issue/exercise of shares under employee share scheme	–	(19.5)	–	–	–	59.3	(28.6)	11.2	–	11.2
Increase in shareholding by non-controlling interest[4]	–	–	–	–	–	–	–	–	6.3	6.3
Deferred settlement charge	–	–	–	–	–	–	(4.6)	(4.6)	–	(4.6)
Balance at 31 December 2016	2,532.7	37.4	(3.2)	15.3	8.7	(29.9)	1,346.3	3,907.3	113.3	4,020.6
Total comprehensive income for the year	**–**	**–**	**(3.7)**	**3.5**	**1.6**	**–**	**275.2**	**276.6**	**12.5**	**289.1**
Dividends paid[2]	**88.7**	**–**	**–**	**–**	**–**	**(0.6)**	**(134.6)**	**(46.5)**	**–**	**(46.5)**
Purchase of treasury shares[3]	**–**	**–**	**–**	**–**	**–**	**(50.1)**	**–**	**(50.1)**	**–**	**(50.1)**
Share plan charges for the year	**–**	**27.5**	**–**	**–**	**–**	**–**	**–**	**27.5**	**–**	**27.5**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6.5)**	**(6.5)**
Issue/exercise of shares under employee share scheme	**–**	**(17.2)**	**–**	**–**	**–**	**30.3**	**(9.4)**	**3.7**	**–**	**3.7**
Increase in shareholding by non-controlling interest[4]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8.6**	**8.6**
Put option held by non-controlling shareholder of subsidiary[5]	**–**	**–**	**–**	**–**	**21.7**	**–**	**(7.1)**	**14.6**	**–**	**14.6**
Purchase of non-controlling interest[6]	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**	**(18.4)**	**(18.1)**
Balance at 31 December 2017	**2,621.4**	**47.7**	**(6.9)**	**18.8**	**32.0**	**(50.3)**	**1,470.7**	**4,133.4**	**109.5**	**4,242.9**

1 *Other reserves consist of foreign currency translation reserve. In the prior financial year it also included the put option held by non-controlling shareholders.*

2 *Dividends declared amounted to R134.6 million (2016: R182.4 million) of which R88.7 million (2016: R106.5 million) related to a capitalisation issue (refer to note 15).*

3 *Treasury shares purchased represent the cost of shares in Mpact Limited purchased in the market and held by the Mpact Incentive Scheme Trust to satisfy share awards under the Group's share incentive scheme. As at 31 December 2017, there are 1,914,874 (2016: 845,692) treasury shares on hand.*

4 *A subsidiary company had a capitalisation issue, whereby the minority shareholder subscribed for additional shares in the subsidiary.*

5 *Derecognition of put option reserve as the option had expired. Refer to note 22.*

6 *Refer to note 25.*

Notes to the annual financial statements

for the year ended 31 December 2017

1. ACCOUNTING POLICIES

Basis of preparation

These consolidated annual financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited's Listings Requirements, and the requirements of the Companies Act of South Africa. The consolidated annual financial statements have been prepared on the historical cost basis, except for derivative financial instruments, financial instruments at fair value through profit or loss and available for sale financial assets. The consolidated annual financial statements have been prepared on a going concern basis.

The consolidated annual financial statements are presented in South African Rand, which is the Group's functional currency. All financial information presented in Rand has been rounded off to the nearest million.

The consolidated annual financial statements are prepared on a historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value. The basis of preparation is consistent with the prior year, except for new and revised standards adopted to the consolidated annual financial statements.

Segment reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee, being the chief operating decision-making body.

The Group organises the business in the following operating segments:

- Paper manufacturing
- Plastics
- Recycling
- Corrugated

The paper manufacturing, recycling and corrugated divisions have been aggregated into one reporting segment on the basis of similar economic characteristics.

Basis of consolidation

Subsidiary undertakings

The consolidated annual financial statements incorporate the assets, liabilities, equity, revenues, expenses and cash flows of Mpact Limited, and of its respective subsidiary undertakings drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated. Subsidiary undertakings are those entities over which the Group has the power, directly or indirectly, to govern operating and financial policy in order to obtain economic benefits.

The results of subsidiaries acquired or disposed of during the years presented are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquiring control or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the results of subsidiaries to bring their accounting policies into alignment with those used by the Group.

For each business combination at initial recognition, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

After initial recognition non-controlling interests are measured as the aggregate of the value at initial recognition and their subsequent proportionate share of profits and losses.

Associates and joint ventures

Associates are investments over which the Group is in a position to exercise significant influence, but do not have control or joint control, through participation in the financial and operating policy decisions of the investee. Typically, the Group owns between 20% and 50% of the voting equity of its associates. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method of accounting except when classified as held-for-sale.

The Group's share of the associates net income, presented net of tax, is based on financial statements drawn up to reporting dates that are either coterminous with that of the Group or no more than three months prior to that date. Where reporting dates are not coterminous, adjustments are made to an investees net income for the effects of significant transactions or events that occur after the investee's reporting date up to the reporting date of the Group.

The total carrying values of investments in associates and joint ventures represent the cost of each investment including the carrying value of goodwill, the share of post-acquisition retained earnings, any other movements in reserves and any long-term debt interests which in substance form part of the Group's net investment in that entity. The carrying values are reviewed on a regular basis and if an impairment has occurred, it is written off in the year in which those circumstances arose. The Group's share of an associate or joint venture losses in excess of its interest in those investments are not recognised unless the Group has an obligation to fund such losses.

Joint operations
A joint operation is when investors that have joint control of an arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The Group recognises its own assets, liabilities, revenues and expenses that are incurred or earned separately to other joint operators. Otherwise the group recognises its share of assets, liabilities, revenues and expenses when these items are incurred jointly.

Revenue recognition

Sale of goods
Revenue is derived principally from the sale of goods and is measured at the fair value of the consideration received or receivable, after deducting discounts, volume rebates, value added tax and other sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred. This is when title and insurance risk has passed to the customer, and the goods have been delivered to a contractually agreed location.

Principal versus Agent
The Group assesses whether it is acting as an agent or principal in its revenue arrangement using the specific criteria in IAS 18. According to these criteria; the principal has exposure to the significant risks and rewards associated with the sale of goods or rendering of services. Examples of principalship include assumption of inventory risk, customer credit risk, responsibility to provide products or services and having latitude in setting prices.

Cost of sales

Cost of sales are the amount of inventories expensed during the year in the normal course of business. Included within cost of sales are deemed finance charges that were incurred by utilising the credit facilities provided by trade creditors using normal payment terms. The amounts recognised as deemed finance charges are determined as the difference between the amount on the transaction date adjusted for the effects of the time value of money.

Business combinations and goodwill arising thereon

Identifiable net assets
At the date of acquisition the identifiable assets, liabilities and contingent liabilities of a subsidiary or an associate are recorded at their fair values on acquisition date. Assets and liabilities, which cannot be measured reliably, are recorded at provisional fair values which are finalised within 12 months of the acquisition date.

Cost of a business combination
The cost of a business combination includes the fair value of assets provided, liabilities incurred or assumed, and any equity instruments issued by a group entity, in exchange for control of an acquiree. The directly attributable costs associated with a business combination are expensed as incurred. Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party/parties both before and after the business combinations are referred to as common control business combinations. The carrying amounts of the acquired entity are the consolidated carrying amounts as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquirer's proportionate share of the net asset value acquired in common control transactions is allocated to equity. This is in accordance with the pooling-of-interest method.

Goodwill
Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is attributed to goodwill. Goodwill is subsequently measured at cost less any accumulated impairment losses.

Goodwill in respect of subsidiaries is included within intangible assets. Goodwill relating to associates is included within the carrying value of associates.

Where the fair values of the identifiable net assets acquired exceed the cost of the acquisition, the surplus, which represents the discount on the acquisition (bargain purchase), is credited to the statement of profit or loss in the year of acquisition.

Notes to the annual financial statements continued

for the year ended 31 December 2017

1. ACCOUNTING POLICIES CONTINUED

Impairment of goodwill

Goodwill arising on business combinations is allocated to the Group of cash-generating units that are expected to benefit from the synergies of the combination and represents the lowest level at which goodwill is monitored by the Board for internal management purposes. The recoverable amount of the Group of cash-generating units to which goodwill has been allocated is tested for impairment annually on a consistent date during each financial year, or when such events or changes in circumstances indicate that it may be impaired.

Any impairment is recognised in the consolidated statement of profit or loss. Impairments of goodwill are not subsequently reversed.

Non-current, non-financial assets excluding goodwill, deferred tax and retirement benefit surplus

Property, plant and equipment

Property, plant and equipment comprise of land and buildings, property, plant and equipment, other assets and assets in the course of construction.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes all costs incurred in bringing the assets to the location and condition for their intended use and includes borrowing costs incurred up to the date of commissioning.

Depreciation is charged so as to write off the cost of assets, other than land which is not depreciated, and assets in the course of construction, over their estimated useful lives to their estimated residual values.

Assets in the course of construction are carried at cost, less any recognised impairment. Depreciation commences when the assets are ready for their intended use. Buildings, plant and equipment, and other assets are depreciated to their residual values at varying rates, on a straight-line basis over their estimated useful lives. Estimated useful lives range from three years to twenty years for items of plant and equipment, other assets and to a maximum of fifty years for buildings.

Residual values and useful lives are reviewed at least annually.

Assets held under finance leases are capitalised at the lower of cash cost and the present value of minimum lease payments at the inception of the lease. These assets are depreciated over the shorter of the lease term and the expected useful lives of the assets.

Other intangibles and research and development expenditure

Other intangibles are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives. Estimated useful lives vary between three years and ten years and are reviewed at least annually.

Research expenditure is written off in the year in which it is incurred. Development costs are reviewed annually and are recorded as an expense if they do not qualify for capitalisation. Development costs are capitalised when the completion of the asset is both commercially and technically feasible and is amortised on a systematic basis over the economic life of the related development.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment is recognised as an expense in the statement of profit or loss. Where the underlying circumstances change such that a previously recognised impairment subsequently reverses, the carrying amount of the asset, or cash-generating unit, is increased to the revised estimate of its recoverable amount. Such reversal is limited to the carrying amount that would have been determined had no impairment been recognised for the asset, or cash-generating unit, in prior years. A reversal of an impairment is recognised in the statement of profit or loss.

Current non-financial assets

Inventory

Inventory and work-in-progress are valued at the lower of cost and net realisable value. Cost is determined on the first-in first-out or weighted average cost basis as appropriate. Cost comprises direct materials and overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is defined as the selling price less any estimated costs to sell.

Retirement benefits

The Group operates defined contribution plans for its employees, as well as post-retirement medical plans.

Defined contribution plans
For defined contribution plans, the amount charged to the statement of profit or loss is the contributions paid or payable during the year.

Post-retirement medical plans
For post-retirement medical plans, actuarial valuations are performed for each financial year-end. The average discount rate for the plans' liabilities is based on AA-rated corporate bonds or similar government bonds of a suitable duration and currency.

Actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in other comprehensive income and accumulated in equity. Any increase in the present value of plan liabilities expected to arise from employee service during the year is charged to underlying operating profit. The expected return on plan assets and the expected increase during the year in the present value of plan liabilities are included in investment income and interest expense respectively.

Past service cost is recognised immediately to the extent that the benefits are already vested or is amortised on a straight-line basis over the period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs and as reduced by the fair value of scheme assets. Any asset (retirement benefit surplus) resulting from this calculation is limited to past service costs, plus the present value of available refunds and reductions in future contributions to the relevant group schemes.

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

Current tax
The current tax payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Dividend withholding tax is payable at a rate of 20% on dividends distributed to shareholders. This tax is not attributable to the Group, but is collected by the Group and paid to the tax authorities on behalf of the shareholders.

Deferred taxation
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities in a transaction that affects neither the tax profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases
Rental costs under operating leases are charged to the statement of comprehensive income in equal annual amounts over the lease term.

Notes to the annual financial statements continued

for the year ended 31 December 2017

1. ACCOUNTING POLICIES CONTINUED

Finance leases

Assets held under finance leases are recognised as assets of the Group on inception of the lease at the lower of fair value or the present value of the minimum lease payments derived by discounting at the interest rate implicit in the lease. The interest element of the rental is recognised as a finance charge in the statement of profit or loss, unless it is directly attributable to qualifying assets, in which case it is capitalised in accordance with the Group's policy on borrowing costs.

Provisions

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Restoration and environmental costs

An obligation to incur restoration and environmental costs arises when environmental disturbance is caused by the ongoing production of a plant or landfill site. Costs for restoration of site damage are provided for at their present values and charged against profit or loss as the obligation arises.

Government grants

Government grants are recognised when the right to receive such grants is established and are treated as deferred income. They are released to the statement of profit or loss on a systematic basis, either over the expected useful lives of the assets for which they are provided, or over the periods necessary to match them with the related costs which they are intended to compensate.

Foreign currency transactions

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

Translation of foreign operations

The Group results are presented in Rands (the Group's functional and presentation currency), the currency in which most of its business is conducted. On consolidation, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year where these approximate the rates at the dates of transactions. Exchange differences arising, if any, are recognised directly in other comprehensive income, and accumulated in equity. Such translation differences are reclassified from profit or loss only on disposal or partial disposal of the foreign operation.

Share-based payments

The Group participates in a number of equity settled, share-based compensations, namely: Bonus share Plan (BSP) and Peformance Share Plan (PSP). The vesting condition of the BSP is continued employment for a period of three years. The vesting condition of the PSP is dependent on Total Shareholder Return and Return on Capital Employed for a period of three years.

The fair value of the employee services received in exchange for the grant of share awards is recognised concurrently as an expense and an adjustment to equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share awards granted, adjusted for market performance conditions and non-vesting conditions where applicable. Vesting conditions are included in assumptions about the number of awards that are expected to vest. At each reporting date, the Group revises its estimates of the number of share awards that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

During the vesting period, participants do not have shareholders' rights. Therefore participants do not have the right to vote nor the right to share in the dividend distribution.

The fair value of the shares granted have been calculated by an actuary using the Black-Scholes-Merton model. The share price volatility is based on the historical share price volatility over a similar period of the grant.

Financial instruments

Financial assets and financial liabilities are recognised in the Group statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Financial asset investments

Investments, other than investments in subsidiaries and associates, are either classified as available-for-sale or loans and receivables.

Loans and receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

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

Trade receivables
Trade receivables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method, less allowance for any impairment as appropriate.

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

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

Borrowing costs
Interest on borrowings directly relating to the acquisition, construction and production of qualifying assets is capitalised until such time as the assets are substantially ready for their intended role or sale; where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the construction period.

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and subsequently held at fair value in the statement of financial position within “derivative financial instruments”, and, when designated as hedges, are classified as current or non-current depending on the maturity of the derivative. Derivatives that are not designated as hedges are classified as current, even when their actual maturity is expected to be greater than one year.

Changes in the fair value of any derivative instruments that are not formally designated in hedge relationships are recognised immediately in the statement of profit or loss and are classified within “Operating profit” or “Net finance costs” depending on the type of risk the derivative relates to.

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

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

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

1. ACCOUNTING POLICIES CONTINUED

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of their host contracts and the host contracts themselves are not carried at fair value with unrealised gains or losses reported in the statement of profit or loss.

Equity instruments and dividend payments
Equity instruments
An equity instrument is any contract which evidences a residual interest in the net assets of an entity.

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue, or cancellation of the company's own equity instruments.

Dividend payments
Dividend distributions to the company's ordinary equity holders are recognised as a liability in the period in which the dividends are declared and approved. Final dividends are accrued when approved by the Board.

Special items to determine underlying operating profit
Special items are those items of financial performance that the Group believes should be separately disclosed to assist in the understanding of the underlying financial performance achieved by the Group and its businesses. Such items are material by nature or amount to the financial year's results. These items include impairment charges on tangible and intangible assets, impairment related to equity accounted investees, impairment to financial asset investments and impairment of foreign cash balances or reversals of any such items. Restructure costs associated with the closure of a plant where such cost would typically be included in earnings before interest, tax, depreciation and amortisation (EBITDA) will also be included in special items.

Earnings per share (EPS)
Basic EPS
Basic EPS is calculated by dividing net profit attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares in issue during the year. For this purpose, net profit is defined as the profit after tax and special items attributable to equity holders of the parent company.

Diluted EPS
For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as share awards granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease EPS. The effect of anti-dilutive potential shares is excluded from the calculation of diluted EPS.

Headline EPS
The presentation of headline EPS is mandated under the JSE Listings Requirements and is calculated in accordance with Circular 2/2015, "Headline Earnings", as issued by the South African Institute of Chartered Accountants.

Underlying EPS
Underlying earnings is arrived at after adjusting profit attributable to equity holders of Mpact for special items, net of tax and is a non-IFRS measure. It is included to provide an additional basis on which to measure the Group's earnings performance.

New accounting policies, early adoption and future requirements
Standards and Interpretations early adopted by the Group
There were no Standards or Interpretations early adopted by the Group in the current year.

Standards, amendments to published Standards and Interpretations effective during 2017
The Group has adopted the following Standards, amendments to published Standards during the current year, which had no significant impact on the Group's results:

- **IAS 7 – Statement of cash flows**

  This amendment requires the Group to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The cash flow notes have been amended accordingly, refer to note 27(c).

- **IAS 12 – Income taxes**

  The amendment clarifies that the Group needs to consider whether any tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendment provides guidance on how the Group should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. This amendment has been adopted and does not have an impact on the Group.

Standards and amendments to published Standards and Interpretations that are not yet effective and have not been early adopted by the Group

The following Standards and amendments to published Standards and Interpretations, are not yet effective. The Group will adopt once the standards and amendments are effective.

- **IFRIC 22 – Foreign currency transactions and advance considerations**

  The amendment clarifies the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency. The amendment is effective from 1 January 2018. This amendment is not likely to have a significant impact to the Group.

- **IFRS 2 – Share-based payment**

  An amendment on the classification and measurement of share-based payment transactions is effective from 1 January 2018. The amendment addresses the following:

  i. Effects of vesting conditions on cash settled share-based payments;
  ii. Accounting for modification of terms and conditions on cash settled share based payments that changes to equity-settled payments;
  iii. Classification of share-based payments with net settled features.

  This amendment is not likely to have a significant impact to the Group.

- **IFRS 9 – Financial Instruments**

  IFRS 9 is effective from 1 January 2018 and will replace substantially all of the requirements relating to the recognition and measurement of financial instruments in IAS 39 Financial instruments. The new standard includes a classification and measurement model for financial assets and liabilities as well as a new expected credit losses (ECL) model for the impairment of financial assets that replaces the incurred loss model prescribed in IAS 39.

  IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.

  The Group has completed an impact assessment of IFRS 9 and no quantitative impact is expected on the adoption of the standard. Based on the impact assessment, the main focus is:

  IFRS 9 will affect the way the Group currently recognises credit losses in the profit and loss (P&L) statement. An expected credit loss-based impairment will need to be recognised on the Group's trade receivables in accordance with the new criteria. The ECL model is not expected to cause a significant increase in allowances for short-term trade receivables because of their short term nature.

  The Group intends to apply the standard prospectively and will make use of the practical expedients in the standard, in particular the use of the provision matrix, which should help in measuring the loss allowance for short-term trade receivables. The expanded disclosure requirements will impact the Group's presentation of financial instruments.

- **IFRS 15 – Revenue from contracts with customers**

  IFRS 15 is effective from 1 January 2018 and will replace the exisiting revenue recognition guidance, which includes IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer.

  The Group has completed an impact assessment of IFRS 15 and no quantitative impact is expected on the adoption of the standard. Based on the impact assessment, the main areas of focus are as follows:

  1. **Sale of goods**

     For contracts with customers in which the sale of products is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the product is transferred to the customer, generally on delivery of the products.

1. ACCOUNTING POLICIES CONTINUED

2. **Variable consideration**

   Some contracts with customers provide for trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter.

   The Group expects no impact to Revenue on the application of the variable consideration requirements.

   The Group intends to apply the standard prospectively as there is no quantitative impact on the adoption of IFRS 15. As IFRS 15 requires significant disclosures compared to the current standard, management anticipates that there will be changes to the nature and extent of the Group's disclosure regarding the Group's revenue.

- **IFRS 16 – Leases**

  IFRS 16 is effective from 1 January 2019 and will replace IAS 17 Leases and IFRIC 14 Determining whether an arrangement contains a lease.

  IFRS 16 sets out the principles for the recognition and measurement of leases and requires the Group to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, the Group will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The Group will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessor accounting under IFRS 16 is substantially unchanged from the current treatment under IAS 17. The Group will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

  The Group is assessing the effects of IFRS 16 and cannot provide an estimate of the effects of the new lease standard until a detailed review has been performed.

Accounting estimates and critical judgements

The preparation of the Group's financial statements includes the use of estimates and assumptions which affect certain items reported in the statement of financial position and the statement of profit or loss and other comprehensive income. The disclosure of contingent assets and liabilities is also affected by the use of estimation techniques. Although the estimates used are based on management's best knowledge of current circumstances and future events and actions, actual results may differ from those estimates. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next financial year are discussed below:

Estimated residual values and useful economic lives

The carrying values of certain tangible fixed assets are sensitive to assumptions relating to projected residual values and useful economic lives, which determine the depreciable amount and the rate at which capital expenditure is depreciated respectively. The Group reassesses these assumptions at least annually or more often if there are indications that they require revision. Estimated residual values are based on available secondary market prices as at the reporting date, unless estimated to be zero. Useful economic lives are based on the expected usage, wear and tear, technical or commercial obsolescence and legal limits on the usage of capital assets.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating-unit exceeds its recoverable amount, which is the higher of its fair value less cost of disposal and its value in use.

The Group assesses annually whether goodwill and tangible fixed assets have suffered any impairment, in accordance with the stated Group accounting policy. The recoverable amounts of goodwill allocated to cash-generating units and tangible fixed assets are determined based on value-in-use calculations, discounted cash flow model (DCF), which require the exercise of management's judgement across a limited range of input assumptions and estimates. The principal assumptions used relate to the time value of money and expected future cash flows. The recoverable amount is sensitive to the discount rate used in the DCF model as well as the expected cash flows and the growth rate used for the extrapolation purposes.

The Group assesses annually whether there are any indications that items of property, plant and equipment, including assets in the course of construction, have suffered any impairment. Indications of impairment are inherently judgemental and may require management to assess both internal and external sources of information.

Mpact Polymers plant has continued to make losses during the year, with throughput being constrained and targeted production volumes not achieved. The continuation of losses is an indicator of possible impairment on the Mpact Polymers plant. An impairment test on the plant was performed as at 31 December 2017. The recoverable amount of the plant is sensitive to the growth rate used for the DCF model as well as operating cash flows based on achieving certain production volumes. The projected cash flows based on the production volumes resulted in the recoverable amount exceeding the cost of PPE. On this basis no impairment was required on the plant.

Taxation
The calculation of the group's total tax charge necessarily involves judgements in respect of certain items whose tax treatment cannot be finalised until the conclusion of future outcomes.

Deferred tax assets
The recognition of deferred tax assets is based upon whether it is probable that taxable profits will be available in the future, against which the deductible temporary differences can be utilised. Management therefore exercises judgement in assessing the future financial performance of the particular entity or tax group in which the deferred tax asset is to be recognised.

Post-retirement healthcare
The determination of the Group's obligation for post-retirement healthcare liabilities, depends on the selection of certain assumptions used by actuaries to calculate amounts. These assumptions include, among other, the discount rate, healthcare inflation costs, rates of increase in compensation costs and the number of employees who reach retirement age. Whilst the Group believes that these assumptions are appropriate, significant changes in the assumptions may materially affect post-retirement obligation as well as future expenses, which may result in an impact on earnings in the periods that the changes in assumptions occur.

Share-based payment charges
The Group issues equity settled share-based payments to employees. Equity settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the grant date. The fair value determined at the grant date of the equity settled share-based payments is expensed as services are rendered over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. The share payment expense relating to the awards of performance shares to the Group's executive directors and selected employees is based on the achievement of financial and service conditions. The probability of these conditions being achieved is estimated using an option pricing model.

Measurement of fair values
A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. Significant valuation issues are reported to the Group's Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Valuation of financial instruments
The fair value of financial instruments, excluding derivative instruments, not traded in active, liquid and organised financial markets is determined using a variety of valuation methods and assumptions that are based on market conditions and risks existing at the reporting date, including independent appraisals and discounted cash flow methods.

Provision for doubtful debts
Management assesses the recoverability of trade receivables on an individual basis at the end of each reporting period.

Notes to the annual financial statements continued

for the year ended 31 December 2017

2. OPERATING SEGMENTS

Identification of the Group's externally reportable operating segments

The executive committee is the Group's chief operating decision maker. The Group's externally reportable segments reflect the internal reporting structure of the Group, which is the basis on which resource allocation decisions are made by management in the attainment of strategic objectives.

Product revenues

The material product types from which the Group's externally reportable segments derive both their internal and external revenues are presented as follows:

Operating segments	Inter-segment revenues[1]	External revenues
Paper	Corrugated and paper board products	Corrugated and paper board products
Plastics	Plastic packaging products	Plastic packaging products
Corporate	N/A	N/A

[1] *The Group operates a vertically-integrated structure in order to benefit from economies of scale and to more effectively manage the risk of adverse price movements in key input costs. Internal revenues are therefore generated across the supply chain.*

Measurement of operating segment revenues, profit or loss, assets and non-current non-financial assets

Management has oversight of certain operating segmental measurements in order to make resource allocation decisions and monitor segmental performance. The operating segmental measurements that are required to be disclosed under IFRS 8, adhere to the recognition and measurement criteria presented in the Group's accounting policies. All intra-group transactions are conducted on an arm's length basis.

The Group's measure of net segment assets includes the allocation of retirement benefits surpluses and deficits on an appropriate basis. In addition, the Group's measure of net segment assets does not include an allocation for derivative assets and liabilities, non-operating receivables and payables and assets held for sale and associated liabilities. The measure of segment results, however, includes the effects of certain movements in these unallocated balances.

Operating segment revenue

	2017			2016		
	Segment revenue R'm	**Inter-segment revenue[2] R'm**	**External revenue R'm**	Segment revenue R'm	Inter-segment revenue[2] R'm	External revenue R'm
Paper	**7,744.9**	**(79.9)**	**7,665.0**	7,425.0	(78.5)	7,346.5
Plastics	**2,454.7**	**–**	**2,454.7**	2,752.1	–	2,752.1
	10,199.6	**(79.9)**	**10,119.7**	10,177.1	(78.5)	10,098.6

[2] *Inter-segment transactions are conducted on an arm's length basis.*

	2017 R'm	2016 R'm
External revenue by product type		
Corrugated and paper board products	**7,665.0**	7,346.5
Plastic packaging products	**2,454.7**	2,752.1
Total	**10,119.7**	10,098.6
External revenue by location of customer		
South Africa (country of domicile)	**9,012.0**	9,099.8
Rest of Africa	**958.7**	916.0
Rest of World	**149.0**	82.8
Total	**10,119.7**	10,098.6

There are no external customers which account for more than 10% of the Group's total external revenue.

2. OPERATING SEGMENTS CONTINUED

	2017 R'm	2016 R'm
Operating segment underlying operating profit/(loss)		
Paper	**443.0**	664.1
Plastics	**69.7**	168.4
Corporate	**(56.1)**	(48.1)
Segments total before special items	**456.6**	784.4
Special items[1]	**(12.9)**	(38.1)
Share of profit from equity accounted investees (refer to note 9)	**20.0**	16.2
Net finance costs (refer to note 4)	**(202.6)**	(191.0)
Fair value gain	**–**	7.2
Profit on sale of equity accounted investee	**–**	0.8
Profit before tax	**261.1**	579.5
Significant components of operating profit		
Depreciation, amortisation and impairment		
Paper	**312.6**	272.7
Plastics	**215.2**	209.8
Corporate	**27.7**	21.5
Segments total	**555.5**	504.0
Operating segment assets		
Segment assets[2]		
Paper	**5,144.5**	4,763.5
Plastics	**1,954.7**	2,009.2
Corporate	**1,329.5**	1,244.2
Inter-segment elimination	**(8.4)**	(20.9)
Segment total	**8,420.3**	7,996.0
Unallocated:		
Investments in equity accounted investees	**102.0**	102.1
Deferred tax assets	**6.9**	4.9
Other non-operating assets[3]	**251.8**	149.2
Non-current assets held for sale	**–**	12.8
Trading assets	**8,781.0**	8,265.0
Financial asset investments	**50.0**	41.5
Cash and cash equivalents	**350.6**	405.7
Total assets	**9,181.6**	8,712.2

[1] *Special items include impairment on property, plant and equipment of R4.9 million (2016: R15.9 million), impairment on foreign cash balance of R4.8 million (2016: Rnil), impairment on goodwill and intangible assets of R3.2 million (2016: Rnil), restructure costs of Rnil (2016: R22.2 million).*

[2] *Segment assets are operating assets and as at 31 December 2017 consist of property, plant and equipment of R3,822.0 million (2016: R3,489.0 million), goodwill and other intangible assets of R1,110.2 million (2016: R1,126.1 million). Inventories of R1,431.2 million (2016: R1,393.2 million) and operating receivables of R2,056.9 million (2016: R1,987.7 million).*

[3] *Other non-operating assets consist of derivative assets of R2.1 million (2016: R2.9 million), other non-operating receivables of R209.3 million (2016: R115.4 million) and current tax receivable of R40.4 million (2016: R30.9 million).*

	2017 R'm	2016 R'm
2. OPERATING SEGMENTS CONTINUED		
Non-current non-financial assets[4]		
South Africa (country of domicile)	**4,879.3**	4,525.3
Rest of Africa	**52.9**	89.8
Total	**4,932.2**	4,615.1
Additions to non-current non-financial assets[5]		
Paper	**569.3**	531.2
Plastics	**178.9**	280.2
Corporate	**108.2**	25.1
Segments total	**856.4**	836.5

4 *Non-current non-financial assets consist of property, plant and equipment and goodwill and other intangible assets, but excludes deferred tax assets and non-current financial assets.*

5 *Additions to non-current non-financial assets reflect cash payments and accruals in respect of additions to property, plant and equipment and intangible assets. Additions to non-current non-financial assets, however, exclude additions to deferred tax assets and non-current financial assets.*

3. OPERATING PROFITS

	2017 R'm	2016 R'm
Operating profit for the year has been arrived at after charging/(crediting):		
Impairment charge on goodwill and intangible assets (refer to note 7)	**3.2**	–
Impairment charge on property, plant and equipment (refer to note 8)	**4.9**	15.9
Impairment charge on foreign cash balances	**4.8**	–
Amortisation of intangibles (refer to note 7)	**13.3**	11.9
Depreciation of property, plant and equipment (refer to note 8)	**534.1**	476.2
Rentals under operating leases	**110.5**	125.0
Net foreign currency losses	**19.3**	35.6
Profit on disposal of tangible assets	**(3.3)**	(1.1)
Audit fees		
– current	**10.1**	10.3
– prior	**0.1**	0.1
Non-audit fees	**0.3**	0.3
Staff costs (excluding directors' emoluments)	**1,613.5**	1,570.0
Executive directors' emoluments (excluding value of deferred bonus shares awarded)[1]	**11.1**	11.2

[1] *The details of the executive directors' emoluments are disclosed in note 36.*

4. NET FINANCE COSTS

	2017 R'm	2016 R'm
Investment income		
Bank deposits and loan receivables	**9.7**	15.0
Other	**1.7**	3.4
Total investment income	**11.4**	18.4
Finance costs		
Interest on bank overdrafts and loans	**(236.4)**	(214.1)
Interest on defined benefit arrangements (refer to note 17)	**(5.1)**	(5.6)
Interest capitalised to qualifying assets[2] (refer to note 8)	**27.5**	10.3
Total interest expense	**(214.0)**	(209.4)
Net finance costs	**(202.6)**	(191.0)

[2] *The weighted average capitalisation rate on funds borrowed generally is 8.17% per annum (2016: 8.0%).*

Notes to the annual financial statements continued

for the year ended 31 December 2017

	2017 R'm	2016 R'm
5. TAX INCOME/(EXPENSE)		
Analysis of tax charge for the year		
South African corporate tax		
– current tax	**(104.5)**	(120.8)
– prior year	**0.1**	4.5
Foreign tax	**–**	(1.0)
Securities Transfer Tax	**(0.2)**	–
Current tax	**(104.6)**	(117.3)
Deferred tax in respect of the current year	**128.6**	(73.4)
Deferred tax in respect of prior year	**2.4**	8.0
Total tax income/(expense)	**26.4**	(182.7)

Factors affecting tax charge for the year

The Group has a negative effective tax rate of 10.1% for the current financial year (2016: 31.5% positive effective tax rate). This is due to the recognition of the S12I tax incentive relating to the Felixton Mill project.

The Group total tax charge for the year can be reconciled to the tax on the Group's profit before tax at the South African corporation tax rate of 28% (2016: 28%) as follows:

	2017 R'm	2016 R'm
Profit before tax	**261.1**	579.5
Less share of profit of equity accounted investees	**(20.0)**	(16.2)
Profit before tax, adjusted for equity accounted profit	**241.1**	563.3
Tax on profit before tax calculated at the South African corporation tax rate	**(67.5)**	(157.7)
Tax effects of:		
Expenses not deductible for tax purposes		
Non-qualifying depreciation	**–**	(0.7)
Subscription and donations	**(0.2)**	(0.3)
Other non-deductible expenses	**(0.1)**	(0.2)
Legal and professional costs	**(1.5)**	(1.6)
Non-deductible interest	**(0.2)**	(0.6)
Non-deductible foreign exchange differences	**(0.8)**	–
Non-taxable income		
Non-taxable foreign exchange differences	**–**	0.5
S12I additional investment allowances[1]	**122.8**	14.2
Other non-taxable income	**0.6**	4.2
Temporary difference adjustments		
Unrecognised tax losses and other temporary differences	**(25.6)**	(41.0)
Effect of difference between South African corporate tax rate and other country tax rate	**(0.8)**	(1.2)
Prior year adjustment current tax	**0.1**	4.5
Withholding tax	**(0.2)**	–
Other adjustments	**(0.2)**	(2.8)
Tax charge for the year	**26.4**	(182.7)

[1] *S12I additional investment allowances relates to the Felixton mill upgrade project. The tax benefit of which amounts to R114.2 million. The balance of R8.6 million relates to other capital investments in the Group.*

Income from equity accounted investees is presented net of tax on the face of the statement of profit or loss. The Group's share of its investees' tax is therefore not presented within the Group's total tax charge. The investees' tax charge included within "Share of investees" profit for the year ended 31 December 2017 is R7.7 million (2016: R5.7 million).

6. EARNINGS PER SHARE

	2017 Cents per share	2016 Cents per share
Earnings per share (EPS)		
Basic EPS	**162.1**	234.6
Diluted EPS	**162.0**	234.0
Headline earnings per share for the financial year[1]		
Basic headline EPS	**164.5**	242.0
Diluted headline EPS	**164.4**	241.4
Underlying earnings per share for the financial year[2]		
Basic underlying EPS	**166.3**	252.7
Diluted underlying EPS	**166.2**	252.0

1 *The presentation of headline EPS is mandated under the JSE Listings Requirements. Headline earnings has been calculated in accordance with Circular 2/2015, "Headline Earnings", as issued by the South African Institute of Chartered Accountants.*

2 *Underlying earnings is arrived at after adjusting profit attributable to equity holders of Mpact for special items, net of tax.*

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

	2017 Earnings R'm	2016 Earnings R'm
Profit for the financial year attributable to equity holders of Mpact	**275.2**	391.1
Impairment of property, plant and equipment (refer to note 3)	**4.9**	15.9
Impairment of goodwill and other intangible assets (refer to note 3)	**3.2**	–
Profit on sale of equity accounted investees	**–**	(0.8)
Profit on disposal of tangible assets (refer to note 3)	**(3.3)**	(1.1)
Related tax	**(0.8)**	(1.6)
Headline earnings for the financial year	**279.2**	403.5
Profit for the financial year attributable to equity holders of Mpact	**275.2**	391.1
Impairment of property, plant and equipment	**4.9**	15.9
Impairment of goodwill and other intangible assets	**3.2**	–
Impairment on foreign cash balances	**4.8**	–
Restructure costs related to closure of Zimbabwe operations	**–**	22.2
Related tax	**(5.8)**	(7.9)
Underlying earnings for the financial year	**282.3**	421.3

	Weighted number of shares	Weighted number of shares
Weighted average number of ordinary shares in issue[3]	**169,746,140**	166,734,753
Effect of dilutive potential ordinary shares[4]	**78,066**	436,392
Weighted average number of ordinary shares adjusted for the effect of dilution	**169,824,206**	167,171,145

3 *The weighted average number of shares takes into account the weighted average effect of changes in treasury shares and the capitalisation issue of shares during the year.*

4 *Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue, on the assumption of conversion of all potentially dilutive ordinary shares.*

7. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill R'm	Other intangibles[1] R'm	Total R'm
2017			
Cost			
At 1 January	**1,046.9**	**303.7**	**1,350.6**
Additions	**–**	**0.6**	**0.6**
Disposal	**–**	**(0.3)**	**(0.3)**
Impairment	**(1.9)**	**(1.7)**	**(3.6)**
At 31 December 2017	**1,045.0**	**302.3**	**1,347.3**
Accumulated amortisation and impairment			
At 1 January	**–**	**224.5**	**224.5**
Amortisation for the year	**–**	**13.3**	**13.3**
Disposal	**–**	**(0.3)**	**(0.3)**
Impairment	**–**	**(0.4)**	**(0.4)**
At 31 December 2017	**–**	**237.1**	**237.1**
Net book value at 31 December 2017	**1,045.0**	**65.2**	**1,110.2**
2016			
Cost			
At 1 January	1,023.0	256.1	1,279.1
Acquisition of business	23.9	47.0	70.9
Additions	–	0.6	0.6
At 31 December 2016	1,046.9	303.7	1,350.6
Accumulated amortisation and impairment			
At 1 January	–	212.6	212.6
Amortisation for the year	–	11.9	11.9
At 31 December 2016	–	224.5	224.5
Net book value at 31 December 2016	1,046.9	79.2	1,126.1

[1] *Other intangibles mainly relate to software development costs; customer relationships and contractual arrangements capitalised as a result of business combinations.*

7. GOODWILL AND OTHER INTANGIBLE ASSETS CONTINUED

Impairment testing

Goodwill is allocated for impairment testing purposes to cash-generating units (CGU's) which reflect how it is monitored for internal management purposes, in October each year. The Group considered several sources of estimation uncertainty and made certain assumptions/judgements about the future.

The recoverable amount of a CGU is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets covering a five-year period that are based on latest forecasts for revenue and cost as approved by the Board. Cash flow projections beyond three years are based on internal management forecasts and assume a growth rate not exceeding Consumer Price Index. Post-tax cash flow projections are discounted using a post-tax weighted average cost of capital rate adjusted by the economic and political risks in South Africa that are not reflected in the underlying cash flows. A Weighted Average Cost of Capital range of 10.5% and 13% (2016: 11.5% and 12.1%) has been applied as a discount rate. Perpetuity maintenance capital expenditure has been assumed at 100% of depreciation. The calculated value in use exceeds the carrying amount of the CGU and therefore there is no impairment.

Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including market and production estimates, together with economic factors such as prices, discount rates, currency exchange rates, estimates of production costs and future capital expenditure. In respect of the CGU's a sensitivity analyses of a 1% increase in discount rate was performed and this did not give rise to an impairment.

During the current financial year, goodwill and intangible assets were impaired by R1.9 million and R1.3 million, respectively in a Group subsidiary. The impairment is a consequence of the subsidiary selling the majority of its operating assets.

Carrying value of goodwill at the reporting dates is as follows:

	2017 R'm	2016 R'm
Paper	**694.5**	696.4
Plastics	**350.5**	350.5
	1,045.0	1,046.9

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings R'm	Plant and equipment R'm	Assets in the course of construction R'm	Other R'm	Total R'm
2017					
Cost					
At 1 January	506.1	5,325.8	443.0	242.2	6,517.1
Additions	94.6	888.2	(148.1)	21.1	855.8
Disposals	(0.6)	(193.0)	–	(20.3)	(213.9)
Currency movement	(0.7)	0.1	–	0.1	(0.5)
Transfer from inventory (refer to note 11)	–	2.6	–	–	2.6
Reclassification	4.1	49.7	(54.3)	0.5	–
Interest capitalised to qualifying assets (refer to note 4)	–	27.5	–	–	27.5
At 31 December 2017	**603.5**	**6,100.9**	**240.6**	**243.6**	**7,188.6**
Accumulated depreciation and impairment					
At 1 January	109.2	2,771.4	–	147.5	3,028.1
Depreciation	25.5	476.8	–	31.8	534.1
Disposals	(0.6)	(180.3)	–	(19.6)	(200.5)
Impairment	–	4.9	–	–	4.9
At 31 December 2017	**134.1**	**3,072.8**	**–**	**159.7**	**3,366.6**
Net book value at 31 December 2017	**469.4**	**3,028.1**	**240.6**	**83.9**	**3,822.0**
2016					
Cost					
At 1 January	390.2	4,735.9	375.3	202.5	5,703.9
Additions	65.5	584.1	154.6	31.7	835.9
Disposals	–	(104.2)	–	(15.4)	(119.6)
Currency movement	(3.1)	(7.5)	(0.4)	(1.5)	(12.5)
Transfer from inventory (refer to note 11)	–	0.9	–	–	0.9
Reclassification	2.2	94.4	(96.8)	0.2	–
Interest capitalised to qualifying assets (refer to note 4)	–	–	10.3	–	10.3
Acquisition of business (refer to note 25)	52.8	30.7	–	24.8	108.3
Re-organisation	(1.5)	–	–	–	(1.5)
Disposal group asset (refer to note 26)	–	(8.5)	–	(0.1)	(8.6)
At 31 December 2016	506.1	5,325.8	443.0	242.2	6,517.1
Accumulated depreciation and impairment					
At 1 January	90.4	2,439.5	–	132.8	2,662.7
Depreciation	20.5	426.0	–	29.7	476.2
Disposals	–	(98.3)	–	(13.7)	(112.0)
Currency movement	(0.2)	(3.2)	–	(1.2)	(4.6)
Disposal group asset (refer to note 26)	–	(8.5)	–	(0.1)	(8.6)
Impairment	–	15.9	–	–	15.9
Re-organisation	(1.5)	–	–	–	(1.5)
At 31 December 2016	109.2	2,771.4	–	147.5	3,028.1
Net book value at 31 December 2016	396.9	2,554.4	443.0	94.7	3,489.0

8. PROPERTY, PLANT AND EQUIPMENT CONTINUED

The impairment loss in the current financial year represents the write down of certain plant and equipment in the plastics segment as they were no longer in use. The prior financial year impairment loss was due to the restructuring that took place in the plastics segment.

The Group has pledged certain of its property, plant and equipment, other than assets under finance leases, as security in respect of the bank loans (refer note 16).

The net book value and depreciation charges relating to assets under finance leases amounts to R10.9 million (2016: R52.3 million) and R3.9 million (2016: R9.8 million) respectively, and have been pledged as security for these long-term borrowings (refer note 16).

	2017 R'm	2016 R'm
Freehold	**452.4**	378.1
Leasehold – long	**16.7**	18.4
Leasehold – short	**0.3**	0.4
Total land and buildings	**469.4**	396.9

A register of land and buildings and of leased assets is open for inspection upon prior arrangement at the registered office of the company.

	2017 R'm	2016 R'm
9. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES		
At 1 January	**102.1**	90.5
Share of profit	**20.0**	16.2
Dividends received	**(20.1)**	(5.6)
Disposal of part investment	**–**	(0.2)
Acquisition of investment	**–**	1.2
Balance at 31 December	**102.0**	102.1
The Group's total investment comprises:		
Net asset value	**82.3**	82.4
Goodwill	**19.7**	19.7
Total equity	**102.0**	102.1

All investments are pledged as security in respect of the bank loans (refer note 16).

The Group has interests in equity accounted investees that are individually insignificant in relation to the Group. The operating activities of the equity accounted investees, are linked to those of the Group.

The Group's share of the summarised financial information of principal investments, all of which are unlisted, is as follows:

	2017 R'm	2016 R'm
Total non-current assets	**57.3**	50.4
Total current assets	**192.0**	181.2
Total non-current liabilities	**(10.5)**	(8.4)
Total current liabilities	**(136.8)**	(121.1)
Share of net assets[1]	**102.0**	102.1
Revenue	**622.9**	523.9
Total operating costs	**(595.2)**	(502.0)
Profit before tax	**27.7**	21.9
Income tax expense	**(7.7)**	(5.7)
Share of profit for the financial year	**20.0**	16.2

[1] *There are no material contingent liabilities for which the Group is jointly or severally liable at the reporting dates presented.*

	2017 R'm	2016 R'm

10. FINANCIAL ASSET INVESTMENTS

	2017 R'm	2016 R'm
Loans receivable[1]	**22.7**	19.6
Loan to associated companies[1]	**6.8**	1.4
Available-for-sale investment[2]	**20.5**	20.5
Total financial assets investments	**50.0**	41.5

All financial asset investments are non-current as the repayment terms are greater than one year.

[1] *Loans receivable are held at amortised cost.*

[2] *Relates to an equity investment acquired in the prior financial year, where the cost approximates the fair value.*

11. INVENTORIES

	2017 R'm	2016 R'm
Raw materials and consumables	**886.5**	818.5
Work in progress	**43.7**	39.5
Finished goods	**501.0**	535.2
Total inventories	**1,431.2**	1,393.2

All items of inventory are held at cost which is lower than the net realisable value.

	2017 R'm	2016 R'm
Write-down of inventories	**18.8**	5.4
Reversal of write-down of inventories	**(10.2)**	(9.6)
Cost of inventories recognised as an expense	**4,753.0**	4,660.5
Inventory capitalised to property, plant and equipment (refer note 8)	**(2.6)**	(0.9)

Certain inventories are pledged as security for the bank loans (refer note 16).

	2017 R'm	2016 R'm
12. TRADE AND OTHER RECEIVABLES		
Trade receivables (a)		
– external	**1,884.6**	1,768.2
– related parties (refer to note 33)	**213.9**	244.1
Allowance for doubtful debts (b)	**(70.0)**	(44.4)
Net trade receivables	**2,028.5**	1,967.9
Other receivables	**209.3**	115.4
Prepayments and accrued income	**28.4**	19.8
Total trade and other receivables	**2,266.2**	2,103.1

The fair values of trade and other receivables approximate the carrying values presented.

Trade and other receivables are pledged as security for the bank loans (refer note 16).

a) Trade receivables: Credit risk

The Group's exposure to the credit risk inherent in their trade receivables and the associated risk management techniques that the Group deploys in order to mitigate this risk are discussed in note 32. Credit periods offered to customers vary according to the credit risk profiles and invoicing conventions established by participants operating in the various markets in which the Group operates. Interest is charged at an appropriate rate on balances which are considered overdue in the relevant market.

To the extent that recoverable amounts are estimated to be less than their associated carrying values, impairment charges have been recorded in the statement of profit or loss and the carrying values have been written down to their recoverable amounts. The total gross carrying value of these impaired trade receivables for the Group at the reporting date are R176.6 million (2016: R148.2 million) and the associated aggregated impairments for the Group are R70.0 million (2016: R44.4 million).

Included within the Group aggregate trade receivables balance are specific debtor balances with customers totalling R346.4 million (2016: R391.5 million) which are past due, but not impaired as at the reporting date. The Group has assessed these balances for recoverability and believe that their credit quality remains intact. An ageing analysis of these past due trade receivables is provided as follows:

	Carrying value	
	2017 R'm	2016 R'm
Trade receivables past due by:		
Less than one month	**165.6**	208.2
One to two months	**51.9**	68.7
Two to three months	**41.5**	28.4
More than three months	**87.4**	86.2
Total	**346.4**	391.5

The Group did not enter into any debt factoring arrangements.

	2017 R'm	2016 R'm
b) Movement in the allowance account for bad and doubtful debts		
At 1 January	**44.4**	40.7
Amounts written off or recovered during the year	**(3.1)**	–
Increase in allowance recognised in the statement of profit or loss	**28.7**	10.6
Non-current asset held for sale	**–**	(6.9)
At 31 December	**70.0**	44.4

	2017 R'm	2016 R'm
13. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	**350.6**	405.7

Cash at banks earns interest based on daily bank deposit rates.

Certain bank accounts within the Group are pledged as security for the bank loans (refer to note 16).

14. DERIVATIVE FINANCIAL INSTRUMENTS

	2017			2016		
	Asset R'm	**Liability R'm**	**Notional amount R'm**	Asset R'm	Liability R'm	Notional amount R'm
Non-current derivative						
Cash flow hedges						
Interest rate swaps	**–**	**(9.5)**	**500.0**	–	(4.4)	500.0
Current derivative						
Held for trading[1]						
Foreign exchange contracts	**2.1**	**(17.1)**	**183.3**	2.9	(8.6)	109.3

[1] *There were no held-for-trading derivative assets and liabilities, classified as current in accordance with IAS 1: "Presentation of Financial Statements", which are due to mature after more than one year, for all the years presented. The inputs in determining fair value are classed as level 2 in terms of IFRS.*

Derivative financial instruments are held at fair value. Appropriate valuation methodologies are employed to measure the fair value of derivative financial instruments (refer note 32).

The notional amounts presented represent the aggregate face value of all foreign exchange contracts and interest rate swaps at year end. They do not indicate the contractual future cash flows of the derivative instruments held or their current fair value and therefore do not indicate the Group's exposure to credit or market risks. Note 32 provides an overview of the Group's management of financial risks through the selective use of derivative financial instruments and also includes a presentation of the undiscounted future contractual cash flows of the derivative contracts outstanding at the reporting date.

Hedging

Cash flow hedges

The Group designates certain derivative financial instruments as cash flow hedges. The fair value (losses)/gains reclassified from the cash flow hedge reserve during the year and matched against the realisation of hedged risks in the consolidated statement of profit or loss were as follows:

	2017 R'm	2016 R'm
Held for trading derivatives		
Net fair value loss on held for trading derivatives	**9.3**	9.0

Held for trading derivatives are used primarily to hedge foreign exchange balance sheet exposures. Held for trading derivative gains have corresponding gains which arise on the revaluation of the foreign exchange balance sheet exposures being hedged. The Group chose not to apply hedge accounting to the held for trading derivatives.

In 2015 the Group entered into an interest rate swap for R500 million which expires in December 2019. The floating rate of the swap was referenced to three-month JIBAR and the fixed interest rate on the R500 million facility is 9.49%.

	2017 R'm	2016 R'm
15. STATED CAPITAL		
Authorised share capital		
217,500,000 shares of no par value	**–**	–
Issued share capital		
Issue of shares of no par value	**2,532.7**	2,426.2
Capitalisation issue	**88.7**	106.5
	2,621.4	2,532.7

The following table illustrates the movement within the number of shares issued:

	Number of shares	Number of shares
Shares in issue at beginning of year	**168,485,360**	165,958,619
Issued in terms of the scrip distribution made during the financial year	**2,976,263**	2,526,741
Shares in issue at end of year	**171,461,623**	168,485,360

The directors have been given the authority by the shareholders to buy back Mpact's own shares up to a limit of 20% of the current issued share capital, although the directors will limit any purchase to a maximum of 5% of the issued share capital.

Included in other reserves are amounts paid by Mpact Limited to Mpact Limited Incentive Scheme Trust for the acquisition of Mpact shares to be utilised in terms of the Share Plans. Refer to note 24. As at 31 December 2017, The Trust held 1,914,874 shares (2016: 845,692).

16. INTEREST AND NON-INTEREST-BEARING BORROWINGS

	2017 R'm	2016 R'm
Secured		
Standard Bank and Rand Merchant Bank:		
– Facility A[1]	**900.0**	900.0
– Facility B[2]	**550.0**	350.0
– Facility C[3]	**–**	550.0
– Facility C1[4]	**550.0**	–
Industrial Development Corporation interest-bearing loan[5]	**256.1**	230.7
KZN Growth Fund[6]	**200.0**	200.0
Standard Bank facility[7]	**52.5**	40.0
	2,508.6	2,270.7
Obligations under finance leases	**9.2**	45.3
Instalment loan facilities	**20.1**	23.4
	2,537.9	2,339.4
Unsecured		
Minority shareholder loans in subsidiary[8]	**18.6**	31.9
Industrial Development Corporation shareholder loan[8]	**30.0**	30.0
	48.6	61.9
Total borrowings	**2,586.5**	2,401.3
Less: Current portion	**(1,198.9)**	(984.3)
Standard Bank and Rand Merchant Bank loans	**(1,100.0)**	(900.0)
Industrial Development Corporation loan	**(58.1)**	(32.7)
Obligations under finance leases	**(4.3)**	(16.9)
Minority shareholder loans	**(18.6)**	(31.9)
Standard Bank facility	**(15.0)**	–
Instalment loan facilities	**(2.9)**	(2.8)
Non-current borrowings	**1,387.6**	1,417.0

1 *Facility A is repayable in full on its 5th anniversary, 22 December 2019, and bears interest at a three-month JIBAR plus 1.65%.*

2 *Facility B is a revolving credit facility and is repayable as agreed when utilised. The facility bears interest at JIBAR plus 1.65%, and expires on 22 December 2019.*

3 *Facility C was a revolving credit facility and was repayable as agreed when utilised. The facility interest was at JIBAR plus 1.35% and was refinanced on 1 December 2017.*

4 *Facility C1 is a revolving credit facility and is repayable as agreed when utilised. The facility bears interest at JIBAR plus 2.05% and expires on 1 December 2021.*

5 *The Industrial Development Corporation loan is payable over 72 months commencing January 2019, and bears interest at a rate of prime plus 1%.*

6 *The KZN Growth Fund loan is payable in full on 2 March 2023 and bears interest at fixed rate of 9.15%.*

7 *The facility is payable over 16 equal instalments, commencing after the expiry of the availability period and bears interest at JIBAR plus 2.10%.*

8 *The loans were granted as shareholder loans which are non-interest-bearing with no fixed date of repayment.*

The Group sources its borrowings in South African Rands. The fair values of the Group borrowings approximate the carrying values presented.

The maturity analysis of the Group's borrowings presented, on an undiscounted future cash flow basis is included as part of a review of the Group's liquidity risk within note 32.

Facilities totalling R415.0 million remain committed and undrawn as at 31 December 2017 (2016: R420.0 million).

16. INTEREST AND NON-INTEREST-BEARING BORROWINGS CONTINUED

	2017 R'm	2016 R'm
Obligations under finance leases		
The maturity of obligations under finance leases is:		
No later than one year	**5.1**	16.9
Later than one year and not more than five years	**5.3**	35.6
Future value of finance lease liabilities	**10.4**	52.5
Future finance charges	**(1.2)**	(7.2)
Present value of finance lease liabilities	**9.2**	45.3

Finance leases relate to computer equipment and plant with varying lease terms. The Group's obligations under the finance leases are secured by the lessors' title to the lease assets.

Financing facilities

Group liquidity is provided through debt facilities which are in excess of the Group's short-term needs. The Group has committed facilities amounting to R2.9 billion (2016: R2.7 billion).

The Group has pledged certain assets as collateral against certain borrowings. The values of these assets as at 31 December 2017 are as follows:

	2017 R'm	2016 R'm
Assets held under finance leases		
Property, plant and equipment	**9.5**	52.3
Assets pledged as collateral for other borrowings		
Property, plant and equipment	**2,064.2**	1,855.2
Inventories	**1,110.3**	1,108.1
Financial assets[1]	**1,889.2**	1,831.7
Investments in associates	**102.0**	102.1
Total carrying value of assets pledged as collateral	**5,175.2**	4,949.4

[1] *Financial assets include cash equivalents and trade and other receivables of certain subsidiaries.*

The Group is entitled to receive all cash flows from these pledged assets. Further, there is no obligation to remit these cash flows to another entity.

17. RETIREMENT BENEFITS

The Group operates post-retirement defined contribution plans for the majority of its employees. The Group also operates a post-retirement medical arrangement. The accounting policy for retirement benefits is included in note 1.

Defined contribution plan

The assets of the defined contribution plans are held separately in independently administered funds. The charge in respect of these plans for the Group totalling R84.3 million (2016: R82.8 million) is calculated on the basis of the contribution payable by the Group in the financial year. There were no material outstanding or prepaid contributions recognised in relation to these plans as at the reporting dates presented.

Post-retirement medical plan

The post-retirement medical plan provides health benefits to retired employees and certain dependants. Eligibility for cover is dependent upon certain criteria. This plan is unfunded and there are no plan assets. The plan has been closed to new participants since 1 January 1999. The valuation is based on 12 in service members (2016: 26 in service members) and 82 pensioners (2016: 79 pensioners).

The post-retirement medical aid liability is valued each year using the projected unit credit method. The actuarial present value of the promised benefits at the most recent valuation was performed during the 2017 financial year and indicates that the contractual post-retirement medical aid liability is adequately provided for within the financial statements.

Actuarial assumptions

The principal assumptions used to determine the actuarial present value of benefit obligations are detailed below:

	2017 **%**	2016 %
Post-retirement medical plan		
Average discount rate for plan liabilities	**10.4**	10.1
Expected average increase of healthcare costs	**8.9**	9.3

The assumption for the average discount rate for plan liabilities is based on AA corporate bonds, which are of a suitable duration and currency.

Mortality assumptions

The assumed life expectations on retirement at age 65 are:

	2017 **years**	2016 years
Retiring today		
Males	**16.10**	16.09
Females	**20.20**	20.15
Retiring in 20 years		
Males	**21.54**	21.44
Females	**25.73**	25.63

The mortality assumptions have been based on published mortality tables in the relevant jurisdictions.

Independent qualified actuaries carry out full valuations every three years using the projected credit unit method. The actuaries have updated the valuations to 31 December 2017.

The total gain recognised in other comprehensive income relating to experience movements on scheme liabilities and plan assets and actuarial assumption changes for the year ended 31 December 2017 is R4.9 million (2016: gain of R3.6 million). R4.6 million (2016: R1.7 million) related due to changes in financial assumptions and R0.3 million (2016: R1.9 million) related due to changes in demographic assumptions.

Notes to the annual financial statements continued

for the year ended 31 December 2017

	2017 R'm	2016 R'm

17. RETIREMENT BENEFITS CONTINUED

The changes in the present value of defined benefit obligations are as follows:

	2017 R'm	2016 R'm
Post retirement medical plans		
At 1 January	**51.6**	53.0
Interest cost	**5.1**	5.6
Remeasurement	**(4.9)**	(3.6)
Benefits paid	**(2.9)**	(3.4)
At 31 December	**48.9**	51.6

The amounts recognised in the statement of profit or loss are as follows:

	2017 R'm	2016 R'm
Analysis of the amount charged to operating profit		
Interest costs on plan liabilities[1]	**5.1**	5.6
Total charge to statement of profit or loss	**5.1**	5.6

[1] *Included in finance costs (refer to note 4).*

Sensitivity analysis

Assured healthcare trend rates have a significant effect on the amounts recognised in the statement of profit or loss. A 1% change in assumed healthcare cost trend rates would have the following effects on the post-retirement medical plans:

	2017 R'm	2016 R'm
1% increase		
Effect on the aggregate of the current service cost and interest cost	**0.6**	0.6
Effect on the defined benefit obligation	**5.4**	6.0

The Group's post-retirement medical arrangement for five years ended 31 December 2017, is summarised as follows:

	Liabilities Post-retirement medical plans R'm	**Re-measurement gain/(losses) On plan liabilities R'm**
2013	**54.0**	**12.0**
2014	**57.4**	**(0.6)**
2015	**53.0**	**6.7**
2016	**51.6**	**3.6**
2017	**48.9**	**4.9**

	2017 R'm	2016 R'm

18. DEFERRED TAX

	2017 R'm	2016 R'm
Deferred tax asset		
At 1 January	**4.9**	15.3
Charged to statement of profit or loss	**3.1**	(2.7)
Reclassification	**–**	(6.9)
Charge to equity	**(1.1)**	(0.8)
At 31 December	**6.9**	4.9
Deferred tax liability		
At 1 January	**(342.5)**	(266.8)
Acquired through business combinations (refer to note 25)	**–**	(31.8)
Credited/(charged) to statement of profit or loss	**127.9**	(62.7)
Charged to statement of other comprehensive income	**–**	4.1
Charged to equity	**2.4**	7.8
Reclassification	**–**	6.9
At 31 December	**(212.2)**	(342.5)
The amount of deferred taxation provided in the accounts is presented as follows:		
Deferred tax assets		
Tax losses[1]	**45.5**	40.9
Capital allowances	**(36.1)**	(39.6)
Other temporary differences	**(2.5)**	3.6
Total deferred tax assets	**6.9**	4.9
Deferred tax liabilities		
Tax losses[1]	**168.0**	11.7
Capital allowances	**(475.3)**	(393.4)
Fair value adjustments	**(4.6)**	(4.6)
Other temporary differences	**99.7**	43.8
Total deferred tax liabilities	**(212.2)**	(342.5)

1 Based on the future taxable income projections, the Group believes that there will be sufficient future taxable profits available to utilise these tax losses.

The Group has the following assessable losses in respect of which no deferred tax has been recognised due to the unpredictability of future taxable profit streams or gains against which these could be utilised:

	2017 R'm	2016 R'm
Unutilised tax losses	**381.4**	358.8

All unrecognised tax losses have no expiry date, where trading is ongoing.

19. DEFERRED INCOME

	2017 R'm	2016 R'm
Government grants	**29.0**	34.5
Less current portion	**(5.5)**	(5.5)
Non-current portion	**23.5**	29.0

The government grants relate to MCEP grants received for capital expenditure. The income released to the statement of profit or loss of R5.5 million (2016: R5.5 million) has been off-set against operating expenses.

Notes to the annual financial statements continued

for the year ended 31 December 2017

	2017 R'm	2016 R'm
20. SHORT-TERM BORROWINGS		
Standard Bank and Rand Merchant Bank	**1,100.0**	900.0
Industrial Development Corporation loan	**58.1**	32.7
Standard Bank facility	**15.0**	–
Minority shareholder loans	**18.6**	31.9
Current portion of finance lease obligations	**4.3**	16.9
Bank overdrafts	**7.8**	5.7
Instalment loan facilities	**2.9**	2.8
Total short-term borrowings	**1,206.7**	990.0

The current portion of borrowings is expected to be repaid from operational cash flow and other existing facilities.

	2017 R'm	2016 R'm
21. TRADE AND OTHER PAYABLES		
Trade payables	**1,434.3**	1,220.0
Amounts owed to related parties (refer to note 33)	**17.9**	19.1
Other payables and accruals	**569.5**	533.0
Total trade and other payables	**2,021.7**	1,772.1

The fair values of trade and other payables are not materially different to the carrying values presented.

	2017 R'm	2016 R'm
22. OTHER CURRENT LIABILITIES		
Non-controlling interest put option[1]	**–**	14.5
Opening balance	**14.5**	21.7
Expiry of option	**(14.5)**	–
Fair value gain through profit or loss	**–**	(7.2)
Contingent consideration[2]	**–**	32.7
Accrual for settlement cost (refer to note 29c)	**–**	4.6
Total other current liabilities	**–**	51.8

[1] *The non-controlling shareholders of a subsidiary company had a put option which required the Group to purchase the non-controlling interest in the future. The conditions for the put option to be effective were not met in the current financial year and the option had expired. There was a fair value adjustment of R7.2 million to the put option in the prior year.*

[2] *Represented the estimated fair value of the contingent consideration relating to the acquisition of Remade Holdings (Pty) Ltd. The contingent consideration was settled in the current financial year.*

	2017 R'm	2016 R'm
23. PROVISIONS		
Bonus Share Plan[3]	**3.5**	4.0
Restoration and environmental[4]	**1.1**	1.1
Total provisions	**4.6**	5.1

[3] *Relates to Bonus Share Plan awards, where dividends earned over the holding period are paid as a single cash payment on vesting date. In the current financial year the provision decreased by a nett R0.5 million and recognised in the statement of profit or loss (2016: R1.4 million).*

[4] *The restoration and environmental provision represents the best estimate of the expenditure required to settle the obligation to rehabilitate environmental disturbances caused by production operations. A provision is recognised for the present value of such costs. In the current financial year there was no charge to the statement of profit or loss (2016: R0.1 million).*

24. SHARE-BASED PAYMENTS

The Group has a share-based payment arrangement for executives and senior employees of Mpact Limited and its subsidiaries. The Group intends to operate two plans on a continuing basis, namely; Bonus Share Plan ("BSP"), Performance Share Plan ("PSP"). The Share Appreciation Right Plan ("SARP") was a once-off allocation in 2011. The total fair value charge in respect of all the Mpact share awards granted are as follows:

	2017 R'm	2016 R'm
Bonus Share Plan (BSP)	**14.6**	14.4
Performance Share Plan (PSP)	**12.8**	8.5
Share Appreciation Rights Plan (SARP)	**–**	0.2
Total share-based payment expense	**27.4**	23.1

The fair values of the share awards granted under the Mpact share plans are calculated using the Black-Scholes-Merton Model with reference to the facts and assumptions presented below:

		2017	2016	2015	2014
Bonus Share Plan (BSP)					
Date of grant		**3 April 2017**	1 April 2016	1 April 2015	5 June 2014
Vesting period	(months)	**36**	36	36	34
Expected leavers per annum	(%)	**–**	–	5	5
Share price volatility		**33.71%**	28.50%	22.48%	22.48%
Future risk free interest rate		**7.92%**	7.20%	7.20%	7.21%
Grant date fair value per instrument	(R)	**27.48**	48.53	39.06	23.43
Performance Share Plan (PSP)					
Date of grant		**3 April 2017**	1 April 2016	1 April 2015	5 June 2014
Vesting period	(months)	**36**	36	36	34
Expected leavers per annum	(%)	**–**	–	5	5
Share price volatility		**33.71%**	28.50%	22.48%	22.48%
Future risk free interest rate		**7.92%**	7.20%	7.20%	7.21%
Expected outcome of meeting performance criteria	(%)				
– Return on capital employed ("ROCE") component		**100**	100	100	100
– Total shareholder return ("TSR") component determined inside the valuation model and incorporated in the fair value per option					
Grant date fair value per instrument	(R)				
– ROCE component		**27.48**	48.53	39.06	23.43
– TSR component		**18.99**	31.13	24.49	13.75

24. SHARE-BASED PAYMENTS CONTINUED

Share Appreciation Rights Plan (SARP)

Date of grant		1 September 2011
Vesting period		Equal third on 31 March 2014/2015/2016
Expected leavers per annum	(%)	5
Expected outcome of meeting performance criteria	(%)	
– EBITDA component		100
Strike price	(R)	13.41

	BSP	PSP	SARP
A reconciliation of share award movements for the Group is shown below:			
2017			
1 January 2017	**1,285,959**	**928,884**	**–**
Shares conditionally awarded in year	**353,853**	**958,730**	**–**
Shares vested in year	**(488,902)**	**(355,660)**	**–**
Shares lapsed in year	**–**	**–**	**–**
31 December 2017	**1,150,910**	**1,531,954**	**–**
2016			
1 January 2016	1,401,072	962,558	770,650
Shares conditionally awarded in year	350,843	293,812	–
Shares vested in year	(465,956)	(327,486)	(571,143)
Shares lapsed in year	–	–	(199,507)
31 December 2016	1,285,959	928,884	–

25. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS

2017

Acquisition of additional interest in Pyramid Holdings Proprietary Limited

On 1 July 2017, the Group acquired the remaining 49% interest in the voting shares of Pyramid Holdings Proprietary Limited. The cash consideration was for R1. The negative carrying value of the non-controlling interest was R1.1 million on the date of acquisition. A deficit of R1.1 million was recognised in retained earnings. This is how the Group elected to recognise the difference of the consideration paid and the carrying value of the non-controlling interest.

Acquisition of additional interest in Mpact Recycling Proprietary Limited

On 1 July 2017, the Group increased its interest in a subsidiary by 1.5%, resulting in the dilution of the non-controlling shareholder. On 1 November 2017, the Group acquired the remaining 9% interest of Mpact Recycling Proprietary Limited. The cash consideration was for R18.1 million. The carrying value of the non-controlling interest was R19.5 million on the date of acquisition. A surplus of R1.4 million was recognised in retained earnings. This is how the Group elected to recognise the difference of the consideration paid and the carrying value of the non-controlling interest.

2016

Properties

On 1 May 2016, the Group acquired a 100% interest in six property companies at fair value for a net cash outflow of R37.2 million. The properties acquired are to be held for use for normal trading.

Remade Holdings Proprietary Limited

On 1 May 2016, the Group acquired a 100% interest in Remade Holdings Proprietary Limited for a net cash outflow of R52.6 million. The acquisition of Remade Holdings Proprietary Limited complements a number of initiatives by Mpact Recycling to expand its own collections of paper, plastics and to increase recycling rates of these materials in South Africa. These initiatives increase the material available for the Felixton Mill, Mpact Polymers and the recently commissioned liquid recycling plant at the Springs Paper Mill.

	2017 R'm	2016 R'm

26. DISPOSAL GROUP

As disclosed in the 2016 annual financial statements, the Group was in a process of disposing certain of its foreign assets and liabilities. Details of these assets and liabilities held for sale are as follows:

	2017 R'm	2016 R'm
Property, plant and equipment – cost	–	8.6
Property, plant and equipment – accumulated depreciation	–	(8.6)
Trade and other receivables – gross	–	19.7
Provision for bad debts	–	(6.9)
Disposal group assets	**–**	12.8
Trade and other payables	–	10.7
Disposal group liabilities	**–**	10.7

27. CONSOLIDATED CASH FLOW ANALYSIS

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

	2017 R'm	2016 R'm
Profit before taxation	**261.1**	579.5
Depreciation, amortisation and impairments	**555.5**	504.0
Share-based payments	**27.4**	23.1
Net finance costs	**202.6**	183.8
Share of equity accounted investee profit	**(20.0)**	(16.2)
Decrease in provisions	**(8.0)**	(1.7)
Increase in inventories	**(40.6)**	(115.5)
Increase in receivables	**(155.5)**	(75.3)
Increase/(decrease) in payables	**201.7**	(98.1)
Profit on disposal of tangible assets	**(3.3)**	(1.1)
Fair value change on transactions not qualifying as hedges	**9.3**	13.8
Amortisation of government grant	**(5.5)**	(5.5)
Other non-cash items	**0.3**	(3.3)
Profit on sale of equity accounted investee	**–**	(0.8)
Cash generated from operations	**1,025.0**	986.7

(b) Cash and cash equivalents

	2017 R'm	2016 R'm
Cash and cash equivalent per statement of financial position	**350.6**	405.7
Bank overdrafts included in short-term borrowings (refer to note 20)	**(7.8)**	(5.7)
Net cash and cash equivalents per statement of cash flows	**342.8**	400.0

The fair value of cash and cash equivalents approximate the values presented.

27. CONSOLIDATED CASH FLOW ANALYSIS CONTINUED

(c) Changes in liabilities arising from financing activities

	1 January R'm	Cash flows R'm	Changes in fair values R'm	Foreign exchange movement R'm	Other[1] R'm	31 December R'm
2017						
Non-current interest and non-interest bearing borrowings	**1,417.0**	**(16.9)**	**–**	**(2.1)**	**(10.4)**	**1,387.6**
Non-current derivative financial instruments	**4.4**	**–**	**5.1**	**–**	**–**	**9.5**
Short-term portion of borrowings	**990.0**	**213.2**	**–**	**(0.2)**	**3.7**	**1,206.7**
Current portion derivative financial instruments	**8.6**	**–**	**8.5**	**–**	**–**	**17.1**
Total	**2,420.0**	**196.3**	**13.6**	**(2.3)**	**(6.7)**	**2,620.9**
2016						
Non-current interest and non-interest bearing borrowings	1,331.0	63.4	–	(6.8)	29.4	1,417.0
Non-current derivative financial instruments	–	–	4.4	–	–	4.4
Short-term portion of borrowings	770.0	244.0		(0.8)	(23.2)	990.0
Current portion derivative financial instruments	7.0	–	1.6	–	–	8.6
Total	2,108.0	307.4	6.0	(7.6)	6.2	2,420.0

[1] *Relates to the reclassification of liabilities from non-current liabilities to current liabilities as well as acquisition of subsidiaries and non-cash loan movements.*

28. CAPITAL COMMITMENTS

	2017 R'm	2016 R'm
Capital expenditure contracted for at the reporting date in respect of plant and equipment, but not yet incurred is as follows:		
Contracted for	**142.4**	361.9
Approved, not yet contracted for	**590.9**	572.5
Total capital commitments	**733.3**	934.4

The capital commitments will be financed from existing cash resources and unutilised borrowing facilities.

29. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities for the Group comprise aggregate amounts at 31 December 2017 of R10.0 million (2016: R7.1 million) in respect of loans and guarantees given to banks and other third parties.

(b) A Group mill is the subject of a land claim, which should not have a material impact on the financial position of the Group.

(c) In 2013 a settlement was reached in respect of a dispute relating to the valuation of put options in a group subsidiary. The settlement agreement provides for a deferred payment contingent upon the achievement of certain EBITDA and ROCE levels for the years 2017 to 2018, subject to a maximum amount of R1.9 million (2016: R1.9 million).

(d) There were no significant contingent assets for the Group at 31 December 2017 and 31 December 2016.

(e) As advised to the shareholders on 26 May 2016, the Company is subject to a Competition Commission investigation. The Directors are unable at this stage to determine what the outcome of the investigation will be.

30. OPERATING LEASE COMMITMENTS

At 31 December, the outstanding commitments under non-cancellable leases were:

	2017 R'm	2016 R'm
Expiry date:		
Within one year	**126.2**	118.8
One to two years	**124.5**	114.9
Two to five years	**213.1**	214.8
After five years	**59.3**	39.0
Total operating lease commitments	**523.1**	487.5

The majority of these operating leases relate to land and buildings.

31. CAPITAL MANAGEMENT

The Group defines its total capital employed as equity, as presented in the statement of financial position, plus net debt, less investment in subsidiaries and financial asset investments.

	2017 R'm	2016 R'm
Total borrowings (excluding overdrafts)	**2,586.5**	2,401.3
Less: cash and cash equivalents, net of overdrafts	**(342.8)**	(400.0)
Net debt	**2,243.7**	2,001.3
Less: Loans and receivables	**(29.5)**	(21.0)
Less: Financial asset investments	**(20.5)**	(20.5)
Adjusted net debt	**2,193.7**	1,959.8
Equity	**4,242.9**	4,020.6
Total capital employed	**6,436.6**	5,980.4

Total capital employed is managed on a basis that enables the Group to continue trading as a going concern, while delivering acceptable returns for shareholders and benefits for other stakeholders. Additionally, the Group is also committed to reducing its cost of capital by maintaining an optimal capital structure. In order to maintain an optimal capital structure, the Group may adjust the future level of dividends paid to shareholders, repurchase shares from shareholders, issue new equity instruments or dispose of assets to reduce its net debt exposure.

The Group reviews its total capital employed on a regular basis and makes use of several indicative ratios which are appropriate to the nature of the Group's operations and are consistent with conventional industry measures. The principal ratios used in this review process are:

- gearing, defined as net debt divided by total capital employed; and
- return on capital employed, defined as underlying operating profit, plus share of associates profit, before special items, divided by average capital employed.

32. FINANCIAL RISK MANAGEMENT

The Group's trading and financing activities expose it to various financial risks that, if left unmanaged, could adversely impact on current or future earnings. Although not necessarily mutually exclusive, these financial risks are categorised separately according to their different generic risk characteristics and include market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the Group's financial performance.

The principles, practices and procedures governing the Group-wide financial risk management process have been approved by the Board and are overseen by the executive committee. In turn, the executive committee delegates authority to a central treasury function (Group treasury) for the practical implementation of the financial risk management process across the Group and for ensuring that the Group's entities adhere to specified financial risk management policies. Group treasury continually reassesses and reports on the financial risk environment, identifying, evaluating and hedging financial risks by entering into derivative contracts with counterparties where appropriate. The Group does not take speculative positions on derivative contracts and only enters into contractual arrangements with counterparties that have investment grade credit ratings.

Market risk

The Group's activities are exposed to primarily foreign exchange and interest rate risk. Both risks are actively monitored on a continuous basis and managed through the use of foreign exchange contracts and interest rate swaps, respectively, Although the Group's cash flows are exposed to movements in key input and output prices, such movements represent economic rather than residual financial risk inherent in commodity payables and receivables.

Foreign exchange risk

The Group operates across various national boundaries and is exposed to foreign exchange risk in the normal course of their business. Multiple currency exposures arise from forecast commercial transactions denominated in foreign currencies, recognised financial assets and liabilities (monetary items) denominated in foreign currencies and the translational exposure on net investments in foreign operations.

Foreign exchange contracts

The Group's foreign exchange policy requires its subsidiaries to actively manage foreign currency exposures against their functional currencies by entering into foreign exchange contracts. For segmental reporting purposes, each subsidiary enters into, and account for, foreign exchange contract with Group treasury or with counterparties that are external to the Group, whichever is more commercially appropriate.

Only material statement of financial position exposure and highly probable forecast capital expenditure transactions are being hedged.

Currencies bought or sold forward to mitigate possible unfavourable movements on recognised monetary items are marked to market at each reporting date. Foreign currency monetary items are translated at each reporting date to incorporate the underlying foreign exchange movements, and any such movements are naturally off-set against fair value movements on related foreign exchange contracts.

Foreign currency sensitivity analysis

Foreign exchange risk sensitivity analysis has been performed on the foreign currency exposures inherent in the Group's financial assets and financial liabilities at the reporting dates presented, net of related forward positions. The sensitivity analysis provides an indication of the impact on the Group's reported earnings of reasonably possible changes in the currency exposures embedded within the functional currency environments that the Group operates in. In addition, an indication is provided of how reasonably possible changes in foreign exchange rates might impact on the Group's equity, as a result of fair value adjustments to foreign exchange contracts designated as cash flow hedges. Reasonably possible changes are based on an analysis of historic currency volatility, together with any relevant assumptions regarding near-term future volatility.

Resultant impacts of reasonably possible changes to foreign exchange rates
The Group has assumed that for its functional to foreign currency net monetary exposure, it is reasonable to assume a 5% appreciation/depreciation of the functional currency.

Interest rate risk
The Group holds cash and cash equivalents, which earns interest at a variable rate and has variable rate debt in issue. Consequently, the Group is exposed to interest rate risk. Although the Group also has fixed rate debt in issue, the Group's accounting policy stipulates that all borrowings are held at amortised cost. As a result, the carrying value of fixed rate debt is not sensitive to changes in credit conditions in the relevant debt markets and there is therefore no exposure to fair value interest rate risk.

Management of cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term highly liquid investments which have a maturity of three months or less from the date of acquisition.

Management of variable rate debt
The Group has multiple variable rate debt facilities. Group treasury uses interest rate swaps to hedge certain exposures to movements in the relevant inter-bank lending rates, primarily the Johannesburg Interbank Agreed Rate (JIBAR).

Interest rate swaps are ordinarily formally designated as cash flow hedges and are fair valued at each reporting date. The fair value of interest rate swaps are determined at each reporting date by reference to the discounted contractual future cash flows, using the relevant currency-specific yield curves, and the credit risk inherent in the contract.

The Group's cash and cash equivalents also acts as a natural hedge against possible unfavourable movements in the relevant inter-bank lending rates on its variable rate debt, subject to any interest rate differentials that exist between corporate saving and lending rates.

Net variable rate debt sensitivity analysis
The net variable rate exposure represents variable rate debt less the future cash outflows swapped from variable-to-fixed via interest rate swap instruments and cash and cash equivalents. Reasonably possible changes in interest rates have been applied to net variable rate exposure, in order to provide an indication of the possible impact on the Group's statement of profit or loss.

Interest rate risk sensitivities on variable rate debt and interest rate swaps

	2017 R'm	2016 R'm
Total debt (including overdrafts)	**2,594.3**	2,407.0
Less:		
Fixed rate debt	**(202.3)**	(203.1)
Non-interest bearing debt	**(48.6)**	(61.9)
Cash and cash equivalents	**(350.6)**	(405.7)
Net variable rate debt	**1,992.8**	1,736.3
Interest rate swaps:		
Floating-to-fixed notionals	**(500.0)**	(500.0)
Net variable rate exposure	**1,492.8**	1,236.3
+/– basis points change		
Potential impact on earnings (+50 basis points)	**(5.0)**	(4.2)
Potential impact on earnings (-50 basis points)	**5.0**	4.2

32. FINANCIAL RISK MANAGEMENT CONTINUED

Credit risk

The Group's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised. Several Group entities have also issued certain financial guarantee contracts to external counterparties in order to achieve competitive funding rates for specific debt agreements entered into by other Group entities. None of these financial guarantees contractually obligate the Group to pay more than the recognised financial liabilities in the entities concerned. As a result, these financial guarantee contracts have no bearing on the credit risk profile of the Group as a whole. Full disclosure of the Group's maximum exposure to credit risk is presented in the following table:

	2017 R'm	2016 R'm
Exposure to credit risk		
Cash and cash equivalents	**350.6**	405.7
Derivative financial instruments	**2.1**	2.9
Trade and other receivables (excluding prepayments and accrued income)	**2,237.8**	2,083.3
Loans receivable	**50.0**	41.5
Total credit risk exposure	**2,640.5**	2,533.4

Credit risk associated with trade receivables

The Group has a large number of unrelated customers and does not have any significant credit risk exposure to any particular customer. The Group believes there is no significant geographical concentration of credit risk.

Each business unit manages its own exposure to credit risk according to the economic circumstances and characteristics of the relevant markets that they serve. The Group believes that management of credit risk on a devolved basis enables it to assess and manage credit risk more effectively. However, broad principles of credit risk management practice are observed across all business units, such as the use of credit rating agencies, credit guarantee insurance, where appropriate, and the maintenance of a credit control function. Of the total trade receivables balance of R2.0 billion (2016: R2.0 billion) included in trade and other receivables reported in the statement of financial position, credit insurance covering of R9.8 million (2016: R35.1 million) of the total balance has been taken out the by Group's trading entities to insure against the related credit default risk. The insured cover is presented gross of contractually agreed excess amounts.

Liquidity risk

Liquidity risk is the risk that the Group could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Group manages its liquidity risk by using reasonable and retrospectively-assessed assumptions to forecast the future cash generative capabilities and working capital requirements of the businesses it operates and by maintaining sufficient reserves, committed borrowing facilities and other credit lines as appropriate.

The following table shows the amounts available to draw down on its committed and uncommitted loan facilities:

	2017 R'm	2016 R'm
Expiry date		
In one year or less	**636.2**	718.3
Total credit available	**636.2**	718.3

Forecast liquidity represents the Group's expected cash inflows, principally generated from sales made to customers, less the Group's contractually-determined cash outflows, principally related to supplier payments and the repayment of borrowings, including finance lease obligations, plus the payment of any interest accruing thereon. The matching of these cash inflows and outflows rests on the expected ageing profiles of the underlying assets and liabilities. Short-term financial assets and financial liabilities are represented primarily by the Group's trade receivables and trade payables respectively. The matching of the cash flows that result from trade receivables and trade payables takes place typically over a period of three to four months from recognition in the statement of financial position and is managed to ensure the ongoing operating liquidity of the Group. Financing cash outflows may be longer term in nature. The Group does not hold long-term financial assets to match against these commitments, but are significantly invested in long-term non-financial assets which generate the sustainable future cash inflows, net of future capital expenditure requirements, needed to service and repay the Group's borrowings. The Group also assesses its commitments under interest rate swaps, which hedge future cash flows from two to five years from the reporting date presented.

Contractual maturity analysis

Trade receivables, the principal class of non-derivative financial assets held by the Group, are settled gross by customers. The Group's financial investments, which are not held for trading and therefore do not comprise part of the Group and Company's liquidity planning arrangements, make up the remainder of the non-derivative financial assets held.

The following table presents the Group's outstanding contractual maturity profile for its non-derivative financial liabilities. The analysis presented is based on the undiscounted contractual maturities of the Group's financial liabilities, including any interest that will accrue, except where the Group is entitled and intends to repay a financial liability, or part of a financial liability, before its contractual maturity. Non-interest-bearing financial liabilities which are due to be settled in less than 12 months from maturity equal their carrying values, since the impact of the time value of money is immaterial over such a short duration.

	Undiscounted cash flow				
	<One year R'm	One to two years R'm	Two to five years R'm	Five+ years R'm	Total R'm
2017					
Trade and other payables (refer to note 21)	**2,021.7**	**–**	**–**	**–**	**2,021.7**
Finance leases	**5.1**	**3.6**	**1.7**	**–**	**10.4**
Borrowings[1]	**1,206.1**	**78.2**	**1,099.4**	**299.8**	**2,683.5**
Total	**3,232.9**	**81.8**	**1,101.1**	**299.8**	**4,715.6**
2016					
Trade and other payables (refer to note 21)	1,772.1	–	–	–	1,772.1
Finance leases	16.9	15.1	20.5	–	52.5
Borrowings[1]	973.1	4.1	1,071.2	313.1	2,361.5
Total	2,762.1	19.2	1,091.7	313.1	4,186.1

[1] *The short-term borrowings are revolving in nature and only become payable in the event of a covenant breach.*

It has been assumed that, where applicable, interest and foreign exchange rates prevailing at the reporting date will not vary over the time periods remaining for future cash flows.

32. FINANCIAL RISK MANAGEMENT CONTINUED

Maturity profile of outstanding derivative positions

	Undiscounted cash flow			
	<One year R'm	One to two years R'm	Two to five years R'm	Total R'm
2017				
Foreign exchange contracts	**(10.3)**	**–**	**–**	**(10.3)**
Interest rate swaps	**(6.1)**	**(5.9)**	**–**	**(12.0)**
Total	**(16.4)**	**(5.9)**	**–**	**(22.3)**
2016				
Foreign exchange contracts	(4.8)	–	–	(4.8)
Interest rate swaps	(5.5)	(6.1)	(6.5)	(18.1)
Total	(10.3)	(6.1)	(6.5)	(22.9)

Financial instruments by category

Financial assets	Fair value hierarchy	Loans and receivables R'm	At fair value through profit or loss R'm	Available-for-Sale R'm	Total R'm
2017					
Trade and other receivables[1]		**2,266.2**	**–**	**–**	**2,266.2**
Loans receivable	**Level 2**	**29.5**	**–**	**–**	**29.5**
Available-for-sale investment	**Level 3**	**–**	**–**	**20.5**	**20.5**
Derivative financial instruments	**Level 2**	**–**	**2.1**	**–**	**2.1**
Cash and cash equivalents[1]		**350.6**	**–**	**–**	**350.6**
Total		**2,646.3**	**2.1**	**20.5**	**2,668.9**
2016					
Trade and other receivables[1]		2,103.1	–	–	2,103.1
Loans receivable	Level 2	21.0	–	–	21.0
Available-for-sale investment	Level 3	–	–	20.5	20.5
Derivative financial instruments	Level 2	–	2.9	–	2.9
Cash and cash equivalents[1]		405.7	–	–	405.7
Total		2,529.8	2.9	20.5	2,553.2

[1] *The carrying value approximates the fair value.*

32. FINANCIAL RISK MANAGEMENT CONTINUED

Financial instruments by category continued

Financial liabilities	**Fair value hierarchy**	**At fair value through profit or loss R'm**	**At amortised cost R'm**	**Total R'm**
2017				
Borrowings	**Level 2**	**–**	**(2,594.3)**	**(2,594.3)**
Trade and other payables[1]		**–**	**(2,021.7)**	**(2,021.7)**
Derivative financial instrument	**Level 2**	**(26.6)**	**–**	**(26.6)**
Total		**(26.6)**	**(4,616.0)**	**(4,642.6)**
2016				
Borrowings	Level 2	–	(2,407.0)	(2,407.0)
Trade and other payables[1]		–	(1,772.1)	(1,772.1)
Derivative financial instrument	Level 2	(13.0)	–	(13.0)
Total		(13.0)	(4,179.1)	(4,192.1)

[1]The carrying value approximates the fair value.

Fair value estimation

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

The significant inputs required to fair value all of the Group's financial instruments are observable.

Specific valuation methodologies used to value financial instruments include:

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

33. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with non-controlling shareholders of subsidiaries, its associates, joint ventures and directors.

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

Details of transactions and balances between the Group and related parties are disclosed below:

	2017 R'm	2016 R'm
Sales to joint arrangements	**122.5**	146.6
Sales to associates	**702.4**	638.4
Purchases from associates	**0.4**	2.5
Minority shareholder loans	**304.7**	292.6
Loans to associates	**6.8**	1.4
Receivables due from joint arrangements (see note 12)	**40.9**	45.1
Receivables due from associates (see note 12)	**173.0**	199.0
Payables due to joint arrangements (see note 21)	**1.6**	0.9
Payables due to associates (see note 21)	**16.3**	18.2
Interest expense relating to minority shareholder loans	**25.2**	20.6
Management salaries paid to non-controlling shareholders of a subsidiary	**2.4**	2.3

Details of the executive directors and prescribed officers' remuneration is included in note 36.

34 INTEREST IN SUBSIDIARIES

The Group has several subsidiary companies that are consolidated into the Group results. There are limited risks associated with these interests, as the subsidiaries operate within the same strategic objectives as the Group. There are no significant judgements applied in determining whether the Group controls the Companies it has invested in. The Group does not own any interests in special purpose or structured entities and fully consolidates all investments where the equity interest is greater than 50%.

The non-controlling interests of these subsidiaries individually are insignificant to the Group and do not pose any material restrictions on the Group's assets, liabilities, or cash flows. The aggregate net asset value of non-wholly owned subsidiaries is R196.0 million (2016: R411.7 million) of which R109.5 million (2016: R113.3 million) relates to the carrying amount of the non-controlling interest. The aggregate total comprehensive loss for non-wholly owned subsidiaries is R26.1 million (2016: profit of R12.4 million), of which a R12.5 million profit (2016: R6.3 million) is attributable to non-controlling shareholders.

		Share capital		Share holding	
	Country of Incorporation	**2017**	2016	**2017** %	2016 %
Subsidiary Direct Holding					
Mpact Operations (Pty) Limited[1]	RSA	**R20,000**	R20,000	**90**	90
Shoebill (Pty) Limited	Botswana	**P100**	P100	**100**	100
Pyramid Holdings (Pty) Limited	Botswana	**P30,592,785**	P30,592,785	**100**	51
Sunko Mauritius	Mauritius	**R100**	R100	**100**	100
Embalagens Mpact Limitada	Mozambique	**M1,213,000**	M1,213,000	**90**	90
Mpact Corrugated (Pty) Limited	Namibia	**N$100**	N$100	**74**	74
Subsidiaries-Indirect holding					
Mpact Versapak (Pty) Limited	RSA	**R100**	R100	**100**	100
Mpact Recycling (Pty) Limited	RSA	**R231,741,655**	R203,233,688	**100**	89.5
Mpact Plastics Containers (Pty) Limited	RSA	**R100**	R100	**66**	66
Mpact Polymers (Pty) Limited	RSA	**R100**	R100	**79**	79
Magic Attitude (Pty) Limited	RSA	**R100**	R100	**100**	100
Detpak South Africa (Pty) Limited	RSA	**R7,143**	R7,143	**51**	51
Rebel Packaging (Pty) Limited	RSA	**R4,000**	R4,000	**100**	100
Remade Recycling (Pty) Limited	RSA	**R1,000**	–	**100**	-
Remade Holdings (Pty) Limited	RSA	**–**	R1 000	**–**	100
Lenco Corporate Finance (Pty) Limited[2]	RSA	**R35,651**	R35,651	**100**	100
Lion Packaging Trading 57 (Pty) Limited[3]	RSA	**R100**	R100	**100**	100
Versapak Holdings (Pvt) Limited[3]	Zimbabwe	**US$1**	US$1	**100**	100
Associates-Indirect holding					
Recyquip Engineering & Manufacturing (Pty) Limited	RSA	**R100**	R100	**30**	30
West Coast Paper Traders (Pty) Limited	RSA	**R400**	R400	**49**	49
Box Boyz (Pty) Limited	RSA	**R100**	R100	**44**	44
Lomina Vyf (Pty) Limited	RSA	**R100**	R100	**49**	49
Right Corrugated Containers (Pty) Limited	RSA	**R1,000**	R1,000	**49**	49
Seyfert Corrugated Western Cape (Pty) Limited	RSA	**R15,500,201**	R15,500,201	**49**	49
Dalisu Holdings (Pty) Limited	RSA	**R100**	R100	**49**	49
Joint arrangements-Indirect holding					
Rusmar Packaging (Pty) Limited	RSA	**R200**	R200	**50**	50
Pretoria Box Manufacturers	RSA	**–**	–	**50**	50

The Mpact Group does not have any significant restrictions on its ability to access/use assets, or settle liabilities in any of its subsidiaries. The above associates and joint ventures are not considered material to the Group. Refer to note 9.

1 *The remaining 10% is held by Mpact Foundation Trust. The trust is controlled by Mpact Limited.*

2 *In the process of deregistration.*

3 *Ceased trading and in the process of being wound up.*

35. EVENTS OCCURRING AFTER THE REPORTING DATE

There were no significant or material subsequent events which would require adjustment to or disclosure of in the consolidated financial statements.

36. DIRECTORS' REMUNERATION

Executive directors' and prescribed officers' remuneration

Prescribed officers are defined as having general executive control over and management of a significant portion of the Company or regularly participate therein to a material degree, and are not directors of the Company. Prescribed officers include the three highest paid non-directors.

The remuneration of the executive directors and prescribed officers, all of which are paid by Mpact Limited Group, who served during the period under review was as follows:

	Guaranteed package (TGCOE)[1] Rands	Short term incentive bonus[2] Rands	Other[3] Rands	Cash-based remuneration Rands	Grant value of bonus share awarded[4] Rands	Intrinsic value of performance shares vesting[5] Rands	Total remuneration Rands
2017							
Executive directors							
BW Strong	**5,023,050**	**1,092,212**	**164,282**	**6,279,544**	**682,633**	**738,559**	**7,700,736**
BDV Clark	**3,818,148**	**846,713**	**124,836**	**4,789,697**	**529,195**	**333,987**	**5,652,879**
Total	**8,841,198**	**1,938,925**	**289,118**	**11,069,241**	**1,211,828**	**1,072,546**	**13,353,615**
Prescribed officers							
RP Von Veh	**4,150,416**	**836,724**	**123,004**	**5,110,144**	**522,952**	**366,146**	**5,999,242**
HM Thompson	**4,124,832**	**890,964**	**129,349**	**5,145,145**	**556,852**	**303,243**	**6,005,240**
JW Hunt	**2,646,300**	**510,630**	**83,967**	**3,240,897**	**319,144**	**191,638**	**3,751,679**
N Naidoo	**3,237,144**	**671,254**	**17,119**	**3,925,517**	**419,534**	**234,429**	**4,579,480**
J Stumpf	**3,789,504**	**884,015**	**–**	**4,673,519**	**552,510**	**–**	**5,226,029**
Total	**17,948,196**	**3,793,587**	**353,439**	**22,095,222**	**2,370,992**	**1,095,456**	**25,561,670**
2016							
Executive directors							
BW Strong	4,738,727	1,480,757	166,900	6,386,384	925,473	1,734,616	9,046,473
BDV Clark	3,602,026	1,148,902	77,548	4,828,476	718,064	1,331,735	6,878,275
Total	8,340,753	2,629,659	244,448	11,214,860	1,643,537	3,066,351	15,924,748
Prescribed officers							
RP Von Veh	3,915,487	1,240,426	132,227	5,288,140	775,266	1,947,162	8,010,568
HM Thompson	3,891,346	1,224,373	140,044	5,255,763	765,233	1,638,834	7,659,830
JW Hunt	2,491,807	731,993	90,685	3,314,485	457,496	1,026,055	4,798,036
N Naidoo	3,048,162	943,711	–	3,991,873	589,819	1,255,146	5,836,838
J Stumpf	3,575,000	1,145,430	–	4,720,430	715,894	–	5,436,324
Total	16,921,802	5,285,933	362,956	22,570,691	3,303,708	5,867,197	31,741,596

1. *Guaranteed package (TGCOE) paid for the 12 months of the financial year.*
2. *Short-term incentive (STI) earned on performance for the 2017 financial year, to paid in March 2018 (2016: STI earned on 2016 performance, paid in March 2017).*
3. *Other cash incentive includes dividend equivalent bonus based on actual bonus shares that vested.*
4. *Value of the bonus shares granted on 2 April 2018 based on 2017 performance and vesting in March 2021 (2016: Value of the bonus shares granted on 1 April 2017 based on 2016 performance and vesting in March 2020).*
5. *Intrinsic value is calculated by taking the number of Performance share plan shares expected to vest in March 2018 based on performance over the three-year period ended 31 December 2017 multiplied by the closing MPact share price at 31 December 2017 (2016: Performance share plan shares expected to vest in March 2017 based on the performance over the three-year period ended 31 December 2016).*

36. DIRECTORS REMUNERATION CONTINUED

Share awards granted to executive directors and prescribed officers

The following tables set out the share award grants to the executive directors. Market values of the shares granted are disclosed in the Remuneration Report.

Executive directors
2017

BW Strong	Type of award[1,2]	Date of award	Release date	Number of awards held at beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2017
	BSP	Jun 14	Mar 17	56,649	–	(56,649)	–	–
	PSP	Jun 14	Mar 17	84,377	–	(84,377)	–	–
	BSP	Apr 15	Mar 18	41,098	–	–	–	41,098
	PSP	Apr 15	Mar 18	95,185	–	–	(64,916)	30,269
	BSP	Apr 16	Mar 19	35,949	–	–	–	35,949
	PSP	Apr 16	Mar 19	88,387	–	–	(44,194)[8]	44,193
	BSP	Apr 17	Mar 20	–	31,172	–	–	31,172
	PSP	Apr 17	Mar 20	–	225,585	–	(112,793)[8]	112,792
Total number of shares				401,645	256,757	(141,026)	(221,903)	295,473

	Type of award[1,2]	Date of award	Award price basis (cents)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2017[7]
	BSP	Jun 14	2,684	1,520,459	–	215,833	(1,736,292)	–	–
	PSP	Jun 14	2,684	2,264,679	–	321,483	(2,586,162)	–	–
	BSP	Apr 15	4,243	1,743,788	–	(740,997)	–	–	1,002,791
	PSP	Apr 15	4,243	4,038,700	–	(1,716,191)	–	(1,583,950)	738,559
	BSP	Apr 16	4,825	1,734,539	–	(857,383)	–	–	877,156
	PSP	Apr 16	4,825	4,264,673	–	(2,108,030)	–	(1,078,334)[8]	1,078,309
	BSP	Apr 17	2,969	–	925,473	(164,876)	–	–	760,597
	PSP	Apr 17	2,969	–	6,697,400	(1,193,126)	–	(2,752,149)[8]	2,752,125
Total market value of shares				15,566,838	7,622,873	(6,243,287)	(4,322,454)	(5,414,433)	7,209,537

36. DIRECTORS REMUNERATION CONTINUED

Share awards granted to executive directors and prescribed officers continued

Executive directors

2017

BDV Clark	Type of award[1,2]	Date of award	Release date	Number of awards held at beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2017
	BSP	Jun 14	Mar 17	43,047	–	(43,047)	–	–
	PSP	Jun 14	Mar 17	63,595	–	(63,595)	–	–
	BSP	Apr 15	Mar 18	30,674	–	–	–	30,674
	PSP	Apr 15	Mar 18	43,044	–	–	(29,356)	13,688
	BSP	Apr 16	Mar 19	27,600	–	–	–	27,600
	PSP	Apr 16	Mar 19	40,311	–	–	(20,156)[8]	20,155
	BSP	Apr 17	Mar 20	–	24,186	–	–	24,186
	PSP	Apr 17	Mar 20	–	128,605	–	(64,303)[8]	64,302
Total number of shares				248,271	152,791	(106,642)	(113,815)	180,605

	Type of award[1,2]	Date of award	Award price basis (cents)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2017[7]
	BSP	Jun 14	2,684	1,155,381	–	164,010	(1,319,391)	–	–
	PSP	Jun 14	2,684	1,706,889	–	242,306	(1,949,195)	–	–
	BSP	Apr 15	4,243	1,301,498	–	(553,052)	–	–	748,446
	PSP	Apr 15	4,243	1,826,357	–	(776,084)	–	(716,286)	333,987
	BSP	Apr 16	4,825	1,331,700	–	(658,260)	–	–	673,440
	PSP	Apr 16	4,825	1,945,006	–	(961,418)	–	(491,806)[8]	491,782
	BSP	Apr 17	2,969	–	718,064	(127,926)	–	–	590,138
	PSP	Apr 17	2,969	–	3,818,148	(680,187)	–	(1,568,993)[8]	1,568,968
Total market value of shares				9,266,831	4,536,212	(3,350,611)	(3,268,586)	(2,777,085)	4,406,761

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for the year ended 31 December 2017

36. DIRECTORS REMUNERATION CONTINUED

Share awards granted to executive directors and prescribed officers continued

Prescribed officers

2017

RP von Veh	Type of award[1,2]	Date of award	Release date	Number of awards held at beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2017
	BSP	Jun 14	Mar 17	42,415	–	(42,415)	–	–
	PSP	Jun 14	Mar 17	68,926	–	(68,926)	–	–
	BSP	Apr 15	Mar 18	33,592	–	–	–	33,592
	PSP	Apr 15	Mar 18	47,189	–	–	(32,183)	15,006
	BSP	Apr 16	Mar 19	30,499	–	–	–	30,499
	PSP	Apr 16	Mar 19	43,819	–	–	(21,910)[8]	21,909
	BSP	Apr 17	Mar 20	–	26,113	–	–	26,113
	PSP	Apr 17	Mar 20	–	139,796	–	(69,898)[8]	69,898
Total number of shares				266,440	165,909	(111,341)	(123,991)	197,017

	Type of award[1,2]	Date of award	Award price basis (cents)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2017[7]
	BSP	Jun 14	2,684	1,138,419	–	161,601	(1,300,020)	–	–
	PSP	Jun 14	2,684	1,849,974	–	262,610	(2,112,584)	–	–
	BSP	Apr 15	4,243	1,425,309	–	(605,664)	–	–	819,645
	PSP	Apr 15	4,243	2,002,229	–	(850,818)	–	(785,265)	366,146
	BSP	Apr 16	4,825	1,471,577	–	(727,401)	–	–	744,176
	PSP	Apr 16	4,825	2,114,267	–	(1,045,083)	–	(534,604)[8]	534,580
	BSP	Apr 17	2,969	–	775,266	(141,109)	–	–	634,157
	PSP	Apr 17	2,969	–	4,150,416	(739,394)	–	(1,705,511)[8]	1,705,511
Total market value of shares				10,001,775	4,925,682	(3,685,258)	(3,412,604)	(3,025,380)	4,804,215

36. DIRECTORS REMUNERATION CONTINUED

Share awards granted to executive directors and prescribed officers continued

Prescribed officers

2017

HM Thompson	Type of award[1,2]	Date of award	Release date	Number of awards held at beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2017
	BSP	Jun 14	Mar 17	44,603	–	(44,603)	–	–
	PSP	Jun 14	Mar 17	58,012	–	(58,012)	–	–
	BSP	Apr 15	Mar 18	33,210	–	–	–	33,210
	PSP	Apr 15	Mar 18	39,082	–	–	(26,654)	12,428
	BSP	Apr 16	Mar 19	29,383	–	–	–	29,383
	PSP	Apr 16	Mar 19	36,291	–	–	(18,146)[8]	18,145
	BSP	Apr 17	Mar 20	–	25,775	–	–	25,775
	PSP	Apr 17	Mar 20	–	138,935	–	(69,468)[8]	69,467
Total number of shares				240,581	164,710	(102,615)	(114,268)	188,408

	Type of award[1,2]	Date of award	Award price basis (cents)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2017[7]
	BSP	Jun 14	2,684	1,197,145	–	169,937	(1,367,082)	–	–
	PSP	Jun 14	2,684	1,557,042	–	221,020	(1,778,062)	–	–
	BSP	Apr 15	4,243	1,409,100	–	(598,776)	–	–	810,324
	PSP	Apr 15	4,243	1,658,249	–	(704,648)	–	(650,358)	303,243
	BSP	Apr 16	4,825	1,417,730	–	(700,785)	–	–	716,945
	PSP	Apr 16	4,825	1,751,041	–	(865,541)	–	(442,762)[8]	442,738
	BSP	Apr 17	2,969	–	765,233	(136,323)	–	–	628,910
	PSP	Apr 17	2,969	–	4,124,832	(734,818)	–	(1,695,019)[8]	1,694,995
Total market value of shares				8,990,307	4,890,065	(3,349,934)	(3,145,144)	(2,788,139)	4,597,155

36. DIRECTORS REMUNERATION CONTINUED

Share awards granted to executive directors and prescribed officers continued

Prescribed officers

2017

JW Hunt	Type of award[1,2]	Date of award	Release date	Number of awards held at beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2017
	BSP	Jun 14	Mar 17	28,954	–	(28,954)	–	–
	PSP	Jun 14	Mar 17	36,321	–	(36,321)	–	–
	BSP	Apr 15	Mar 18	19,483	–	–	–	19,483
	PSP	Apr 15	Mar 18	24,698	–	–	(16,844)	7,854
	BSP	Apr 16	Mar 19	18,678	–	–	–	18,678
	PSP	Apr 16	Mar 19	23,239	–	–	(11,620)[8]	11,619
	BSP	Apr 17	Mar 20	–	15,410	–	–	15,410
	PSP	Apr 17	Mar 20	–	89,134	–	(44,567)[8]	44,567
Total number of shares				151,373	104,544	(65,275)	(73,031)	117,611

	Type of award[1,2]	Date of award	Award price basis (cents)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2017[7]
	BSP	Jun 14	2,684	777,125	–	110,315	(887,440)	–	–
	PSP	Jun 14	2,684	974,856	–	138,368	(1,113,224)	–	–
	BSP	Apr 15	4,243	826,664	–	(351,279)	–	–	475,385
	PSP	Apr 15	4,243	1,047,936	–	(445,304)	–	(410,994)	191,638
	BSP	Apr 16	4,825	901,214	–	(445,471)	–	–	455,743
	PSP	Apr 16	4,825	1,121,282	–	(554,250)	–	(283,528)[8]	283,504
	BSP	Apr 17	2,969	–	457,496	(81,492)	–	–	376,004
	PSP	Apr 17	2,969	–	2,646,300	(471,430)	–	(1,087,435)[8]	1,087,435
Total market value of shares				5,649,077	3,103,796	(2,100,543)	(2,000,664)	(1,781,957)	2,869,709

36. DIRECTORS REMUNERATION CONTINUED

Share awards granted to executive directors and prescribed officers continued

Prescribed officers

2017

N Naidoo	Type of award[1,2]	Date of award	Release date	Number of awards held at beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2017
	BSP	Jun 14	Mar 17	5,903	–	(5,903)	–	–
	PSP	Jun 14	Mar 17	44,430	–	(44,430)	–	–
	BSP	Apr 15	Mar 18	25,576	–	–	–	25,576
	PSP	Apr 15	Mar 18	30,213	–	–	(20,605)	9,608
	BSP	Apr 16	Mar 19	23,273	–	–	–	23,273
	PSP	Apr 16	Mar 19	28,427	–	–	(14,214)[8]	14,213
	BSP	Apr 17	Mar 20	–	19,867	–	–	19,867
	PSP	Apr 17	Mar 20	–	109,035	–	(54,518)[8]	54,517
Total number of shares				157,822	128,902	(50,333)	(89,337)	147,054

	Type of award[1,2]	Date of award	Award price basis (cents)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2017[7]
	BSP	Jun 14	2,684	158,437	–	22,490	(180,927)	–	–
	PSP	Jun 14	2,684	1,192,501	–	169,277	(1,361,778)	–	–
	BSP	Apr 15	4,243	1,085,190	–	(461,136)	–	–	624,054
	PSP	Apr 15	4,243	1,281,938	–	(544,747)	–	(502,762)	234,429
	BSP	Apr 16	4,825	1,122,922	–	(555,061)	–	–	567,861
	PSP	Apr 16	4,825	1,371,603	–	(677,984)	–	(346,822)[8]	346,797
	BSP	Apr 17	2,969	–	589,819	(105,064)	–	–	484,755
	PSP	Apr 17	2,969	–	3,237,144	(576,690)	–	(1,330,239)[8]	1,330,215
Total market value of shares				6,212,591	3,826,963	(2,728,915)	(1,542,705)	(2,179,823)	3,588,111

Notes to the annual financial statements continued

for the year ended 31 December 2017

36. DIRECTORS REMUNERATION CONTINUED

Share awards granted to executive directors and prescribed officers continued

Prescribed officers

2017

J Stumpf	Type of award[1,2]	Date of award	Release date	Number of awards held at beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2017
	BSP	Apr 15	Mar 18	21,117	–	–	–	21,117
	BSP	Apr 16	Mar 19	6,577	–	–	–	6,577
	PSP	Apr 16	Mar 19	33,341	–	–	(16,671)[8]	16,670
	BSP	Apr 17	Mar 20	–	24,113	–	–	24,113
	PSP	Apr 17	Mar 20	–	127,640	–	(63,820)[8]	63,820
Total number of shares				61,035	151,753	–	(80,491)	132,297

	Type of award[1,2]	Date of award	Award price basis (cents)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2017[7]
	BSP	Apr 15	4,243	895,994	–	(380,739)	–	–	515,255
	BSP	Apr 16	4,825	317,340	–	(156,861)	–	–	160,479
	PSP	Apr 16	4,825	1,608,703	–	(795,183)	–	(406,772)[8]	406,748
	BSP	Apr 17	2,969	–	715,894	(127,537)	–	–	588,357
	PSP	Apr 17	2,969	–	3,789,504	(675,088)	–	(1,557,208)[8]	1,557,208
Total market value of shares				2,822,037	4,505,398	(2,135,408)	–	(1,963,980)	3,228,047

1 *Bonus share plan (BSP).*

2 *Performance share plan (PSP).*

3 *Market value at grant date is the number of shares granted and/or awarded at the grant or award price.*

4 *During the year share grants and awards were made at R29.69 per share.*

5 *Cumulative effects of share price gains and losses represent the market value change between the share value at grant dates, the value of each at vesting, the value of shares lapsing or expected to lapse and the closing market value at year-end.*

6 *During the year share awards were vested at a share price of R30.65 per share.*

7 *Market value at 31 December 2017 is the closing share price which was R24.40 per share.*

8 *Assumed a 50% achievement of PSP targets.*

36. DIRECTORS REMUNERATION CONTINUED

Non-executive directors' remuneration	2017 Fees paid as non-executive director[2]	2017 Fees paid as Trustee to the Mpact Foundation Trust[2]	2016 Fees paid as non-executive director	2016 Fees paid as Trustee to the Mpact Foundation Trust
AJ Phillips	946,593	–	917,921	–
AM Thompson	475,655	63,536	473,298	60,017
M Makanjee[1]	448,253	–	101,951	–
NP Dongwana	475,655	127,071	473,298	120,033
NB Langa-Royds	529,812	63,536	605,863	60,017
TDA Ross	587,254	–	578,620	–
Total	**3,463,222**	**254,143**	3,150,951	240,067

[1] *From date of appointment to the Board on 5 September 2016.*

[2] *The above amounts exclude VAT.*

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