Mondi Limited

(Registration number: 1967/013038/06)

AUDITED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018

Introduction

The Mondi Limited financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa 2008.

Shareholders are advised to review the Mondi Group Integrated report and financial statements 2018 which is available at: www.mondigroup.com.

In terms of the dual listed company (DLC) structure, referred to as the Mondi Group, incorporating Mondi Limited and Mondi plc, ordinary shareholders of Mondi Limited or Mondi plc have economic and voting interests in the Mondi Group, comprising the combination of the Mondi Limited group and the Mondi plc group. The Mondi Group Integrated report and financial statements 2018 provide comprehensive information regarding the financial position and the results of the operations of the Mondi Group.

Contents

Report of the directors

The directors submit their report for the year ended 31 December 2018.

Main business and operations

The Company manages forestry operations in order to manufacture pulp, uncoated fine paper and containerboard.

The Company forms an integral part of the Mondi Group and these financial statements must be read in the context of the Mondi Group. Shareholders are referred to the Mondi Group Integrated report and financial statements 2018 in this regard.

The Company earned a profit after tax for the year of R1,021 million (2017 restated: R939 million).

Subsequent events

With the exception of the final dividend proposed for 2018, included in note 8, there have been no material reportable events since 31 December 2018.

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Stated capital

Refer to note 20 for details of the stated capital of the Company.

Dividends

An interim ordinary dividend of 334.42009 rand cents per share (2017: 299.94850 rand cents per share) was declared and paid during the year. A final dividend of the rand equivalent of 54.55 euro cents per share (2017: 42.90 euro cents per share) was recommended by the directors and is subject to shareholder approval at the Annual General Meeting to be held on 9 May 2019. The euro to rand exchange rate to be applied to the euro dividend amounts for calculation of the final rand dividend amounts will be announced on or shortly after 28 February 2019. Refer to note 8 for more information.

Directors

The directors of the Company during the year and to the date of this report are as follows:

Directors	Position	Independent	Board member since
Fred Phaswana	Joint Chair	Yes (on appointment)	June 2013
David Williams	Joint Chair	Yes (on appointment)	May 2007
Tanya Fratto	Non-executive director	Yes	January 2017
Stephen Harris[1]	Senior Independent Director	Yes	March 2011
Andrew King	Chief Financial Officer	No	October 2008
John Nicholas[2]	Senior Independent Director	Yes	October 2009
Peter Oswald	Chief Executive Officer	No	January 2008
Dominique Reiniche	Non-executive director	Yes	October 2015
Stephen Young[3]	Non-executive director	Yes	May 2018

Notes:

1 Stephen Harris was appointed as Senior Independent Director on 16 May 2018 following John Nicholas' retirement

2 John Nicholas retired from the boards of Mondi Limited and Mondi plc on 16 May 2018

3 Stephen Young joined the boards of Mondi Limited and Mondi plc on 1 May 2018

Holding company

Mondi operates under a dual listed company structure. Mondi Limited is the holding company of the South African component of the Mondi Group. In addition, Mondi Limited owns a 50% interest in a subsidiary in Cote D'Ivoire. Mondi plc is the holding company of the non-South African component of the Mondi Group. Together the Mondi Group is reported as a single economic entity.

Investments in subsidiaries

Refer to notes 12 and 29 of these annual financial statements for details of investments in subsidiaries.

Auditors

During the period under review PricewaterhouseCoopers Inc. were the auditors of the Company.

Secretary

The company secretary is Philip Laubscher.

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Corporate governance statement

Mondi's corporate governance is comprehensively detailed in the Mondi Group Integrated report and financial statements 2018.

Remuneration report

Shareholders are referred to the Mondi DLC remuneration report in the Mondi Group Integrated report and financial statements 2018. The remuneration tables below are extracts from the remuneration report and are presented in euro, the reporting currency of the Mondi Group. With the exception of Peter Oswald, who is remunerated in euro, the remuneration of the directors is determined in pounds sterling. The amounts reported in euro are determined based on exchange rates on the dates actual payments were made.

Notice periods for the executive directors who served during the period under review are as follows.

Executive director	Unexpired term/notice period
Peter Oswald	A fixed term expiring on 30 April 2022 but terminable at any time on 12 months' notice
Andrew King	Terminable on 12 months' notice

Report of the directors continued

Remuneration for the year ended 31 December 2018

Executive directors' remuneration[1]

The remuneration of the executive directors who served during the period under review was as follows:

		Base salary	Benefits	Annual Bonus including grant value of BSP award	Value of LTIP vesting in the performance year[5]	Other[6]	Total
Peter Oswald[2]	2018	€1,076,000	€46,962	€1,562,352	€1,397,953	€44,361	€4,127,628
	2017	€1,016,194	€41,594	€992,320	€1,218,852	€156,028	€3,424,988
Andrew King[3 4]	2018	€654,467	€64,001	€786,326	€1,040,983	€80,113	€2,625,890
	2017	€643,405	€1,338,076	€548,352	€958,503	€120,361	€3,608,697

Notes:

1 The table includes all remuneration received in respect of the years ended 31 December 2018 and 31 December 2017, whether received from Mondi Limited or Mondi plc, excluding pension contributions

2 For 2018, Peter Oswald's maximum annual bonus was 165% of base salary. For the period 1 January 2017 to 11 May 2017, as Chief Executive Officer Europe & International, Peter Oswald's maximum annual bonus was 135% of base salary and was determined with reference to his base salary in that role. For the period from 12 May 2017 to 31 December 2017, his maximum annual bonus was 165% of base salary. His maximum bonus for 2018 was 165% of salary

3 Andrew King's salary is denominated in pound sterling and his 2018 salary was £579,000

4 Mondi asked Andrew King to relocate to the UK from South Africa, to be based closer to the Group's principal centre of operations in Europe. In accordance with the Directors Remuneration Policy, Andrew was eligible for assistance with relocation expenses. These expenses, and the cost of the grossed-up income tax amount payable to UK tax authorities, amounted to €1,299,029 of the benefits total for 2017. These expenses reflect the cost of stamp duty on the purchase of a UK property, estate agent's commission on disposal of the South African property, return flights for purpose of house-hunting, school search and orientation and packing and removal of household effects to the UK

5 For 2018, the three-year performance cycle of the 2016 LTIP award ended on 31 December 2018. The award value shown is based on the average share price over the last three months of the financial period. The 2018 LTIP vesting value includes cash amounts of equivalent value to all dividends (including ordinary dividends and, where appropriate, special dividends) on vested LTIP awards during the year. For the 2017 LTIP dividend equivalents, these are included in the 2017 'other' column as reported last year. For 2017, the three-year performance cycle of the 2015 LTIP award ended on 31 December 2017. The award value shown in the 2017 remuneration report was an estimate based on the average share price over the last three months of the financial period which was £18.45 for Mondi plc LTIP awards and R333.46 for Mondi Limited LTIP awards. The actual award price on vesting was £19.81 for Mondi plc LTIP awards and R327.48 for Mondi Limited LTIP awards. The award values for 2017 have been restated on this basis

6 Includes cash amounts of equivalent value to all dividends (including ordinary dividends and, where applicable, special dividends) on vested BSP shares during the year. Accommodation cost for some of Peter Oswald's business trips is, for reasons of UK tax regulation, subject to UK income tax, and is therefore required to be included in the disclosure. The figure for Peter Oswald in the 'Other' column includes €1,960.70 in respect of accommodation cost for this business travel and the cost of any grossed up income tax paid during the year. Accommodation costs in Vienna for Andrew King's business trips are, for reasons of Austrian and UK tax regulation, subject to income tax, and are therefore required to be included in the disclosure. The figure for Andrew King in the 'Other' column includes €58,030.02 in respect of accommodation costs for his business travel and the cost of any grossed up income tax paid during the year

Pension contributions in respect of executive directors[1]

The executive directors all participate in defined contribution pension schemes under arrangements established by the Mondi Group.

The pension contributions paid by the Mondi Group in respect of the years 2018 and 2017 are:

	2018	2017
Peter Oswald	€269,015	€254,801
Andrew King	€163,617	€160,851

Notes:

1 None of the executive directors have entitlements under a defined benefit pension scheme. No retrospective payments were made to past directors in respect of the period during which they served as directors and no payments were made to past directors for loss of office

Non-executive directors' remuneration

	2018	2017
Fred Phaswana	€333,194	€328,644
David Williams	€331,159	€326,590
Tanya Fratto	€111,773	€105,842
Stephen Harris	€109,625	€108,896
John Nicholas[1]	€44,546	€107,384
Dominique Reiniche	€109,162	€99,893
Stephen Young[2]	€66,950	—

Notes:

1 John Nicholas' fees for 2018 cover the period up to his retirement from the Boards on 16 May 2018

2 Stephen Young's fees for 2018 cover the period from his appointment to the Boards on 1 May 2018

Report of the directors continued

Share holding and share awards granted

At 31 December 2018, Andrew King held 208 shares (2017: 208 shares). None of the other directors held any shares in Mondi Limited. The following table sets out the share awards in respect of Mondi Limited granted to Andrew King. Peter Oswald does not receive share awards in respect of Mondi Limited. No share awards in respect of Mondi Limited were granted to any directors in 2018.

	Type of award[1]	Awards held at beginning of year or on appointment to the board	Awards granted during year	Shares lapsed	Awards exercised during year	Award price basis (ZAc)	Date of award	Awards held as at 31 December 2018	Release date
Andrew King	BSP	6,543	—	—	6,543	23,444	Mar 15	—	Mar 18
	BSP	6,744	—	—	—	28,200	Mar 16	6,744	Mar 19
	BSP	3,608	—	—	—	30,352	Mar 17	3,608	Mar 20
	LTIP	17,985	—	4,945	13,040	23,444	Mar 15	—	Mar 18
	LTIP	19,032	—	—	—	28,200	Mar 16	19,032	Mar 19
	LTIP	15,796	—	—	—	30,352	May 17	15,796	Mar 20

Note:
1 The value on award of the BSP awards set out in this table is included in the table of executive directors' remuneration on page 5

Audit committee report

Composition

The committee is constituted as a statutory committee in respect of the duties set out in the Companies Act of South Africa 2008 and a committee of the board in respect of other duties assigned to it by the board.

As a result of his retirement from the board at the conclusion of the Annual General Meeting in May 2018, John Nicholas stepped down from the committee after almost nine years as chair. Stephen Young, who was appointed to the board on 1 May 2018, was appointed as a member of the committee by shareholders at the Annual General Meeting and replaced John as chair. Stephen is a member of the Chartered Institute of Management Accountants and has held a number of commercial accounting and finance roles during his career, most notably holding the role of Group Finance Director at Meggitt plc for nine years before being appointed Chief Executive Officer in 2013, a position he held until December 2017. Stephen is therefore considered to have recent and relevant financial experience. His roles at a number of international companies across the industrial and engineering sectors also mean that he is well placed to understand the environment in which Mondi operates.

The committee's other members, Stephen Harris and Tanya Fratto, each have appropriate knowledge and understanding of financial matters and have commercial expertise gained from industries with similar capital intensive manufacturing, engineering and technology-focused international operations. The full biographies detailing the experience of each member of the committee can be found in the Mondi Group Integrated report and financial statements 2018.

In accordance with the Listings Requirements of the JSE, the committee has considered and satisfied itself that Andrew King, Mondi's Chief Financial Officer, has appropriate expertise and experience. Andrew is a chartered accountant and throughout his career has held various finance and business development roles. The committee has also considered and satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and expertise of the senior management responsible for the finance function. As a result, the committee also confirms that it is satisfied that Mondi has appropriate financial reporting procedures in place and that these are operating effectively.

Role, terms of reference and evaluation

The committee's primary responsibility is to oversee the Company's corporate financial reporting, including the relationship with the external auditor, as well as Mondi's internal control and risk management framework and to assist the board with any judgements and decision-making required in this regard.

The committee operates under formal terms of reference. The committee agenda included the regular matters reserved for its review during the annual financial reporting cycle and ensured it has appropriately discharged its responsibilities during the year, having operated in compliance with relevant legal, regulatory and other responsibilities. The committee's performance against its terms of reference is reviewed on an annual basis. The committee is satisfied that it has acted in accordance with its terms of reference during the year.

Report of the directors continued

The committee chair regularly reports to the board on the work and output from meetings and provides any necessary recommendations or advice on matters of direct relevance to the deliberations of the board.

The evaluation of the committee was carried out as part of the 2018 internal evaluation.

Key matters addressed by the committee

Financial reporting

- Review of the integrity of all financial announcements with input provided by the Group CFO, Group Controller and PricewaterhouseCoopers Inc.
- Review of the Mondi Group Integrated report and financial statements 2018 and the Mondi Limited financial statements for tone and consistency and consideration as to whether the report as a whole was fair, balanced and understandable
- Reviewed and discussed PricewaterhouseCoopers Inc.'s reports to the committee
- Reviewed accounting policies to be applied for the year ending 31 December 2018
- Reviewed new accounting pronouncements and any potential impact for Mondi Group's financial reporting
- Reviewed the going concern basis of accounting and the longer-term viability statement
- Reviewed the JSE's latest report from its proactive monitoring process setting out the results of its reviews of financial statements during the year, confirming that Mondi Group's financial statements were compliant

External audit matters

- Recommended to the board that the appointment of PricewaterhouseCoopers Inc. for the 2018 audit be put to shareholders at the Annual General Meeting
- Reviewed the independence, objectivity and effectiveness of PricewaterhouseCoopers Inc.
- Reviewed and approved the external audit plan, taking account of the scope, materiality and audit risks and agreeing the audit fees
- Received a report at each meeting of any non-audit services performed by PricewaterhouseCoopers Inc. in order to monitor auditor independence
- Reviewed and agreed the engagement letters and representation letters
- Held a meeting with PricewaterhouseCoopers Inc. without management present; the committee chair also engaged regularly with the audit partners

Risk Management and internal controls

- Undertook a detailed review of the Mondi Group risk management policy, plan and tolerance levels and of the process to assess the risks
- Reviewed the effectiveness of the risk management and internal control systems
- At each committee meeting undertook a more in-depth review of a number of the most significant Mondi Group risks
- Half-yearly presentations on IT risk management and cyber security

Internal audit matters

- Reviewed and agreed the internal audit plan, confirming the focus on key risk areas and adequate cover of all material operations
- Reviewed and approved the internal audit charter which sets out the purpose, remit and authority of the internal audit function
- Received reports from the Mondi Group Head of Internal Audit at each meeting
- Reviewed the effectiveness of the internal audit team
- Held a meeting with the Mondi Group Head of Internal Audit without management present

Governance and other

- For JSE purposes reviewed the appropriateness and expertise of the Chief Financial Officer and the effectiveness of the finance function
- Monitored and reviewed the continued implementation of those elements of the Mondi Group's Code of Business Ethics reserved for review by the committee, as well as the supporting framework of the Business Integrity Policy
- Reviewed the legal and compliance risks faced by the Mondi Group
- Reviewed Mondi Group's competition compliance programme
- Reviewed the committee's terms of reference, performance and work programme

The committee always meets prior to meetings of the board to enable the committee to report to the board and provide any necessary recommendations or advice relevant for its deliberations.

Internal control

The Mondi Group's internal control and risk management framework, embedded in all key operations, is designed to address all the significant strategic, financial, operational and compliance risks that could undermine our ability to achieve our business objectives in the future and is managed within risk tolerance levels defined by the board.

The committee has reviewed the risk management process and the Mondi Group's system of internal controls. The committee considers that the system of internal controls operated effectively throughout the financial year and up to the date on which the financial statements were signed.

Report of the directors continued

Fair, balanced and understandable

A key role of the committee is to ensure that the interests of shareholders are protected, in particular that there is robust financial reporting with good internal controls in place and appropriate accounting practices and policies combined with sound judgement.

Although oversight and review of material financial reporting matters are considered throughout the year, at the request of the board, the committee assessed the integrity of the Mondi Group Integrated report and financial statements 2018 and the Mondi Limited financial statements 2018 and the clarity, completeness and consistency of disclosures.

The committee reported to the board that they considered the reports to present a fair, balanced and understandable assessment of the Company's and Mondi Group's position and prospects.

External audit

PricewaterhouseCoopers Inc. were first appointed as auditor by shareholders at the Annual General Meeting in May 2017, replacing Deloitte & Touche. This followed a full tender process undertaken in 2015 and a transition process during 2016, which allowed PricewaterhouseCoopers Inc. to work together with Mondi Group and Deloitte & Touche to ensure a smooth handover.

JFM Kotzé was appointed as the South Africa audit partner with the 2018 audit being his second for Mondi Limited.

The committee confirms that PricewaterhouseCoopers Inc. is included in the JSE list of accredited auditors.

Non-audit services

A policy is in place that governs the provision of non-audit services provided by PricewaterhouseCoopers Inc. to Mondi Group, including the requirements for the approval of such services.

Where approval is required the business must submit a formal request setting out the objectives, scope of work, likely fee level and the rationale for requiring the work to be carried out by the Mondi Group's external auditor rather than another service provider. Sufficient information must also be provided to allow an assessment of materiality and the impact the service might have on the financial statements. Each request is reviewed, and where appropriate challenged, before being passed for approval.

The committee monitors compliance with the policy, receiving reports at each meeting detailing all approved non-audit services. This enables regular consideration and oversight of a key threat to auditor independence and objectivity.

The majority of non-audit services are audit-related assurance services. During 2018 an example was the verification of certain matters required from the statutory auditor in relation to subsidy applications.

Internal audit

The board has established an internal audit function, which forms an integral part of Mondi Group's governance and risk management and internal control frameworks. The primary purpose of the internal audit function is to ensure that Mondi Group's principal risks are being managed effectively. The function forms a key part of Mondi's approach to independent assurance.

The audit committee has primary responsibility for monitoring and reviewing the scope and effectiveness of the Mondi Group's internal audit function and appoints and discharges the Group Head of Internal Audit (the equivalent of the chief audit executive as envisaged by the King Code). The Group Head of Internal Audit has direct access to, and responsibility to, the committee and works closely with the committee in liaison with PricewaterhouseCoopers Inc.

An internal audit charter, approved by the committee, is in place. The charter sets out the purpose, remit and authority of the internal audit function. Each year the committee considers and approves the internal audit plan which is designed to focus on the Mondi Group's key risks to ensure that they are managed effectively within the context of our business objectives and that appropriate internal controls are in place. The committee ensures that all material operations are covered and that there is an appropriate degree of financial and geographical coverage. Every Mondi Group operation is visited at least once every five years with all major plants audited annually. Reports are given at each committee meeting providing an update on activities, progress against plan, results from audits carried out and management's response to address any areas highlighted for improvement. The committee will consider deviations from plan as the need arises during the year, usually in response to a material acquisition or change in Mondi Group's risk profile highlighted through audit reports and through matters raised via the confidential reporting hotline, Speakout. The committee regularly challenges the nature and speed of management's response to issues raised in audits and to Speakout messages in order to be satisfied that this has been appropriate to the circumstances. Maintaining sound oversight and control of activities through the use of internal audit reviews is considered by the committee to be a key element of its work.

Report of the directors continued

The committee also monitors the staffing and resources available to the internal audit function and the quality of those resources. In 2015 an external review of the internal audit function was undertaken by Ernst & Young LLP with a full report presented to the committee. The review concluded that the internal audit function is fit for purpose and meeting its mandate to provide assurance primarily in the financial and operational areas. Of particular note was the clear affirmation that the function is independent and objective. Some recommendations were put forward mainly in the areas of knowledge sharing and the greater use of technology by the team. The way in which the team has been addressing the recommendations in the report has been monitored and reviewed by the committee. The committee has concluded that the Group Head of Internal Audit provides appropriate leadership of the internal audit function which remains effective in carrying out its remit.

Social and ethics committee

In compliance with Regulation 43 of the Companies Act of South Africa 2008, the Company has established a social and ethics committee. The committee monitors activities relating to the Company's good corporate citizenship, employment equity and broad based black economic empowerment, labour and employment, consumer relationships, the environment, health and public safety and anti-corruption. Shareholders are referred to the Mondi Group Integrated report and financial statements 2018 for the committee's full report.

Directors’ responsibility statement

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

South African company law requires the directors to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa 2008 for each financial year giving a true and fair view of Mondi Limited’s state of affairs at the end of the year and profit or loss for the year.

In preparing the Company’s financial statements, International Accounting Standard 1, ‘Presentation of Financial Statements’, requires that the directors:

- properly 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 Company’s ability to continue as a going concern.

Report on the financial statements

These financial statements have been prepared under the supervision of the Chief Financial Officer, Andrew King CA (SA), and have been audited in compliance with the applicable requirements of the Companies Act of South Africa 2008.

The board confirms that to the best of its knowledge the financial statements of the Company, prepared in accordance with IFRS and the requirements of the Companies Act of South Africa 2008, give a true and fair view of the assets, liabilities, financial position and profit or loss of Mondi Limited.

The Company’s financial statements, and related notes 1 to 32, were approved by the board and authorised for issue on 27 February 2019 and were signed on its behalf by:

Peter Oswald
Director

Andrew King
Director

Compliance statement by the company secretary

The company secretary, Philip Laubscher, certifies that Mondi Limited has lodged with the Registrar of Companies all such returns and notices as are required for a public company in terms of section 88(1)(e) of the Companies Act of South Africa 2008, as amended, and that all such returns and notices are true, correct and up to date in respect of the financial year reported upon.

Philip Laubscher
Company secretary

Johannesburg

27 February 2019

Independent auditor’s report to the shareholders of Mondi Limited

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of Mondi Limited (the Company) as at 31 December 2018, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Mondi Limited’s separate financial statements set out on pages 15 to 51 comprise:

- the statement of financial position as at 31 December 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company 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).

Our audit approach

Overview

Overall materiality

- R75,000,000 which represents 5% of adjusted profit before tax.

Audit scope

- The audit scope was determined based on indicators such as the contribution from each division to total assets, total revenue and total profit before tax of Mondi Limited. We identified one division as an individually significant component which required an audit of its complete financial information and we performed an audit of specific financial statement line items for the 3 remaining divisions.

Key audit matters

- Valuation of forestry assets
- Adoption of IFRS 16 ‘Leases’

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent auditor’s report to the shareholders of Mondi Limited continued

Overall materiality	R75,000,000
How we determined it	5% of adjusted profit before tax
Rationale for benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We adjusted the profit before tax for the closure costs of an uncoated fine paper machine at Merebank due to these costs being once off costs (refer note 3 Special items). We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

There are four divisions within Mondi Limited that are based and managed in South Africa. Based on the financial significance, it was determined to perform a full scope audit on one division. We performed an audit of specific material financial statement line items for the remaining three divisions. As the accounting and finance function is centralised for all divisions within Mondi Limited, all audit work was performed by one team and no use was made of other auditors.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation forestry assets The valuation of the Company’s forestry assets, amounting to R4,533 million (2017: R3,863 million), is dependent upon various assumptions that are subject to significant estimation and prevailing market prices and, therefore, we considered it to be a key audit matter. The change in fair value of R479 million (2017: R414 million) in the year is recorded in the income statement. The most significant assumptions included in the valuation model relate to the determination of the estimated net standing prices to be applied to the forestry assets, the conversion factor used to convert hectares of land under afforestation to tonnes of standing timber and the risk adjustment rate applied to immature timber. Refer to note 11 - Forestry assets and note 31 - Accounting policies of the financial statements.	We evaluated the Company’s valuation model for calculating the fair value of biological assets by assessing the model against the criteria in IAS 41 - Agriculture and IFRS 13 - Fair value measurement. In evaluating the valuation of the forestry assets, our procedures primarily consisted of substantive tests of detail, where we assessed the appropriateness of the inputs and the assumptions used in the valuation model taking into account supporting evidence, and analytical procedures, where we compared the inputs and assumptions in the 31 December 2017 valuation with the 31 December 2018 valuation. We also performed procedures over the mathematical accuracy of the valuation model. We compared the estimated net standing prices to third party evidence and the inputs used in the conversion factor to convert hectares of land under afforestation to tonnes of standing timber with supporting historical evidence as well as benchmarking the conversion factor against industry data. We also assessed the risk adjustment applied in the valuation model to immature timber by agreeing the factors taken into account in the risk adjustment to historical evidence, industry data and other corroborating evidence provided by management. We evaluated the directors' assessment of the sensitivity of the valuation to reasonably possible changes in assumptions. We considered the appropriateness of the related disclosures in note 11 and note 31 to the financial statements. Based on the procedures performed, we noted no material issues from our work.

Independent auditor's report to the shareholders of Mondi Limited continued

Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 16 'Leases' The Company elected to early adopt IFRS 16 'Leases' fully retrospectively. This new accounting standard requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. Management has applied judgement in assessing whether new arrangements contain a lease, determining the lease terms, calculating the discount rate and concluding whether any service or lease components of lease arrangements need to be separated. Therefore, we consider it to be a key audit matter. As at 31 December 2018 the Company has recorded a right of use asset of R233 million (2017: 273 million) and lease liabilities of R306 million (2017: 339 million). The depreciation charge recognised on the right of use assets was R66 million (2017: R71 million) and the interest on lease liabilities R30 million (2017: R32 million). Refer to notes 10 - Leases and 31 - Accounting policies of the financial statements.	We obtained the Company's calculation of the right-of-use asset, lease liability, depreciation charge and interest on the lease liability based on the lease data for the population of leases identified. We performed procedures to assess the completeness of management's listing of the lease contracts in place, including reading new contracts and management meeting minutes and assessing expense accounts. We tested the accuracy of the lease data compiled by management by agreeing key inputs to the underlying arrangements to ensure the accuracy of key data points used in determining the IFRS 16 accounting entries. Where appropriate, we evaluated the relevant IT systems and tested the operating effectiveness of the internal controls over the recording of the IFRS 16 accounting entries. Our testing included an evaluation of the mathematical accuracy of the underlying calculations. We also involved internal valuation experts to consider the appropriateness of the Company's assessment of the discount rates used in the lease calculations. We assessed the rationale and approach in determining the discount rates applied for a sample of the leases. Based on the procedures performed, we noted no material issued from our work.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Mondi Limited Annual Financial Statements for the year ended 31 December 2018, which includes the Report of the Directors, the Audit Committee Report and the Compliance Statement by the Company Secretary, as required by the Companies Act of South Africa and the Mondi Group Integrated Report and Financial Statements 2018. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the separate financial statements

The directors are responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditor's report to the shareholders of Mondi Limited continued

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 business activities within the company to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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 directors 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 directors, we determine those matters that were of most significance in the audit of the separate 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 Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Mondi Limited for 2 years.

PricewaterhouseCoopers Inc.
Director: JFM Kotzé
Registered Auditor
Johannesburg, South Africa

27 February 2019

Income statement
for the year ended 31 December 2018

R million	Notes	2018	Restated[1] 2017
Revenue	2	**9,962**	**9,315**
Materials, energy and consumables used		(4,614)	(4,607)
Variable selling expenses		(991)	(1,053)
Gross margin		**4,357**	**3,655**
Maintenance and other indirect expenses		(805)	(438)
Personnel costs	5	(1,228)	(1,303)
Other net operating income		116	209
Depreciation and impairments		(593)	(656)
Operating profit before special items		**1,847**	**1,467**
Operating special items	3	(324)	(221)
Total profit from operations		**1,523**	**1,246**
Net finance costs	6	(147)	(221)
Financing special item	3	—	137
Profit before tax		**1,376**	**1,162**
Tax charge	7a	(355)	(223)
Profit for the year		**1,021**	**939**

Note:
1 The audited annual financial statements for the year ended 31 December 2017 were restated due to the adoption of IFRS 16, 'Leases', which has been disclosed in notes 31 and 32 of these financial statements

Statement of comprehensive income
for the year ended 31 December 2018

R million	2018 Before tax amount	2018 Tax charge	2018 Net of tax amount	Restated 2017 Before tax amount	Restated 2017 Tax benefit/ (charge)	Restated 2017 Net of tax amount
Profit for the year			**1,021**			**939**
Items that may subsequently be reclassified to the income statement						
Gains on available-for-sale investments[1, 2]	—	—	—	3	1	4
Items that will not subsequently be reclassified to the income statement						
Remeasurements of retirement benefit plans due to actuarial gains arising from changes in financial assumptions	36	(10)	26	56	(16)	40
Other comprehensive income/(expense) for the year	**36**	**(10)**	**26**	**59**	**(15)**	**44**
Total comprehensive income for the year			**1,047**			**983**

Notes:

1 The gains on available-for-sale investments in 2017 of R3 million comprises a fair value adjustment of R6 million and a reclassification adjustment for gains included in the income statement of R3 million

2 IFRS 9 was adopted without restating comparative information. The reclassification arising from the change of classification categories "available-for-sale" to "at fair value through profit or loss" is recognised in the opening balance sheet on 1 January 2018

Statement of financial position
as at 31 December 2018

R million	Notes	2018	Restated 2017	Restated At 1 January 2017
Property, plant and equipment	9	6,125	5,770	5,898
Forestry assets	11	4,533	3,863	3,724
Investment in and loans to subsidiaries	12	92	52	52
Financial asset investments	13	—	—	23
Total non-current assets		**10,750**	**9,685**	**9,697**
Inventories	14	1,085	1,039	768
Trade and other receivables	15	1,912	1,781	1,477
Investment in and loans to subsidiaries	12	—	96	172
Current tax asset		19	—	32
Financial asset investments	13	124	165	188
Financial instruments	27	—	45	5
Cash and cash equivalents	24b	25	4	1
Total current assets		**3,165**	**3,130**	**2,643**
Total assets		**13,915**	**12,815**	**12,340**
Short-term borrowings	19	(555)	(1,997)	(1,271)
Trade and other payables	16	(1,391)	(1,102)	(1,111)
Current tax liability		—	(86)	—
Provisions	17	(180)	(65)	(59)
Financial instruments	27	(4)	—	—
Total current liabilities		**(2,130)**	**(3,250)**	**(2,441)**
Medium and long-term borrowings	19	(258)	(290)	(290)
Retirement benefits liability	22	(742)	(773)	(797)
Deferred tax liability	7b	(1,682)	(1,626)	(1,755)
Provisions	17	(79)	(2)	(28)
Total non-current liabilities		**(2,761)**	**(2,691)**	**(2,870)**
Total liabilities		**(4,891)**	**(5,941)**	**(5,311)**
Net assets		**9,024**	**6,874**	**7,029**
Equity				
Stated capital	20	4,188	4,188	4,188
Retained earnings and other reserves		4,836	2,686	2,841
Total equity		**9,024**	**6,874**	**7,029**

Statement of changes in equity
for the year ended 31 December 2018

R million	Stated capital	Retained earnings	Other reserves	Total equity
At 1 January 2017, as previously reported	4,188	2,825	62	**7,075**
Impact of change in accounting policy (see note 32)	—	(46)	—	**(46)**
Restated balance at 1 January 2017	4,188	2,779	62	**7,029**
Total comprehensive income for the year (restated)	—	939	44	**983**
Dividends	—	(973)	—	**(973)**
Shares vested from Mondi Incentive Schemes Trust	—	(30)	—	**(30)**
Mondi share schemes' charge (see note 21)	—	—	34	**34**
Issue of Mondi Limited shares under employee share schemes[1]	—	35	(36)	**(1)**
Acquisition of business	—	(168)	—	**(168)**
Restated balance at 31 December 2017	**4,188**	**2,582**	**104**	**6,874**
Impact of change in accounting policy[2]	—	41	(41)	**—**
Restated balance at 1 January 2018	**4,188**	**2,623**	**63**	**6,874**
Total comprehensive income for the year	—	1,021	26	**1,047**
Dividends	—	(2,862)	—	**(2,862)**
Shares vested from Mondi Incentive Schemes Trust	—	(44)	—	**(44)**
Mondi share schemes' charge (see note 21)	—	—	12	**12**
Issue of Mondi Limited shares under employee share schemes[1]	—	18	(21)	**(3)**
Transfer from Mondi plc[3]	—	4,000	—	**4,000**
At 31 December 2018	**4,188**	**4,756**	**80**	**9,024**

Notes:

1 In 2018 the net amount of R3 million (2017: R1 million) comprised a deferred tax asset for a future tax deduction available to the Company when the shares held by the Mondi Share Incentive Schemes Trust are issued to share scheme participants, and the movement in the dividend equivalent bonus provision

2 IFRS 9, 'Financial Instruments', was adopted without restating comparative information. The reclassification arising from the change of classification categories from "available-for-sale" to "at fair value through profit or loss" is recognised in the opening balance sheet on 1 January 2018

3 This represents a corporate cash transfer from Mondi plc to Mondi Limited

Other reserves

R million	2018	2017
Post-retirement benefits reserve	48	22
Share-based payment reserve	32	41
Available-for-sale reserve[1]	—	41
Total	**80**	**104**

Note:

1 IFRS 9 was adopted without restating comparative information. The reclassification arising from the change of classification categories "available-for-sale" to "at fair value through profit and loss" is recognised in the opening balance sheet on 1 January 2018

Statement of cash flows
for the year ended 31 December 2018

R million	Notes	2018	Restated 2017
Cash flows from operating activities			
Cash generated from operations	24a	2,612	2,074
Income tax paid		(412)	(275)
Net cash generated from operating activities		**2,200**	**1,799**
Cash flows from investing activities			
Investment in property, plant and equipment		(671)	(688)
Proceeds from the disposal of property, plant and equipment		31	16
Investment in forestry assets		(746)	(631)
Proceeds from the disposal of financial asset investments		—	18
Acquisition of business	23	(408)	—
Proceeds from the liquidation of a subsidiary		2	—
Loan repayment/(advances) to related parties	24c	6	(61)
Interest received		26	6
Net cash used in investing activities		**(1,760)**	**(1,340)**
Cash flows from financing activities			
Proceeds from committed borrowing facility	24c	—	300
Repayment of committed borrowing facility	24c	(800)	—
Net proceeds from short-term borrowings	24c	41	59
Repayment of lease liabilities	10	(60)	(69)
Interest paid		(106)	(148)
Dividends paid to shareholders	8	(2,862)	(973)
Transfer from Mondi plc		4,000	—
Net cash used in financing activities		**213**	**(831)**
Net decrease in cash and cash equivalents		**653**	**(372)**
Cash and cash equivalents at beginning of year		(733)	(365)
Cash movement in the year	24c	653	(372)
Acquisition of business	24c	—	4
Cash and cash equivalents at end of year	24b	**(80)**	**(733)**

Notes to the financial statements
for the year ended 31 December 2018

1 Basis of preparation

Dual listed structure

The Mondi Group has two separate legal parent entities, Mondi Limited and Mondi plc, which operate under a dual listed company (DLC) structure. The substance of the DLC structure is such that Mondi Limited and its subsidiaries, and Mondi plc and its subsidiaries, operate together as a single economic entity through a sharing agreement, with neither parent entity assuming a dominant role. The effects of this sharing agreement and the DLC structure have been ignored for the purpose of preparing these South African company financial statements.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee; Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa 2008. The principal accounting policies adopted are set out in note 31.

The financial statements have been prepared on a going concern basis. These financial statements should be read in conjunction with the Mondi Group's DLC combined and consolidated financial statements.

In accordance with IAS 27.16, Mondi Limited has elected to utilise the exemption from preparing consolidated financial statements and has prepared separate Company financial statements herein. The Mondi Group combined and consolidated financial statements, which represent the DLC structure described above, have been produced for public use and are obtainable at the registered address of Mondi Limited.

The financial statements have been prepared in the Company's functional currency, South African rand.

Critical accounting judgements and key estimates

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

The most significant estimates and judgements are:

Key estimates
- Discount rates for the initial measurement of lease liabilities - refer to note 10
- Fair value of forestry assets – refer to note 11
- Actuarial valuation of retirement benefit obligations – refer to note 22
- Fair value of assets acquired and liabilities assumed in business combinations – refer to note 23

Critical accounting judgements and other accounting estimates
- Impairment of property, plant and equipment – refer to note 9 and 31
- Residual values and useful economic lives of property, plant and equipment – refer to note 9 and 31
- Carrying value of investments – refer to note 12 and 31
- Taxation – refer to note 7 and 31

2 Revenue from contracts with customers

The Company generates revenue from the sale of goods across the pulp and paper value chain. Revenue is recognised at a point in time, typically when the goods have been delivered to a contractually agreed location. Customer payment terms do not contain significant financing components.

The material product types from which the Company derives its revenues are as follows:

R million	2018	2017
Containerboard	2,679	2,513
Uncoated Fine Paper	3,667	3,075
Pulp	2,881	2,595
Newsprint	140	327
Other[1]	595	805
Total revenue	**9,962**	**9,315**

Note:
1 This includes revenues derived from sale of wood and energy and are not individually material

2 Revenue from contracts with customers (continued)

There are no contract assets and contract liabilities as at 31 December 2018 (2017: Rnil). No contract costs were capitalised in either year presented.

The Company does not disclose information about remaining performance obligations that have original expected durations of one year or less, as permitted under IFRS 15.

3 Special items

R million	2018	2017
Operating special item		
Impairment of assets	(84)	(120)
Restructuring and closure costs:		
Personnel costs relating to restructuring	(52)	(20)
Restructuring and closure costs excluding related personnel costs	(188)	(81)
Total operating special items	**(324)**	**(221)**
Financing special item		
Reversal of impairment of loan	—	137
Total special items before tax	**(324)**	**(84)**
Tax charge (see note 7)	89	62
Total special items attributable to shareholders	**(235)**	**(22)**

Operating special item

Restructuring and closure costs and related impairments during the year comprise:

- Closure of an uncoated fine paper machine at Merebank. Restructuring costs of R240 million and related impairment of assets of R84 million were recognised.

4 Auditors' remuneration

R million	2018	2017
Audit fees	5	5
Non-audit fees	1	1
Auditors' remuneration	**6**	**6**

5 Personnel costs

R million	2018	2017
Within operating costs		
Wages and salaries	1,149	1,199
Defined contribution retirement plan contributions (see note 22)	67	70
Share-based payments (see note 21)	12	34
Total within operating costs	**1,228**	**1,303**
Within special items		
Personnel costs relating to restructuring (see note 3)	**52**	**20**
Within net finance costs		
Retirement benefit medical plan interest costs (see notes 6 and 22)	**70**	**75**
Total	**1,350**	**1,398**

6 Net finance costs

Net finance costs are presented below:

R million	2018	Restated 2017
Investment Income		
Investment income	**29**	**4**
Finance costs		
Interest expense		
Interest on bank overdrafts and loans	(79)	(120)
Interest on lease liabilities (see note 10)	(30)	(32)
Interest expense on retirement benefits liability (see note 22)	(70)	(75)
Total interest expense	**(179)**	**(227)**
Less: Interest capitalised (see note 9)	3	2
Total finance costs	**(176)**	**(225)**
Net finance costs	**(147)**	**(221)**

The weighted average interest rate applicable to capitalised interest on general borrowings for the year ended 31 December 2018 was 8.02% (2017: 8.12%) and was related to Richards Bay.

7 Taxation

(a) Analysis of tax charge for the year

The Company's effective rate of tax for the year ended 31 December 2018, calculated on profit before tax, is 26% (2017: 19%).

R million	2018	Restated 2017
South Africa corporation tax at 28% (2017: 28%)	325	404
Current tax in respect of prior years	7	(32)
Current tax	**332**	**372**
Deferred tax in respect of the current year	154	(30)
Deferred tax in respect of prior year over provision	(42)	(57)
Total tax charge before special items	**444**	**285**
Current tax on special items (see note 3)	(21)	(4)
Deferred tax on special items (see note 3)	(68)	(58)
Total tax charge for the year	**355**	**223**

Notes to the financial statements continued
for the year ended 31 December 2018

7 Taxation (continued)

Factors affecting tax charge for the year

The Company's total tax charge for the year can be reconciled to the tax on the Company's profit before tax at the SA corporation tax rate of 28% (2017: 28%), as follows:

R million	2018	Restated 2017
Profit before tax	**1,376**	**1,162**
Tax on profit before tax calculated at the SA corporation tax rate of 28% (2017: 28%)	**385**	**325**
Tax effects of:		
Expenses not deductible/(taxable) for tax purposes	**5**	**(13)**
Non-qualifying depreciation and loss on disposal of non-qualifying assets	1	1
Special items not tax deductible/(taxable)	2	(39)
Other non-deductible expenses	2	25
Prior year temporary differences not previously recognised	**(42)**	**(57)**
Current tax prior year adjustments	**7**	**(32)**
Tax charge for the year	**355**	**223**

(b) Deferred tax

	Deferred tax liabilities	
R million	2018	Restated 2017
At 1 January	(1,626)	(1,755)
(Charged)/credited to income statement	(44)	145
Charged to statement of comprehensive income	(10)	(15)
Charged to retained earnings	(2)	(1)
At 31 December	**(1,682)**	**(1,626)**

Deferred tax comprises:

	Deferred tax liabilities	
R million	2018	Restated 2017
Capital allowances in excess of depreciation	(852)	(885)
Fair value adjustments	(1,180)	(1,055)
Other temporary differences	350	314
Total	**(1,682)**	**(1,626)**

The amount of deferred tax credited/(charged) to the income statement comprises:

R million	2018	Restated 2017
Capital allowances in excess of depreciation	32	7
Fair value adjustments	(124)	(43)
Other temporary differences	48	181
Total (charge)/credit	**(44)**	**145**

The Company's deferred tax liability is currently expected to become payable over a period greater than 12 months.

The Company does not have any unrecognised timing differences that would give rise to unrecognised deferred tax assets.

8 Dividends

Dividends paid to the shareholders of the Company are presented below:

rand cents per share	2018	2017
Final ordinary dividend paid (in respect of prior year)	625.73597	522.70920
Special dividend paid (in respect of prior year)	1,458.59200	—
Interim ordinary dividend paid	334.42009	299.94850

euro cents per share[1]		
Final ordinary dividend proposed for the year ended 31 December	54.55	42.90
Special dividend proposed for the year ended 31 December	—	100.00
Total final ordinary and special dividends proposed for the year ended 31 December	**54.55**	**142.90**

R million	2018	2017
Final ordinary dividend paid (in respect of prior year)	740	618
Special dividend paid (in respect of prior year)	1,726	—
Interim ordinary dividend paid	396	355
Total ordinary and special dividends paid	**2,862**	**973**

€ million[1]		
Final ordinary dividend proposed for the year ended 31 December	64	51
Special dividend proposed for the year ended 31 December	—	118
Total final ordinary and special dividends proposed for the year ended 31 December	**64**	**169**

Note:
1 The euro to rand exchange rate to be applied to the euro dividend amounts for calculation of the final rand dividend amounts will be announced on or shortly after 28 February 2019. The 2017 amounts have been stated to reflect euro values

The final ordinary dividend proposed has been recommended by the board and is subject to the approval of the shareholders of the Company at the Annual General Meeting scheduled for 9 May 2019.

9 Property, plant and equipment

R million	Land and buildings[1]	Plant and equipment	Assets under construction	Other	Total
Net carrying value					
At 1 January 2017, as previously reported	685	4,403	441	90	**5,619**
Impact of change in accounting policy (see note 32)	189	61	—	29	**279**
Restated balance at 1 January 2017	874	4,464	441	119	**5,898**
Acquisition of business	—	10	4	—	**14**
Additions (restated)	33	1	708	31	**773**
Disposal of assets	(1)	(53)	—	(1)	**(55)**
Depreciation charge for the year (restated)	(70)	(521)	—	(65)	**(656)**
Impairment losses recognised	—	(65)	(6)	—	**(71)**
Transfer from assets under construction	70	514	(653)	69	**—**
Reclassifications[2]	—	(282)	149	—	**(133)**
Restated balance at 31 December 2017	**906**	**4,068**	**643**	**153**	**5,770**
Cost (restated)	1,467	10,103	650	417	**12,637**
Accumulated depreciation and impairments (restated)	(561)	(6,035)	(7)	(264)	**(6,867)**
Acquired through business combinations (see note 23)	206	—	—	1	**207**
Additions	31	6	815	20	**872**
Disposal of assets	(38)	(2)	—	(7)	**(47)**
Depreciation charge for the year	(68)	(456)	—	(67)	**(591)**
Impairment losses recognised[3]	—	(86)	—	—	**(86)**
Transfer from assets under construction	54	599	(693)	40	**—**
At 31 December 2018	**1,091**	**4,129**	**765**	**140**	**6,125**
Cost	1,606	10,704	772	413	**13,495**
Accumulated depreciation and impairments	(515)	(6,575)	(7)	(273)	**(7,370)**

Notes:
1 The land value included in 'Land and buildings' is R887 million (2017: R657 million)
2 Reclassification includes reclassification of spare parts that are now retained within inventory
3 Impairment losses recognised include R84 million (2017: R71 million) classified as operating special items and R2 million (2017: Rnil) of other impairments

Included in the cost above is R3 million (2017: R2 million) of interest incurred on qualifying assets which has been capitalised during the year.

Research costs incurred and expensed by the Company during the year amounted to R75 million (2017: R71 million).

The recoverable amount of property, plant and equipment is determined based on the use of the asset within the current business plans. Any change in future intentions could result in an impairment of varying magnitude, depending on the assets affected.

10 Leases

From 1 January 2018 the Company early adopted IFRS 16, 'Leases'. Refer to notes 31 and 32 for the accounting policy and restatements, respectively. The right-of-use assets recognised on adoption of the new leasing Standard are reflected in the underlying asset classes of property, plant and equipment, and related lease liabilities are reflected as Borrowings.

The Company has entered into various lease agreements. Leases over land and buildings have a weighted average term of 23 years, plant and equipment a weighted average term of 13 years and other assets a weighted average term of four years.

Notes to the financial statements continued
for the year ended 31 December 2018

10 Leases (continued)

Right-of-use assets

R million	Right-of-use assets 2018	Right-of-use assets Restated 2017	Depreciation charge 2018	Depreciation charge Restated 2017
Land and buildings	174	194	(27)	(28)
Plant and equipment	34	46	(17)	(16)
Other	25	33	(22)	(27)
Total	**233**	**273**	**(66)**	**(71)**

Additions to the right-of-use assets during 2018 were R57 million (2017 restated: R65 million).

Lease liabilities

R million	2018	Restated 2017
Maturity analysis - contractual undiscounted cash flows		
Less than one year	76	72
One to five years	153	179
More than five years	284	310
Total undiscounted cash flows	**513**	**561**
Total lease liabilities	**306**	**339**
Current	48	49
Non-current	258	290

The total cash outflow for leases during 2018 was R95 million (2017 restated: R105 million).

Amounts recognised in the income statement

R million	2018	Restated 2017
Interest on lease liabilities	(30)	(32)
Expenses relating to short-term leases	(4)	(3)
Expenses relating to leases of low-value assets	(1)	(1)

11 Forestry assets

R million	2018	2017
At 1 January	3,863	3,724
Capitalised expenditure	637	589
Acquisition of assets	109	42
Acquired through business combinations (see note 23)	205	—
Fair value gains	479	414
Disposal of assets	(1)	—
Felling costs	(759)	(906)
At 31 December	**4,533**	**3,863**
Comprising		
Mature	2,659	2,299
Immature	1,874	1,564
Total forestry assets	**4,533**	**3,863**

11 Forestry assets (continued)

In total, the Company has 227,240 hectares (2017: 218,075 hectares) of owned and leased land available for forestry activities. 74,038 hectares (2017: 73,057 hectares) are set aside for conservation activities and infrastructure needs. 1,045 hectares (2017: 1,662 hectares) relate to non-core activities. The balance of 152,157 hectares (2017: 143,357 hectares) are under afforestation which forms the basis of the valuation set out above.

Mature forestry assets are those plantations that are harvestable, while immature forestry assets have not yet reached that stage of growth. Timber is harvested according to a rotation plan, once trees reach maturity. This period ranges from 6.5 to 14.5 years, depending on species, climate and location.

The fair value of forestry assets is a level 3 measure in terms of the fair value measurement hierarchy, consistent with prior years.

The following assumptions have a significant impact on the valuation of the Company's forestry assets:

- The net selling price, which is defined as the selling price less the costs of transport, harvesting, extraction and loading. The net selling price is based on third-party transactions and is influenced by the species, maturity profile and location of timber. In 2018, the net selling price used ranged from R239 per tonne to R628 per tonne (2017: R252 per tonne to R694 per tonne) with a weighted average of R406 per tonne (2017: R399 per tonne).
- The conversion factor used to convert hectares of land under afforestation to tonnes of standing timber, which is dependent on the species, the maturity profile of the timber, the geographic location, climate and a variety of other environmental factors. In 2018, the conversion factors ranged from 8.4 to 21.2 (2017: 8.4 to 21.5).
- The risk premium of 13.0% (2017: 13.0%) is based on an assessment of the risks associated with forestry assets.

The reported value of owned forestry assets would change as follows should there be a change in these underlying assumptions on the basis that all other factors remain unchanged:

R million	2018
Effect of R10/tonne increase in net selling price	108
Effect of 1% increase in conversion factor (hectares to tonnes)	45
Effect of 1% increase in risk premium	(49)

12 Investment in and loans to subsidiaries

R million	2018	2017
Unlisted		
Shares at cost	60	62
Loans advanced	42	96
Impairment	(10)	(10)
Total investments in subsidiaries	**92**	**148**
Repayable within one year classified as current asset	—	(96)
Total long-term investments in subsidiaries	**92**	**52**

Mondi Zimele Proprietary Limited (Mondi Zimele)
The closing balance of the loan advanced by the Company to Mondi Zimele amounts to R42 million (2017: R48 million). This loan is unsecured, interest free and is repayable on liquidation of Mondi Zimele or earlier on demand by the Company. There is no intention by the Company to call the loan in the year ending 31 December 2019.

Mondi Timber (Wood Products) Proprietary Limited (MTWP)
The closing balance of the loan advanced by the Company to MTWP amounts to R48 million (2017: R48 million). The loan advanced to MTWP has been offset against a loan from MTWP (see note 19). This loan is interest free and is repayable on demand by the Company.

Mondi Timber Limited (Mondi Timber)
Mondi Timber was deregistered in 2018. The Company's investment of R2 million was written off.

Mondi Sacherie Moderne Holdings Proprietary Limited (Mondi Sacherie)
The Company holds an investment in shares in Mondi Sacherie for R49 million.

Details of subsidiaries are set out in note 29.

13 Financial asset investments

	2018		2017
R million	At fair value through profit or loss	Available-for-sale investments	Available-for-sale investments
At 1 January	—	165	211
Impact of change in accounting policy[1]	165	(165)	—
Fair value adjustments	3	—	6
Disposal of assets	(44)	—	(52)
At 31 December	**124**	**—**	**165**

Notes:
1 IFRS 9 was adopted without restating comparative information. The reclassification arising from the change of classification categories from "available-for-sale" to "at fair value through profit or loss" is recognised in the opening balance sheet on 1 January 2018

The Company has established its own share-based payment arrangements to incentivise employees. Further information on the Company share schemes are set out in the Remuneration report. The share-based payment arrangements are administered by the Mondi Incentive Schemes Trust (MIS). In 2018 there were no advances to the MIS to fund the purchase of the Company's shares awarded to senior management (2017: Rnil). Shares vested during 2018 to the value of R44 million (2017: R30 million).

The fair value of the investments measured at fair value through profit or loss (2017: categorised as available-for-sale investments) held by the MIS is a level 1 measure in terms of the fair value measurement hierarchy contained in IFRS 9 (2017: IAS 39). The fair value is calculated on the quoted market price of Mondi Limited shares held by the MIS.

14 Inventories

R million	2018	2017
Valued using the first-in-first-out cost formula		
Raw materials and consumables	467	405
Work in progress	108	95
Finished products	189	192
Total valued using the first-in-first-out cost formula	**764**	**692**
Valued using the weighted average cost formula		
Raw materials and consumables	294	332
Finished products	27	15
Total valued using the weighted average cost formula	**321**	**347**
Total inventories	**1,085**	**1,039**
Of which, held at net realisable value	9	19
Income statement		
Cost of inventories recognised as an expense	(3,919)	(3,867)
Write-down of inventories to net realisable value	—	(1)

15 Trade and other receivables

R million	2018	2017
Trade receivables	1,625	1,642
Allowance for doubtful debts	(4)	(9)
Net trade receivables	**1,621**	**1,633**
Other receivables	200	125
Tax and social security	58	—
Prepayments	33	23
Total trade and other receivables	**1,912**	**1,781**

Trade receivables: credit risk

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

The Company manages its own exposure to credit risk according to the economic circumstances and characteristics of the relevant markets that it serves. The Company considers that its approach to the management of credit risk enables it to assess and manage credit risk effectively. Key principles of credit risk management are observed, such as the use of credit rating agencies, credit guarantee insurance, where appropriate, and the maintenance of a credit control function.

Credit insurance has been taken out by the Company to insure against the related credit default risk as follows:

R million	2018	2017
Credit risk exposure		
Gross trade receivables	1,625	1,642
Credit insurance	(1,262)	(1,255)
Total exposure to credit risk	**363**	**387**

The insured cover is presented gross of contractually agreed excess amounts.

Credit periods offered to customers vary according to the credit risk profiles of, and invoicing conventions established by, participants operating in the various markets in which the Company operates. Interest is charged at appropriate market rates on balances which are considered overdue in the relevant market.

To the extent that recoverable amounts are expected to be less than their associated carrying values, impairment charges have been recorded in the income statement and the carrying values have been written down to their expected recoverable amounts. The total gross carrying value of trade receivables that were subject to impairment during the year is R4 million (2017: R9 million).

Included within the Company's aggregate trade receivables balance are specific debtor balances with customers totalling Rnil (2017: R1 million) which are past due but not impaired at the reporting date. The Company has assessed these balances for recoverability and considers that their credit quality remains intact. An ageing analysis of net trade receivables is provided as follows:

R million	2018	2017
Trade receivables within terms	1,621	1,632
Past due by one to two months	—	1
At 31 December	**1,621**	**1,633**

Movement in the allowance account for bad and doubtful debts

R million	2018	2017
At 1 January	9	1
Increase in allowance recognised in income statement	—	3
Amounts written-off or recovered	(5)	—
Other	—	5
At 31 December	**4**	**9**

16 Trade and other payables

R million	2018	2017
Trade payables	487	373
Capital expenditure payables	205	60
Tax and social security	9	—
Other payables	7	36
Accruals	683	633
Total trade and other payables	**1,391**	**1,102**

17 Provisions

R million	2018
At 1 January	67
Charged to income statement	332
Acquisition of business (see note 24)	8
Unwinding of discount	5
Released to income statement	(1)
Amounts applied	(152)
At 31 December	**259**

Maturity analysis of total provisions on a discounted basis:

R million	2018
Current	180
Non-current	79
Total provisions	**259**

Provisions are primarily for restructuring costs, bonuses, potential claims against the Company and onerous contracts, none of which are individually significant. All non-current provisions are discounted using a discount rate based on a pre-tax yield on long-term bonds.

18 Capital management

The Company defines its capital employed as equity, as presented in the statement of financial position, plus net debt. Capital employed is managed on a basis that enables the Company to continue trading as a going concern, while delivering acceptable returns to shareholders. The Company is committed to managing its cost of capital by maintaining an appropriate capital structure, with a balance between equity and net debt.

The Company utilises its capital employed to fund the growth of the business and to finance its liquidity needs.

Financing facilities

Revolving committed facility was fully paid in 2018 and two new uncommitted overdraft facilities are in place, providing the company with R1.15 billion facility. These two facilities are renewable annually. The principal loan arrangements in place include the following:

R million	Maturity	Interest rate %	2018	2017
Financing facilities				
Revolving committed bank facility	June 2018	JIBAR + margin	—	800
Drawn			—	(800)
Committed local facilities available			**—**	**—**
Undrawn group facilities (on which the Company is a named borrower)			9,316	10,853
Total committed facilities available			**9,316**	**10,853**

18 Capital management (continued)

In order to manage its cost of capital, maintain an appropriate capital structure and meet its ongoing cash flow needs, the Company may issue new debt instruments; adjust the level of dividends paid to shareholders; issue new shares to, or repurchase shares from, investors; or dispose of assets to reduce its net debt exposure.

The Company is a component of the Group's DLC structure, the terms of which require that the capital supplied by, or made available to, the shareholders of Mondi Limited and Mondi plc be constrained by the equality of treatment mechanism. This serves to maintain and protect the economic interests of both sets of shareholders.

The Company is subject to certain exchange control conditions as agreed with the South African Ministry of Finance. These conditions do not infringe upon the Company's ability to manage optimally its capital structure. The Company has continuously met the exchange control provisions in the past and management is committed to ensuring that the Company continues to meet these provisions in the future.

19 Borrowings

R million	Current 2018	Non-current 2018	Total 2018	Current Restated 2017	Non-current Restated 2017	Total Restated 2017
Secured						
Lease liabilities (see note 10)	48	258	306	49	290	339
Total Secured	**48**	**258**	**306**	**49**	**290**	**339**
Unsecured						
Bank loans and overdrafts	105	—	105	1,536	—	1,536
Other loans	402	—	402	412	—	412
Total unsecured	**507**	**—**	**507**	1,948	—	1,948
Total borrowings	**555**	**258**	**813**	**1,997**	**290**	**2,287**

Included in other loans of the Company is a loan of R167 million (2017: R158 million) from Siyaqhubeka Forests Proprietary Limited (SQF), a subsidiary of the Company on which a market related interest rate is payable; and a loan of R188 million (2017: R210 million) from Mondi Timber (Wood Products) Proprietary Limited, a subsidiary of the Company on which a market related interest rate is payable.

The maturity analysis of the Company's borrowings, presented net of interest, is as follows:

2018/R million	< 1 year	1–2 years	2–5 years	> 5 years	Total[1]
Bank loans and overdrafts	105	—	—	—	105
Other loans	402	—	—	—	402
Lease liabilities (see note 10)	48	37	43	178	306
Total borrowings	**555**	**37**	**43**	**178**	**813**
Effective interest on borrowings net of amortised costs and discounts	28	23	50	106	207
Total undiscounted cash flows	**583**	**60**	**93**	**284**	**1,020**

2017/R million (restated)	< 1 year	1–2 years	2–5 years	> 5 years	Total[1]
Bank loans and overdrafts	1,536	—	—	—	1,536
Other loans	412	—	—	—	412
Lease liabilities	49	50	56	184	339
Total borrowings	**1,997**	**50**	**56**	**184**	**2,287**
Interest on borrowings net of amortised costs and discounts	110	12	61	126	309
Total undiscounted cash flows	**2,107**	**62**	**117**	**310**	**2,596**

Note:
1 It has been assumed that, where applicable, interest rates prevailing at the reporting date will not vary over the time periods remaining for future cash outflows

The Company has pledged no specific property, plant and equipment as collateral against borrowings.

Notes to the financial statements continued
for the year ended 31 December 2018

20 Stated capital

Number of shares	Authorised
Mondi Limited ordinary shares with no par value	250,000,000
Mondi Limited special converting shares with no par value	650,000,000

2018 & 2017	Number of shares	Stated capital
Mondi Limited ordinary shares with no par value issued on the JSE	118,312,975	4,114
Mondi Limited special converting shares with no par value	367,240,805	74
Total shares		**4,188**

The special converting shares are held in trust and do not carry dividend rights. These shares provide a mechanism for equality of treatment on termination of the DLC agreement for both the Company and Mondi plc ordinary shareholders.

21 Share-based payments

Mondi share awards

The Company has established its own share-based payment arrangements to incentivise employees. Full details of the Company's share schemes are set out in the Mondi Group Integrated report and financial statements 2018.

The fair values of the share awards granted under the Mondi Limited schemes are calculated with reference to the facts and assumptions presented below:

Mondi Limited	BSP 2018	BSP 2017	BSP 2016
Date of grant	27 March 2018	24 March 2017	22 March 2016
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Grant date fair value per instrument (R)	316.76	300.25	291.30
Number of shares conditionally awarded	20,930	37,913	72,868

Mondi Limited	LTIP 2018	LTIP 2017[1]	LTIP 2016
Date of grant	27 March 2018	24 March 2017	22 March 2016
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Expected outcome of meeting performance criteria (%)			
ROCE component	100	100	100
TSR component	25	25	25
Grant date fair value per instrument (R)			
ROCE component	316.76	312.04	291.30
TSR component[2]	79.19	78.01	72.83
Number of shares conditionally awarded	19,165	60,758	82,832

Note:

1 All participants, except the Group CEO and CFO, were granted an award on 24 March 2017. The Group CEO and CFO were granted an award on 12 May 2017 after the remuneration policy approval at the Mondi Limited and Mondi plc AGMs. The weighted average grant date fair value is reflected in the table. All performance requirements are identical for all 2017 LTIP awards

2 The base fair value has been adjusted for contractually-determined market-based performance conditions

All of these schemes are settled by the award of ordinary shares in the Company. The Company has no obligation to settle the awards made under these schemes in cash. An amount equal to the dividends that would have been paid on Bonus Share Plan (BSP) and Long-Term Incentive Plan (LTIP) share awards during the holding period are paid to participants upon vesting.

21 Share-based payments (continued)

The total fair value charge in respect of all the Mondi Limited share awards for the year ended 31 December is made up as follows:

R million	2018	2017
Bonus Share Plan	7	21
Long-Term Incentive Plan	5	13
Total share-based payment expense	**12**	**34**

The weighted average share price of share awards that vested during the period was R327.48 (2017: R306.79).

A reconciliation of share award movements for the Mondi Limited share schemes is shown below:

number of shares	BSP	LTIP	Total
At 1 January 2017	203,668	258,579	**462,247**
Shares conditionally awarded	37,913	60,758	**98,671**
Shares vested	(116,155)	(85,951)	**(202,106)**
Shares lapsed	(5,914)	(48,954)	**(54,868)**
At 31 December 2017	**119,512**	**184,432**	**303,944**
Shares conditionally awarded	20,930	19,165	**40,095**
Shares vested	(46,841)	(75,283)	**(122,124)**
Shares lapsed	(8,202)	(11,063)	**(19,265)**
At 31 December 2018	**85,399**	**117,251**	**202,650**

22 Retirement benefits

The Company operates a post-retirement defined contribution plan and a post-retirement medical plan.

Defined contribution plan

The assets of the defined contribution plans are held separately in an independently administered fund. The charge in respect of this plan of R67 million (2017: R70 million) is calculated on the basis of the contribution payable by the Company in the financial year. There were no material outstanding or prepaid contributions recognised in relation to this plan as at the reporting dates presented. The expected contributions to be paid to the defined contribution plan during 2019 is R70 million.

Defined benefit pension plan

The defined benefit pension plan entered the liquidation process in 2012 and the Company expects to receive a reimbursement of the pension surplus of R60 million once the fund is wound up, subject to any potential claims. No further claims have been lodged with the fund since it entered the liquidation process. The expected reimbursement is included in trade and other receivables.

Post-retirement medical plan

The post-retirement medical plan provides health benefits to retired employees and certain of their dependants. Eligibility for cover is dependent upon certain criteria. This plan is unfunded and has been closed to new participants since 1 January 1999.

The boards of trustees of this plan are required to act in the best interest of the plan and all relevant stakeholders of the plan (active employees, inactive employees, retirees and employers).

22 Retirement benefits (continued)

Except for the actuarial risks set out below, the Company has not identified any additional specific risks in respect of these plans.

Interest risk	A decrease in the bond interest rate will increase plan liabilities.
Longevity risk	The present value of the net retirement benefit liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan liabilities.
Salary risk	The present value of the net retirement benefit liability is calculated by reference to the expected future salaries of plan participants. An increase in the salary of the plan participants will increase the plan liabilities.
Medical cost inflation risk	The present value of the post-retirement medical plans is calculated by reference to expected future medical costs. An increase in medical cost inflation will increase the plan liabilities.

Independent qualified actuaries carry out full valuations every year using the projected unit credit method.

Actuarial assumptions

The principal assumptions used in the actuarial valuation of the post-retirement medical obligation are detailed below:

%	2018	2017
Discount rate	9.8	9.5
Rate of inflation	6.3	6.8
Rate of increase in salaries	7.3	7.8
Expected average increase of medical costs	7.8	8.3

The assumption for the discount rate for plan liabilities is based on the South African zero coupon government bond yield curve.

Mortality assumptions

The assumed remaining life expectancies on retirement at age 65 are:

years	2018	2017
Retiring today		
Males	16.2	16.1
Females	20.2	20.2
Retiring in 20 years		
Males	21.7	21.5
Females	25.8	25.7

The mortality assumptions have been based on published mortality tables in South Africa.

The retirement benefits liability recognised in the statement of financial position is as follows:

R million	2018	2017
Present value of unfunded liabilities (Post-retirement medical plan)	**(742)**	**(773)**

The changes in the present value of the defined benefit liability is as follows:

R million	2018	2017
At 1 January	(773)	(797)
Included in income statement		
Interest cost	(70)	(75)
Included in statement of comprehensive income		
Remeasurement gains	36	56
Acquisition of business[1]	—	(20)
Benefits paid	65	63
At 31 December	**(742)**	**(773)**

Note:
1 Acquisition of the assets and liabilities of Mondi Shanduka Newsprint Proprietary Limited, a subsidiary of the Company

22 Retirement benefits (continued)

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

R million	2018	2017
Less than a year	68	65
Between one and two years	70	67
Between two to five years	217	212
After five years	2,189	2,462

The weighted average duration of the Company's defined retirement benefits liability is nine years (2017: 10 years).

The expected contributions to be paid to the post-retirement medical plan during 2019 is R68 million.

Sensitivity analyses

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

The sensitivity analyses may not be representative of the actual changes in the retirement benefits liability as it is unlikely that the change in assumptions would occur in isolation of one another and some of the assumptions may be inter-related. The projected unit credit method was used to calculate the sensitivity analyses below.

A 1% change in the assumptions would have the following effects on the retirement benefits plans:

R million	1% increase	1% decrease
Discount rate		
Decrease in current service cost	—	—
(Decrease)/increase in retirement benefits liability	(58)	67
Rate of inflation		
Decrease in current service cost	—	—
Increase/(decrease) in retirement benefits liability	64	(56)
Rate of increase in salaries		
Decrease in current service cost	—	—
Increase/(decrease) in retirement benefits liability	18	(18)
Medical cost trend rate		
Increase/(decrease) in aggregate of the current service cost and interest cost	5	(7)
Increase/(decrease) in retirement benefits liability	64	(56)
Mortality rates	1 year increase	
Decrease in current service cost	—	
Increase in retirement benefits liability	31	

23 Business combinations

Acquisition of operating business of World Hardwood Proprietary Limited

Mondi Limited acquired the operating business and the underlying assets and liabilities of World Hardwood Proprietary Limited (World Hardwood) on 1 May 2018 for a consideration of R408 million on a debt and cash-free basis. World Hardwood is a supplier of wood and operates forest plantations in KwaZulu-Natal. The acquisition increases the level of secure wood supply.

World Hardwood's revenue for the year ended 31 December 2018 was R5 million with a profit after tax of R9 million. World Hardwood's revenue of R3 million and profit after tax of R12 million since the date of acquisition have been included in the income statement.

23 Business combinations (continued)

Details of the net assets acquired, as adjusted from book to fair value, are as follows:

R million	Book value	Revaluation	Fair value
Net assets acquired			
Property, plant and equipment	207	—	207
Forestry assets	198	7	205
Inventories	4	—	4
Total assets	**409**	**7**	**416**
Other provisions	—	(8)	(8)
Total liabilities	**—**	**(8)**	**(8)**
Net assets acquired = Total consideration = Net cash paid per statement of cash flows	**409**	**(1)**	**408**

Transaction costs of R1 million were charged to the income statement.

The fair value accounting of these acquisition is provisional in nature. The nature of this business is such that further adjustments to the carrying values of acquired assets and/or liabilities, and adjustments to the purchase price, are possible as the detail of the acquired business is evaluated post acquisition. If necessary, any adjustments to the fair values recognised will be made within 12 months of the acquisition date.

24 Cash flow analysis

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

R million	2018	Restated 2017
Profit before tax	**1,376**	**1,162**
Depreciation	590	656
Impairment of property, plant and equipment (not included in special items)	3	—
Share-based payments	12	34
Non-cash effect of special items	239	(17)
Net finance costs	147	221
Increase in provisions	23	4
Decrease in retirement benefits	(65)	(63)
Increase in inventories	(42)	—
Increase in operating receivables	(130)	(279)
Increase/(decrease) in operating payables	149	(86)
Fair value gains on forestry assets	(479)	(463)
Felling costs	759	906
(Gain)/loss on disposal of property, plant and equipment	(13)	39
Movement in derivatives	48	(40)
Other adjustments	(5)	—
Cash generated from operations	**2,612**	**2,074**

24 Cash flow analysis (continued)

(b) Cash and cash equivalents

R million	2018	2017
Cash and cash equivalents per statement of financial position	25	4
Bank overdrafts included in short-term borrowings	(105)	(737)
Cash and cash equivalents per statement of cash flows	**(80)**	**(733)**

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

(c) Movement in net debt

The Company's net debt position is as follows:

R million	Cash and cash equivalents	Current financial asset investments	Loans to related parties	Total assets	Debt due within one year	Debt due after one year	Total debt	Total net debt
At 1 January 2017, as previously reported	(365)	188	172	**(5)**	(852)	—	**(852)**	**(857)**
Impact of change in accounting policy (see note 32)	—	—	—	**—**	(53)	(290)	**(343)**	**(343)**
Restated balance at 1 January 2017	(365)	188	172	**(5)**	(905)	(290)	**(1,195)**	**(1,200)**
Cash flow (restated)	(372)	(16)	61	**(327)**	(290)	—	**(290)**	**(617)**
Additions to lease liabilities (restated)	—	—	—	**—**	(23)	(42)	**(65)**	**(65)**
Acquisition of business[1]	4	—	(274)	**(270)**	—	—	**—**	**(270)**
Reversal of impairment	—	—	137	**137**	—	—	**—**	**137**
Fair value loss	—	(7)	—	**(7)**	—	—	**—**	**(7)**
Reclassification (restated)	—	—	—	**—**	(42)	42	**—**	**—**
Restated balance at 31 December 2017	**(733)**	**165**	**96**	**(472)**	**(1,260)**	**(290)**	**(1,550)**	**(2,022)**
Cash flow	653	(44)	(6)	**603**	819	—	**819**	**1,422**
Additions to lease liabilities	—	—	—	**—**	(27)	(28)	**(55)**	**(55)**
Disposals of lease liabilities	—	—	—	**—**	15	15	**30**	**30**
Fair value gain	—	3	—	**3**	—	—	**—**	**3**
Reclassification	—	—	(48)	**(48)**	3	45	**48**	**—**
At 31 December 2018	**(80)**	**124**	**42**	**86**	**(450)**	**(258)**	**(708)**	**(622)**

Note:
1 Elimination of loan due to acquisition of the assets and liabilities of Mondi Shanduka Newsprint Proprietary Limited, a subsidiary of the Company

25 Capital commitments

R million	2018	2017
Contracted for but not provided	183	246
Approved, not yet contracted for	2,699	1,079
Total capital commitments	**2,882**	**1,325**

These capital commitments are in respect of property, plant and equipment.

25 Capital commitments (continued)

The expected maturity of these capital commitments is:

R million	2018	2017
Within one year	1,620	1,023
One to two years	1,111	302
Two to five years	151	—
Total capital commitments	**2,882**	**1,325**

Capital commitments are based on capital projects approved to date and the budget approved by the board. Major capital projects still require further approval before they commence and are not included in the above analysis. These capital commitments are expected to be financed from existing cash resources and borrowing facilities.

26 Contingent liabilities

There were no contingent liabilities to be disclosed and no acquired contingent liabilities to be recorded in the Company's statement of financial position for either year presented. The Company has issued financial guarantees to suppliers for services rendered in the ordinary course of business of R73 million (2017: R72 million). The likelihood of these financial guarantees being called is considered to be remote and therefore the estimated financial effect of issuance is Rnil (2017: Rnil).

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

27 Financial instruments

The Company's trading and financing activities expose it to various financial risks that, if left unmanaged, could adversely impact 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 Company is actively engaged in the management of all of these financial risks in order to minimise their potential adverse impact on the Company's financial performance.

The principles, practices and procedures governing the Company-wide financial risk management process have been approved by the board and is overseen by the DLC executive committee. In turn, the DLC executive committee delegates authority to a central treasury function (Group treasury) for the practical implementation of the financial risk management process across the Mondi Group and for ensuring that the Mondi 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 Company does not take speculative positions on derivative contracts.

(a) Financial instruments by category

The Company has adopted IFRS 9, 'Financial instruments', on 1 January 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The classification categories previously defined under IAS 39 were replaced in IFRS 9 with the categories 'amortised cost', 'fair value through profit or loss' and 'fair value through OCI'.

Financial assets previously held as 'available-for-sale' and 'loans and receivables' were transferred to the categories 'at fair value through profit or loss' and 'at amortised cost' respectively, effective from 1 January 2018. The transfer in financial asset categories did not have a material impact on the measurement of the financial assets.

27 Financial instruments (continued)

2018/R million	Fair value hierarchy	At amortised cost	At fair value through profit or loss	Total
Financial assets				
Trade and other receivables[1]		1,821	—	1,821
Financial asset investments	Level 1	—	124	124
Cash and cash equivalents		25	—	25
Total		**1,846**	**124**	**1,970**

Note:
1 Excludes tax, social security and prepayments

2017/R million (restated)	Fair value hierarchy	Loans and receivables	At fair value through profit or loss	Available-for-sale investments	Total
Financial assets					
Trade and other receivables[1]		1,758	—	—	1,758
Financial asset investments	Level 1	—	—	165	165
Derivative financial instruments	Level 2	—	45	—	45
Cash and cash equivalents		4	—	—	4
Total		**1,762**	**45**	**165**	**1,972**

Note:
1 Excludes tax, social security and prepayments

The fair values of financial asset investments represent the published prices of the securities concerned.

		At fair value through profit or loss		At amortised cost	
					Restated
R million	Fair value hierarchy	2018	2017	2018	2017
Financial liabilities					
Borrowings – loans and overdrafts	Level 2	—	—	(507)	(1,948)
Lease liabilities	Level 3	—	—	(306)	(339)
Trade and other payables[1]		—	—	(699)	(469)
Derivative financial instruments	Level 2	(4)	—	—	—
Total		**(4)**	**—**	**(1,512)**	**(2,756)**

Note:
1 Excludes tax, social security and accruals

(b) Fair value measurement

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

The carrying values of financial instruments at amortised cost as presented in the financial statements approximate their fair values.

(c) Financial risk management

Market risk

The Company's activities expose it primarily to foreign exchange and interest rate risk. Both risks are actively monitored on a regular basis and managed through the use of foreign exchange contracts and interest rate swaps as appropriate. Although the Company's cash flows are exposed to movements in key input and output prices, such movements represent commercial rather than financial risk inherent to the Company.

Foreign exchange risk

The Company operates globally and is exposed to foreign exchange risk in the normal course of its business. Multiple currency exposures arise from commercial transactions denominated in foreign currencies and recognised financial assets and liabilities (monetary items) denominated in foreign currencies.

27 Financial instruments (continued)

Foreign exchange contracts
The Company's treasury policy requires it to actively manage foreign currency transactional exposures against its functional currency by entering into foreign exchange contracts.

Only material balance sheet exposures and highly probable forecast capital expenditure transactions are hedged.

Foreign currency sensitivity analysis
Foreign exchange risk sensitivity analysis has been performed on the foreign currency exposures inherent in the Company's financial assets and financial liabilities at the reporting dates presented, net of related foreign exchange contracts. The sensitivity analysis provides an indication of the impact on the Company's reported earnings of reasonably possible changes in the exposure currency. In addition, an indication is provided of how reasonably possible changes in foreign exchange rates might impact on the Company'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 historical currency volatility, together with any relevant assumptions regarding near-term future volatility.

Net monetary foreign currency exposures by functional currency zone

R million	2018	2017
Euro	(99)	(42)
Pound sterling	—	(1)
Swedish krona	(17)	(3)
US dollar	(54)	(20)

Resultant impacts of reasonably possible changes to foreign exchange rates
The Company considers that for each foreign currency net monetary exposure it is reasonable to assume a 10% appreciation/depreciation of the South African rand. The total corresponding fair value impact on the Company's income statement would be +/-R17 million.

Interest rate risk

The Company holds cash and cash equivalents, which earn interest at a variable rate and has variable rate debt in issue. Consequently, the Company is exposed to interest rate risk.

Management of cash and cash equivalents
Cash and cash equivalents comprise cash on hand, demand deposits and overdraft facilities, together with short-term highly liquid investments which have a maturity of three months or less from the date of acquisition. Centralised cash pooling arrangements are in place, which ensure that cash is utilised most efficiently for the ongoing working capital needs of the Company's operating units and, in addition, to ensure that the Company earns the most advantageous rates of interest available.

Management of variable rate debt
The Company has multiple variable rate debt facilities. When deemed necessary, Group treasury uses interest rate swaps to hedge certain exposures to movements in interest rates.

The Company's cash and cash equivalents act as a natural hedge against possible unfavourable movements in the relevant interbank 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 cash and cash equivalents. Reasonably possible changes in interest rates have been applied to the net variable rate exposure, in order to provide an indication of the possible impact on the Company's income statement.

The Company did not have any outstanding interest rate swaps at 31 December 2018.

A 50 basis points movement in the interest rate will impact the earnings for the year by R1 million.

Credit risk

The Company's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised. The Company's exposure to the credit risk inherent in its trade receivables and the associated risk management techniques that the Company deploys in order to mitigate this risk are discussed in note 15.

27 Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment. The Company 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 Company repaid the South African committed loan facilities in 2018, which were fully drawn down in 2017. The Company has two new uncommitted overdraft facilities in place in 2018, providing the company with facilities totalling R1.15 billion. At 31 December 2018 the Company had R1.045 billion (2017: R414 million) available to draw down on its uncommitted overdraft facilities. The Company is a named borrower on the Mondi Group €750 million Syndicated Revolving Credit Facility (RCF). The RCF had drawings of £165 million by Mondi Finance plc at 31 December 2018 (2017: £15 million). The Company made no drawings from the RCF in 2018 (2017: Rnil).

Forecast liquidity represents the Company's expected cash inflows, principally generated from sales made to customers, less the Company's expected cash outflows, principally related to the payment of employees, supplier payments and the repayment of borrowings, 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.

The matching of the cash flows that result from trade receivables and trade payables typically takes place 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 Company.

Financing cash outflows may be longer-term in nature. The Company does not hold long-term financial assets to match against these commitments, but is 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 Company's borrowings.

Contractual maturity analysis

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

(d) Derivative financial instruments

Derivative financial instruments are carried at fair value. At 31 December 2018, the Company recognised total derivative assets of Rnil (2017: R45 million). At 31 December 2018, the Company recognised total derivative liabilities of R4 million (2017: Rnil).

The notional amount of R636 million (2017: R589 million) is the aggregate face value of all derivatives outstanding at the reporting date. 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 Company's exposure to credit or market risks.

Derivative financial instruments are subject to International Swaps and Derivatives Association (ISDA) master netting agreements. The amounts are not offset in the statement of financial position.

28 Related party transactions

In the ordinary course of business, the Company enters into various sale, purchase and service transactions with its subsidiaries and others in which the Company has a material interest. These transactions are under terms that are no less favourable than those arranged with third parties. These transactions, in total, are not considered to be significant.

	Mondi plc subsidiaries		Subsidiaries		Mondi Incentive Schemes Trust	
R million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Sales to related parties	1,352	1,517	11	48	—	—
Purchases from related parties	16	12	271	292	—	—
Net finance expense	—	—	18	12	—	—
Investment in and loans to related parties	—	—	92	148	—	—
Receivables due from related parties	362	380	24	24	—	—
Payables due to related parties	95	135	60	51	—	—
Borrowings from related parties	—	—	402	412	—	—
Shares vested	—	—	—	—	44	30

28 Related party transactions (continued)

Compensation for the board and key management

In accordance with IAS 24, 'Related Party Disclosures', key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and includes directors (both Executive and Non-Executive) of the Company.

The board and those members of the DLC executive committee who are not directors comprise the key management personnel of the Company. The remuneration of the directors is disclosed in the Remuneration report.

R million	2018	2017
Salaries and short-term employee benefits	131	128
Non-Executive Directors	17	17
Defined contribution plan payments	15	14
Social security costs	11	19
Share-based payments	80	99
Total	**254**	**277**

The information presented in the table above, in conjunction with the audited information in the Remuneration report, satisfies the disclosure requirements of the Companies Act of South Africa 2008 Section 30(4) to (6) with regard to the remuneration of prescribed officers of the Company. Details of the transactions between the Company and its pension and post-retirement medical plans are disclosed in note 22.

29 List of subsidiaries and associated undertakings and other significant holdings as at 31 December 2018

The subsidiaries, joint ventures and associates of the Company as at the reporting dates presented, and the Company's percentage of equity owned, together with the Company's interest in its joint ventures and associates are presented below. All of these interests are consolidated within the Mondi Group's combined and consolidated financial statements.

All shares are held directly except where noted. All the shares held are ordinary shares.

Company	Registered office	% of shares held by Company
Côte d'Ivoire		
La Sacherie Moderne SA[1]	Zone Industrielle de Yopougon 01, Abidjan, BP 5676	50
South Africa		
Arctic Sun Trading 17 Proprietary Limited[1]	Unit 4, 57 St. Andrews Drive, Durban North, 4051	50
Bongani Development Close Corporation	4th Floor, No 3 Melrose Boulevard, Melrose Arch, 2196	100
Golden Pond Trading 250 Proprietary Limited[1]	3 Joyner Road, Prospecton, 4110	49
Khulanathi Forestry Proprietary Limited[1]	Lakeside Terrace, 3rd Floor, ABSA Building, Richards Bay, 3900	30
Mondi Africa Holdings Proprietary Limited	4th Floor, No 3 Melrose Boulevard, Melrose Arch, 2196	100
Mondi Forestry Partners Programme Proprietary Limited[1]	380 Old Howick Road, Mondi House, Hilton, 3245	100
Mondi Newsprint Proprietary Limited	4th Floor, No 3 Melrose Boulevard, Melrose Arch, 2196	100
Mondi Sacherie Moderne Holdings Proprietary Limited	4th Floor, No 3 Melrose Boulevard, Melrose Arch, 2196	100
Mondi Timber (Wood Products) Proprietary Limited	4th Floor, No 3 Melrose Boulevard, Melrose Arch, 2196	100
Mondi Zimele Job Funds Proprietary Limited[1]	380 Old Howick Road, Mondi House, Hilton, 3245	100
Mondi Zimele Proprietary Limited	380 Old Howick Road, Mondi House, Hilton, 3245	100
MZ Business Services Proprietary Limited[1]	128 Lansdowne Road, Jacobs, 4052	100
MZ Technical Services Proprietary Limited[1]	128 Lansdowne Road, Jacobs, 4052	56
Professional Starch Proprietary Limited[1]	380 Old Howick Road, Mondi House, Hilton, 3245	100
Siyaqhubeka Forests Proprietary Limited[1]	4th Floor, No 3 Melrose Boulevard, Melrose Arch, 2196	51
Zimshelf Eight Investment Holdings Proprietary Limited	4th Floor, No 3 Melrose Boulevard, Melrose Arch, 2196	100

Notes:
1 These companies are held indirectly

30 Events occurring after 31 December 2018

With the exception of the final ordinary dividend proposed for 2018 (see note 8), there have been no material reportable events since 31 December 2018.

31 Accounting policies

Subsidiaries and associates (note 12)

The Company's investments in subsidiaries and associates are reflected at cost less amounts written off and accumulated impairments. Any potential impairment is determined on a basis consistent with the accounting policy on the impairment of property, plant and equipment.

Foreign currency transactions

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

Fair value measurement

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

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

The assets measured at fair value on level 3 of the fair value measurement hierarchy are the Company's forestry assets as set out in note 11 and certain assets acquired or liabilities assumed in business combinations.

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

Specific valuation methodologies used to value financial instruments include:

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

Revenue from contracts with customers

Sale of goods (note 2)
Revenue is recognised from the sale of goods and is measured at the amount of the transaction price received in exchange for transferring goods. The transaction price is the expected consideration to be received, to the extent that it is highly probable that there will not be a significant reversal of revenue in future, after deducting discounts, volume rebates, value added tax and other sales taxes. When the period of time between delivery of goods and subsequent payment by the customer is less than one year, no adjustment for a financing component is made.

Control of the goods is passed when title and insurance risk have passed to the customer, which is typically when the goods have been delivered to a contractually agreed location.

The incremental costs of obtaining a contract are recognised as an expense when the period of amortisation over which the costs would have been recognised is one year or less. If not, these costs are capitalised and amortised on a basis consistent with the transfer of goods to the customer to which the asset relates.

31 Accounting policies (continued)

Transitional application
The Company has elected to adopt IFRS 15, 'Revenue from Contracts with Customers', with the retrospective transitional option per IFRS 15 C3 (a), in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', subject to expedients. The Company has used the following practical expedients as permitted by IFRS 15:

- for completed contracts that began and ended in the same annual reporting period, no restatement has been done;
- for completed contracts that have variable consideration, the transaction price at the date on which the contract was completed has been used; and
- for the comparative 2017 period, the amount of the transaction price allocated to remaining performance obligations is not disclosed.

Other income

Investment income (note 6)
Interest income, which is derived from cash and cash equivalents and other interest-bearing financial assets, is accrued on a time proportion basis, by reference to the principal outstanding and at the applicable effective interest rate. Interest income is included in net finance costs.

Taxation (note 7)

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

Current tax
The current tax charge is based on taxable profit for the year. The Company’s asset/liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. The Company is regularly subjected to routine tax audits. Provision is made based on the tax laws applicable for the Company and the expected outcomes of any negotiations or settlements.

A degree of estimation and judgement is required in determining the appropriate tax provision for transactions where the tax treatment is uncertain. In these circumstances, the Company recognises provisions for taxes based on information available where the anticipated liability is both probable and estimable.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the Company’s financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future 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 investments in subsidiaries and associates, except where the Company 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. The carrying amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered within a reasonable period of time. Similarly, it is increased to the extent that it becomes probable that sufficient taxable profit will be available in the future for all or part of the deferred tax asset to be recovered within a reasonable period of time.

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

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

Non-current non-financial assets excluding deferred tax and net retirement benefits asset

Property, plant and equipment (note 9)
Property, plant and equipment principally comprise land and buildings, plant and equipment and assets in the course of construction.

31 Accounting policies (continued)

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Land and assets in the course of construction are carried at cost less impairment. Cost includes site preparation, the purchase price of the equipment and directly attributable labour and installation costs. Borrowing costs are capitalised on qualifying assets. The capitalisation of costs ceases when the asset is in the location and condition necessary for it to be capable of commercial operation. Start-up and ongoing maintenance costs are not capitalised.

Depreciation is charged to the income statement so as to write off the cost of assets, other than freehold land and assets in the course of construction, over their estimated useful lives on a straight-line basis to their estimated residual values. Residual values and useful lives are reviewed at least annually. Depreciation commences when the assets are ready for their intended use.

Estimated useful lives range from three years to 20 years for items of plant and equipment and other categories and to a maximum of 50 years for buildings.

Leases (note 10)

To the extent that a right-of-control exists over an asset subject to a lease, with a lease term exceeding one year, a right-of-use asset, representing the Company's right to use the underlying leased asset, and a lease liability representing the Company's obligation to make lease payments are recognised in the statement of financial position at the commencement of the lease.

The right-of-use asset is measured initially at cost and includes the amount of initial measurement of the lease liability, any initial direct costs incurred, including advance lease payments, and an estimate of the dismantling, removal and restoration costs required in terms of the lease. Depreciation is charged to the income statement so as to depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease term shall include the period of an extension option where it is reasonably certain that the option will be exercised. Where the lease contains a purchase option the asset is written-off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised.

The lease liability is measured at the present value of the future lease payments, including variable lease payments that depend on an index and the exercise price of purchase options where it is reasonably certain that the option will be exercised, discounted using the interest rate implicit in the lease, if readily determinable. If the rate cannot be readily determined, the lessee's incremental borrowing rate is used. Finance charges are recognised in the income statement over the period of the lease.

Lease expenses for leases with a duration of one year or less and low-value assets are charged to the income statement when incurred. Low-value assets are based on qualitative and quantitative criteria.

Transitional application

The Company has elected to early adopt IFRS 16, 'Leases', with effect from 1 January 2018, with the retrospective transitional option per IFRS 16 C5 (a), applying IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'. The Company has elected to apply the practical expedient per IFRS 16 C3, such that the IFRS 16 definition of a lease would only be applied to assess whether contracts entered into after the date of initial application are, or contain, leases. All contracts previously assessed not to contain leases have not been reassessed.

Impairment of property, plant and equipment

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment 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. If the recoverable amount of an asset, or cash-generating unit (CGU) to which the asset relates, is less than its carrying amount, the carrying amount of the asset, or CGU, is reduced to its recoverable amount and an impairment recognised as an expense.

The recoverable amount of the asset, or CGU, is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the smallest CGU to which the asset belongs.

Where the underlying circumstances change such that a previously recognised impairment subsequently reverses, the carrying amount of the asset, or CGU, is increased to the revised estimate of its recoverable amount. Such a reversal is limited to the carrying amount that would have been determined had no impairment been recognised for the asset, or CGU, in prior years. A reversal of an impairment is recognised in the income statement.

Notes to the financial statements continued
for the year ended 31 December 2018

31 Accounting policies (continued)

Agriculture – owned forestry assets (note 11)
Owned forestry assets are biological assets measured at fair value less costs to sell, calculated by applying the expected selling price, less costs to harvest and deliver, to the estimated volume of timber on hand at each reporting date. The fair value less costs to sell is determined using a market approach. The estimated volume of timber on hand is determined based on the maturity profile of the area under afforestation, the species, the geographic location and other environmental considerations and excludes future growth. The product of these is then adjusted for risks associated with forestry assets.

Changes in fair value are recognised in the income statement within other net operating expenses. At point of felling, the carrying value of forestry assets is transferred to inventory.

Directly attributable costs incurred during the year of biological growth and investments in standing timber are capitalised and presented within cash flows from investing activities.

Business combinations (note 23)

Identifiable net assets
At the date of acquisition the identifiable assets, liabilities and contingent liabilities of a business 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 the Company, in exchange for control of an acquiree. The directly attributable costs associated with a business combination are expensed as incurred.

Current non-financial assets

Inventory (note 14)
Inventory is valued at the lower of cost and net realisable value. Cost is determined on the first-in-first-out (FIFO) or weighted average cost basis, as appropriate. Costs comprise direct materials and, where applicable, direct labour costs and those 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 of disposal.

Provisions (note 17)

Provisions are recognised when the Company has a present obligation as a result of a past event, which it is probable it will be required to settle. 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 using country specific discount rates for periods matching the duration of the underlying liability where the effect of discounting is material.

Equity instruments

Dividend payments (note 8)
Dividend distributions to Mondi Limited's ordinary shareholders are recognised as a liability when the dividends are declared and approved. Final dividends are accrued when approved by Mondi Limited's ordinary shareholders at its Annual General Meeting and interim dividends are recognised when approved by the board.

Share-based payments (note 21)
The Company operates a number of equity-settled, share-based compensation schemes. 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, as adjusted for market performance conditions and non-market vesting conditions. Vesting conditions are included in assumptions about the number of awards that are expected to vest. At each reporting date, the Company revises its estimates of the number of share awards that are expected to vest as a result of changes in non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Financial instruments (note 27)

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

31 Accounting policies (continued)

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

Financial asset investments (note 13)
Investments, other than investments in subsidiaries and associates, are either classified as investments at fair value through profit or loss, or loans and receivables. Investments held at fair value through profit or loss are initially recorded at fair value, and are subsequently remeasured at each reporting date to fair value. Any unrealised gains and losses are recognised in the income statement.

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

Cash and cash equivalents (note 24b)
Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments of a maturity of three months or less from the date of acquisition that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short-term borrowings in current liabilities in the statement of financial position. Cash and cash equivalents presented in the statement of cash flows and in net debt (note 24c) are net of overdrafts.

Trade receivables (note 15)
Trade receivables are initially recognised at their fair value and are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairments.

Impairment of trade receivables (note 15)
A simplified lifetime Expected Credit Loss (ECL) model is used to assess trade receivables for impairment. ECL is the present value of all cash shortfalls over the expected life of a trade receivable. Expected credit losses are based on historical loss experience on trade receivables, adjusted to reflect information about current economic conditions and reasonable and supportable forecasts of future economic conditions. At the date of initial recognition, the credit losses expected to arise over the lifetime of a trade receivable are recognised as an impairment.

Trade payables (note 16)
Trade payables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest rate method.

Borrowings (note 19)
Interest bearing loans and overdrafts are initially recognised at fair value, net of direct transaction costs. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest rate method.

Borrowing costs (note 6)
Interest on borrowings directly relating to the acquisition, construction or production of qualifying assets is capitalised until such time as the assets are substantially ready for their intended use 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 Company during the construction period.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Derivative financial instruments and hedge accounting (note 27d)

The Company enters into forward, option and swap contracts in order to hedge its exposure to foreign exchange, interest rate and commodity price risks.

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 are classified as current or non-current depending on the maturity of the derivative.

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

31 Accounting policies (continued)

Transitional application
The Company has adopted IFRS 9, 'Financial Instruments', on 1 January 2018 and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy. Refer to the accounting policies of the Mondi Limited annual financial statements 2017 for details of the previous policy.

Retirement benefits (note 22)

The Company operates defined contribution pension plans for its employees as well as a post-retirement medical plan.

Defined contribution plans
For defined contribution plans, the amount charged to the income statement is the contributions paid or payable during the reporting period.

Defined benefit post-retirement medical plans
For defined benefit post-retirement medical plans, actuarial valuations are performed at each financial year end using the projected unit credit method. The average discount rate for the plans' liabilities is based on investment grade rated corporate bonds or similar government bonds of a suitable duration and currency.

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

Remeasurements comprising actuarial gains and losses are charged or credited to equity in other comprehensive income, net of deferred tax, in the reporting period in which they occur. Remeasurements recorded in other comprehensive income are not recycled to the income statement, but those amounts recognised in other comprehensive income may be transferred within equity.

Alternative Performance Measures

The Company presents certain measures of financial performance, position or cash flows in the consolidated financial statements that are not defined or specified according to IFRS. These measures, referred to as Alternative Performance Measures (APMs), are prepared on a consistent basis for all periods presented in this report. The most significant APMs are:

Net debt (note 24c)
A measure comprising short, medium, and long-term interest-bearing borrowings and the fair value of debt-related derivatives less cash and cash equivalents and current financial asset investments. Net debt provides a measure of the Company's net indebtedness or overall leverage.

Return on capital employed (ROCE)
Trailing 12-month underlying operating profit, divided by trailing 12-month average capital employed. Capital employed is adjusted for spend on major capital expenditure projects which are not yet in production. ROCE provides a measure of the efficient and effective use of capital in the business.

Special items (note 3)
Those financial items which the Company considers should be separately disclosed on the face of the income statement to assist in understanding the underlying financial performance achieved by the Company. Such items are generally material by nature and exceed €10 million and the Company therefore excludes these items when reporting underlying earnings and related measures in order to provide a measure of the underlying performance of the Company on a basis that is comparable from year to year. Subsequent adjustments to items previously recognised as special items continue to be reflected as special items in future periods even if they do not exceed the quantitative reporting threshold.

Operating profit before special items (income statement)
Operating profit before special items provides a measure of operating performance and absolute growth in profitability of the operations.

Effective tax rate (note 7a)
Tax charge expressed as a percentage of profit before tax. A measure of the Company's tax charge relative to its profit before tax.

31 Accounting policies (continued)

New accounting policies, early adoption and future requirements

Amendments to published Standards effective during 2018
The following amendments to Standards have been adopted for the financial year beginning on 1 January 2018, and their impact on the Company's results are detailed in note 32:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases

The following amendments to Standards and a new Interpretation have been adopted for the financial year beginning on 1 January 2018, and have had no significant impact on the Company's results:

- Annual improvements 2014-2016 cycle
- Amendments to IAS 40 – Investment Property
- Amendments to IFRS 2 – Share Based Payments
- Amendments to IFRS 4 – Insurance Contracts
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration

New Standards and amendments to published Standards that are not yet effective
The following amendments to Standards and a new Interpretation will be effective for the financial year beginning on 1 January 2019 and, while the Company's assessment of the impact is ongoing, are not expected to have a significant impact on the Company's results:

- Annual improvements 2015-2017 cycle
- Amendments to IAS 19 – Employee Benefits
- Amendments to IAS 28 – Investments in Associates and Joint Ventures
- Amendments to IFRS 9 – Financial Instruments
- IFRIC 23 – Uncertainty over Income Tax Treatments

32 Restatement of comparative information

The following tables summarise the material impacts resulting from the changes in accounting policies on the Company's income statement, statement of comprehensive income, statement of financial position and statement of cash flows. The effect of restatement is purely attributable to the adoption of the new accounting standard IFRS 16, 'Leases'. IFRS 15, 'Revenue from Contracts with Customers', which has been applied retrospectively has no material impact and therefore not included in any restatement of comparatives.

IFRS 16 introduces a single lease accounting model, requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments. Previously rental costs under operating leases were charged to the income statement in equal annual amounts over the lease term unless another systematic basis was more representative of the pattern of use.

32 Restatement of comparative information (continued)

Income statement

R million	2017 As previously reported (Audited)	2017 Effect of restatement	2017 As restated
Revenue	**9,315**	**—**	**9,315**
Materials, energy and consumables used	(4,607)	—	(4,607)
Variable selling expenses	(1,053)	—	(1,053)
Gross margin	**3,655**	**—**	**3,655**
Maintenance and other indirect expenses	(438)	—	(438)
Personnel costs	(1,303)	—	(1,303)
Other net operating income	108	101	209
Depreciation and impairments	(585)	(71)	(656)
Operating profit before special items	**1,437**	**30**	**1,467**
Operating special items	(221)	—	(221)
Total profit from operations	**1,216**	**30**	**1,246**
Net finance costs	(189)	(32)	(221)
Financing special item	137	—	137
Profit before tax	**1,164**	**(2)**	**1,162**
Tax charge	(224)	1	(223)
Profit for the year	**940**	**(1)**	**939**

Statement of comprehensive income

R million	2017 As previously reported (Audited)	2017 Effect of restatement	2017 As restated
Profit for the year	**940**	**(1)**	**939**
Items that may subsequently be reclassified to the income statement	4	—	4
Items that will not subsequently be reclassified to the income statement	40	—	40
Other comprehensive income for the year	**44**	**—**	**44**
Total comprehensive income for the year	**984**	**(1)**	**983**

32 Restatement of comparative information (continued)

Statement of financial position

	2017			At 1 January 2017		
R million	As previously reported (Audited)	Effect of restatement	As restated	As previously reported (Audited)	Effect of restatement	As restated
Property, plant and equipment	5,497	273	5,770	5,619	279	5,898
Forestry assets	3,863	—	3,863	3,724	—	3,724
Other non current assets	52	—	52	75	—	75
Total non-current assets	**9,412**	**273**	**9,685**	**9,418**	**279**	**9,697**
Inventories	1,039	—	1,039	768	—	768
Trade and other receivables	1,781	—	1,781	1,477	—	1,477
Cash and cash equivalents	4	—	4	1	—	1
Other current assets	306	—	306	397	—	397
Total current assets	**3,130**	**—**	**3,130**	**2,643**	**—**	**2,643**
Total assets	**12,542**	**273**	**12,815**	**12,061**	**279**	**12,340**
Short-term borrowings	(1,948)	(49)	(1,997)	(1,218)	(53)	(1,271)
Trade and other payables	(1,102)	—	(1,102)	(1,111)	—	(1,111)
Other current liabilities	(151)	—	(151)	(59)		(59)
Total current liabilities	**(3,201)**	**(49)**	**(3,250)**	**(2,388)**	**(53)**	**(2,441)**
Medium and long-term borrowings	—	(290)	(290)	—	(290)	(290)
Retirement benefits liability	(773)	—	(773)	(797)	—	(797)
Deferred tax liability	(1,645)	19	(1,626)	(1,773)	18	(1,755)
Other non-current liabilities	(2)	—	(2)	(28)	—	(28)
Total non-current liabilities	**(2,420)**	**(271)**	**(2,691)**	**(2,598)**	**(272)**	**(2,870)**
Total liabilities	**(5,621)**	**(320)**	**(5,941)**	**(4,986)**	**(325)**	**(5,311)**
Net assets	**6,921**	**(47)**	**6,874**	**7,075**	**(46)**	**7,029**
Equity						
Stated capital	4,188	—	4,188	4,188	—	4,188
Retained earnings and other reserves	2,733	(47)	2,686	2,887	(46)	2,841
Total equity	**6,921**	**(47)**	**6,874**	**7,075**	**(46)**	**7,029**

Statement of cash flows

	2017		
R million	As previously reported (Audited)	Effect of restatement	As restated
Net cash generated from operating activities	1,698	101	1,799
Net cash used in investing activities	(1,340)	—	(1,340)
Net cash used in financing activities	(730)	(101)	(831)
Net decrease in cash and cash equivalents	**(372)**	**—**	**(372)**