mpact

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Mpact Limited Group Audited Consolidated Annual Financial Statements

for the year ended 31 December 2019

Closing the loop

Contents

Directors’ responsibility statement and basis of preparation

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

These consolidated annual financial statements have been prepared using accounting policies compliant with International Financial Reporting Standards (“IFRS”), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and are in compliance with the Companies Act, 2008 of South Africa.

The preparation of these consolidated annual financial statements for the year ended 31 December 2019 was supervised by the Chief Financial Officer, Mr BDV Clark CA(SA).

In preparing the consolidated annual financial statements of Mpact Limited and its subsidiaries (“Group”), International Accounting Standard 1, ‘Presentation of Financial Statements’, requires that the directors:

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

Approval of the Consolidated Annual Financial Statements

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

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

The consolidated annual financial statements and related notes, which appear on pages 15 to 69 were approved by the Board of Directors and authorised for issue on 3 March 2020 and were signed on its behalf by:

AJ Phillips
Chairman

BW Strong
Chief Executive Officer

Certificate by company secretary

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

K Waldeck
CorpStat Governance Services Proprietary Limited
Company Secretary

3 March 2020

Report of the directors

The directors have pleasure in presenting their report on the consolidated annual financial statements of Mpact Limited and its subsidiaries ("Group") for the year ended 31 December 2019.

Nature of business

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

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

Financial results

The Group's loss for the year ended 31 December 2019 was R884.5 million (2018: profit of R327.0 million). Full details of the financial position and results of the Group are set out in the accompanying consolidated annual financial statements.

Segment analysis

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

Stated capital

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

On 31 December 2019, the issued share capital of the company was 173,304,517 ordinary shares of no par value. (2018: 173,304,517 ordinary shares of no par value).

Dividends

Notice is hereby given that the Board has declared a final gross cash dividend of 42 cents for the year ended 31 December 2019 (33.6 cents net of dividend withholding tax) per ordinary share. The dividend has been declared from income reserves. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The company's total number of issued ordinary shares as at dividend declaration date is 173,304,517. Mpact's income tax reference number is 9003862175.

The Board of Directors are satisfied that the liquidity and solvency of the company, as well as capital remaining after payment of the dividend is sufficient to support the current operations and to facilitate future development of the business in the year ahead.

Salient dates with regard to the ordinary dividend

Publication of dividend declaration	Wednesday, 4 March 2020
Last date of trade to receive a dividend	Tuesday, 31 March 2020
Shares commence trade ex-dividend	Wednesday, 1 April 2020
Record date	Friday, 3 April 2020
Payment date	Monday, 7 September 2020*

**Per the SENS released on 24 March 2020, the payment date changed from Monday, 6 April 2020 to Monday, 7 September 2020.*

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

Share certificates may not be dematerialised or re-materialised between Wednesday, 1 April 2020 and Friday, 3 April 2020, both days inclusive.

Register of shareholders

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

Property, plant and equipment

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

At 31 December 2019 the net investment in property, plant and equipment amounted to R2,828.6 million (2018: R3,737.3 million), details of which are set out in note 8 to the annual financial statements. Plant and equipment amounting to R742.4 million was impaired in the current financial year, details of which are set out in note 9 to the annual financial statements. Capital commitments at year-end for the Group amounted to R753.2 million (2018: R738.8 million), details of which are set out in note 30 to the annual financial statements. There has been no change in the nature of the property, plant and equipment or to the policy relating to the use thereof during the year.

Borrowings

In terms of the Memorandum of Incorporation, the directors are permitted to borrow or raise for the purposes of the Group such sums as they deem fit for the operation of the business. At the close of business on 31 December 2019, the total borrowings (including lease liabilities) less cash resources were R2,291.8 million (2018: R2,124.6 million includes Mpact Polymers). At 31 December 2019, the Group had approved facilities of R2,960 billion (2018: R2,960.0 billion). In the current financial year the Group had re-financed its borrowings with Standard Bank, Rand Merchant Bank and repaid the KZN Growth Fund borrowings. Nedbank agreed to become an additional party to the lending arrangement. Refer to note 18.

Events occurring after the reporting date

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

Directors

The following directors have held office during the year ended 31 December 2019 and to the date of this report:

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

Company secretary

K Waldeck
CorpStat Governance Services Proprietary Limited

CorpStat Governance Services Proprietary Limited was appointed on 26 November 2019 following the passing of Mrs MN Sepuru.

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

Auditor

Deloitte & Touche is the appointed auditor to the company, with Mrs SJ Nelson the designated auditor.

Special resolutions passed by subsidiary companies

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

On 12 March 2019, all the subsidiaries of the company passed special resolutions to authorise the companies to provide any direct or indirect financial assistance, including by way of lending money, guaranteeing a loan, or other obligations as it may be required or otherwise to any of its present or future related or inter-related companies or corporations for such amounts and such terms and conditions as the Board/s may determine.

Audit and risk Committee

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

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

In collaboration with the internal and external auditors, a combined assurance map was developed.

The committee has concluded that it is satisfied that auditor independence and objectivity has been maintained. The comprehensive report of the committee is included on pages 6 to 9.

Board of directors' statement of effectiveness of controls

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

Going concern

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

Interest of directors and prescribed officers in share capital

The aggregate beneficial holdings as at 31 December 2019 and 31 December 2018 of the directors and prescribed officers of the company in the issued ordinary shares of the company are detailed below. There have been no material changes in these shareholdings between 31 December 2019 and 3 March 2020, the date of approval.

	2019 Direct No. of shares	2019 Indirect No. of shares	2018 Direct No. of shares	2018 Indirect No. of shares
Executive director				
BW Strong	578,208	–	547,543	–
BDV Clark	–	153,883	–	133,762
Non-executive director				
AJ Phillips	8,914	1,516	8,914	1,516
Prescribed officers				
HM Thompson	382,408	–	361,813	–
JW Hunt	231,604	–	217,492	–
Total	1,201,134	155,399	1,135,762	135,278

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

Interest of major shareholders in share capital

Major shareholders
(5% and more of the shares in issue)

	2019 No. of shares	2019 % of total issued share capital	2018 No. of shares	2018 % of total issued share capital
Allan Gray	41,722,125	24.07	36,536,582	21.08
Prudential Investment Managers	23,612,360	13.62	22,611,708	13.05
Public Investment Corporation	17,486,961	10.09	17,486,961	10.09
Coronation Fund Managers	10,280,042	5.93	10,484,883	6.05
Bateleur Capital	10,280,505	5.93	–	–

Bataleur Capital held less than 5% of the shares in issue in the prior year.

2019 Shareholder Type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-Public Shareholders	9	0.20	3,806,237	2.19
Director: Direct Shareholdings	4	0.09	1,201,134	0.69
Director: Indirect Shareholdings	4	0.09	155,399	0.09
Share Schemes	1	0.02	2,449,704	1.41
Public Shareholders	4,211	99.80	169,498,280	97.81
Total	4,220	100.00	173,304,517	100.00

Audit and Risk Committee report

Introduction

The Audit and Risk Committee (committee) has pleasure in submitting its report for the year ended 31 December 2019 in compliance with section 94(7) of the Companies Act.

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

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

Composition

The committee comprises four non-executive directors, all of whom are independent. Tim Ross is the Chairman, Neo Dongwana, Andrew Thompson and Sibusiso Luthuli. The Chief Executive Officer, the Chief Financial Officer, the Head of Information and Communication Technology, the Group Risk and Sustainability Manager, a representative of KPMG, the independent Internal Auditor, and a representative of Deloitte & Touche, the independent External Auditor, and other senior managers all attend meetings by invitation.

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

Meetings

The committee held five meetings during the year. The four members attended all meetings of the committee during the year.

Committee activities

The committee attended to the following during the year:

External auditors

The committee reviewed the independence of Deloitte & Touche as the Group's external auditor with SJ Nelson as the independent individual registered auditor who undertook the Group's audit for the current year. The committee considered all information as required by Section 3.86 of the JSE Listings Requirements in assessing Deloitte & Touche's independence, registration as a Registered Auditor and the ability to perform a quality audit of the Group. Deloitte & Touche has been the auditor of Mpact Limited for 15 years.

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

The committee proposes the re-appointment of Deloitte & Touche as External Auditor and SJ Nelson as the independent individual registered auditor. The Group's shareholders are requested to vote at the Annual General Meeting.

Independence of external auditors

This assessment was made after considering the following:

- confirmation from the external auditors that they, or their immediate family, do not hold any significant direct or indirect financial interest or have any material business relationship with Mpact. The external auditors also confirmed that they have internal monitoring procedures to ensure their independence;
- the auditors do not, other than in their capacity as external auditors or rendering permitted non-audit services, receive any remuneration or other benefits from Mpact;
- the auditor's independence was not impaired by the non-audit work performed having regard to the nature of the non-audit work undertaken and the quantum of the audit fees relative to the total fee base;
- the auditor's independence was not prejudiced as a result of any previous appointment as auditor. In addition, an audit partner rotation process is in place in accordance with the relevant legal and regulatory requirements;
- the criteria specified for independence by the Independent Regulatory Board for Auditors;
- information provided by the auditors in terms of the JSE Listing Requirements, Paragraph 22.15(h); and
- the audit firm and the designated auditor are accredited with the JSE.

The committee confirms that the external auditor has functioned in accordance with its terms of reference for the 2019 financial year.

External auditors' fees

The committee:

- approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2019 financial year;
- reviewed and approved the non-audit services fees for the year under review and ensured that the fees were within limit and in line with the non-audit service policy; and
- determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services through the Audit Committee charter.

External auditor's performance

The committee:

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

Financial statements

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

- took appropriate steps to ensure that the financial statements were prepared in accordance with IFRS;
- considered the appropriateness of accounting policies and disclosures made;
- in accordance with the JSE Listing Requirements approved Group financial reporting procedure;
- considered and approved accounting policy changes resulting from the application of new standards commencing 1 January 2019;
- completed a detailed review of the going concern assumption, confirming that it was appropriate in the preparation of the financial statements;
- engaged with the JSE on the proactive monitoring of financial statements; and
- ensured that appropriate financial reporting procedures are established and operating for all entities included in the consolidated Group financial statements.

Key audit matters

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

1. **The accounting and disclosure for the impairment, the discontinued operation and the loss of control of Mpact Polymers Proprietary Limited**

   On 14 November 2019, the Board of Mpact approved a decision to discontinue the Mpact Polymers operation. Subsequently, on 10 December 2019, Mpact Polymers Proprietary Limited commenced voluntary business rescue proceedings. As at 10 December 2019, the Mpact Polymers statement of financial position was deconsolidated from the Group's and its profit and loss statement for the reporting period has been separately presented as a discontinued operation.

   In assessing the accounting and disclosure requirements for Mpact Polymers Proprietary Limited, the committee considered the following:

   - assessed the accuracy of the impairment charge recognised on plant and equipment on the date of closure of the plant;
   - enquired with management as to the reasonableness of concluding a sale transaction within 12 months;
   - enquired about the rights and duties of the business rescue practitioner in respect of control over the Polymers business; and
   - the adequacy of the disclosures made in the financial statements in respect of the classification as a discontinued operation and deconsolidation from the Group.

   Based on the above, the committee was satisfied with the correct classification of Mpact Polymers as a discontinued operation and the subsequent deconsolidation from the Group as a result of Mpact losing control of the operation. The committee considered the impairment charge to the statement of profit or loss reasonable. Refer to note 27.

Audit and risk committee report (continued)

2. Impairment of goodwill and plant and equipment

The trading environment in which the Group operates has further deteriorated over the past year due to subdued growth, overcapacity in certain sectors and unreliable electricity supply. This, together with Mpact's share price trading below its net asset value during most of the past year, necessitated the test for possible impairment for each cash-generating unit in the Group. The impairment assessments are based on recoverable amounts that are supported by estimations of future cash flows, discount rates, growth rates, margins and market share.

A special committee meeting was held to discuss and understand the significant estimates and judgements applied in management's valuation and impairment assessments and challenged these where necessary. The committee assessed management's value-in-use calculations by considering, amongst others, the following:

- the reasonableness of management's assumptions used in determining future cash flows;
- the terminal value and discount rates applied in management's value-in-use calculations and the sensitivity of these assumptions to reasonably possible changes;
- obtain an understanding of the cash-generating units and how these were derived;
- the sensitivity analysis performed by management over the value-in-use calculation; and
- the adequacy of the disclosures made in notes to the financial statements.

On this basis the committee supported management in charging the profit and loss statement with an impairment amount of R1.3 billion made up of goodwill totalling R549 million and plant and equipment of R742 million. The committee noted that the impairment was raised against the Springs and Piet Retief paper mills and the trays and films cash-generating units. Refer to note 9.

Interal audit

The committee:

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

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

Internal financial control and compliance

The committee:

- reviewed and approved the existing treasury policy and reviewed the quarterly treasury reports prepared by management;
- reviewed the quarterly legal and regulatory reports setting out the latest legislative and regulatory developments impacting the Group;
- reviewed the quarterly report on taxation;
- reviewed IT reports; and
- considered and, where appropriate, made recommendations on internal financial controls.

Risk management

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

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

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

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

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

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

Combined assurance

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

Integrated report

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

- considered the Integrated Report and has assessed the consistency with operational, financial and other information known to the Audit and Risk Committee members, and for consistency with the annual financial statements. The committee is satisfied that the Integrated Report is materially accurate, complete and reliable and consistent with the annual financial statements; and
- the committee has recommended the Integrated Report for the year ended 31 December 2019 to the Board for approval.

Governance

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

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

The committee is satisfied:

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

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

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

Assurance

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

On behalf of the Audit and Risk Committee

Tim Ross
Audit and Risk Committee Chairman

3 March 2020

Deloitte.

Deloitte & Touche
Registered Auditors
Audit & Assurance - Gauteng

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INDEPENDENT AUDITORS REPORT

TO THE SHAREHOLDERS OF MPACT LIMITED GROUP

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated annual financial statements of Mpact Limited and its subsidiaries (the Group) set out on pages 15 to 69, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of goodwill and plant and equipment

Key Audit Matter

The trading environment in which the Group operates deteriorated over the past year due to subdued growth, overcapacity in certain sectors and unreliable electricity supply. This, together with Mpact's share price trading below its net asset value during most of the past year, were impairment indicators in terms of *IAS36: Impairment of Assets*. This necessitated a robust test for possible impairment for each cash generating unit ("CGU") within the Group and a R1,3 billion impairment loss in respect of the Springs and Piet-Retief paper mills and Trays and Films CGUs. Due to the significance and size of the impairments recognised, the current uncertainty in the trading environment and the level of estimation inherently required in determining future performance, the impairments of the Springs and Piet Retief paper mills and Trays and Films CGUs is considered a significant risk of material misstatement for audit purposes and a key audit matter.

In order to determine the recoverable value and resulting level of impairment required against the assets, the CGUs' values in use ("VIU") were determined using the expected future cash flows to be generated by the businesses, discounted at a risk adjusted weighted average cost of capital ("WACC"). This valuation is subjective in nature as it is dependent on the directors' best estimate of the CGUs' future performances.

The areas of the impairment assessments which are most likely to result in material misstatement to the impairment and remaining assets are the following:

- Determining the CGUs and operating segments and therefore the level at which the impairment assessments were required;
- Terminal growth rates applied in determining the terminal value; and
- WACC rates applied in discounting the expected future cash flows.

The current economic climate and the uncertainty surrounding the future economic conditions increases the complexity of forecasting.

The directors' impairment considerations have been disclosed in note 1 and note 9 of the consolidated financial statements.

How the matter was addressed in the audit

In determining the Group's CGUs and operating segments, we assessed the operations' activities, outputs and internal and external reporting. Based on these assessments the determination of CGUs and operating segments by the directors are considered to be appropriate. We used our IFRS accounting specialists to assist with this assessment.

We evaluated the relevant controls designed and implemented by the directors to conduct the impairment tests and determine the resulting impairment losses. These included controls designed and implemented to understand the robustness of key assumptions.

With respect to the valuation models on the Trays and Films, Springs and Piet-Retief paper mill CGUs, our internal valuation specialists were utilised to perform the following:

- Considered the appropriateness of the valuation methodology adopted by the directors for the purpose of impairment testing in accordance with IAS 36;
- Confirmed the arithmetic accuracy of the discounting formulae applied to present value the free cash flows in the directors' VIU calculations and the application of the terminal growth rates;
- Compared the projected cash flows against historical performance to test the accuracy of management's projections;
- Critically evaluated the cash flows used in the VIU calculations. Scrutiny was placed on forecast assumptions with a greater focus on more recent trends;
- Performed independent WACC rate calculations to ensure that the WACC rates used by the directors fall within an acceptable range;
- Tested the accuracy and completeness of the calculations of the CGUs' carrying values as at 31 December 2019;
- Performed sensitivity analyses on the WACC rates, terminal growth rates and EBITDA margins; and
- Considered the adequacy of the Group's disclosures on this matter.

We found the key forecast assumptions used by the directors to be supportable. The WACC rate used is considered appropriate.

We consider the disclosure of the impairments and remaining carrying values of these assets, included in note 1 and 9 of the consolidated financial statements to be appropriate.

Key Audit Matter	How the matter was addressed in the audit
Accounting and disclosure for the impairment, discontinued operation and loss of control of Mpact Polymers (Pty) Ltd ("Polymers")	
In November 2019 the directors of Mpact resolved to discontinue the operations of Polymers and realise the value of the business through sale, rather than through continued use. Subsequently, in December 2019, the directors placed Polymers into voluntary business rescue. These decisions resulted in the need to comprehensively assess the following matters: • The level of plant and equipment impairments to be processed as a result of closing the plant. Impairments recognised in relation to the Polymers plant amount to R218.1 million; • Whether the requirements of *IFRS5: Non-Current Assets Classified as Held for Sale and Discontinued Operations (IFRS 5)* were met, necessitating the classification of Polymers as a discontinued operation; • Whether the Group lost control, as per the requirements of *IFRS 10: Consolidated Financial Statements (IFRS 10)*, of Polymers once it was placed into business rescue and whether the consequent deconsolidation of Polymers was correctly accounted for. Due to the judgement required in assessing the above matters as well as the significant impact the impairment, deconsolidation and disclosure of Polymers as a discontinued operation has on the financial statements, this is considered a significant risk of material misstatement for audit purposes and a key audit matter. The Polymers' impairment is disclosed in note 8 while the effect of the deconsolidation and presentation of Polymers as a discontinued operation is included in note 27 of the consolidated financial statements.	In order to ensure that the key audit matters were appropriately addressed, we performed the following procedures: <u>Impairment of plant and equipment</u> We confirmed that the closure of Polymers necessitated an impairment loss on the plant. We verified that all plant and equipment related to Polymers was impaired. <u>Presentation of Polymers as a discontinued operation</u> We evaluated the presentation of Polymers in the group financial statements against the requirements of IFRS 5 in order to determine whether the requirements of the standard had been met and were appropriately applied from the date of the resolution to discontinue operations. We are satisfied that the presentation of Polymers as a discontinued operation is in accordance with the requirements of IFRS 5. <u>Deconsolidation due to loss of control as a result of business rescue</u> We evaluated the effect of the business rescue proceedings on the Group's ability to control Polymers, as required by IFRS 10, and agree with the directors' assessment that the Group no longer has control over Polymers from the date Polymers was placed into business rescue. We verified that the resulting deconsolidation of Polymers was correct. We involved the use of our internal IFRS and regulatory experts to assist in the above procedures. We evaluated the relevant controls designed and implemented by the directors to ensure that the accounting treatments adopted were correct. We evaluated the disclosures contained in notes 8 and 27 and found them to be adequate.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Report, Audit and Risk Committee's Report and Certificate by Company Secretary, as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report and the Integrated Report, which is expected to be made available to us after this date. Other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in the Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Mpact Limited for 15 years.

Deloitte & Touche
Registered Auditor
Per: SJ Nelson
Partner
03 March 2020

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2019

	Note	2019 R'm	Restated[1] 2018 R'm
CONTINUING OPERATIONS			
Revenue from contracts with customers	2a	**11,076.3**	10,543.2
Material, energy and fixed overhead recovery		**(6,007.5)**	(5,646.3)
Variable selling expenses		**(869.3)**	(878.6)
Administration and other operating expenses[2]		**(2,833.5)**	(2,757.6)
Depreciation, amortisation and impairment		**(1,942.0)**	(561.9)
Operating (loss)/profit	3	**(576.0)**	698.8
Share of profit from equity accounted investees	11	**17.1**	23.3
Gain on acquisition of subsidiary	26	**1.3**	–
Net (loss)/profit on sale of associates, joint arrangements and subsidiaries	28	**(3.0)**	6.7
(Loss)/profit from operations and equity accounted investees		**(560.6)**	728.8
Net finance costs	4	**(245.3)**	(209.2)
Investment income		**19.4**	11.8
Finance costs		**(264.7)**	(221.0)
(Loss)/profit before tax	2b	**(805.9)**	519.6
Tax income/(expense)	5	**83.9**	(102.2)
(Loss)/profit for the year from continuing operations		**(722.0)**	417.4
DISCONTINUED OPERATION			
Loss for the year from discontinued operation	27	**(162.5)**	(90.4)
(Loss)/profit for the year		**(884.5)**	327.0
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on post-retirement benefit scheme		**1.3**	10.7
Tax effect		**(0.4)**	(3.0)
Fair value adjustment of investment in equity instrument		**–**	(20.5)
Items that may be reclassified subsequently to profit or loss			
Effects of cash flow hedge		**2.1**	5.6
Tax effect		**(0.6)**	(1.6)
Reclassification of cash flow hedge reserve to profit and loss		**2.3**	–
Tax effect		**(0.6)**	–
Exchange differences on translation of foreign operations		**–**	(1.2)
Other comprehensive income/(loss)		**4.1**	(10.0)
Total comprehensive (loss)/income for the year		**(880.4)**	317.0
(Loss)/profit attributable to:			
Equity holders of Mpact		**(822.3)**	316.2
Non-controlling interests		**(62.2)**	10.8
(Loss)/profit for the year		**(884.5)**	327.0
Total comprehensive (loss)/income attributable to:			
Equity holders of Mpact		**(818.2)**	306.2
Non-controlling interests		**(62.2)**	10.8
Total comprehensive (loss)/income for the year		**(880.4)**	317.0
(Loss)/earnings per share (EPS) for profit attributable to equity holders of Mpact:			
Basic EPS (cps) from continuing operations	6	**(443.7)**	224.8
Diluted EPS (cps) from continuing operations	6	**(443.2)**	224.5
Basic EPS (cps) from discontinued operation	6	**(37.1)**	(39.7)
Diluted EPS (cps) from discontinued operation	6	**(37.0)**	(39.6)

1 *Details of the restatement are contained in note 1 to the financial statements.*

2 *Administrative and other operating expenses includes an expected credit loss on trade receivables of R45.6 million (2018: R24.5 million) and an impairment loss on foreign cash balances of Rnil (2018: R4.8 million).*

Consolidated statement of financial position

as at 31 December 2019

	Note	2019 R'm	2018 R'm
ASSETS			
Goodwill and other intangible assets	7	**568.6**	1,102.0
Property, plant and equipment	8	**2,828.6**	3,737.3
Right-of-use assets	10	**270.7**	–
Investments in equity accounted investees	11	**41.4**	108.1
Financial assets	12	**97.0**	94.8
Derivative financial instruments	16	**0.5**	–
Deferred tax assets	20	**10.8**	8.6
Non-current assets		**3,817.6**	5,050.8
Inventories	13	**1,885.3**	1,748.1
Trade and other receivables	14	**2,236.3**	2,352.9
Financial assets	12	**17.3**	–
Cash and cash equivalents	15	**447.1**	705.9
Derivative financial instruments	16	**2.7**	0.9
Current tax receivables		**18.9**	20.5
Current assets		**4,607.6**	4,828.3
Total assets		**8,425.2**	9,879.1
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	17	**2,669.2**	2,669.2
Retained earnings		**788.0**	1,722.3
Other reserves		**33.5**	26.6
Total attributable to equity holders of Mpact		**3,490.7**	4,418.1
Non-controlling interests in subsidiaries		**256.1**	110.8
Total equity		**3,746.8**	4,528.9
Interest and non-interest-bearing borrowings	18	**2,382.3**	1,400.8
Lease liabilities		**249.1**	–
Retirement benefits obligation	19	**39.9**	40.2
Deferred tax liabilities	20	**95.7**	227.3
Deferred income	21	**12.5**	18.0
Derivative financial instruments	16	**–**	3.9
Non-current liabilities		**2,779.5**	1,690.2
Short-term portion of borrowings	22	**35.5**	1,429.7
Lease liabilities		**72.0**	–
Trade and other payables	23	**1,766.7**	2,213.6
Provisions	24	**9.5**	6.2
Deferred income	21	**5.5**	5.5
Derivative financial instruments	16	**4.1**	0.7
Current tax liabilities		**5.6**	4.3
Current liabilities		**1,898.9**	3,660.0
Total liabilities		**4,678.4**	5,350.2
Total equity and liabilities		**8,425.2**	9,879.1

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	2019 R'm	2018 R'm
Cash flows from operating activities			
Operating cash flows before movements in working capital		**1,343.6**	1,217.6
Net increase in working capital		**(357.2)**	(234.8)
Cash generated from operations	29a	**986.4**	982.8
Dividends received from equity accounted investees	11	**9.3**	14.2
Taxation paid		**(64.7)**	(72.2)
Net cash inflows from operating activities		**931.0**	924.8
Cash flows from investing activities			
Net cash inflow from acquisition of subsidiary	26	**0.2**	–
Additions to property, plant and equipment and other intangibles	7/8	**(592.4)**	(534.1)
Proceeds from the disposal of property, plant and equipment		**3.8**	3.7
Proceeds from disposal of joint arrangement	28	**–**	4.0
Proceeds from disposal of subsidiary	28	**–**	29.4
Cash disposed of on loss of control in subsidiary	27	**(12.5)**	–
Cash disposed of on disposal of joint arrangement	28	**–**	(6.4)
Loan advances to associates		**(28.5)**	(29.4)
Loan repayments from external parties		**35.4**	0.9
Loan advances to external parties		**(3.0)**	–
Interest received		**24.8**	13.5
Net cash outflows from investing activities		**(572.2)**	(518.4)
Cash flows from financing activities			
Repayment of borrowings	29b	**(2,706.1)**	–
Proceeds from borrowings raised	29b	**2,585.0**	230.9
Repayments of lease liabilities[1]		**(77.9)**	–
Finance costs paid		**(295.8)**	(229.0)
Dividends paid to non-controlling interests		**(10.6)**	(6.5)
Dividends paid to equity holders of Mpact Limited		**(125.2)**	(46.7)
Subscription of preference shares by non-controlling interest		**15.5**	18.9
Purchase of treasury shares		**(7.8)**	(22.1)
Net cash outflows from financing activities		**(622.9)**	(54.5)
Net (decrease)/increase in cash and cash equivalents		**(264.1)**	351.9
Net cash and cash equivalents at beginning of year		**694.7**	342.8
Net cash and cash equivalents at end of year	29c	**430.6**	694.7

1 *The total cash outflow for leases recognised under IFRS 16 is R115.6 million.*

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Stated capital R'm	Share-based payment reserve R'm	Cash flow hedge reserve R'm	Post-retirement benefit reserve R'm	Other reserves[1] R'm	Treasury shares R'm	Retained earnings R'm	Total attributable to equity holders of Mpact Ltd R'm	Non-controlling interest R'm	Total equity R'm
Balance at 31 December 2017	2,621.4	47.7	(6.9)	18.8	32.0	(50.3)	1,470.7	4,133.4	109.5	4,242.9
Total comprehensive income for the year	–	–	4.0	7.7	(21.7)	–	316.2	306.2	10.8	317.0
Dividends paid[2]	47.8	–	–	–	–	(1.0)	(93.5)	(46.7)	–	(46.7)
Purchase of treasury shares[3]	–	–	–	–	–	(22.1)	–	(22.1)	–	(22.1)
Share plan charges for the year	–	28.2	–	–	–	–	–	28.2	–	28.2
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(6.5)	(6.5)
Issue/exercise of shares under employee share scheme	–	(25.0)	–	–	–	15.2	7.0	(2.8)	–	(2.8)
Purchase of preference shares by non-controlling interest[4]	–	–	–	–	–	–	–	–	18.9	18.9
Increase in shareholding by non-controlling interest	–	–	–	–	–	–	21.9	21.9	(21.9)	–
Balance at 31 December 2018	**2,669.2**	**50.9**	**(2.9)**	**26.5**	**10.3**	**(58.2)**	**1,722.3**	**4,418.1**	**110.8**	**4,528.9**
Total comprehensive loss for the year	**–**	**–**	**3.2**	**0.9**	**–**	**–**	**(822.3)**	**(818.2)**	**(62.2)**	**(880.4)**
Dividends paid[2]	**–**	**–**	**–**	**–**	**–**	**–**	**(125.2)**	**(125.2)**	**–**	**(125.2)**
Purchase of treasury shares[3]	**–**	**–**	**–**	**–**	**–**	**(7.8)**	**–**	**(7.8)**	**–**	**(7.8)**
Share plan charges for the year	**–**	**28.6**	**–**	**–**	**–**	**–**	**–**	**28.6**	**–**	**28.6**
Purchase of preference shares by non-controlling interest[4]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15.5**	**15.5**
Acquisition of subsidiaries with non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**38.2**	**38.2**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10.6)**	**(10.6)**
Issue/exercise of shares under employee share scheme	**–**	**(28.7)**	**–**	**–**	**–**	**10.7**	**13.2**	**(4.8)**	**–**	**(4.8)**
De-consolidation of subsidiary[5]	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**164.4**	**164.4**
Balance at 31 December 2019	**2,669.2**	**50.8**	**0.3**	**27.4**	**10.3**	**(55.3)**	**788.0**	**3,490.7**	**256.1**	**3,746.8**

1 Other reserves consist of foreign currency translation reserve and fair value adjustments to equity investments.

2 Dividends declared amounted to R125.2 million (2018: R93.5 million) of which Rnil million (2018: R47.8 million) related to a capitalisation issue (refer to note 17). The dividend paid per share for the year was 73c per share (2018: 55c per share).

3 Treasury shares purchased represent the cost of shares in Mpact Limited purchased in the market and held by the Mpact Incentive Scheme Trust to satisfy share awards under the Group's share incentive scheme. As at 31 December 2019, there are 2,449,704 (2018: 2,403,309) treasury shares on hand.

4 The non-controlling shareholder of Mpact Polymers subscribed for the preference shares.

5 As a result of the Group losing control of Mpact Polymers Proprietary Limited, R164.4 million was de-recognised from non-controlling interest. Refer to note 27.

Notes to the consolidated annual financial statements

for the year ended 31 December 2019

1. ACCOUNTING POLICIES

Basis of preparation

These consolidated annual financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited's Listings Requirements, and the requirements of the Companies Act of South Africa. The consolidated annual financial statements have been prepared on the historical cost basis, except for derivative financial instruments, financial instruments at fair value through profit or loss and fair value through other comprehensive income. The consolidated annual financial statements have been prepared on a going concern basis. The consolidated annual financial statements are presented in South African Rand, which is the Group's functional currency. All financial information presented in South African Rand has been rounded off to the nearest million.

The basis of preparation is consistent with the prior year, except for new and revised standards adopted.

New accounting policies, early adoption and future requirements

Standards and Interpretations early adopted by the Group

There were no Standards or Interpretations early adopted by the Group in the current year.

Standards and amendments to published Standards and Interpretations effective during 2019

The Group has adopted the following Standards to published Standards during the current year:

IFRS 16

The Group adopted IFRS 16 using the modified retrospective method with the effective date of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect recognised in retained earnings. The Group did not have a cumulative effect in retained earnings on adoption.

On adoption, the Group applied the following practical expedients:

- Not to reassess whether an existing lease contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 continued to be applied to these leases entered into before 1 January 2019.
- Used the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluded the initial direct costs from the measurement of the right-of-use asset.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases.

The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate of the Group and each subsidiary of the Group. The incremental borrowing rate ranges from 8.80% to 10.50%.

Notes to the consolidated annual financial statements
continued
for the year ended 31 December 2019

1. ACCOUNTING POLICIES (CONTINUED)

The effect of adopting IFRS 16 as at 1 January 2019 was as follows:

	2019 R'm Increase/ (decrease)
Assets	
Right-of-use assets	427.4
Liabilities	
Non-current portion of interest-bearing borrowings	390.0
Current portion of interest-bearing borrowings	77.2
Total lease liability	467.2
Non-current provision	(1.2)
Trade and other payables	(38.6)
Total liabilities	427.4
External operating lease commitments as at 31 December 2018	368.7
Commitments relating to short-term leases	(4.5)
Commitments relating to leases of low-value assets	(0.4)
Payments in optional extension periods not recognised as at 31 December 2018	224.5
Discount effect using the incremental borrowing rate	(121.1)
Lease liabilities as at 1 January 2019	467.2

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments require the Group to use the updated assumptions from the re-measurement of a net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendment is effective from 1 January 2019. These amendments had no impact on the Group as it did not have any plan amendments, curtailments or settlements during the period.

IFRIC 23 – Uncertainty over income tax treatments

The interpretation specifies how the Group should reflect the effects of uncertainties in accounting for income taxes. The amendment is effective from 1 January 2019 and did not have an impact on the consolidated financial statements of the Group as it is probable that the Group's tax treatments will be accepted by the tax authorities.

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

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

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Amendments to References to the Conceptual Framework in IFRS Standards

These amendments are not expected to have a significant impact on the financial statements in the period of initial application.

Restatement to the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

1. **Classification of Mpact Polymers Proprietary Limited (Polymers) as a discontinued operation**

   In the current financial year Polymers was presented as a discontinued operation. Refer to note 27 to evaluate the financial effects of the reclassification.

2. **Change in presentation (Reclassification error of items on the statement of profit or loss and other comprehensive income)**

   Following the resolution of the Group's 2019 JSE proactive monitoring process, the Group changed its presentation of expenses from a hybrid basis to a nature basis. The change in the presentation has had no impact to operating profit, profit for the year or any other earnings measures.

   The change in presentation has resulted in a decrease in cost of sales, which was previously reported as an aggregated amount of R6,576.8 million, offset by an increase in material, energy and fixed overhead recovery of R5,646.3 million and an increase in variable selling expenses of R878.6 million which are now seperately presented on the face of the statement of profit or loss. A further R51.9 million was reclassified due to the classification of Polymers as a discontinued operation.

Segment reporting

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

- Paper manufacturing
- Corrugated operations
- Recycling
- FMCG
- Preforms & closures
- Trays and films
- Bins & crates

The paper manufacturing, recycling and corrugated divisions have been aggregated into one reportable segment, namely Paper, on the basis of similar economic characteristics. FMCG, preforms & closures, Trays and films and bins & crates have been aggregated into one reportable segment, namely Plastics, on the basis of similar economic characteristics.

Basis of consolidation

Subsidiary undertakings

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

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

For each business combination at initial recognition, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. After initial recognition non-controlling interests are measured as the aggregate of the value at initial recognition and their subsequent proportionate share of profits and losses.

Associates and joint arrangements

Associates are investments over which the Group is in a position to exercise significant influence, but do not have control or joint control, through participation in the financial and operating policy decisions of the investee. Typically, the Group owns between 20% and 49% of the voting equity of its associates.

Investments in associates and joint ventures are accounted for using the equity method of accounting.

The Group's share of the associates net income, presented net of tax, is based on financial statements drawn up to reporting dates that are either coterminous with that of the Group or no more than three months prior to that date.

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

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

1. ACCOUNTING POLICIES continued

Revenue recognition

Sale of goods

Revenue is derived principally from the sale of goods and is measured at the fair value of the consideration received or receivable, after deducting discounts, volume rebates, value added tax and other sales taxes. Returns and refunds are accepted from customers based on individual trade term agreements. The Group recognises revenue when it transfers control over goods to a customer. This is when title and insurance risk has passed to the customer, and the goods have been delivered to a contractually agreed location. The amount of revenue recognised is adjusted for expected returns, which are estimated by management. In this circumstance, a refund liability is recognised. All goods sold to customers occur at a point in time. Normal discounts, volume rebates are treated as variable consideration which is estimated upfront and adjusted for in the transaction price accordingly. The volume rebates are calculated on a percentage of the total invoiced sales to customers.

The Group does not adjust for the time value of money on sales with a payment term of less than 12 months from the transfer of control of the goods.

Business combinations and goodwill arising thereon

Identifiable net assets

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

Cost of a business combination

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

Goodwill

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is attributed to goodwill. Goodwill is subsequently measured at cost less any accumulated impairment losses. Goodwill in respect of subsidiaries is included within intangible assets. Goodwill relating to associates is included within the carrying value of associates.

Impairment of goodwill

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

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

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

Property, plant and equipment

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

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

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

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

Residual values and useful lives are reviewed at least annually.

Other intangibles and research and development expenditure

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

Current non-financial assets

Inventory

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

Fixed overhead recovery

Fixed overhead costs, including depreciation, are allocated to inventory by processing an overhead recovery adjustment based on stock movement. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities.

Retirement benefits

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

Defined contribution plans

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

Post-retirement medical plans

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

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

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

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs and as reduced by the fair value of scheme assets.

1. ACCOUNTING POLICIES continued

Tax

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

Current tax

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

Deferred taxation

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

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

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

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

Leases

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 Group's right to use the underlying leased asset, and a lease liability, representing the Group's obligation to make lease payments, are recognised in the combined and consolidated 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 combined and consolidated 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 combined and consolidated statement of profit or loss 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 combined and consolidated income statement when incurred. Low-value assets are based on qualitative and quantitative criteria.

Accounting policy applicable before 1 January 2019

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

Operating leases

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

Finance leases

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

Restoration and environmental costs

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

Government grants

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

Foreign currency transactions

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

Translation of foreign operations

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

Share-based payments

The Group participates in a number of equity settled, share-based compensations, namely: Bonus share Plan (BSP) and Performance Share Plan (PSP). The vesting condition of the BSP is continued employment for a period of 3 years. The vesting condition of the PSP is dependent on Total Shareholder Return and Return on Capital Employed for a period of 3 years.

The fair value of the employee services received in exchange for the grant of share awards is recognised concurrently as an expense and an adjustment to equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share awards granted, adjusted for market performance conditions and non-vesting conditions where applicable. Vesting conditions are included in assumptions about the number of awards that are expected to vest. At each reporting date, the Group revises its estimates of the number of share awards that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity. During the vesting period, participants do not have shareholders' rights. Therefore participants do not have the right to vote nor the right to share in the dividend distribution.

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

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value. Trade receivables are without a significant financing component and are initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at: amortised cost; or fair value through profit or loss. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

Equity investments

On initial recognition, investments, other than investments in subsidiaries and associates, are classified as measured at fair value through profit or loss. The Group has one equity investment and had elected to measure it at fair value through OCI. The Group intends to hold the investment for a long term period for strategic purposes. Refer to note 12.

Loans and receivables

On initial recognition, loans and receivables are classified as "measured at amortised cost" using the effective interest rate method, less any expected credit losses as appropriate. Refer to note 12.

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

1. ACCOUNTING POLICIES continued

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments of a maturity of three months or less from the date of acquisition that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position. Cash and cash equivalents in the statement of cash flows and in the presentation of net debt are reflected net of overdrafts. Refer to note 15.

Trade receivables

On initial recognition, trade receivables are classified as measured at amortised cost using the effective interest rate method, less any expected credit losses as appropriate. Management assesses the recoverability of trade receivables on an ongoing basis. Refer to note 14.

Trade payables

On initial recognition, trade payables are classified as measured at amortised cost using the effective interest rate method. Refer to note 23.

Borrowings

Interest-bearing loans and overdrafts are initially recognised net of direct transaction costs. On initial recognition, borrowings are classified as measured at amortised cost. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the statement of profit or loss over the term of the borrowings using the effective interest rate method. Refer to note 18.

Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost. Credit losses are measured as the present value of all cash shortfalls. The Group measures loss allowances at an amount equal to lifetime ECL. Loss allowances for loans and trade and other receivables and are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers quantitative and qualitative information based on the Group's historical experience and informed credit assessment on specific customers and/or industrial sectors. The Group also assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Derivative financial instruments and hedge accounting

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

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

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

Cash flow hedges

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

Ineffective, expired, sold, terminated or exercised hedging instruments

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

Equity instruments and dividend payments

Equity instruments

An equity instrument is any contract which evidences a residual interest in the net assets of an entity.

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

Dividend payments

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

Discontinued operation

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations; is a part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to sell.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year. Further information on the discontinued operation can be found in note 27.

Special items to determine underlying operating profit

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

Earnings per share (EPS)

Basic EPS

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

Diluted EPS

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

Headline EPS

The presentation of headline EPS is mandated under the JSE Listings Requirements and is calculated in accordance with Circular 1/2019, "Headline Earnings", as issued by the South African Institute of Chartered Accountants.

Underlying EPS

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

Accounting estimates and critical judgements

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

1. ACCOUNTING POLICIES continued

Estimated residual values and useful economic lives

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

Impairment of non-financial assets

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

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

Refer to note 9 relating to the impairment of goodwill and plant and equipment.

Control assessment

In determining whether a substantial holding in an entity should be treated as an associate or subsidiary, management reviews the size of its holding, the voting rights it holds, the spread of shareholders and whether it has any arrangement to act in concert with any other investors.

In relation to the holding in Mpact Polymers, the directors concluded that the Group's had lost control in the current financial year. Refer to note 27.

Measurement of fair values

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Group values the assets using a discounted cashflow technique. The expected net cash flows are discounted using a risk-adjusted discount rate.

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

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

Valuation of financial instruments

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

2. OPERATING SEGMENTS

Identification of the Group's externally reportable operating segments

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

Product revenues

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

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

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

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

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

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

2(a) Reportable segment revenue

	2019			2018 Restated		
	Segment revenue R'm	**Inter-segment revenue R'm**	**Revenue from contracts with customers R'm**	Segment revenue R'm	Inter-segment revenue R'm	Revenue from contracts with customers R'm
Paper	**8,726.9**	**(36.2)**	**8,690.7**	8,260.5	(29.9)	8,230.6
Plastics	**2,385.8**	**(0.2)**	**2,385.6**	2,312.8	(0.2)	2,312.6
	11,112.7	**(36.4)**	**11,076.3**	10,573.3	(30.1)	10,543.2

	2019 R'm	Restated 2018 R'm
External revenue by product type		
Recycled containerboard, cartonboard and other materials	**3,640.5**	4,041.5
Corrugated packaging, bags and sacks	**5,050.2**	4,189.1
Plastic packaging solutions	**2,385.6**	2,312.6
Total	**11,076.3**	10,543.2
External revenue by location of customer		
South Africa (country of domicile)	**9,931.0**	9,200.8
Rest of Africa	**1,057.5**	1,103.6
Rest of World	**87.8**	238.8
Total	**11,076.3**	10,543.2

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

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

2. OPERATING SEGMENTS continued

2(b) Reportable segment underlying operating (loss)/profit

	2019 R'm	Restated 2018 R'm
Paper	**716.2**	694.4
Plastics	**82.8**	129.2
Corporate	**(75.3)**	(71.5)
Segments total before special items	**723.7**	752.1
Special items[3]	**(1,299.7)**	(53.3)
Share of profit from equity accounted investees	**17.1**	23.3
Gain on acquisition of subsidiary	**1.3**	–
Net finance costs	**(245.3)**	(209.2)
Net (loss)/profit on sale of associates, joint arrangements and subsidiaries	**(3.0)**	6.7
(Loss)/profit before tax	**(805.9)**	519.6
Significant components of operating profit		
Depreciation and amortisation		
Paper	**409.0**	327.4
Plastics	**198.7**	173.6
Corporate	**42.6**	31.3
Total	**650.3**	532.3
Impairment of plant and equipment, goodwill and intangible asset		
Paper	**846.6**	4.1
Plastics	**445.1**	25.5
Total	**1,291.7**	29.6

[3] *Special items include impairment on property, plant and equipment of R742.4 million (2018: R29.6 million), impairment on foreign cash balance of Rnil (2018: R4.8 million), impairment of goodwill and intangible assets of R549.3 million (2018: Rnil), impairment on an associate loan of Rnil (2018: R1.2 million) and restructure costs of R8.0 million (2018: R17.7 million). Refer to note 9 for the impairment of goodwill, plant and equipment.*

2. OPERATING SEGMENTS continued

2(c) Reportable segment assets

	2019 R'm	2018 R'm
Segment assets[4]		
Paper	**5,535.2**	6,144.6
Plastics	**1,638.3**	2,302.4
Corporate	**491.0**	344.7
Inter-segment elimination	**(6.4)**	(21.4)
Segment total[5]	**7,658.1**	8,770.3
Unallocated:		
Investments in equity accounted investees	**41.4**	108.1
Deferred tax assets	**10.8**	8.6
Other non-operating assets[6]	**153.5**	191.4
Trading assets	**7,863.8**	9,078.4
Financial assets	**114.3**	94.8
Cash and cash equivalents	**447.1**	705.9
Total assets	**8,425.2**	9,879.1
Non-current non-financial assets[7]		
South Africa (country of domicile)	**3,377.1**	4,816.5
Rest of Africa	**20.0**	22.8
Total	**3,397.1**	4,839.3
Additions to non-current non-financial assets[8]		
Paper	**264.4**	258.6
Plastics	**197.7**	212.9
Corporate	**130.3**	62.6
Segments total	**592.4**	534.1

4 *Segment assets are operating assets as at 31 December 2019 which consist of property, plant and equipment of R2,828.6 million (2018: R3,737.3 million), goodwill and other intangible assets of R568.6 million (2018: R1,102.0 million), right-of-use assets of R270.7 million (2018: Rnil), inventories of R1,885.3 million (2018: R1,748.1 million) and operating receivables of R2,104.9 million (2018: R2,182.9 million).*

5 *Goodwill has been disclosed in the appropriate reportable segment in which it was acquired. This has resulted in goodwill being reclassified from Corporate to Paper and Plastics amounting to R669.3 million and R350.5 million respectively, in the prior year.*

6 *Other non-operating assets consist of derivative assets of R2.7 million (2018: R0.9 million), other non-operating receivables of R131.4 million (2018: R170.0 million) and current tax receivable of R18.9 million (2018: R20.5 million).*

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

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

Notes to the consolidated annual financial statements continued

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3. OPERATING (LOSS)/PROFIT

	2019 R'm	Restated 2018 R'm
Operating (loss)/profit for the year has been arrived at after charging/(crediting):		
Depreciation, amortisation and impairments	**1,942.0**	561.9
Amortisation of intangibles (refer to note 7)	**13.8**	11.9
Depreciation of property, plant and equipment	**543.1**	520.4
Depreciation of right-of-use assets (refer to note 10)	**93.4**	–
Impairment of goodwill (refer to note 9)	**548.7**	–
Impairment of intangible assets (refer to note 7)	**0.6**	–
Impairment of property, plant and equipment (refer to note 9)	**742.4**	29.6
Impairment charge on foreign cash balances	**–**	4.8
Expenses relating to short-term leases	**54.4**	–
Expenses relating to leases of low value assets	**3.3**	–
Rentals under operating leases	**–**	128.0
Research and development	**28.9**	33.0
Bad debts provision movement (refer to note 14)	**45.6**	24.5
Net foreign currency gains	**(6.3)**	(24.3)
Profit on disposal of tangible assets	**(0.2)**	(0.1)
Gain on de-recognition of right-of-use assets and lease liabilities	**(6.0)**	–
Audit fees	**11.8**	10.3
Non-audit fees	**1.0**	0.4
Staff costs (excluding directors' emoluments)	**1,789.1**	1,715.4
Executive directors and prescribed officers short-term benefits (excluding value of deferred bonus shares awarded)[1]	**39.3**	45.9
Executive directors and prescribed officers post-employment benefits (excluding value of deferred bonus shares awarded)[1]	**1.4**	1.4

[1] *The details of the executive directors' and prescribed officers' emoluments are disclosed in note 37.*

4. NET FINANCE COSTS

	2019 R'm	Restated 2018 R'm
Investment income		
Bank deposits and loan receivables	**16.0**	9.6
Other	**3.4**	2.2
Total investment income	**19.4**	11.8
Finance costs		
Bank overdrafts and loans	**(220.8)**	(216.1)
Lease liabilities	**(37.7)**	–
Loss on de-recognition of interest rate swap	**(2.3)**	–
Defined benefit arrangements (refer to note 19)	**(3.9)**	(4.9)
Total interest expense	**(264.7)**	(221.0)
Net finance costs	**(245.3)**	(209.2)

5. TAX INCOME/(EXPENSE)

	2019 R'm	Restated 2018 R'm
Analysis of tax credit/(charge) for the year		
South African corporate tax		
– current year	**(69.6)**	(94.0)
– prior year	**2.9**	1.1
Securities Transfer Tax	**–**	(4.0)
Current tax	**(66.7)**	(96.9)
Deferred tax in respect of the current year	**144.8**	(21.2)
Deferred tax in respect of prior year	**5.8**	15.9
Total tax income/(expense)	**83.9**	(102.2)
Factors affecting tax income/(expense) for the year		
The Group has a negative effective tax rate of 10.4% for the current financial year (2018: effective tax rate of 19.7%).		
The Group total tax credit/(charge) for the year can be reconciled to the tax on the Group's profit before tax at the South African corporation tax rate of 28% (2018: 28%) as follows:		
(Loss)/profit before tax	**(805.9)**	519.6
Less share of profit of equity accounted investees[1]	**(17.1)**	(23.3)
(Loss)/profit before tax, adjusted for equity accounted profit	**(823.0)**	496.3
Tax on (loss)/profit before tax calculated at the South African corporation tax rate	**230.4**	(139.0)
Tax effects of:		
Expenses not deductible for tax purposes		
Subscription and donations	**(0.3)**	(0.3)
Legal and professional costs	**(1.6)**	(1.0)
Impairment of goodwill	**(153.6)**	–
Non-deductible interest	**(0.2)**	–
Other non-deductible expenses	**(1.0)**	(0.1)
Non-taxable income		
Gain on bargain purchase	**0.5**	–
Non-taxable foreign exchange differences	**0.5**	0.5
S12I additional investment allowances[2]	**–**	19.4
Other non-taxable income	**0.5**	0.3
Temporary difference adjustments		
Recognised and unrecognised tax losses and other temporary differences	**–**	5.4
Effect of difference between South African corporate tax rate and other country tax rate	**–**	(0.4)
Prior year adjustment current tax	**2.9**	1.1
Prior year adjustment deferred tax[3]	**5.8**	15.9
Withholding tax	**–**	(4.0)
Tax credit/(charge) for the year	**83.9**	(102.2)

[1] *Income from equity accounted investees is presented net of tax on the consolidated statement of profit or loss and other comprehensive income. The Group's share of its investees' tax is therefore not presented within the Group's total tax charge. The investees' tax charge included within "Share of investees" profit for the year ended is R6.0 million (2018: R11.6 million).*

[2] *The prior year S12I investment allowances related to capital investments in the Group.*

[3] *Additional tax incentives claimed on submission of tax return. These incentives were not recognised in the prior year as there was uncertainty in meeting all the conditions necessary to claim the deduction at the time of publishing the financials.*

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6. EARNINGS PER SHARE

	2019 Cents R'm	Restated 2018 Cents R'm
Continuing operations (loss)/earnings per share (EPS)		
Basic EPS	**(443.7)**	224.8
Diluted EPS	**(443.2)**	224.5
Basic headline EPS	**185.8**	235.3
Diluted headline EPS	**185.6**	234.9
Basic underlying EPS[1]	**191.8**	247.7
Diluted underlying EPS[1]	**191.6**	247.3
Discontinued operations loss per share (EPS)		
Basic EPS	**(37.1)**	(39.7)
Diluted EPS	**(37.0)**	(39.6)
Basic headline EPS	**(36.7)**	(39.7)
Diluted headline EPS	**(36.7)**	(39.6)
Total operations (loss)/earnings per share (EPS)		
Basic EPS	**(480.8)**	185.1
Diluted EPS	**(480.2)**	184.9
Basic headline EPS	**149.1**	195.6
Diluted headline EPS	**148.9**	195.3

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

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

	2019 Earnings R'm	Restated 2018 Earnings R'm
Continuing operations		
(Loss)/profit for the year	**(722.0)**	417.4
Less profit attributable to non-controlling interest	**(36.9)**	(33.4)
(Loss)/profit for the year attributable to equity holders of Mpact	**(758.9)**	384.0
Discontinued operation		
Loss for the year	**(162.5)**	(90.4)
Less loss attributable to non-controlling interest	**99.1**	22.6
Loss for the year attributable to equity holders of Mpact	**(63.4)**	(67.8)
Continuing operations		
(Loss)/profit for the financial year attributable to equity holders of Mpact	**(758.9)**	384.0
Impairment of plant and equipment (refer to note 3)	**742.4**	29.6
Impairment of goodwill and other intangible assets (refer to note 3)	**549.3**	–
Gain on acquisition of subsidiary (refer to note 26)	**(1.3)**	–
Loss/(profit) on sale of associate, joint arrangements and subsidiaries	**3.0**	(6.7)
Gain on de-recognition of right-of-use assets and lease liabilities	**(6.0)**	–
Profit on disposal of tangible assets (refer to note 3)	**(0.2)**	(0.1)
Non-controlling interest portion of impairment of plant and equipment	**(3.8)**	–
Related tax	**(206.8)**	(4.9)
Headline earnings for the financial year	**317.7**	401.9
(Loss)/profit for the financial year attributable to equity holders of Mpact	**(758.9)**	384.0
Impairment of plant and equipment (refer to note 3)	**742.4**	29.6
Impairment of goodwill and other intangible assets (refer to note 3)	**549.3**	–
Impairment of foreign cash balances (refer to note 3)	**–**	4.8
Impairment of loan to associate	**–**	1.2
Restructure costs	**8.0**	17.7
Non-controlling interest portion of impairment of plant and equipment	**(3.8)**	–
Related tax	**(209.0)**	(14.3)
Underlying earnings for the financial year	**328.0**	423.0

6. EARNINGS PER SHARE continued

	2019 Earnings R'm	Restated 2018 Earnings R'm
Discontinued operation		
Loss for the financial year attributable to equity holders of Mpact	(63.4)	(67.8)
Impairment of right-of-use asset	13.8	–
Impairment of plant and equipment	218.1	–
Gain on the de-consolidation of the discontinued operation	(160.1)	–
Non-controlling interest portion of impairment of plant and equipment	(71.2)	–
Headline loss for the financial year	(62.8)	(67.8)

	Weighted number of shares	Weighted number of shares
Weighted average number of ordinary shares in issue[2]	171,030,378	170,784,638
Effect of dilutive potential ordinary shares[3]	187,040	253,484
Weighted average number of ordinary shares adjusted for the effect of dilution	171,217,418	171,038,122

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

[3] *Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue, on the assumption of conversion of all potentially dilutive ordinary shares. Refer to the Earnings per Share accounting policy regarding the calculation of the underlying EPS.*

7. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill R'm	Other intangibles[1] R'm	Total R'm
2019			
Cost			
At 1 January 2019	1,045.0	306.0	1,351.0
Acquisition through business combinations (Refer to note 26)	–	29.7	29.7
At 31 December 2019	1,045.0	335.7	1,380.7
Accumulated amortisation and impairment			
At 1 January 2019	–	249.0	249.0
Amortisation	–	13.8	13.8
Impairment	548.7	0.6	549.3
At 31 December 2019	548.7	263.4	812.1
Net book value at 31 December 2019	496.3	72.3	568.6
2018			
Cost			
At 1 January 2018	1,045.0	302.3	1,347.3
Additions	–	4.0	4.0
Transfer to property, plant and equipment	–	(0.3)	(0.3)
At 31 December 2018	1,045.0	306.0	1,351.0
Accumulated amortisation and impairment			
At 1 January 2018	–	237.1	237.1
Amortisation	–	11.9	11.9
At 31 December 2018	–	249.0	249.0
Net book value at 31 December 2018	1,045.0	57.0	1,102.0

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

Notes to the consolidated annual financial statements continued

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7. GOODWILL AND OTHER INTANGIBLE ASSETS continued

Goodwill allocated to the cash-generating units ("CGUs) are as follows:

	2019 R'm	2018 R'm
Recycling	23.9	23.9
Felixton Mill	251.8	251.8
Piet Retief Mill	–	159.8
Springs Mill	–	196.9
Corrugated operations	62.1	62.1
Trays and films	–	192.0
FMCG	65.0	65.0
Preforms and closures	92.5	92.5
Bins and crates	1.0	1.0
	496.3	1,045.0

Refer to note 9 for disclosure relating to the impairment of goodwill.

8. PROPERTY, PLANT AND EQUIPMENT

2019	Land and buildings R'm	Plant and equipment R'm	Assets in the course of construction R'm	Other R'm	Total R'm
Cost					
At 1 January 2019	606.1	6,448.5	273.6	303.3	7,631.5
Additions	5.8	211.2	357.3	18.1	592.4
Acquisitions through business combination (refer to note 26)	21.4	4.7	–	0.6	26.7
Disposals	–	(10.3)	–	(9.9)	(20.2)
Transfer from inventory	–	1.7	–	–	1.7
Transfer to held for sale	(12.8)	(315.0)	(8.7)	(7.1)	(343.6)
Transfer to/from assets in the course of construction	22.9	202.2	(283.5)	58.4	–
At 31 December 2019	643.4	6,543.0	338.7	363.4	7,888.5
Accumulated depreciation and impairment					
At 1 January 2019	161.7	3,547.9	–	184.6	3,894.2
Depreciation[1]	29.3	488.0	–	48.1	565.4
Disposals	–	(8.6)	–	(8.0)	(16.6)
Transfer to held for sale	(12.8)	(315.0)	(8.7)	(7.1)	(343.6)
Impairments[2]	6.5	812.6	121.0	20.4	960.5
Reclassification	(0.5)	–	–	0.5	–
At 31 December 2019	184.2	4,524.9	112.3	238.5	5,059.9
Net book value at 31 December 2019	459.2	2,018.1	226.4	124.9	2,828.6

[1] *Includes depreciation from discontinued operation amounting to R22.3 million.*
[2] *Includes impairment loss from discontinued operation amounting to R218.1 million.*

8. PROPERTY, PLANT AND EQUIPMENT continued

2018	Land and buildings R'm	Plant and equipment R'm	Assets in the course of construction R'm	Other R'm	Total R'm
Cost					
At 1 January 2018	603.5	6,100.9	240.6	243.6	7,188.6
Additions	37.7	245.9	177.8	68.7	530.1
Disposals	–	(35.0)	–	(10.5)	(45.5)
Disposal of joint arrangement and subsidiaries	(37.3)	(8.9)	–	(1.3)	(47.5)
Currency movement	2.2	–	–	0.1	2.3
Transfer from inventory (refer to note 13)	–	3.2	–	–	3.2
Transfer from intangible asset	–	0.3	–	–	0.3
Transfer to/from assets in the course of construction	–	142.1	(144.8)	2.7	–
At 31 December 2018	606.1	6,448.5	273.6	303.3	7,631.5
Accumulated depreciation and impairment					
At 1 January 2018	134.1	3,072.8	–	159.7	3,366.6
Depreciation[1]	30.6	488.5	–	35.1	554.2
Disposals	–	(32.2)	–	(9.7)	(41.9)
Disposal of joint arrangement and subsidiaries	(7.5)	(6.7)	–	(0.6)	(14.8)
Currency movement	0.4	–	–	0.1	0.5
Impairments	4.1	25.5	–	–	29.6
At 31 December 2018	161.7	3,547.9	–	184.6	3,894.2
Net book value at 31 December 2018	444.4	2,900.6	273.6	118.7	3,737.3

[1] *Includes depreciation from discontinued operation amounting to R33.8 million.*

The Group has pledged certain of its property, plant and equipment, other than assets under finance leases, as security in respect of the bank loans (refer note 18). The plant and equipment impairment loss in the prior financial year relates to an asset in the plastic segment. Refer to note 9 for the current year impairment of property, plant and equipment.

Split of land and buildings between freehold and leasehold	**2019 R'm**	2018 R'm
Freehold	**449.4**	427.5
Leasehold – long	**9.5**	16.6
Leasehold – short	**0.3**	0.3
Total land and buildings	**459.2**	444.4

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

9. IMPAIRMENT OF GOODWILL AND PLANT AND EQUIPMENT

The trading environment in which the Group operates has deteriorated over the past year due to subdued growth, overcapacity in certain sectors and unreliable electricity supply. This, together with the Group's share price trading below its net asset value during most of the past year, necessitated the test for possible impairment for each CGU in the Group. As a consequence of these conditions, the Group impaired its goodwill, plant and equipment allocated to certain CGUs. Details of these impairments are presented below.

Impairment testing and key assumptions

For the purpose of impairment testing, goodwill is tested at a CGU level as it was allocated to a CGU at initial recognition as well as property, plant and equipment is done at a CGU level.

The recoverable amount of the CGUs was determined based on a value-in-use calculation, discounting the future cash flows expected to be generated. The discount rate used in discounted cash flow models are calculated using the principles of the capital asset pricing model, taking into account current market conditions. A pre-tax weighted-average cost of capital rate was used in discounting the projected cash flows depending on the nature of business and operating markets. The cash flow projections were based on the 2020 to 2022 budgeted results and a reasonable growth rate, 5.1%, applied for a further two years based on market conditions and historic trends. A perpetuity growth rate was applied based on historical market trends and operating markets.

The key inputs used in the impairment testing calculation was a pre-tax discount rate of between 15.0% to 20.0% (2018: 13.2% to 15.9%) and a post-tax discount rate of 12.9% (2018: 11.0% to 12.2%). A terminal value growth rate of 5.1% (2018: 5.3%) was used. A nil terminal value was used in the calculation for the Springs Mill in the current financial year.

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9. IMPAIRMENT OF GOODWILL AND PLANT AND EQUIPMENT continued

Impairment recognised

Based on the above key inputs and projected cash flows the following impairments were recognised in the different CGUs

	R'm
Impairment of goodwill in continuing operations	
Piet Retief Mill	159.8
Springs Mill	196.9
Trays and films	192.0
	548.7
Impairment of plant and equipment in continuing operations	
Piet Retief Mill	276.8
Springs Mill	202.5
Trays and films	252.5
	731.8
Equipment within paper converting	10.6
	742.4

The impairment losses were included in depreciation, amortisation and impairment on the statement of profit or loss. The recoverable amount calculated in respect of the above impairment for Springs Mill was R366.9 million, Piet Retief Mill was R257.8 million and Trays and films R145.2 million.

Expected future cash flows are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, including market and production estimates, together with economic factors such as prices, discount rates, currency exchange rates, estimates of production costs and future capital expenditure.

Sensitivity analysis on CGUs impaired

The goodwill and plant and equipment of these CGUs were impaired in full and therefore no further impairment would arise from an increase in the discount rate or decrease in the terminal growth rate.

Sensitivity analysis on CGUs that include goodwill not impaired

In performing the impairment test for goodwill in respect of the other CGUs, the Group considered the sensitivity of changes in assumptions around key value drivers. The key value drivers are discount rates and terminal value growth assumptions. A sensitivity analysis was performed to determine the discount rate and terminal value growth rate which will result in an impairment of each CGU.

CGUs	Breakeven pre-tax discount rate %	Breakeven terminal growth rate %
Recycling	26	<0
Felixton Mill	24	<0
Corrugated operations	32	<0
FMCG	28	<0
Preforms and closures	16	1.5

10. RIGHT-OF-USE ASSETS

The Group leases land and buildings, plant and equipment and other assets. Information about leases for which the Group is a lessee is presented below:

2019	Land and buildings R'm	Plant and equipment R'm	Other R'm	Total R'm
1 January (adoption date of IFRS 16)	412.8	2.8	11.8	427.4
Additions	9.1	–	–	9.1
Depreciation[1]	(91.7)	(2.2)	(2.3)	(96.2)
Impairment	(13.8)	–	–	(13.8)
Re-measurement	(0.2)	0.9	–	0.7
De-recognition	(47.6)	–	(8.9)	(56.5)
31 December	268.6	1.5	0.6	270.7

[1] *Includes depreciation from discontinued operation amounting to R2.8 million.*

10. RIGHT-OF-USE ASSETS continued

The Group leases various buildings, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of 19 months to 106 months.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any security interests in the leased assets that are held by the lessor.

Extension options are included in certain land and buildings lease agreements across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension options held are exercisable only by the Group and not by the respective lessor.

As at 31 December 2019, potential future cash outflows of R90.4 million (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended and R28.4 million (discounted) have been included in the lease liability because it is reasonably certain that the lease will be extended.

In the current financial year, the Group purchased leased assets relating to land and buildings and vehicles.

11. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

	2019 R'm	2018 R'm
At 1 January	**108.1**	102.0
Share of profit	**17.1**	23.3
Fair value loss on re-measurement of investment in equity accounted investee	**(0.6)**	–
Dividends received	**(9.3)**	(14.2)
Acquisition of equity accounted investee (refer to note 26)	**(47.9)**	–
Disposal of investment (refer to note 28)	**(26.0)**	(3.0)
Balance at 31 December	**41.4**	108.1
The Group's total investment comprises:		
Net asset value	**38.4**	88.4
Goodwill	**3.0**	19.7
Total equity	**41.4**	108.1
The Group has interests in equity accounted investees that are individually insignificant in relation to the Group. The operating activities of the equity accounted investees are linked to those of the Group.		
The Group's share of the summarised financial information of principal investments, all of which are unlisted, is as follows:		
Total non-current assets[2]	**117.4**	38.0
Total current assets[3]	**64.1**	196.3
Total non-current liabilities	**(18.9)**	(10.3)
Total current liabilities	**(121.2)**	(115.9)
Share of net assets[1]	**41.4**	108.1
Revenue	**511.2**	670.7
Total operating costs	**(488.1)**	(635.8)
Profit before tax	**23.1**	34.9
Income tax expense	**(6.0)**	(11.6)
Share of profit for the financial year	**17.1**	23.3

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

[2] *The increase is mainly due to the expansion of Dalisu Holdings Proprietary Limited.*

[3] *The decrease is mainly due to the sale of Right Corrugated Proprietary Limited, Box Boyz Proprietary Limited (refer to note 28) and due to the consolidation of West Coast Paper Traders Proprietary Limited in the current financial year.*

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12. FINANCIAL ASSETS

	2019 R'm	2018 R'm
Loan receivable[1]	56.7	40.0
Loan to associated companies[2]	57.0	33.5
Equity investment[3]	0.6	–
Pension fund asset[4]	–	21.3
Total financial assets	114.3	94.8
Less current portion of loan receivable	(17.3)	–
Total non-current financial assets	97.0	94.8

[1] *Loans receivable are held at amortised cost. In the current year, loan receivable includes the proceeds of R23.0 million on the disposal of Right Corrugated Proprietary Limited and Box Boyz Proprietary Limited. In the prior year, loan receivable included the proceeds of R15.0 million on the disposal of Pretoria Box Manufacturers.*

[2] *Loans to associated companies are held at amortised cost. Dalisu Holdings Proprietary Limited loan amounting to R57.0 million (2018: R32.1 million) has been pledged to the IDC.*

[3] *During the current year the Group acquired an additional equity investment as a result of the business combination with West Coast Papers Proprietary Limited. The fair value of this investment is R0.6 million. In the prior year, the Group had designated an investment at Fair value through Other Comprehensive Income because it represents the Group's intention to hold the investment for a long term for strategic purposes. During the prior financial year this investment had been revalued to R1.*

[4] *This represented a net surplus in the Mondi/Mpact Pension Fund. The Group received a settlement on the asset in the current financial year.*

The Group's loan receivable and loan to associated companies are considered to have low credit risk as the borrowers have the future capacity to meet their contractual cash flow obligations. The Group had considered the above based on past experience and current conditions and therefore did not raise any expected credit losses in the current and prior financial year.

13. INVENTORIES

	2019 R'm	2018 R'm
Raw materials and consumables	1,025.0	1,013.7
Work in progress	45.3	50.5
Finished goods	815.0	683.9
Total inventories	1,885.3	1,748.1
Write-down of inventories	59.5	29.7
Reversal of write-down of inventories	(7.4)	(13.4)
Cost of inventories recognised as an expense	5,142.2	4,805.4
Inventory capitalised to property, plant and equipment (refer to note 8)	(1.7)	(3.2)

Certain inventories are pledged as security for the bank loans (refer to note 18).

14. TRADE AND OTHER RECEIVABLES

	2019 R'm	2018 R'm
Trade receivables (a)		
– external	2,161.8	2,083.2
– related parties (refer to note 35)	24.6	161.2
Allowance for doubtful debts (b)	(121.1)	(78.3)
Net trade receivables	2,065.3	2,166.1
Other receivables	131.4	170.0
Prepayments and accrued income	39.6	16.8
Total trade and other receivables	2,236.3	2,352.9

The fair values of trade and other receivables approximate the carrying values presented. Trade receivables generally have 30 to 90 days payment terms and are recognised and carried at its original invoice amount less an allowance for any uncollectible amounts. The Group also allows extended payment terms to customers in the agricultural sector.

The Group's other receivable are considered to have low credit risk as the other debtors have the future capacity to meet their contractual cash flow obligations. The Group had considered the above based on past experience and current conditions and therefore did not raise any expected credit losses in the current and prior financial year. Other receivables consists mainly of a deposit of R66 million for the puchase of a property and rebates from suppliers.

Trade and other receivables are pledged as security for the bank loans (refer note 18).

14. TRADE AND OTHER RECEIVABLES continued

a) Trade receivables: Credit risk

The Group's exposure to the credit risk inherent in their trade receivables and the associated risk management techniques that the Group deploys in order to mitigate this risk are discussed in note 34. Credit periods offered to customers vary according to the credit risk profiles and invoicing conventions established by participants operating in the various markets in which the Group operates. Interest is charged at an appropriate rate on balances which are considered overdue in the relevant market.

To the extent that recoverable amounts are estimated to be less than their associated carrying values, impairment charges have been recorded in the statement of profit or loss and the carrying values have been written down to their recoverable amounts.

The Group uses an allowance matrix to measure expected credit losses (ECL) of trade receivables from customers. The expected loss rates are mainly based on the historical payment profiles of customers and the use of the forward-looking information as discussed below:

- the geographical location, such as customers in neighbouring countries due to their poor economic conditions;
- business sector, such as customers that operated in drought-affected areas of South Africa; and
- the age of the customer relationship.

As credit risk is managed on a devolved basis, each business location monitors the credit risk of its customers. Further to these factors, divisional financial managers, together with the Group executives, regularly monitor customer purchase and payment behaviour in order to ensure that accounts will be settled in future. Management also follows a proactive process in managing overdue customers. Refer to note 34 for credit insurance cover on trade receivables.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2019:

	Weighted average loss rate %	Gross carrying value R'm	Loss allowance R'm
31 December 2019			
Current (not past due)	**0.9**	**1,417.5**	**(12.5)**
Less than one-month past due	**1.7**	**276.4**	**(4.6)**
One to two months past due	**3.8**	**187.7**	**(7.1)**
Two to three months past due	**6.6**	**87.5**	**(5.8)**
More than three months past due	**41.9**	**217.3**	**(91.1)**
		2,186.4	**(121.1)**

The loss allowance comprises of R95.6 million relating to specific debtors balances and R25.5 million relating to forward-looking adjustments.

	Weighted average loss rate %	Gross carrying value R'm	Loss allowance R'm
31 December 2018			
Current (not past due)	0.3	1,805.8	(6.0)
Less than one-month past due	1.2	210.7	(2.5)
One to two months past due	8.5	86.2	(7.3)
Two to three months past due	21.5	33.1	(7.1)
More than three months past due	51.0	108.6	(55.4)
		2,244.4	(78.3)

The loss allowance comprises of R67.2 million relating to specific debtors balances and R11.1 million relating to forward-looking adjustments.

Adjusted historical loss ratio

	Forward-looking adjustment %	Weighted average loss rate %
2019		
Current (not past due)	**9 to 34**	**0.9**
Less than one-month past due	**9 to 34**	**1.7**
One to two months past due	**9 to 34**	**3.8**
Two to three months past due	**9 to 34**	**6.6**
More than three months past due	**9 to 34**	**41.9**
2018		
Current (not past due)	5 to 28	0.3
Less than one-month past due	5 to 28	1.2
One to two months past due	5 to 28	8.5
Two to three months past due	5 to 28	21.5
More than three months past due	5 to 28	51.0

14. TRADE AND OTHER RECEIVABLES continued

Due to the different credit risk of the Group's businesses, there is a range for the forward-looking adjustment effect on the weighted average loss rate.

The Group did not enter into any debt factoring arrangements.

	2019 R'm	2018 R'm
b) Movement in the impairment allowance account		
At 1 January	78.3	70.0
Amount written off or recovered during the year	(1.9)	(16.2)
Increase in allowance recognised in the statement of profit or loss	45.6	24.5
Acquisition of subsidiary	0.4	–
Transfer to discontinued operation	(1.3)	–
At 31 December	121.1	78.3
Trade receivable analysis		
Concentration spread of trade receivables		
Monitored by Executive Committee		
Debtors over R20 million	616.0	761.7
Debtors between R10 million to R20 million	246.5	183.2
Debtors less than R10 million	69.3	45.8
Monitored by management at an operations level	1,254.6	1,253.7
Total debtors	2,186.4	2,244.4
Geographical spread of trade receivables		
South Africa	1,880.5	1,919.8
Rest of Africa	278.4	274.6
Rest of World	27.5	50.0
Total debtors	2,186.4	2,244.4
Trade debtors by reportable segment		
Paper	1,724.9	1,788.0
Plastics	458.2	456.4
Corporate	3.3	–
Total debtors	2,186.4	2,244.4

At 31 December 2019, the carrying amount of the Group's most significant customer was R75.9 million (2018: R88.9 million). Trade receivables with a contractual amount of R0.8 million written off during the current financial year are still subject to enforcement activity.

15. CASH AND CASH EQUIVALENTS

	2019 R'm	2018 R'm
Cash at bank and on hand	447.1	705.9

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

Certain bank accounts within the Group are pledged as security for the bank loans (refer to note 18).

16. DERIVATIVE FINANCIAL INSTRUMENTS

	2019			2018		
	Asset R'm	Liability R'm	Notional amount R'm	Asset R'm	Liability R'm	Notional amount R'm
Non-current derivative						
Cash flow hedges						
Interest rate swaps	0.5	–	800.0	–	(3.9)	500.0
Current derivative						
Held for trading[1]						
Foreign exchange contracts	2.7	(4.1)	17.1	0.9	(0.7)	37.2

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

16. DERIVATIVE FINANCIAL INSTRUMENTS continued

Derivative financial instruments are held at fair value. Appropriate valuation methodologies are employed to measure the fair value of derivative financial instruments (refer note 34).

The notional amounts presented represent the aggregate face value of all foreign exchange contracts and interest rate swaps at year-end. They do not indicate the contractual future cash flows of the derivative instruments held or their current fair value and therefore do not indicate the Group's exposure to credit or market risks. Note 34 provides an overview of the Group's management of financial risks through the selective use of derivative financial instruments and also includes a presentation of the undiscounted future contractual cash flows of the derivative contracts outstanding at the reporting date.

Hedging

Cash flow hedges

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

	2019 R'm	2018 R'm
Held for trading derivatives		
Net fair value loss on held for trading derivatives	**(1.5)**	(15.2)

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

In the current financial year the Group entered into an interest rate swap for R200 million which expires in August 2022 (three-year swap) and a R600 million interest rate swap which expires in August 2023 (four-year swap). The floating rate for both swaps was referenced to three-month JIBAR. The fixed interest rate on the three-year swap is 6.59% and 6.74% on the four-year swap. The cash flow hedge was assessed to be effective.

In the current year the Group settled an existing interest rate swap of R500 million. The floating rate of the swap was referenced to three-month JIBAR and the fixed interest rate on the R500 million facility was 9.49%.

17. STATED CAPITAL

	2019 R'm	2018 R'm
Authorised share capital		
217,500,000 shares of no par value	**–**	–
Issued share capital		
Issue of shares of no par value	**2,669.2**	2,621.4
Capitalisation issue	**–**	47.8
	2,669.2	2,669.2

The following table illustrates the movement within the number of shares issued:	Number of shares	Number of shares
Shares in issue at beginning of year	**173,304,517**	171,461,623
Issued in terms of the scrip distribution made during the financial year	**–**	1,842,894
Shares in issue at end of year	**173,304,517**	173,304,517

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

Included in other reserves are amounts paid by Mpact Limited to Mpact Limited Incentive Scheme Trust for the acquisition of Mpact shares to be utilised in terms of the Share Plans. Refer to note 25. As at 31 December 2019, The Trust held 2,449,704 (2018: 2,403,309) shares. During the year the Trust bought 450,000 shares at an average price of R17.20.

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18. INTEREST AND NON-INTEREST-BEARING BORROWINGS

	2019 R'm	2018 R'm
Secured		
Standard Bank, Rand Merchant Bank and Nedbank:		
– RCF A[1]	200.0	–
– RCF B[2]	850.0	–
– RCF C[3]	625.0	–
– Facility A[4]	–	900.0
– Facility B[5]	–	550.0
– Facility C1[6]	–	550.0
– Facility D1[7]	–	300.0
– RMB General Banking Facility[8]	700.0	–
Industrial Development Corporation interest-bearing loan[9]	–	83.0
KZN Growth Fund[10]	–	200.0
	2,375.0	2,583.0
Obligations under finance leases	–	5.0
Instalment loan facilities	10.9	3.4
Industrial Development Corporation non-interest-bearing loan[9]	–	212.5
	2,385.9	2,803.9
Unsecured		
Minority shareholder loans in subsidiary[11]	15.4	15.4
Total borrowings	2,401.3	2,819.3
Less: Current portion (refer to note 22)	(19.0)	(1,418.5)
Standard Bank, Rand Merchant Bank and Nedbank loans	–	(1,400.0)
Obligations under finance leases	–	(2.1)
Minority shareholder loans	(15.4)	(15.4)
Instalment loan facilities	(3.6)	(1.0)
Non-current borrowings	2,382.3	1,400.8

1 *Bears interest at three-month JIBAR plus 1.65%. The current facility is a revolving credit facility and expires in August 2022.*

2 *R250 million bears interest at one-month JIBAR plus 1.75% and R600 million bears interest at three-month JIBAR plus 1.75%. The facility is a revolving credit facility and expires in August 2023.*

3 *Facility C is a revolving credit facility, bears interest at one-month JIBAR plus 1.85% and expires in August 2024.*

4 *In August 2019, Facility A was re-financed and interest was incurred at three-month JIBAR plus 1.65%.*

5 *In August 2019, Facility B was re-financed and interest was incurred at one-month JIBAR plus 1.65%.*

6 *Facility C1 was re-financed in the current financial year and interest was incurred at JIBAR plus 2.05%.*

7 *Facility D1 was re-financed in the current financial year and interest was incurred at JIBAR plus 2.05%.*

8 *Bears interest at prime less 2.5% and expires in August 2022.*

9 *The Industrial Development Corporation loan was restructured in the prior financial year. The loan incurred interest at prime plus 1%. The loan was de-recognised due to the de-consolidation of Mpact Polymers Proprietary Limited.*

10 *The KZN Growth Fund loan was paid in full in the current financial year and interest was incurred at fixed rate of 9.15%.*

11 *The loan was granted as a shareholder loan which are non-interest-bearing with no fixed date of repayment.*

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

The maturity analysis of the Group's borrowings presented, on an undiscounted future cash flow basis is included as part of a review of the Group's liquidity risk within note 34.

Facilities totalling R495 million remain committed and undrawn as at 31 December 2019 (2018: R370 million).

18. INTEREST AND NON-INTEREST-BEARING BORROWINGS continued

	2019 R'm	2018 R'm
Obligations under finance leases		
The maturity of obligations under finance leases is:		
No later than one year	–	2.5
Between one and two years	–	1.2
Later than two years and not more than five years	–	2.2
Future value of finance lease liabilities	–	5.9
Future finance charges	–	(0.9)
Present value of finance lease liabilities	–	5.0
Finance leases related to computer equipment and plant with varying lease terms. The Group's obligations under the finance leases were secured by the lessors' title to the lease assets.		
Financing facilities		
Group liquidity is provided through debt facilities which are in excess of the Group's short-term needs. The Group has approved facilities amounting to R2,960 billion (2018: R2,960 billion). The Group has pledged certain assets as collateral against certain borrowings. The values of these assets as at 31 December 2019 are as follows:		
Assets held under finance leases		
Property, plant and equipment	–	4.5
Assets pledged as collateral for other borrowings		
Property, plant and equipment	1,910.0	2,769.9
Inventories	1,626.7	1,509.8
Financial assets[1]	2,345.5	2,639.6
Total carrying value of assets pledged as collateral	5,882.2	6,923.8

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

The value of the security pledged in relation to the assets is limited to R2.6 billion.

Certain inter-company loans within Mpact Operations Proprietary Limited, Mpact Limited, Mpact Versapak Proprietary Limited and Recycling Consolidated Holdings Proprietary Limited have been subordinated in favour of the debt holders.

The Group is entitled to receive all cash flows from these pledged assets.

19. RETIREMENT BENEFITS

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

Defined contribution plan

The assets of the defined contribution plans are held separately in independently administered funds. The charge in respect of these plans for the Group totalling R99.1 million (2018: R92.5 million) is calculated on the basis of the contribution payable by the Group in the financial year. There were no material outstanding or prepaid contributions recognised in relation to these plans as at the reporting dates presented.

Post-retirement medical plan

The post-retirement medical plan provides health benefits to retired employees and certain dependants. Eligibility for cover is dependent upon certain criteria. This plan is unfunded and there are no plan assets. The plan has been closed to new participants since 1 January 1999. The valuation is based on one in-service member (2018: two in-service members) and 77 pensioners (2018: 81 pensioners).

The post-retirement medical aid liability is valued each year using the projected unit credit method. The actuarial present value of the promised benefits at the most recent valuation was performed during the 2019 financial year and indicates that the contractual post-retirement medical aid liability is adequately provided for within the financial statements.

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19. RETIREMENT BENEFITS continued

Actuarial assumptions

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

	2019 %	2018 %
Post-retirement medical plan		
Average discount rate for plan liabilities	**10.0**	10.0
Expected average increase of healthcare costs	**7.5**	8.0

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

Mortality assumptions

The assumed life expectations on retirement at age 65 are:

	Years	Years
Retiring today		
Males	**16.22**	16.18
Females	**20.28**	20.24
Retiring in 20 years		
Males	**21.75**	21.65
Females	**25.92**	25.82

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

Independent qualified actuaries carry out full valuations every three years using the projected credit unit method. The actuaries have updated the valuations to 31 December 2019.

The total gain recognised in other comprehensive income relating to experience movements on scheme liabilities and plan assets and actuarial assumption changes for the year ended 31 December 2019 is R1.3 million (2018: gain of R10.7 million). A gain of R2.0 million (2018: R8.5 million) related to changes in financial assumptions and a loss of R0.7 million (2018: gain of R2.2 million) related to changes in demographic assumptions.

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

	2019 R'm	2018 R'm
Post-retirement medical plans		
At 1 January	**40.2**	48.9
Interest cost	**3.9**	4.9
Re-measurement	**(1.3)**	(10.7)
Benefits paid	**(2.9)**	(2.9)
At 31 December	**39.9**	40.2
The amounts recognised in the statement of profit or loss are as follows:		
Analysis of the amount charged to operating profit		
Interest costs on plan liabilities[1]	**3.9**	4.9
Total charge to statement of profit or loss	**3.9**	4.9

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

Sensitivity analysis

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

1% increase

	2019 R'm	2018 R'm
Effect on the aggregate of the current service cost and interest cost	**0.4**	0.4
Effect on the defined benefit obligation	**3.8**	4.1

	Liabilities Post-retirement medical plans R'm	**Remeasurement gain/(losses) on plan liabilities R'm**
2015	53.0	6.7
2016	51.6	3.6
2017	48.9	4.9
2018	40.2	10.7
2019	39.9	1.3

20. DEFERRED TAX

	2019 R'm	2018 R'm
Deferred tax asset		
At 1 January	**8.6**	6.9
Credited to statement of profit or loss	**4.6**	3.6
Acquisition through business combination (refer to note 26)	**0.6**	–
Reclassification	**(0.6)**	–
Charged to equity	**(2.4)**	(1.9)
At 31 December	**10.8**	8.6
Deferred tax liability		
At 1 January	**(227.3)**	(212.2)
Acquired through business combinations (refer to note 26)	**(9.9)**	–
Credited/(charged) to statement of profit or loss	**146.0**	(8.9)
Charged to statement of other comprehensive income	**(1.6)**	(4.6)
Charged to equity	**(3.5)**	(1.6)
Reclassification	**0.6**	–
At 31 December	**(95.7)**	(227.3)
The amount of deferred taxation provided in the accounts is presented as follows:		
Deferred tax assets		
Tax losses[1]	**–**	51.7
Capital allowances	**2.3**	(36.1)
Provisions and other temporary differences	**8.5**	(7.0)
Total deferred tax assets	**10.8**	8.6
Deferred tax liabilities		
Tax losses[1]	**130.6**	190.1
Capital allowances	**(336.8)**	(512.1)
Fair value adjustments	**(13.7)**	(4.6)
Provisions and other temporary differences	**124.2**	99.3
Total deferred tax liabilities	**(95.7)**	(227.3)

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

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

Unutilised tax losses	**–**	453.0

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

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	2019 R'm	2018 R'm
21. DEFERRED INCOME		
Government grants	**18.0**	23.5
Less current portion	**(5.5)**	(5.5)
Non-current portion	**12.5**	18.0

The government grants relate to Manufacturing Competitiveness Enhancement Programme (MCEP) grants received for capital expenditure. The income released to the statement of profit or loss of R5.5 million (2018: R5.5 million) has been off-set against operating expenses.

22. SHORT-TERM BORROWINGS

	2019 R'm	2018 R'm
Standard Bank and Rand Merchant Bank	**–**	1,400.0
Minority shareholder loans (refer to note 18)	**15.4**	15.4
Current portion of finance lease obligations	**–**	2.1
Bank overdrafts	**16.5**	11.2
Instalment loan facilities (refer to note 18)	**3.6**	1.0
Total short-term borrowings	**35.5**	1,429.7

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

23. TRADE AND OTHER PAYABLES

	2019 R'm	2018 R'm
Trade payables	**1,196.5**	1,369.0
Amounts owed to related parties (refer to note 35)	**8.2**	21.2
Refund liabilities-rebates to customers	**166.6**	236.8
Accruals	**168.7**	269.5
Other payables	**226.7**	317.1
Total trade and other payables	**1,766.7**	2,213.6

The fair values of trade and other payables are not materially different to the carrying values presented. Other payables consist mainly of staff costs.

24. PROVISIONS

	2019 R'm	2018 R'm
Dividend equivalent bonus[1]	**4.0**	4.9
Restoration and environmental[2]	**5.5**	1.3
Total provisions	**9.5**	6.2

[1] *Relates to Bonus Share Plan awards, where dividends earned over the holding period are paid as a single cash payment on vesting date. In the current financial year the provision increased by a net R0.8 million and recognised in the statement of profit or loss (2018: increase of R1.4 million), decreased by R1.2 million due to the reversal of the operating lease smoothing on the adoption of IFRS 16 and decreased by R0.5 million due to a cash payment.*

[2] *The restoration and environmental provision represents the best estimate of the expenditure required to settle the obligation to rehabilitate environmental disturbances caused by production operations. A provision is recognised for the present value of such costs. In the current financial year the provision increased by R4.2 million charged to the statement of profit or loss (2018: increase of R0.2 million).*

25. SHARE-BASED PAYMENTS

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

	2019 R'm	2018 R'm
Bonus Share Plan (BSP)	**11.4**	12.3
Performance Share Plan (PSP)	**17.2**	15.9
Total share-based payment expense	**28.6**	28.2

25. SHARE-BASED PAYMENTS continued

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

	2019	2018	2017	2016
Bonus Share Plan (BSP)				
Date of grant	**5 April**	3 April	3 April	1 April
Vesting period (months)	**36**	36	36	36
Expected leavers per annum (%)	**–**	–	–	–
Share price volatility	**37.11%**	36.66%	33.71%	28.50%
Future risk free interest rate	**7.40%**	7.10%	7.92%	7.20%
Grant date fair value per instrument (R)	**23.04**	28.59	27.48	48.53
Performance Share Plan (PSP)				
Date of grant	**5 April**	3 April	3 April	1 April
Vesting period (months)	**36**	36	36	36
Expected leavers per annum (%)	**–**	–	–	–
Share price volatility	**37.11%**	36.66%	33.71%	28.50%
Future risk free interest rate	**7.40%**	7.10%	7.92%	7.20%
Expected outcome of meeting performance criteria (%)				
– Return on capital employed ("ROCE") component	**41.2**	73.4	100	100
Total shareholder return ("TSR") component determined inside the valuation model and incorporated in the fair value per option				
Grant date fair value per instrument (R)				
– ROCE component	**19.32**	24.14	27.48	48.53
– TSR component	**17.31**	17.59	18.99	31.13

A reconciliation of share award movements for the Group is shown below:

	BSP Number of shares	PSP Number of shares
1 January 2019	**1,041,135**	**2,131,988**
Shares conditionally awarded in the year	**867,285**	**1,143,052**
Shares vested in the year	**(350,843)**	**(66,696)**
Shares lapsed in the year	**(138,432)**	**(669,988)**
31 December 2019	**1,419,145**	**2,538,356**
1 January 2018	1,150,910	1,531,954
Shares conditionally awarded in the year	336,439	879,446
Shares vested in the year	(446,214)	(88,853)
Shares lapsed in the year	–	(190,559)
31 December 2018	1,041,135	2,131,988

26. BUSINESS COMBINATION

2019

In terms of an agreement, on 1 January 2019 (acquisition date), the Group increased its shareholding in West Coast Paper Traders Proprietary Limited from 49% to 60% for R8 million following the fulfilment of all the conditions precedent. Following the increase in shareholding, West Coast Paper Traders Proprietary Limited was consolidated as a subsidiary in the Group's financial statements.

The company's main business activity is in retail and wholesale of paper (paper merchants) and operates in South Africa. This complements the Group's paper manufacturing business.

The acquisition has been accounted for using the acquisition method in terms of IFRS 3.

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26. BUSINESS COMBINATION continued

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

	2019 R'm
Intangible assets	29.7
Property, plant and equipment	26.7
Loans receivable	4.8
Investment	0.6
Deferred tax asset	0.6
Inventories	28.0
Trade and other receivables	76.6
Cash and cash equivalents	8.2
Non-current interest-bearing borrowings	(5.8)
Deferred tax liability	(9.9)
Current interest-bearing borrowings	(2.1)
Current lease liability	(1.4)
Trade and other payables	(58.4)
Current tax liability	(1.6)
Total identifiable net assets at fair value	96.0
Non-controlling interest based on their proportionate interest in the recognised amounts of the assets and liabilities of West Coast Papers Proprietary Limited	(38.2)
Carrying value of equity interest	(48.5)
Gain on acquisition of subsidiary	(1.3)
Fair value loss on re-measurement of investment in equity accounted investee	0.6
Bargain purchase on acquisition	(1.9)
Purchase consideration transferred	8.0
Cash acquired	(8.2)
Net cash inflow from acquisition of subsidiary	(0.2)

Trade receivables had a gross contractual value of R76.8 million and a provision for credit losses of R0.4 million. Transaction costs of R0.2 million have been expensed since the inception of the acquisition. These expenses were recognised in administration and other operating expenditure. The bargain purchase gain arose mainly due to the recognition of the IFRS 3 intangible assets.

From acquisition date, West Coast Paper Traders Proprietary Limited has contributed R409.7 million of revenue and R23.2 million profit before tax to the continuing operations of the Group.

2018

There were no acquisitions in the financial year.

27. DISCONTINUED OPERATION AND LOSS OF CONTROL

On 14 November 2019, the Board of Directors approved a decision to discontinue operations in Mpact Polymers Proprietary Limited (Polymers). The reason is that the current recycled PET selling price is below Polymers' cash cost of production and is expected to remain so for the foreseeable future. Polymers was classified as held for sale at this date.

On 10 December 2019, Polymers was placed into business rescue. Based on the powers and duties of the Business Rescue Practitioner, the Group lost control of the Polymers business and de-consolidated the assets, liabilities and the non-controlling interest at this date.

	2019 R'm	2018 R'm
Revenue from contracts with customers	77.6	69.1
Expenses	(155.9)	(148.8)
Impairment of right-of-use asset	(13.8)	–
Impairment of plant and equipment	(218.1)	–
Operating loss	(310.2)	(79.7)
Net finance costs	(12.4)	(10.7)
Gain on the de-consolidation of the discontinued operation	160.1	–
Loss for the year from discontinued operation	(162.5)	(90.4)

27. DISCONTINUED OPERATION AND LOSS OF CONTROL continued

The major classes of assets and liabilities of Polymers that were de-recognised are as follows:

	2019 R'm	2018 R'm
Assets		
Inventories	(0.8)	
Trade and other receivables	(2.7)	
Cash and cash equivalents	(12.5)	
Assets de-recognised	(16.0)	
Liabilities		
External borrowings	306.3	
Lease liabilities	15.4	
Trade and other payables	18.8	
Liabilities de-recognised	340.5	
Non-controlling interest de-recognised	(164.4)	
Gain on the de-consolidation of the discontinued operation	160.1	
The net cash flows incurred by Polymers are as follows:		
Operating activities	(10.6)	(66.1)
Investing activities	(34.5)	(14.9)
Financing activities	44.1	19.9
Net cash outflow	(1.0)	(61.1)

28. DISPOSAL OF EQUITY ACCOUNTED INVESTEES AND SUBSIDIARIES

2019

(a) Right Corrugated Proprietary Limited

During the current financial year, the Group disposed of its entire interest in the associate for proceeds of R15.0 million, which had a carrying value of R14.3 million. A profit of R0.7 million has been recognised in the statement of profit or loss. At 31 December 2019, the proceeds had not yet been received and will be settled through a loan account with the purchaser.

(b) Box Boyz Proprietary Limited

During the current financial year, the Group disposed of its entire interest in the associate for proceeds of R8.0 million, which had a carrying value of R11.7 million. A loss of R3.7 million has been recognised in the statement of profit or loss. At 31 December 2019, the proceeds had not yet been received and will be settled through a loan account with the purchaser.

2018

(a) Pretoria Box Manufacturers

During the prior financial year, the Group disposed of its entire interest in the joint arrangement for proceeds of R15.0 million and a carrying value of R8.8 million. The net asset value comprised of property, plant and equipment of R3.3 million, inventory of R3.4 million, trade and other receivables of R16.0 million, cash and cash equivalents of R5.9 million and trade and other payables of R19.8 million. A profit of R6.2 million has been recognised in the statement of profit or loss. At 31 December 2018, the proceeds had not yet been received and will be settled through a loan account with the purchaser.

(b) Rusmar Packaging Proprietary Limited

During the prior financial year, the Group disposed of its entire interest in the joint arrangement for proceeds of R4.0 million and a carrying value of R3.0 million. A profit of R1.0 million has been recognised in the statement of profit or loss.

(c) Shoebill Proprietary Limited

During the prior financial year, the Group disposed of its entire interest in the subsidiary for proceeds of R29.4 million and a net asset value of R29.4 million. The net asset value comprised solely of property, plant and equipment. The sale is in line with the Group's business strategy.

(d) Pyramid Holdings Proprietary Limited

During the prior financial year, the Group disposed of its entire interest in the subsidiary for proceeds of Rnil million and a net asset value of R0.5 million. The net asset value comprised of other receivables of R0.1 million, cash and cash equivalents of R0.5 million other payables of R0.1 million. A loss of R0.5 million has been recognised in the statement of profit or loss. The sale is in line with the Group's business strategy.

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29. CONSOLIDATED CASH FLOW ANALYSIS

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

	2019 R'm	2018 R'm
The notes to the consolidated statement of cash flows include cash flows for discontinued operations. This differs to the notes to the consolidated statement of profit or loss which excludes amounts for the discontinued operations.		
(Loss)/profit before taxation from total operations	(968.4)	429.2
(Loss)/profit before taxation from continuing operations	(805.9)	519.6
Loss from discontinued operations	(162.5)	(90.4)
Adjusted for:		
Depreciation, amortisation and impairments	2,199.0	595.7
Profit on the de-consolidation of the discontinued operation	(160.1)	–
Gain on acquisition of subsidiary (refer to note 26)	(1.3)	–
Share-based payments	28.6	28.2
Net finance costs	257.8	219.9
Share of equity accounted investee profit	(17.1)	(23.3)
Impairment of inventory of the discontinued operation	10.6	–
Decrease in provisions	1.6	(1.4)
Increase in inventories	(122.2)	(323.5)
Decrease/(increase) in receivables	195.5	(124.0)
(Decrease)/increase in payables	(430.5)	212.7
Profit on disposal of tangible assets	(0.2)	(0.1)
Fair value change on transactions not qualifying as hedges	1.6	(15.2)
Amortisation of government grant	(5.5)	(5.5)
Loss/(profit) on sale of joint arrangements and subsidiaries	3.0	(6.7)
Profit on disposal of right-of-use assets and lease liabilities	(6.0)	–
Impairment of a loan to associate	–	1.2
Other non-cash items	–	(4.4)
Cash generated from operations	**986.4**	**982.8**

(b) Changes in liabilities arising from financing activities

	1 January R'm	Adoption of IFRS 16 R'm	Cash inflows	Cash outflows R'm	Changes in fair value R'm	Foreign exchange movement R'm	Transfer to disposal group R'm	Other[1] R'm	31 December R'm
2019									
Non-current interest and non-interest-bearing borrowings	1,400.8	–	2,585.0	(1,303.3)	–	–	(306.3)	6.1	2,382.3
Non-current derivative financial instruments	3.9	–	–	–	(3.9)	–	–	–	–
Non-current lease liabilities	–	390.0	–	–	–	–	(10.5)	(130.4)	249.1
Current portion of borrowings	1,429.7	–	–	(1,402.8)	–	–	–	8.6	35.5
Current portion derivative financial instruments	0.7	–	–	–	3.4	–	–	–	4.1
Current portion of lease liabilities	–	77.2	–	(77.9)	–	–	(4.9)	77.6	72.0
Total	**2,835.1**	**467.2**	**2,585.0**	**(2,784.0)**	**(0.5)**	**–**	**(321.7)**	**(38.1)**	**2,743.0**

29. CONSOLIDATED CASH FLOW ANALYSIS continued

(b) Changes in liabilities arising from financing activities (continued)

	1 January R'm	Adoption of IFRS 16 R'm	Cash inflows	Cash outflows R'm	Changes in fair value R'm	Foreign exchange movement R'm	Transfer to disposal group R'm	Other[1] R'm	31 December R'm
2018									
Non-current interest and non-interest-bearing borrowings	1,387.6	–	11.5	–	–	1.7	–	–	1,400.8
Non-current derivative financial instruments	9.5	–	–	–	(5.6)	–	–	–	3.9
Short-term portion of borrowings	1,206.7	–	219.4	–	–	0.2	–	3.4	1,429.7
Current portion derivative financial instruments	17.1	–	–	–	(16.4)	–	–	–	0.7
Total	2,620.9	–	230.9	–	(22.0)	1.9	–	3.4	2,835.1

[1] *Relates to the reclassification of liabilities from non-current liabilities to current liabilities, acquisition of subsidiaries and non-cash loan movements as well as movements in the overdraft facility. Lease liabilities also includes the de-recognition of the liabilities and lease re-measurements.*

	2019 R'm	2018 R'm
(c) Cash and cash equivalents		
Cash and cash equivalents per statement of financial position	**447.1**	705.9
Bank overdrafts included in short-term borrowings (refer to note 22)	**(16.5)**	(11.2)
Net cash and cash equivalents per statement of cash flows	**430.6**	694.7

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

30. CAPITAL COMMITMENTS

Capital expenditure contracted for at the reporting date in respect of plant and equipment, but not yet incurred is as follows:

	2019 R'm	2018 R'm
Contracted for	**148.9**	142.3
Approved, not yet contracted for	**604.3**	596.5
Total capital commitments	**753.2**	738.8

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

31. OPERATING LEASE COMMITMENTS

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

	2019 R'm	2018 R'm
Expiry date:		
Within one year	**24.9**	135.8
One to two years	**–**	114.9
Two to five years	**–**	233.4
After five years	**–**	48.2
Total operating lease commitments	**24.9**	532.3

The current year commitments relate to short-term leases.

32. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities for the Group comprise aggregate amounts at 31 December 2019 of R1.7 million (2018: R10.6 million) in respect of loans and guarantees given to banks and other third parties.

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

(c) There were no significant contingent assets for the Group at 31 December 2019 and 31 December 2018.

(d) As advised to the shareholders on 26 May 2016, the Company is subject to a Competition Commission investigation. On 15 April 2019 the Competition Commission referred a complaint against the Company to the Competition Tribunal which will be adjudicated in due course. The Commission is not seeking the imposition of a penalty against Mpact.

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33. CAPITAL MANAGEMENT

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

	2019 R'm	2018 R'm
Total borrowings (excluding overdrafts)	2,722.4	2,819.3
Less: cash and cash equivalents, net of overdrafts	(430.6)	(694.7)
Net debt	2,291.8	2,124.6
Less: Loans and receivables	(113.7)	(73.5)
Less: Pension fund asset	–	(21.3)
Less: Financial assets	(0.6)	–
Adjusted net debt	2,177.5	2,029.8
Equity	3,746.8	4,528.9
Total capital employed	5,924.3	6,558.7

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

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

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

34. FINANCIAL RISK MANAGEMENT

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

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

Market risk

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

Foreign exchange risk

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

34. FINANCIAL RISK MANAGEMENT continued

Foreign exchange contracts

The Group's foreign exchange policy requires its subsidiaries to actively manage foreign currency exposures against their functional currencies by entering into foreign exchange contracts. For segmental reporting purposes, each subsidiary enters into, and accounts for, foreign exchange contracts with Group treasury or with counterparties that are external to the Group, whichever is more commercially appropriate. Only material statement of financial position exposure and highly probable forecast capital expenditure transactions are being hedged. Currencies bought or sold forward to mitigate possible unfavourable movements on recognised monetary items are marked to market at each reporting date. Foreign currency monetary items are translated at each reporting date to incorporate the underlying foreign exchange movements, and any such movements are naturally off-set against fair value movements on related foreign exchange contracts.

Foreign currency sensitivity analysis

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

Impacts of reasonably possible changes to foreign exchange rates

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

Interest rate risk

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

Management of cash and cash equivalents

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

Management of variable rate debt

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

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

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

Net variable rate debt sensitivity analysis

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

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34. FINANCIAL RISK MANAGEMENT continued

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

	2019 R'm	2018 R'm
Total debt (including overdrafts)	**2,417.8**	2,830.5
Less:		
Fixed rate debt	**–**	(201.1)
Non-interest-bearing debt	**(15.4)**	(227.9)
Cash and cash equivalents	**(447.1)**	(705.9)
Net variable rate debt	**1,955.3**	1,695.6
Interest rate swaps:		
Floating-to-fixed notionals	**(800.0)**	(500.0)
Net variable rate exposure	**1,155.3**	1,195.6
+/– basis points change		
Potential impact on earnings (+50 basis points)	**(4.2)**	(4.2)
Potential impact on earnings (-50 basis points)	**4.2**	4.2

Credit risk

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

	2019 R'm	2018 R'm
Exposure to credit risk		
Cash and cash equivalents	**447.1**	705.9
Derivative financial instruments	**2.7**	0.9
Trade and other receivables (excluding prepayments and accrued income)	**2,196.7**	2,336.1
Financial assets	**97.0**	94.8
Total credit risk exposure	**2,743.5**	3,137.7

Credit risk associated with trade receivables

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

Each business unit manages its own exposure to credit risk according to the economic circumstances and characteristics of the relevant markets that they serve. The Group believes that management of credit risk on a devolved basis enables it to assess and manage credit risk more effectively. However, broad principles of credit risk management practice are observed across all business units, such as the use of credit rating agencies, credit guarantee insurance, where appropriate, and the maintenance of a credit control function. Of the total trade receivables balance of R2.2 billion (2018: R2.2 billion), credit insurance covering of R3.1 million (2018: R28.4 million) of the total balance has been taken out the by Group's trading entities to insure against the related credit default risk. The insured cover is presented gross of contractually agreed excess amounts.

Liquidity risk

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

34. FINANCIAL RISK MANAGEMENT continued

Liquidity risk (continued)

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

	2019 R'm	2018 R'm
Expiry date		
In one year or less	**495.0**	402.4
Total credit available	**495.0**	402.4

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

Contractual maturity analysis

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

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

	Undiscounted cash flow				
	<1 year R'm	1–2 years R'm	2–5 years R'm	5+ years R'm	Total R'm
2019					
Trade and other payables (refer to note 23)	**1,766.7**	**–**	**–**	**–**	**1,766.7**
Lease liabilities	**96.2**	**84.2**	**168.1**	**51.0**	**399.5**
Borrowings	**250.4**	**220.0**	**2,599.3**	**15.4**	**3,085.1**
Total	**2,113.3**	**304.2**	**2,767.4**	**66.4**	**5,251.3**
2018					
Trade and other payables (refer to note 23)	2,213.6	–	–	–	2,213.6
Finance leases	2.5	1.2	2.2	–	5.9
Borrowings[1]	1,525.1	970.2	521.4	–	3,016.7
Total	3,741.2	971.4	523.6	–	5,236.2

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

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

34. FINANCIAL RISK MANAGEMENT continued

Maturity profile of outstanding derivative positions

	Undiscounted cash flow <1 year R'm	1–2 years R'm	2–5 years R'm	Total R'm
2019				
Foreign exchange contracts	1.5	–	–	1.5
Interest rate swaps	(0.5)	–	–	(0.5)
Total	1.0	–	–	1.0
2018				
Foreign exchange contracts	(0.7)	–	–	(0.7)
Interest rate swaps	(3.4)	–	–	(3.4)
Total	(4.1)	–	–	(4.1)

Financial instruments by category

Financial assets	Fair value hierarchy	At amortised cost R'm	At fair value through profit or loss R'm	At fair value through OCI R'm	Total R'm
2019					
Trade and other receivables[1]		2,196.7	–	–	2,196.7
Loans receivable	Level 2	113.7	–	–	113.7
Equity investment	Level 3	–	–	0.6	0.6
Derivative financial instruments	Level 2	–	2.7	–	2.7
Cash and cash equivalents[1]		447.1	–	–	447.1
Total		2,757.5	2.7	0.6	2,760.8
2018					
Trade and other receivables[1]		2,336.1	–	–	2,336.1
Loans receivable	Level 2	94.8	–	–	94.8
Equity investment	Level 3	–	–	–	–
Derivative financial instruments	Level 2	–	0.9	–	0.9
Cash and cash equivalents[1]		705.9	–	–	705.9
Total		3,136.8	0.9	–	3,137.7

Financial liabilities	Fair value hierarchy R'm	At fair value through profit or loss R'm	At amortised cost R'm	Total R'm
2019				
Borrowings	Level 2	–	(2,417.8)	(2,417.8)
Trade and other payables[1]		–	(1,766.7)	(1,766.7)
Derivative financial instrument	Level 2	(4.1)	–	(4.1)
Total		(4.1)	(4,184.5)	(4,188.6)
2018				
Borrowings	Level 2	–	(2,830.5)	(2,830.5)
Trade and other payables[1]		–	(2,213.6)	(2,213.6)
Derivative financial instrument	Level 2	(4.6)	–	(4.6)
Total		(4.6)	(5,044.1)	(5,048.7)

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

Fair value estimation

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

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

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

35. RELATED PARTY TRANSACTIONS

The Group has a related party relationship with its subsidiaries, its associates, joint ventures and directors.

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

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

	2019 R'm	2018 R'm
Sales to associates	205.2	613.4
Loans to associates	57.0	33.5
Receivables due from associates (see note 14)	24.6	161.2
Payables due to associates (see note 23)	8.2	21.2

Details of the executive directors and prescribed officers' remuneration is included in note 37.

36. INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS

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

	Country of Incorporation	Share capital 2019	Share capital 2018	Share holding 2019 %	Share holding 2018 %
Subsidiary Direct Holding					
Mpact Operations Proprietary Limited[1]	RSA	R20,000	R20,000	90	90
Sunko Mauritius	Mauritius	R100	R100	100	100
Embalagens Mpact Limitada	Mozambique	M1,213,000	M1,213,000	90	90
Mpact Corrugated Proprietary Limited	Namibia	N$100	N$100	74	74
Subsidiaries-Indirect holding					
Mpact Versapak Proprietary Limited	RSA	R100	R100	100	100
Mpact Recycling Proprietary Limited	RSA	R231,741,655	R231,741,655	100	100
Mpact Plastics Containers Proprietary Limited	RSA	R100	R100	66	66
Mpact Polymers Proprietary Limited[2]	RSA	–	R100	–	69
Magic Attitude Proprietary Limited	RSA	R100	R100	100	100
Detpak South Africa Proprietary Limited	RSA	R7,143	R7,143	51	51
Rebel Packaging Proprietary Limited	RSA	R4,000	R4,000	100	100
Recycling Consolidated Holdings Proprietary Limited	RSA	R167,177,719	R1,000	100	100
Lenco Corporate Finance Proprietary Limited[3]	RSA	R35,651	R35,651	100	100
Lion Packaging Trading 57 Proprietary Limited[4]	RSA	R100	R100	100	100
West Coast Paper Traders Proprietary Limited[5]	RSA	R400	R400	60	49
Versapak Holdings (Pvt) Limited[4]	Zimbabwe	US$1	US$1	100	100
Associates – Indirect holding					
Recyquip Engineering & Manufacturing Proprietary Limited	RSA	–	R100	–	30
Box Boyz Proprietary Limited	RSA	–	R100	–	44
Lomina Vyf Proprietary Limited	RSA	R100	R100	49	49
Right Corrugated Containers Proprietary Limited	RSA	–	R1,000	–	49
Seyfert Corrugated Western Cape Proprietary Limited	RSA	R15,500,201	R15,500,201	49	49
Dalisu Holdings Proprietary Limited	RSA	R100	R100	49	49

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

[2] *In the current financial year Mpact Polymers was deconsolidated as there was a loss of control of the subsidiary. The Group still owns 69% of the issued shares of Mpact Polymers Proprietary Limited.*

[3] *In the process of deregistration.*

[4] *Ceased trading and in the process of being wound up.*

[5] *In the prior financial year, West Coast Paper was accounted for as an associate.*

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36. INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS continued

The Mpact Group does not have any significant restrictions on its ability to access/use assets, or settle liabilities in any of its subsidiaries. These companies operate principally in the countries in which they are incorporated. The above associates and joint ventures are not considered material to the Group. Refer to note 11.

The following table summarises the information relating to each of the Group's subsidiaries that has material non-controlling interests, before any intra-group eliminations:

	Mpact Plastic Containers 34% R'm	Mpact Polymers R'm	Other individually immaterial subsidiaries R'm	Total R'm
2019				
Non-current assets	**353.1**	**–**	**180.5**	
Current assets	**182.4**	**–**	**398.0**	
Non-current liabilities	**(37.2)**	**–**	**(129.0)**	
Current liabilities	**(53.1)**	**–**	**(192.5)**	
Net assets	**445.2**	**–**	**257.0**	
Carrying amount of non-controlling interests	**151.4**	**–**	**104.7**	**256.1**
2018	**34%**	**31%**		
Non-current assets	255.6	217.9	78.2	
Current assets	217.0	59.4	274.0	
Non-current liabilities	(31.9)	(507.0)	(69.7)	
Current liabilities	(45.0)	(33.8)	(146.2)	
Net assets	395.7	(263.5)	136.3	
Carrying amount of non-controlling interests	134.5	(81.7)	58.0	110.8

The aggregate total comprehensive profit for non-wholly owned subsidiaries is R99.4 million (2018: R0.7 million), of which a R36.9 million profit (2018: R10.8 million) is attributable to non-controlling shareholders.

The aggregated net cash inflow from operating activities is R167.8 million (2018: R55.3 million), aggregated net cash outflow from investing activities is R201.1 million (2018: R46.0 million) and aggregated net cash outflow from financing activities is R23.2 million (2018: R1.6 million).

37. DIRECTORS' REMUNERATION

Executive directors' and prescribed officers' remuneration

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

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

	Guaranteed package (TGCOE)[1]	Short-term incentive bonus[2]	Other[3]	Sub-total Cash-based remuneration	Grant value of bonus share awarded[4]	Intrinsic value of performance shares vesting[5]	Total remuneration
2019							
Executive directors							
BW Strong	**5,537,788**	**3,340,394**	**90,033**	**8,968,215**	**1,878,971**	**878,286**	**11,725,472**
BDV Clark	**4,209,413**	**2,589,631**	**67,620**	**6,866,664**	**1,456,667**	**500,707**	**8,824,038**
Total	**9,747,201**	**5,930,025**	**157,653**	**15,834,879**	**3,335,638**	**1,378,993**	**20,549,510**
Prescribed officers							
RP Von Veh[6]	**1,525,243**	**–**	**1,018,918**	**2,544,161**	**–**	**544,278**	**3,088,439**
HM Thompson	**4,547,525**	**2,772,171**	**71,988**	**7,391,684**	**1,559,346**	**540,925**	**9,491,955**
JW Hunt	**3,136,291**	**1,891,811**	**56,523**	**5,084,625**	**1,064,144**	**347,032**	**6,495,801**
N Naidoo	**3,568,870**	**2,084,220**	**57,019**	**5,710,109**	**1,172,374**	**424,514**	**7,306,997**
J Stumpf[7]	**4,177,834**	**–**	**16,114**	**4,193,948**	**–**	**–**	**4,193,948**
Total	**16,955,763**	**6,748,202**	**1,220,562**	**24,924,527**	**3,795,864**	**1,856,749**	**30,577,140**
2018							
Executive directors							
BW Strong	5,249,088	3,493,793	119,381	8,862,262	1,965,259	421,541	11,249,062
BDV Clark	3,989,965	2,662,105	88,637	6,740,707	1,497,434	192,254	8,430,395
Total	9,239,053	6,155,898	208,018	15,602,969	3,462,693	613,795	19,679,457
Prescribed officers							
RP Von Veh	4,337,185	2,827,845	131,035	7,296,065	1,590,663	208,985	9,095,713
HM Thompson	4,310,449	2,893,173	104,073	7,307,695	1,627,410	173,082	9,108,187
JW Hunt	2,765,384	1,831,790	59,007	4,656,181	1,030,382	110,833	5,797,396
N Naidoo	3,382,815	2,221,833	74,055	5,678,703	1,249,781	135,576	7,064,060
J Stumpf	3,960,032	2,753,014	60,395	6,773,441	1,548,571	159,012	8,481,024
Total	18,755,865	12,527,655	428,565	31,712,085	7,046,807	787,488	39,546,380

1 *Guaranteed package (TGCOE) paid for the 12 months of the financial year.*

2 *Short-term incentive (STI) earned on performance for the 2019 financial year, to be paid in March 2020.(2018: STI earned on 2018 performance, paid in March 2019).*

3 *Other cash incentive includes dividend equivalent bonus based on actual Bonus Share Plan vesting and other benefits.*

4 *Value of the bonus shares to be granted on 5 April 2020 based on 2019 performance achieved and vesting in three years. (2018: Value of the bonus share granted on 3 April 2019 based on 2018 performance achieved and vesting in three years).*

5 *Intrinsic value is calculated by taking the number of Performance share plan shares expected to vest in March 2020 based on performance over the three-year period ended 31 December 2019 multiplied by the closing Mpact share price at 31 December 2019 (2018: Performance share plan shares expected to vest in March 2019 based on performance over the three-year period ended 31 December 2018 multiplied by the closing Mpact share price at 31 December 2018).*

6 *Resigned on 30 April 2019.*

7 *Resigned on 31 January 2020.*

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for the year ended 31 December 2019

37. DIRECTORS' REMUNERATION continued

Share awards granted to executive directors and prescribed officers

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

Executive director

BW Strong

Type of award[1,2]	Date of award	Release date	Number of awards at grant date	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2019
BSP	Apr 16	Mar 19	35,949	–	(35,949)	–	–
PSP	Apr 16	Mar 19	88,387	–	(20,064)	(68,323)	–
BSP	Apr 17	Mar 20	31,172	–	–	–	31,172
PSP	Apr 17	Mar 20	225,585	–	–	(166,640)	58,945
BSP	Apr 18	Mar 21	23,629	–	–	–	23,629
PSP	Apr 18	Mar 21	242,250	–	–	(145,350)	96,900
BSP	Apr 19	Mar 22	–	83,806	–	–	83,806
PSP	Apr 19	Mar 22	–	314,862	–	(188,917)	125,945
Total number of shares			**646,972**	**398,668**	**(56,013)**	**(569,230)**	**420,397**

Type of award[1,2]	Date of award	Award price basis (Rand)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2019[7]
BSP	Apr 16	48.25	1,734,539	–	(903,668)	(830,871)	–	–
PSP[8]	Apr 16	48.25	4,264,673	–	(2,365,478)	(463,726)	(1,435,469)	–
BSP	Apr 17	29.69	925,497	–	(461,034)	–	–	464,463
PSP[8]	Apr 17	29.69	6,697,619	–	(3,336,402)	–	(2,482,931)	878,286
BSP	Apr 18	28.89	682,642	–	(330,570)	–	–	352,072
PSP[8]	Apr 18	28.89	6,998,603	–	(3,389,078)	–	(2,165,715)	1,443,810
BSP	Apr 19	23.45	–	1,965,251	(716,541)	–	–	1,248,710
PSP[8]	Apr 19	23.45	–	7,383,514	(2,692,070)	–	(2,814,866)	1,876,578
Total market value of shares			**21,303,573**	**9,348,765**	**(14,194,841)**	**(1,294,597)**	**(8,898,981)**	**6,263,919**

1 *Bonus share plan (BSP).*

2 *Performance share plan (PSP).*

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

4 *During the year share grants and awards were made at R23.45 per share.*

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

6 *During the year share awards were vested at a share price of R23.11 per share.*

7 *Market value at 31 December 2019 is the closing share price which was R14.90 per share.*

8 *Assumed a 40% achievement of PSP targets.*

37. DIRECTORS' REMUNERATION continued

Share awards granted to executive directors and prescribed officers (continued)

BDV Clark

Type of award[1,2]	Date of award	Release date	Number of awards at grant date	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2019
BSP	Apr 16	Mar 19	27,600	–	(27,600)	–	–
PSP	Apr 16	Mar 19	40,311	–	(9,151)	(31,160)	–
BSP	Apr 17	Mar 20	24,186	–	–	–	24,186
PSP	Apr 17	Mar 20	128,605	–	–	(95,001)	33,604
BSP	Apr 18	Mar 21	18,318	–	–	–	18,318
PSP	Apr 18	Mar 21	138,109	–	–	(82,865)	55,244
BSP	Apr 19	Mar 22	–	63,856	–	–	63,856
PSP	Apr 19	Mar 22	–	179,505	–	(107,703)	71,802
Total number of shares			**377,129**	**243,361**	**(36,751)**	**(316,729)**	**267,010**

Type of award[1,2]	Date of award	Award price basis (Rand)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2019[7]
BSP	Apr 16	48.25	1,331,700	–	(693,795)	(637,905)	–	–
PSP[8]	Apr 16	48.25	1,945,006	–	(1,078,833)	(211,493)	(654,680)	–
BSP	Apr 17	29.69	718,082	–	(357,711)	–	–	360,371
PSP[8]	Apr 17	29.69	3,818,282	–	(1,902,068)	–	(1,415,508)	500,706
BSP	Apr 18	28.89	529,207	–	(256,269)	–	–	272,938
PSP[8]	Apr 18	28.89	3,989,969	–	(1,932,145)	–	(1,234,694)	823,130
BSP	Apr 19	23.45	–	1,497,423	(545,969)	–	–	951,454
PSP[8]	Apr 19	23.45	–	4,209,392	(1,534,768)	–	(1,604,775)	1,069,849
Total market value of shares			**12,332,246**	**5,706,815**	**(8,301,558)**	**(849,398)**	**(4,909,657)**	**3,978,448**

1 *Bonus share plan (BSP).*
2 *Performance share plan (PSP).*
3 *Market value at grant date is the number of shares granted and/or awarded at the grant or award price.*
4 *During the year share grants and awards were made at R23.45 per share.*
5 *Cumulative effects of share price gains and losses represents the market value change between the share value at grant dates, the value of each at vesting, the value of shares lapsing or expected to lapse and the closing market value at year-end.*
6 *During the year share awards were vested at a share price of R23.11 per share.*
7 *Market value at 31 December 2019 is the closing share price which was R14.90 per share.*
8 *Assumed a 40% achievement of PSP targets.*

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

37. DIRECTORS' REMUNERATION continued

Share awards granted to executive directors and prescribed officers (continued)

Prescribed officer

RP von Veh

Type of award[1,2]	Date of award	Release date	Number of awards at grant date	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2019
BSP	Apr 16	Mar 19	30,499	–	(30,499)	–	–
PSP	Apr 16	Mar 19	43,819	–	(9,947)	(33,872)	–
BSP	Apr 17	Mar 20	26,113	–	–	–	26,113
PSP	Apr 17	Mar 20	139,796	–	–	(103,267)	36,529
BSP	Apr 18	Mar 21	18,102	–	–	–	18,102
BSP	Apr 19	Mar 22	–	67,915	–	–	67,915
Total number of shares			**258,329**	**67,915**	**(40,446)**	**(137,139)**	**148,659**

Type of award[1,2]	Date of award	Award price basis (Rand)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2019[7]
BSP	Apr 16	48.25	1,471,577	–	(766,669)	(704,908)	–	–
PSP[8]	Apr 16	48.25	2,114,267	–	(1,172,716)	(229,898)	(711,653)	–
BSP	Apr 17	29.69	775,295	–	(386,211)	–	–	389,084
PSP[8]	Apr 17	29.69	4,150,543	–	(2,067,583)	–	(1,538,683)	544,277
BSP	Apr 18	28.89	522,967	–	(253,247)	–	–	269,720
BSP	Apr 19	23.45	–	1,592,607	(580,673)	–	–	1,011,934
Total market value of shares			**9,034,649**	**1,592,607**	**(5,227,099)**	**(934,806)**	**(2,250,336)**	**2,215,015**

1 *Bonus share plan (BSP).*
2 *Performance share plan (PSP).*
3 *Market value at grant date is the number of shares granted and/or awarded at the grant or award price.*
4 *During the year share grants and awards were made at R23.45 per share.*
5 *Cumulative effects of share price gains and losses represents the market value change between the share value at grant dates, the value of each at vesting, the value of shares lapsing or expected to lapse and the closing market value at year-end.*
6 *During the year share awards were vested at a share price of R23.11 per share.*
7 *Market value at 31 December 2019 is the closing share price which was R14.90 per share.*
8 *Assumed a 40% achievement of PSP targets.*

37. DIRECTORS' REMUNERATION continued

Share awards granted to executive directors and prescribed officers (continued)

Prescribed officer

HM Thompson

Type of award[1,2]	Date of award	Release date	Number of awards at grant date	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2019
BSP	Apr 16	Mar 19	29,383	–	(29,383)	–	–
PSP	Apr 16	Mar 19	36,291	–	(8,238)	(28,053)	–
BSP	Apr 17	Mar 20	25,775	–	–	–	25,775
PSP	Apr 17	Mar 20	138,935	–	–	(102,631)	36,304
BSP	Apr 18	Mar 21	19,275	–	–	–	19,275
PSP	Apr 18	Mar 21	149,202	–	–	(89,521)	59,681
BSP	Apr 19	Mar 22	–	69,399	–	–	69,399
PSP	Apr 19	Mar 22	–	193,924	–	(116,354)	77,570
Total number of shares			**398,861**	**263,323**	**(37,621)**	**(336,559)**	**288,004**

Type of award[1,2]	Date of award	Award price basis (Rand)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2019[7]
BSP	Apr 16	48.25	1,417,730	–	(738,615)	(679,115)	–	–
PSP[8]	Apr 16	48.25	1,751,041	–	(912,264)	(190,402)	(648,375)	–
BSP	Apr 17	29.69	765,260	–	(381,212)	–	–	384,048
PSP[8]	Apr 17	29.69	4,124,980	–	(2,054,849)	–	(1,529,206)	540,925
BSP	Apr 18	28.89	556,855	–	(269,657)	–	–	287,198
PSP[8]	Apr 18	28.89	4,310,446	–	(2,087,336)	–	(1,333,866)	889,244
BSP	Apr 19	23.45	–	1,627,407	(593,361)	–	–	1,034,046
PSP[8]	Apr 19	23.45	–	4,547,518	(1,658,050)	–	(1,733,681)	1,155,787
Total market value of shares			**12,926,312**	**6,174,925**	**(8,695,344)**	**(869,517)**	**(5,245,128)**	**4,291,248**

1 *Bonus share plan (BSP).*
2 *Performance share plan (PSP).*
3 *Market value at grant date is the number of shares granted and/or awarded at the grant or award price.*
4 *During the year share grants and awards were made at R23.45 per share.*
5 *Cumulative effects of share price gains and losses represents the market value change between the share value at grant dates, the value of each at vesting, the value of shares lapsing or expected to lapse and the closing market value at year-end.*
6 *During the year share awards were vested at a share price of R23.11 per share.*
7 *Market value at 31 December 2019 is the closing share price which was R14.90 per share.*
8 *Assumed a 40% achievement of PSP targets.*

Notes to the consolidated annual financial statements continued

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37. DIRECTORS' REMUNERATION continued

Share awards granted to executive directors and prescribed officers (continued)

Prescribed officer

JW Hunt

Type of award[1,2]	Date of award	Release date	Number of awards at grant date	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2019
BSP	Apr 16	Mar 19	18,678	–	(18,678)	–	–
PSP	Apr 16	Mar 19	23,239	–	(5,275)	(17,964)	–
BSP	Apr 17	Mar 20	15,410	–	–	–	15,410
PSP	Apr 17	Mar 20	89,134	–	–	(65,843)	23,291
BSP	Apr 18	Mar 21	11,047	–	–	–	11,047
PSP	Apr 18	Mar 21	95,271	–	–	(57,163)	38,108
BSP	Apr 19	Mar 22	–	43,992	–	–	43,992
PSP	Apr 19	Mar 22	–	124,412	–	(74,647)	49,765
Total number of shares			**252,779**	**168,404**	**(23,953)**	**(215,617)**	**181,613**

Type of award[1,2]	Date of award	Award price basis (Rand)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2019[7]
BSP	Apr 16	48.25	901,214	–	(469,519)	(431,695)	–	–
PSP[8]	Apr 16	48.25	1,121,282	–	(621,940)	(121,924)	(377,418)	–
BSP	Apr 17	29.69	457,523	–	(227,914)	–	–	229,609
PSP[8]	Apr 17	29.69	2,646,388	–	(1,318,292)	–	(981,065)	347,031
BSP	Apr 18	28.89	319,148	–	(154,548)	–	–	164,600
PSP[8]	Apr 18	28.89	2,752,379	–	(1,332,841)	–	(851,723)	567,815
BSP	Apr 19	23.45	–	1,031,612	(376,132)	–	–	655,480
PSP[8]	Apr 19	23.45	–	2,917,461	(1,063,723)	–	(1,112,243)	741,495
Total market value of shares			**8,197,934**	**3,949,073**	**(5,564,909)**	**(553,619)**	**(3,322,449)**	**2,706,030**

[1] *Bonus share plan (BSP).*
[2] *Performance share plan (PSP).*
[3] *Market value at grant date is the number of shares granted and/or awarded at the grant or award price.*
[4] *During the year share grants and awards were made at R23.45 per share.*
[5] *Cumulative effects of share price gains and losses represents the market value change between the share value at grant dates, the value of each at vesting, the value of shares lapsing or expected to lapse and the closing market value at year-end.*
[6] *During the year share awards were vested at a share price of R23.11 per share.*
[7] *Market value at 31 December 2019 is the closing share price which was R14.90 per share.*
[8] *Assumed a 40% achievement of PSP targets.*

37. DIRECTORS' REMUNERATION continued

Share awards granted to executive directors and prescribed officers (continued)

Prescribed officer

N Naidoo

Type of award[1,2]	Date of award	Release date	Number of awards at grant date	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2019
BSP	Apr 16	Mar 19	23,273	–	(23,273)	–	–
PSP	Apr 16	Mar 19	28,427	–	(6,453)	(21,974)	–
BSP	Apr 17	Mar 20	19,867	–	–	–	19,867
PSP	Apr 17	Mar 20	109,035	–	–	(80,544)	28,491
BSP	Apr 18	Mar 21	14,522	–	–	–	14,522
PSP	Apr 18	Mar 21	117,093	–	–	(70,256)	46,837
BSP	Apr 19	Mar 22	–	53,360	–	–	53,360
PSP	Apr 19	Mar 22	–	152,190	–	(91,314)	60,876
Total number of shares			**312,217**	**205,550**	**(29,726)**	**(264,088)**	**223,953**

Type of award[1,2]	Date of award	Award price basis (Rand)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2019[7]
BSP	Apr 16	48.25	1,122,922	–	(585,025)	(537,897)	–	–
PSP[8]	Apr 16	48.25	1,371,603	–	(760,785)	(149,143)	(461,675)	–
BSP	Apr 17	29.69	589,851	–	(293,833)	–	–	296,018
PSP[8]	Apr 17	29.69	3,237,249	–	(1,612,628)	–	(1,200,108)	424,513
BSP	Apr 18	28.89	419,541	–	(203,163)	–	–	216,378
PSP[8]	Apr 18	28.89	3,382,817	–	(1,638,131)	–	(1,046,811)	697,875
BSP	Apr 19	23.45	–	1,251,292	(456,228)	–	–	795,064
PSP[8]	Apr 19	23.45	–	3,568,856	(1,301,225)	–	(1,360,579)	907,052
Total market value of shares			**10,123,983**	**4,820,148**	**(6,851,018)**	**(687,040)**	**(4,069,173)**	**3,336,900**

1 *Bonus share plan (BSP).*
2 *Performance share plan (PSP).*
3 *Market value at grant date is the number of shares granted and/or awarded at the grant or award price.*
4 *During the year share grants and awards were made at R23.45 per share.*
5 *Cumulative effects of share price gains and losses represents the market value change between the share value at grant dates, the value of each at vesting, the value of shares lapsing or expected to lapse and the closing market value at year-end.*
6 *During the year share awards were vested at a share price of R23.11 per share.*
7 *Market value at 31 December 2019 is the closing share price which was R14.90 per share.*
8 *Assumed a 40% achievement of PSP targets.*

Notes to the consolidated annual financial statements continued

for the year ended 31 December 2019

37. DIRECTORS' REMUNERATION continued

Share awards granted to executive directors and prescribed officers (continued)

Prescribed officer

J Stumpf[9]

Type of award[1,2]	Date of award	Release date	Number of awards at grant date	Number of awards granted during the year	Number of awards vested during the year	Number of shares lapsed or expected to lapse at vesting date	Number of awards held as at 31 December 2019
BSP	Apr 16	Mar 19	6,577	–	(6,577)	–	–
PSP	Apr 16	Mar 19	33,341	–	(7,568)	(25,773)	–
BSP	Apr 17	Mar 20	24,113	–	–	(24,113)	–
PSP	Apr 17	Mar 20	127,640	–	–	(127,640)	–
BSP	Apr 18	Mar 21	19,125	–	–	(19,125)	–
PSP	Apr 18	Mar 21	137,073	–	–	(137,073)	–
BSP	Apr 19	Mar 22	–	66,113	–	(66,113)	–
PSP	Apr 19	Mar 22	–	178,159	–	(178,159)	–
Total number of shares			**347,869**	**244,272**	**(14,145)**	**(577,996)**	**–**

Type of award[1,2]	Date of award	Award price basis (Rand)	Market value at grant date[3]	Grant value of awards granted during the year[4]	Cumulative effects of share price movement gain/(loss)[5]	Value of awards vested during the year[6]	Value of shares lapsed or expected to lapse at vesting date	Market value at 31 December 2019[7]
BSP	Apr 16	48.25	317,340	–	(165,329)	(152,011)	–	–
PSP[8]	Apr 16	48.25	1,608,703	–	(838,109)	(174,925)	(595,669)	–
BSP	Apr 17	29.69	715,915	–	(158,603)	–	(557,312)	–
PSP[8]	Apr 17	29.69	3,789,632	–	(1,887,796)	–	(1,901,836)	–
BSP	Apr 18	28.89	552,521	–	(267,559)	–	(284,963)	–
PSP[8]	Apr 18	28.89	3,960,039	–	(1,917,651)	–	(2,042,388)	–
BSP	Apr 19	23.45	–	1,550,350	(565,266)	–	(985,084)	–
PSP[8]	Apr 19	23.45	–	4,177,829	(1,523,259)	–	(2,654,569)	–
Total market value of shares			**10,944,150**	**5,728,179**	**(7,323,572)**	**(326,936)**	**(9,021,821)**	**–**

1 *Bonus share plan (BSP).*
2 *Performance share plan (PSP).*
3 *Market value at grant date is the number of shares granted and/or awarded at the grant or award price.*
4 *During the year share grants and awards were made at R23.45 per share.*
5 *Cumulative effects of share price gains and losses represents the market value change between the share value at grant dates, the value of each at vesting, the value of shares lapsing or expected to lapse and the closing market value at year-end.*
6 *During the year share awards were vested at a share price of R23.11 per share.*
7 *Market value at 31 December 2019 is the closing share price which was R14.90 per share.*
8 *Assumed a 40% achievement of PSP targets.*
9 *Resigned on 31 January 2020.*

37. DIRECTORS' REMUNERATION continued

Non-executive directors' remuneration	2019 Fees paid as non-executive director[1]	2019 Fees paid as Trustee to the Mpact Foundation Trust[1]	2018 Fees paid as non-executive director[1]	2018 Fees paid as Trustee to the Mpact Foundation Trust[1]
AJ Phillips	1,027,452	–	1,002,482	–
AM Thompson	533,444	–	450,324	44,430
M Makanjee	501,660	48,227	474,588	–
NP Dongwana	563,801	142,166	473,064	134,571
NB Langa-Royds	689,537	71,084	652,302	67,286
S Luthuli	469,861	–	–	–
TDA Ross	721,881	–	621,984	–
Total	4,507,636	261,477	3,674,744	246,287

[1] *The above amounts exclude VAT.*

38. EVENTS OCCURRING AFTER THE REPORTING DATE

The Board declared an ordinary dividend of 42 cents per share on 3 March 2020 payable on 7 September 2020 to shareholders registered on 3 April 2020.

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