MPACT LIMITED - AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017 AND SCRIP DISTRIBUTION WITH CASH DIVIDEND ALTERNATIVE

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Audited results for the year ended 31 December 2017 and scrip distribution with cash dividend alternative

Mpact Limited
(Incorporated in the Republic of South Africa)
(Company registration number 2004/025229/06)
Income tax number: 9003862175
JSE Share Code: MPT   JSE ISIN: ZAE 000156501
("Mpact" or "the Group" or "the Company")

AUDITED PRELIMINARY SUMMARISED CONSOLIDATED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017 AND DECLARATION OF SCRIP DISTRIBUTION WITH A CASH DIVIDEND ALTERNATIVE

SALIENT FEATURES

- Underlying operating profit of R457 million (December 2016: R784 million)
- Underlying earnings per share of 166.3 cents (December 2016: 252.7 cents)
- Return on Capital Employed ("ROCE") of 7.7% (December 2016: 14.2%)
- Gearing at 34.8% (December 2016: 33.6%), working capital well managed
- Total gross dividend of 55 cents per share (December 2016: 95 cents per share)
- Good progress on implementing significant capital projects
- 22 fully-funded university bursaries awarded through the Mpact Foundation Trust

COMPANY PROFILE

Mpact is one of the largest paper and plastics packaging businesses in southern Africa, with leading market positions in recovered paper collection, corrugated packaging, recycled-based cartonboard and containerboard, polyethylene-terephthalate ("PET") preforms and trays, recycled PET ("rPET") and plastic jumbo bins. These market positions allow Mpact to meet the increasing requirements of its customers and achieve economies of scale and cost effectiveness at the various operations.

Mpact has 41 operating sites, of which 22 are manufacturing operations, in South Africa, Namibia, and Mozambique. Sales in South Africa account for approximately 89% of Mpact's total revenue for the current year while the balance was predominantly to customers in the rest of Africa.

As at 31 December 2017 Mpact employed 4,889 people. (December 2016: 4,998 people)

GROUP PERFORMANCE

While 2017 was the most challenging year for the Group from a trading perspective since listing, as reflected in the financial results, good progress was made in implementing significant capital investments which will contribute positively to future earnings. The investments include the Felixton mill rebuild project, the new corrugator in Port Elizabeth and the new jumbo bin injection moulding machine.

Group revenue of R10.1 billion and sales volumes were in line with the prior year, with increased exports offsetting a 4.3% decline in domestic sales volumes. Lower domestic volumes were as a consequence of subdued demand, the drought in fruit growing regions key to Mpact which affected fruit packaging volumes, and a supply shortage of virgin polyethylene teraphylate ("PET") resin during the peak production period.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") of R1,004 million declined by 21.1%, due to the above mentioned factors as well as higher recovered paper costs which could not be recouped through selling prices and non-recurring lost contribution of approximately R30 million associated with the planned downtime for the Felixton mill project. Controllable fixed costs were well managed, escalating by 3.8% when compared to the prior year.

Mpact Polymers' financial performance improved on the prior year although it fell short of expectations due to a shortage of baled bottles feedstock and operational inefficiencies.

Underlying operating profit of R456.6 million declined by 41.8% with depreciation higher by 12.2% when compared to the prior year.

Return on Capital Employed of 7.7% (December 2016: 14.2%) reflects the weaker trading environment and recent capital investments which have not yet contributed to profitability.

Paper business

Segment revenue of R7.7 billion increased by 4.3% compared to prior year due to higher average selling prices. Sales volumes were similar to the prior year with exports of containerboard offsetting a 4.1% decline in the domestic market due to subdued consumer demand, increased competition and the effects of the drought on fruit packaging volumes in the Eastern Cape and Western Cape.

Underlying operating profit of R443.0 million was down 33.3% as a result of the adverse sales mix, higher recovered paper costs which could not be recouped in selling prices of containerboard and cartonboard, as well as lost contribution of approximately R30 million related to the planned project downtime at the Felixton paper mill.

Recovered paper costs escalated sharply following China's imposition of strict quality measures on imported waste, which increased demand for relatively clean material such as recovered paper generated in South Africa. Since the third quarter of 2017 however, international dollar prices declined significantly as demand from China decreased, which led to a favourable change in the domestic market, although prices only started moving down in early 2018 after stocks had been replenished.

Since starting up in July, the new Felixton paper machine has met expectations in terms of quality, market acceptance and variable costs. The machine throughput has improved steadily and we remain optimistic that the rated capacity will be achieved by the end of 2018. The automated warehouse was commissioned in December.

Plastics business

Revenue of R2.5 billion decreased by 10.8% compared to the prior year with declines in both sales volumes and average prices.

Sales volumes in the Plastics converting business were down 6.9% due to a shortage of virgin PET resin during the peak production period, the closure of the Zimbabwe operation in 2016 and subdued demand. Revenue was also impacted by the drought which affected apple tray sales.

Mpact Polymers' full year saleable production of 7,233 tons was above the prior year by 12.7% but well below our plan. New grinders were commissioned in May, making it possible to run the entire plant, but throughput was constrained during the second half of the year by a shortage of used bottles and by other operational inefficiencies. Many of the inefficiencies related to the quality of the bottle feedstock which has deteriorated as collection rates have increased. On the recommendation of an independent technical expert, process modifications have been approved to effectively process the available feedstock. The estimated capital cost is R40 million with commissioning planned for the fourth quarter of 2018.

Underlying operating profit of R69.7 million declined 58.6% compared to the prior year period due to lower volumes and lower average prices.

Net finance costs

Net finance costs increased by 6.1% to R202.6 million (December 2016: R191.0 million) due to higher net debt during the year. Interest capitalised on Phase 2 of the Felixton mill upgrade amounted to R27.5 million (December 2016: R10.3 million). Excluding capitalised borrowing cost, net finance costs increased by 14.3%.

Tax

Group tax income for the year was R26.4 million which resulted in an effective tax rate of 10.1% (December 2016: tax expense of R182.7 million which resulted in an effective tax rate of 31.5%), mainly due to the benefit of S12I tax incentive on the Felixton mill project of R114 million. The benefit was partially offset by the non-recognition of deferred tax on certain tax losses in Mpact Polymers.

Earnings per share

Basic and headline earnings per share for the year were 162.1 cents and 164.5 cents respectively (December 2016: 234.6 cents and 242.0 cents, respectively). Underlying earnings per share were 166.3 cents, a decrease of 34.2% when compared to the prior year of 252.7 cents.

Net debt

Net debt of R2.2 billion (December 2016: R2.0 billion) increased by 12.1% after investing R856 million in property, plant and equipment and making tax and interest payments. The gearing ratio increased to 34.8% (December 2016: 33.6%).

Mpact has successfully re-financed R950 million of committed interest-bearing borrowings, which were to mature in December 2017, for an additional four years at Jibar +210bpts.

OUTLOOK

While business and consumer confidence have recently improved from the lows of 2017, growth remains subdued and the outlook uncertain. The strength of the rand and lower inflation provide hope for increased consumer spending but this is tempered by factors such as sugar tax, higher VAT and drought.

The drought in the Eastern Cape and Western Cape remains a concern and its effect on the Group's future performance is uncertain. In the affected regions, Mpact has eight manufacturing operations, 1.786 employees and an annual revenue of R3.3 billion. Conservation efforts over the past two years have resulted in municipal water consumption halving during the first two months of 2018 compared to the 2015 baseline. Contingency plans are in place to provide potable water to staff if necessary.

The Group is nearing the end of an extensive capital investment programme which is anticipated to contribute to improved future earnings. The most recent investment of R150 million in the new corrugator in Port Elizabeth was successfully commissioned during January 2018. In February the Piet Retief paper mill completed a R60 million upgrade of its paper forming section which will yield improved quality and entrench its products in the market. During April a new PET extruder and tray thermoforming line will be commissioned, doubling PET tray capacity which is expected to displace imported products once fully operational.

We expect to see a further improvement in Mpact Polymers during 2018 but at a lower rate than initially planned due to feedstock quality. As already mentioned, certain plant modifications will be implemented this year to effectively process available feedstock. Demand for SavukaPET(TM) remains good.

Recovered paper costs are anticipated to be lower than the prior year and the Felixton paper mill is expected to reach design throughput by year end. Domestic demand for mill's products is encouraging.

Scrip distribution and cash dividend alternative

1. Introduction

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

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

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

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

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

2. Terms of the Scrip Distribution

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

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

The applicable cash payment will be announced on the Stock Exchange News Service ("SENS") on

Wednesday, 28 March 2018.

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

3. Circular and salient dates

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

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

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

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

AJ Phillips	BW Strong
Chairman	Chief Executive Officer
7 March 2018	

DIRECTORS:
There has been no change to the Board of directors for the year ended 31 December 2017.

Independent Non-Executive:
AJ Phillips (Chairman), NP Dongwana, NB Langa-Royds, TDA Ross, AM Thompson, M Makanjee

Executive:
BW Strong (Chief Executive Officer), BDV Clark (Chief Financial Officer)

Company secretary:
MN Sepuru

Registered office:
4th Floor, No.3 Melrose Boulevard, Melrose
Arch, 2196 (Postnet Suite #179, Private Bag
X1, Melrose Arch, 2076)

Transfer secretaries:
Link Market Services South Africa Proprietary Limited
13th Floor, Rennie House, 19 Ameshoff Street,
Braamfontein, 2001 (PO Box 4844, Johannesburg,
2000, South Africa)

Sponsors:
Rand Merchant Bank (a division of FirstRand Bank Limited)
1 Merchant Place, corner Fredman Drive and Rivonia
Road, Sandton, 2196 (PO Box 786273, Sandton, 2146)

SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2017

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

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2017

	Notes	2017	2016
		R'm	R'm
ASSETS			
Goodwill and other intangible assets		1,110.2	1,126.1
Property, plant and equipment		3,822.0	3,489.0
Investments in equity accounted investees		102.0	102.1
Financial asset investments		50.0	41.5
Deferred tax assets		6.9	4.9
Non-current assets		5,091.1	4,763.6
Inventories		1,431.2	1,393.2
Trade and other receivables		2,266.2	2,103.1
Cash and cash equivalents		350.6	405.7
Derivative financial instruments		2.1	2.9
Current tax receivable		40.4	30.9
Disposal group asset		-	12.8
Current assets		4,090.5	3,948.6
Total assets		9,181.6	8,712.2
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	6	2,621.4	2,532.7
Retained earnings		1,470.7	1,346.3
Other reserves		41.3	28.3
Total attributable to equity holders of Mpact		4,133.4	3,907.3
Non-controlling interests in subsidiaries		109.5	113.3
Total equity		4,242.9	4,020.6
Interest and non-interest bearing borrowings		1,387.6	1,417.0
Retirement benefits obligation		48.9	51.6
Deferred tax liabilities		212.2	342.5
Deferred income		23.5	29.0
Derivative financial instruments		9.5	4.4
Non-current liabilities		1,681.7	1,844.5
Short-term portion of borrowings		1,206.7	990.0
Trade and other payables		2,021.7	1,772.1
Other current liabilities		-	51.8
Provisions		4.6	5.1
Deferred income		5.5	5.5
Derivative financial instruments		17.1	8.6
Current tax liabilities		1.4	3.3
Disposal group liability		-	10.7
Current liabilities		3,257.0	2,847.1

Total liabilities		4,938.7	4,691.6
Total equity and liabilities		9,181.6	8,712.2

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

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

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2017

	Stated capital	Share-based payment reserve	Cash flow hedge reserve	Post-retirement benefit reserve	Other reserves(1)	Treasury shares	Retained earnings	Total attributable to equity holders of Mpact Ltd	Non-controlling interest	Total equity
	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm	R'm
Balance at 31 December 2015	2,426.2	33.8	10.0	12.7	14.9	(63.6)	1,170.8	3,604.8	107.0	3,711.8
Total comprehensive income for the year	-	-	(13.2)	2.6	(6.2)	-	391.1	374.3	6.3	380.6
Dividends paid(2)	106.5	-	-	-	-	(0.6)	(182.4)	(76.5)	-	(76.5)
Purchase of treasury shares(3)	-	-	-	-	-	(25.0)	-	(25.0)	-	(25.0)
Share plan charges for the year	-	23.1	-	-	-	-	-	23.1	-	23.1
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(6.3)	(6.3)
Issue/exercise of shares under employee share scheme	-	(19.5)	-	-	-	59.3	(28.6)	11.2	-	11.2
Increase in shareholding by non-controlling interest(4)	-	-	-	-	-	-	-	-	6.3	6.3
Deferred settlement charge	-	-	-	-	-	-	(4.6)	(4.6)	-	(4.6)
Balance at 31 December 2016	2,532.7	37.4	(3.2)	15.3	8.7	(29.9)	1,346.3	3,907.3	113.3	4,020.6
Total comprehensive income for the year	-	-	(3.7)	3.5	1.6	-	275.2	276.6	12.5	289.1
Dividends paid(2)	88.7	-	-	-	-	(0.6)	(134.6)	(46.5)	-	(46.5)
Purchase of treasury shares(3)	-	-	-	-	-	(50.1)	-	(50.1)	-	(50.1)
Share plan charges for the year	-	27.5	-	-	-	-	-	27.5	-	27.5
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(6.5)	(6.5)
Issue/exercise of shares under employee share scheme	-	(17.2)	-	-	-	30.3	(9.4)	3.7	-	3.7
Increase in shareholding by non-controlling interest(4)	-	-	-	-	-	-	-	-	8.6	8.6
Put option held by non-controlling shareholder of subsidiary(5)	-	-	-	-	21.7	-	(7.1)	14.6	-	14.6
Purchase of non-controlling interest (see note 7)	-	-	-	-	-	-	0.3	0.3	(18.4)	(18.1)
Balance at 31 December 2017	2,621.4	47.7	(6.9)	18.8	32.0	(50.3)	1,470.7	4,133.4	109.5	4,242.9

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

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

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

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

(5)Derecognition of put option reserve as the option had expired.

NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

1. ACCOUNTING POLICIES

Basis of preparation

These preliminary summarised consolidated financial statements have been prepared in accordance with the framework concepts and measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, the JSE Limited's listing requirements and the Companies Act of South Africa and contains at a minimum the information required by IAS 34: Interim Financial Reporting.

These summarised consolidated financial statements for the year ended 31 December 2017 have been audited by Deloitte & Touche, who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the consolidated financial statements from which these summarised consolidated financial statements were derived. A copy of the auditor's report on the summarised consolidated financial statements and of the auditor's report on the consolidated financial statements are available for inspection at the company's registered office, together with the consolidated financial statements. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of that report together with the accompanying financial information from the registered office of the company. Any reference to future financial performance included in this announcement has not been reviewed or reported by the Company's auditors.

The preparation of these summarised consolidated financial statements was supervised by the Chief Financial Officer, BDV Clark CA(SA).

The directors take full responsibility for the preparation of the summarised consolidated financial statements and the financial information has been correctly extracted from the underlying consolidated financial statements.

Accounting policies

The accounting policies and methods of computation used are consistent with those applied in the preparation of the Group annual financial statements and prior year.

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.

2. OPERATING SEGMENTS

Operating segment revenue

	2017			2016		
	Segment revenue	Inter-segment revenue(1)	External revenue	Segment revenue	Inter-segment revenue(1)	External revenue
	R'm	R'm	R'm	R'm	R'm	R'm
Paper	7,744.9	(79.9)	7,665.0	7,425.0	(78.5)	7,346.5
Plastics	2,454.7	-	2,454.7	2,752.1	-	2,752.1
	10,199.6	(79.9)	10,119.7	10,177.1	(78.5)	10,098.6

(1)Inter-segment transactions are conducted on an arm's length basis.

	2017	2016
	R'm	R'm
Operating segment underlying operating profit/(loss)		
Paper	443.0	664.1
Plastics	69.7	168.4
Corporate	(56.1)	(48.1)
Segments total before special items	456.6	784.4
Special items(2)	(12.9)	(38.1)
Share of profit from equity accounted investees	20.0	16.2
Net finance costs	(202.6)	(191.0)
Fair value gain	-	7.2
Profit on sale of equity accounted investee	-	0.8
Profit before tax	261.1	579.5
Significant components of operating profit		
Depreciation, amortisation and impairment		
Paper	312.6	272.7
Plastics	215.2	209.8
Corporate	27.7	21.5
Segments total	555.5	504.0

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

	2017	2016
	R'm	R'm

Operating segment assets		
Segment assets(1)		
Paper	5,144.5	4,763.5
Plastics	1,954.7	2,009.2
Corporate	1,329.5	1,244.2
Inter-segment elimination	(8.4)	(20.9)
Segment total	8,420.3	7,996.0
Unallocated:		
Investments in equity accounted investees	102.0	102.1
Deferred tax assets	6.9	4.9
Other non-operating assets (2)	251.8	149.2
Non-current assets held for sale	-	12.8
Trading assets	8,781.0	8,265.0
Financial asset investments	50.0	41.5
Cash and cash equivalents	350.6	405.7
Total assets	9,181.6	8,712.2
Additions to non-current non-financial assets(3)		
Paper	569.3	531.2
Plastics	178.9	280.2
Corporate	108.2	25.1
Segments total	856.4	836.5

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

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

(3)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.

	2017	2016
3. OPERATING PROFITS	R'm	R'm
Operating profit for the year has been arrived at after charging:		
Impairment charge on goodwill and intangible assets	3.2	-
Impairment charge on property, plant and equipment	4.9	15.9
Impairment charge on foreign cash balances	4.8	-
Amortisation of intangibles	13.3	11.9
Depreciation of property, plant and equipment	534.1	476.2

4. TAX INCOME/(EXPENSE)

	2017 R'm	2016 R'm
Current tax	(104.6)	(117.3)
Deferred tax	131.0	(65.4)
	26.4	(182.7)

The current financial year deferred tax income mainly relates to the S12I additional investment allowances from the Felixton mill upgrade project.

5. EARNINGS PER SHARE

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

(1)The presentation of headline EPS is mandated under the JSE Listings Requirements. Headline earnings has been calculated in accordance with Circular 2/2015, "Headline Earnings", as issued by the South African Institute of Chartered Accountants.
(2)Underlying earnings is arrived at after adjusting profit attributable to equity holders of Mpact for special items, net of tax.

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

	Earnings R'm	Earnings R'm
Profit for the financial year attributable to equity holders of Mpact	275.2	391.1
Impairment of property, plant and equipment	4.9	15.9
Impairment of goodwill and other intangible assets	3.2	-
Profit on sale of equity accounted investees	-	(0.8)
Profit on disposal of tangible assets	(3.3)	(1.1)
Related tax	(0.8)	(1.6)
Headline earnings for the financial year	279.2	403.5

Profit for the financial year attributable to equity holders of Mpact	275.2	391.1
Impairment of property, plant and equipment	4.9	15.9
Impairment of goodwill and other intangible assets	3.2	-
Impairment on foreign cash balances	4.8	-
Restructure costs related to closure of Zimbabwe operations	-	22.2
Related tax	(5.8)	(7.9)
Underlying earnings for the financial year	282.3	421.3

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

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

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

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

The following table illustrates the movement within the number of shares issued:	Number of shares	Number of shares
Shares in issue at beginning of year	168,485,360	165,958,619
Issued in terms of the scrip distribution made during the financial year	2,976,263	2,526,741
Shares in issue at end of year	171,461,623	168,485,360

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. As at 31 December 2017, The Trust held 1,914,874 shares (2016: 845,692).

7. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS

2017

Acquisition of additional interest in Pyramid Holdings Proprietary Limited

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

Acquisition of additional interest in Mpact Recycling Proprietary Limited

On 1 July 2017, the Group increased its interest in a subsidiary by 1.5%, resulting in the dilution of the non-controlling shareholder.

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

2016

Properties

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

Remade Holdings Proprietary Limited

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

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

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

9. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities for the Group comprise aggregate amounts at 31 December 2017 of R10.0 million (2016: R7.1 million) in respect of loans and guarantees given to banks and other third parties.
(b) A Group mill is the subject of a land claim, which should not have a material impact on the financial position of the Group.
(c) In 2013 a settlement was reached in respect of a dispute relating to the valuation of put options in a group subsidiary. The settlement agreement provides for a deferred payment contingent upon the achievement of certain EBITDA and ROCE levels for the years 2017 to 2018, subject to a maximum amount of R1.9 million (2016: R1.9 million).
(d) There were no significant contingent assets for the Group at 31 December 2017 and 31 December 2016.
(e) As advised to the shareholders on 26 May 2016, the Company is subject to a Competition Commission investigation. The Directors are unable at this stage to determine what the outcome of the investigation will be.

10. 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.

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

		Fair value	At fair value	At	Total

	hierarchy	through profit or loss	amortised cost	
		R'm	R'm	R'm
2017				
Borrowings	Level 2	-	(2,594.3)	(2,594.3)
Trade and other payables(1)		-	(2,021.7)	(2,021.7)
Derivative financial instrument	Level 2	(26.6)	-	(26.6)
Total		(26.6)	(4,616.0)	(4,642.6)
2016				
Borrowings	Level 2	-	(2,407.0)	(2,407.0)
Trade and other payables(1)		-	(1,772.1)	(1,772.1)
Derivative financial instrument	Level 2	(13.0)	-	(13.0)
Total		(13.0)	(4,179.1)	(4,192.1)

(1)The carrying value approximates the fair value.

11. RELATED PARTY TRANSACTIONS

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

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

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

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

12. EVENTS OCCURRING AFTER THE REPORTING DATE

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