MONDI LIMITED

(Registration number: 1967/013038/06)

AUDITED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2014

Introduction

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

Shareholders are advised to review the Mondi Group Integrated report and financial statements 2014 which is available at: www.mondigroup.com.

In terms of the dual listed company (DLC) structure, referred to as the Mondi Group, incorporating Mondi Limited and Mondi plc, ordinary shareholders of Mondi Limited or Mondi plc have economic and voting interests in the Mondi Group, comprising the combination of the Mondi Limited group and the Mondi plc group. The Mondi Group Integrated report and financial statements 2014 provide comprehensive information regarding the financial position and the results of the operations of the Mondi Group.

Contents

Report of the directors

The directors submit their report for the year ended 31 December 2014.

Main business and operations

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

The Company forms an integral part of the Mondi Group and these financial statements must be read in the context of the Mondi Group. Shareholders are referred to the Mondi Group Integrated report and financial statements 2014 in this regard.

The Company earned a profit after tax for the year of R965 million (2013: R476 million).

Subsequent events

With the exception of the proposed final dividend for 2014, included in note 6, there have been no material reportable events since 31 December 2014.

Going concern

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

Stated capital

Refer to note 18 for details of the stated capital of the Company.

Dividends

An interim dividend of 189.93650 rand cents per share (2013: 126.03689 rand cents per share) was declared and paid during the year and a final dividend of 379.38999 rand cents per share (2013: 387.39464 rand cents per share) was recommended by the directors and is subject to shareholder approval at the annual general meeting to be held on 13 May 2015. Refer to note 6 for more information.

Directors

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

Directors	*Position*	*Independent*	*Board member since*
Fred Phaswana	Joint chairman	Yes	June 2013
David Williams	Joint chairman	Yes	May 2007
Stephen Harris	Non-executive director	Yes	March 2011
David Hathorn	Chief executive officer	No	May 1997
Andrew King	Chief financial officer	No	October 2008
Imogen Mkhize	Non-executive director	Yes	May 2007
John Nicholas	Non-executive director	Yes	October 2009
Peter Oswald	Chief executive officer, Europe & International Division	No	January 2008
Anne Quinn	Senior independent non-executive director	Yes	May 2007

Holding company

Mondi operates under a dual listed company structure. Mondi Limited is the holding company of the African component of the Mondi Group. Mondi plc is the holding company of the non-African component of the Mondi Group. Together the Mondi Group is reported as a single economic entity.

Report of the directors (continued)

Investments in subsidiaries

Refer to notes 9 and 28 of these annual financial statements for details of investments in subsidiaries.

Secretary

The company secretary is Philip Laubscher.

Business Address
4th Floor
No. 3 Melrose Boulevard
Melrose Arch
2196
Gauteng
Republic of South Africa

Postal Address
PostNet Suite #444
Private Bag X1
Melrose Arch
2076
Gauteng
Republic of South Africa

Auditors

During the period under review Deloitte & Touche were the auditors of the Company.

Corporate governance statement

Mondi's corporate governance is comprehensively detailed in the Mondi Group Integrated report and financial statements 2014.

Audit committee report

Key responsibilities

- Monitor the integrity of the Group's financial statements, financial announcements and the disclosures made, making recommendations to the board.
- Review the consistency of the application of significant accounting policies, the ongoing appropriateness of those policies and the impact of any changes.
- Oversee that there is an appropriate relationship with the external auditors and the objectivity and effectiveness of the audit process as a whole, making recommendations to the board on the appointment, retention and removal of the external auditors and tendering of external audit services.
- Review the adequacy and effectiveness of the Mondi Group's system of internal control.
- Oversee the Mondi Group's risk management processes.
- Monitor and review the effectiveness of the Group's internal audit function and review regular reports from the head of internal audit.
- Review the Mondi Group's performance against aspects of the code of business ethics reserved for review by the committee.
- Review the adequacy of the Mondi Group's policies and practices regarding business conduct and ethics and the arrangements for employees and third parties to raise concerns.

Composition

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

All members of the committee are independent non-executive directors. The board considers each member has appropriate knowledge and understanding of financial matters and commercial expertise, sufficient to enable them to consider effectively the financial and accounting issues that are presented to the committee. The board considers John Nicholas, the chairman of the committee, to have specific recent and relevant financial experience; he is a chartered accountant and a member of the UK Financial Reporting Review Panel.

In accordance with the Listings Requirements of the JSE Limited (JSE), the committee has considered and satisfied itself that Andrew King, chief financial officer, has appropriate expertise and experience. Andrew is a chartered accountant and throughout his career has held various finance and business development roles. The committee has also considered and satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and expertise of the senior management responsible for the finance function.

Report of the directors (continued)

Activities of the audit committee during 2014
The committee operates under formal terms of reference that are reviewed at least annually. The committee considers that it has appropriately discharged its responsibilities as set out in its terms of reference during the year and has operated in compliance with relevant legal, regulatory and other responsibilities. There were no material matters requiring review or decision during 2014, so the committee agenda covered the regular matters reserved for its consideration during the annual financial reporting cycle.

The principal matters covered by the committee during the meetings held in the year included:

February 2014 • Reviewed the full-year results and the announcement of those results, with input provided by reports from the Group financial controller and Deloitte & Touche • Reviewed the Mondi Group Integrated report and financial statements 2013 and the Mondi Limited financial statements 2013 including assisting the board with its assessment of whether the reports were fair, balanced and understandable • Reviewed Deloitte & Touche's audit effectiveness, independence and objectivity leading to the consideration of their reappointment • Reviewed the Mondi Group risk management policy, plan and risk tolerance levels and most significant risks • Reviewed and approved the revised IT security policy • Met with the head of internal audit and Deloitte & Touche, separately and without management present	**May 2014** • Reviewed the interim management statement • Reviewed the effectiveness of internal controls and risk management systems and procedures • Reviewed the accounting policies to apply to the 2014 reporting period • Received a presentation from Deloitte & Touche of the audit management letter • Reviewed the competition compliance programme with the aid of a presentation from the chief financial officer who chairs the competition compliance committee • Reviewed the elements of the code of business ethics reserved for the committee together with the ongoing implementation of the business integrity policy
August 2014 • Reviewed the half-yearly results and the announcement of those results, with input provided by reports from the Group financial controller and Deloitte & Touche • Received a presentation on the governance and regulatory developments regarding external audit tendering	**October 2014** • Reviewed the interim management statement • Reviewed the restated segmental information arising from the refinement of the Mondi Group's organisational structure • Considered the implications of new accounting pronouncements assisted by a report from the Group financial controller • Reviewed and approved the external audit plan, fees and engagement letters with input provided by the chief financial officer, Group financial controller and Deloitte & Touche • Reviewed IT risk management, security and governance assisted by a presentation from the information management director • Reviewed and updated the committee terms of reference to include recent governance developments • Agreed the committee's work programme for 2015

In addition, there are several matters that are considered at every meeting of the committee, including the report from the internal audit function, a more in-depth review of two or three of the most significant Mondi Group risks and the review of non-audit services provided by Deloitte & Touche.

Report of the directors (continued)

While the committee annually receives a presentation on IT risks this has been extended to ensure that security is reviewed in response to the increased focus on potential cyber security threats. A revised IT security policy was reviewed and adopted during the year.

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

Fair, balanced and understandable

A key role of the committee is to ensure that the interests of shareholders are protected, in particular that there is robust financial reporting with good internal controls in place and appropriate accounting practices and policies combined with sound judgement. Although oversight and review of material financial reporting matters are considered throughout the year, at the February 2015 meeting the integrity of the Mondi Group's Integrated report and financial statements 2014 and the Mondi Limited financial statements 2014 was assessed and the clarity of disclosures reviewed, taking cognisance of guidance issued by regulatory bodies.

The committee assisted the board in its assessment of the reports to ensure that the disclosures were complete and in context and that the report as a whole fairly reflected the financial performance and prospects of the Mondi Group. The collaborative approach, with well documented planning and procedures combined with a thorough review and verification exercise, helped provide confidence as to the accuracy and consistency of information in the report. The committee received a detailed report on the financial statements from the Group financial controller outlining the significant matters, in particular those areas where management judgement had been made, and the assessment of the going concern basis of preparation. The committee also received a report on the audit from Deloitte & Touche. These reports were presented in the meeting and provided the opportunity for challenge by the committee. The committee also met with Deloitte & Touche without management present in order to discuss the audit in general.

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

External audit

The committee, having considered all relevant matters, has concluded that it is satisfied that auditor independence, objectivity and effectiveness have been maintained. The committee confirmed that Deloitte & Touche is included in the JSE list of accredited auditors. Following these considerations the committee made a recommendation to, which was accepted by, the board that a resolution to reappoint Deloitte & Touche and S Nelson as the designated partner be proposed at the annual general meeting of Mondi Limited to be held in May 2015. B Kilpatrick's term of office has concluded at the end of the audit of the 2014 financial results.

Non-audit services

A policy is in place that governs the provision of non-audit services provided by Deloitte & Touche to the Company, including the requirement for the pre-approval of such services. The committee monitors compliance with the policy, receiving reports at each meeting detailing all approved non-audit services. This enables regular oversight of a key threat to auditor independence and objectivity.

Social and ethics committee

In compliance with Regulation 43 of the South African Companies Act 2008, the Company has established a social and ethics committee. The committee monitors activities relating to the Company's social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, labour and employment. Shareholders are referred to the Mondi Group Integrated report and financial statements 2014 for the committee's full report.

Report of the directors (continued)

Directors' remuneration

Shareholders are referred to the Mondi DLC remuneration committee report in the Mondi Group Integrated report and financial statements 2014. The remuneration tables below are extracts from the remuneration report and are presented in euro, the reporting currency of the Mondi Group. With the exception of Peter Oswald, who is remunerated in euro, the remuneration of the directors is determined in pounds sterling. The amounts reported in euro are determined based on exchange rates on the dates actual payments were made.

Details of the service contracts of the executive directors who served during the period under review are as follows:

Executive director	*Effective date of contract*	*Unexpired term/notice period*
David Hathorn	3 July 2007	Terminable on 12 months' notice
Andrew King	23 October 2008	Terminable on 12 months' notice
Peter Oswald	1 January 2008	A fixed term expiring on 30 April 2019 but terminable at any time on 12 months' notice

Remuneration for the year ended 31 December 2014

Executive directors' remuneration[1]
The remuneration of the executive directors who served during the period under review was as follows:

		Base salary	*Benefits*	*Annual Bonus including grant value of BSP award*	*Value of LTIP vesting in the performance year*[2]	*Other*[3]	*Total*
David Hathorn	2014	€1,078,353	€48,824	€1,478,738	€3,243,917	€263,306	€6,113,138
	2013	€994,017	€46,796	€1,089,662	€3,396,956	€74,504	€5,601,935
Andrew King	2014	€637,322	€39,652	€714,430	€1,252,923	€223,380	€2,867,707
	2013	€587,480	€37,952	€515,207	€1,292,174	€30,577	€2,463,390
Peter Oswald	2014	€895,000	€40,617	€983,784	€1,941,722	€53,236	€3,914,359
	2013	€872,000	€36,956	€773,290	€1,997,935	€57,371	€3,737,552

Notes:

1 The table includes all remuneration received in respect of the years ended 31 December 2014 and 31 December 2013, whether received from Mondi Limited or Mondi plc, excluding pension contributions.

2 For 2014, the three-year performance cycle of the 2012 LTIP award ended on 31 December 2014. The award value shown is based on the average share price over the last three months of the performance cycle. For 2013, the three-year performance cycle of the 2011 LTIP award ended on 31 December 2013. The award value shown in the 2013 remuneration report was an estimate based on the average share price over the last three months of the performance cycle which, was £10.16 for Mondi plc LTIP awards and R167.85 for Mondi Limited LTIP awards. The actual award price on vesting was £10.84 for Mondi plc LTIP awards and R195.49 for Mondi Limited LTIP awards. The award values for 2013 have been revised on this basis.

3 Includes cash amounts of equivalent value to dividends on vested BSP shares during the year and net gain from exercise of options under the Mondi Sharesave Option Plan.

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

The pension contributions paid by the Mondi Group in respect of the years 2014 and 2013 are:

	2014	*2013*
David Hathorn	€322,614	€298,205
Andrew King	€159,330	€146,870
Peter Oswald	€223,750	€218,003

Report of the directors (continued)

Non-executive directors' remuneration

	2014			2013		
	Fees	*Other benefits*	*Total*	*Fees*	*Other benefits*	*Total*
Fred Phaswana[1]	€336,658	-	€336,658	€184,896	-	€184,896
David Williams	€336,658	-	€336,658	€310,425	-	€310,425
Stephen Harris	€106,399	-	€106,399	€98,093	-	€98,093
Imogen Mkhize	€100,802	-	€100,802	€101,375	-	€101,375
John Nicholas	€109,111	-	€109,111	€100,577	-	€100,577
Anne Quinn	€115,852	-	€115,852	€106,785	-	€106,785

Note:
1 For 2013, the fee paid to Fred Phaswana covers the period from his appointment on 1 June 2013 until 31 December 2013.

Share holding and share awards granted
At 31 December 2014, Andrew King held 208 (2013: 208 shares) shares and Imogen Mkhize, 3,222 (2013: 3,222 shares) shares. None of the other directors held any shares in Mondi Limited. The following table sets out the share awards in respect of Mondi Limited granted to the executive directors.

	Type of award[1]	*Awards held at beginning of year or on appointment to the board*	*Awards granted during year*	*Awards exercised during year*	*Award price basis (ZAc)*	*Date of award*	*Awards held as at 31 December 2014*	*Release date*
David Hathorn	BSP	29,838	-	29,838	6206	Mar 11	-	Mar 14
	BSP	24,216	-	-	6979	Mar 12	24,216	Mar 15
	BSP	17,506	-	-	11464	Mar 13	17,506	Mar 16
	BSP	-	12,883	-	19435	Mar 14	12,883	Mar 17
	LTIP	80,749	-	80,749	6206	Mar 11	-	Mar 14
	LTIP	74,355	-	-	6979	Mar 12	74,355	Mar 15
	LTIP	55,233	-	-	11464	Mar 13	55,233	Mar 16
	LTIP	-	44,723	-	19435	Mar 14	44,723	Mar 17
Andrew King	BSP	13,096	-	13,096	6206	Mar 11	-	Mar 14
	BSP	11,177	-	-	6979	Mar 12	11,177	Mar 15
	BSP	7,790	-	-	11464	Mar 13	7,790	Mar 16
	BSP	-	6,091	-	19435	Mar 14	6,091	Mar 17
	LTIP	29,762	-	29,762	6206	Mar 11	-	Mar 14
	LTIP	28,719	-	-	6979	Mar 12	28,719	Mar 15
	LTIP	22,939	-	-	11464	Mar 13	22,939	Mar 16
	LTIP	-	18,574	-	19435	Mar 14	18,574	Mar 17

Note:
1 The value on award of the BSP awards set out in this table is included in the table of executive directors' remuneration on page 7.

The information presented above, in conjunction with the compensation for board and key management (see note 27), satisfies the disclosure requirements of the South African Companies Act 2008 Section 30(4) to (6) with regard to the remuneration of prescribed officers of the Company.

Directors' responsibility statement

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

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

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

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

Report on the financial statements

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

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

The Company's financial statements, and related notes 1 to 30, were approved by the board and authorised for issue on 23 February 2015 and were signed on its behalf by:

David Hathorn
Director

Andrew King
Director

Compliance statement by the company secretary

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

Philip Laubscher
Company secretary
Johannesburg
23 February 2015

Independent auditors' report to the shareholders of Mondi Limited

Report on the financial statements

We have audited the financial statements of Mondi Limited set out on pages 11 to 44, which comprise the statement of financial position as at 31 December 2014, the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa 2008, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Mondi Limited as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa 2008.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2014, we have read the Directors' report, the Audit committee's report and the Company secretary's compliance statement for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Registered Auditors

Per: Bronwyn Kilpatrick
Partner
23 February 2015

Building 1 and 2, Deloitte Place, The Woodlands
Woodlands Drive, Woodmead, Sandton, Republic of South Africa

Income statement

for the year ended 31 December 2014

R million	Notes	**2014**	2013
Revenue		**7,770**	7,047
Materials, energy and consumables used		(3,403)	(3,007)
Variable selling expenses		(977)	(959)
Gross margin		**3,390**	3,081
Maintenance and other indirect expenses		(378)	(363)
Personnel costs	3	(1,048)	(1,027)
Other net operating income/(expenses)		72	(140)
Depreciation and impairments		(573)	(530)
Operating profit before special items	3	**1,463**	1,021
Operating special items	2	-	(160)
Operating profit		**1,463**	861
Non-operating special item	2	-	105
Total profit from operations		**1,463**	966
Net finance costs	4	**(131)**	(179)
Investment income		11	5
Finance costs		(142)	(184)
Financing special item: impairment of loan	2	-	(100)
Profit before tax		**1,332**	687
Tax charge	5a	(367)	(211)
Profit for the year		**965**	476

Statement of comprehensive income

for the year ended 31 December 2014

	2014			2013		
R million	**Before tax amount**	**Tax benefit**	**Net of tax amount**	Before tax amount	Tax benefit/ (expense)	Net of tax amount
Profit for the year			**965**			476
Other comprehensive (expense)/income:						
Items that may subsequently be reclassified to the income statement:						
Cash flow hedges reclassified to Income Statement	-	-	-	(2)	1	(1)
(Losses)/gains arising on available-for-sale investments	(25)	-	(25)	31	-	31
Items that will not subsequently be reclassified to the income statement:						
Remeasurements on retirement benefits plans:	(5)	1	(4)	125	(35)	90
Actuarial (losses)/gains arising from changes in financial assumptions	(26)			105		
Actuarial gains arising from experience adjustments	21			20		
Other comprehensive (expense)/income for the year	**(30)**	**1**	**(29)**	154	(34)	120
Total comprehensive income			**936**			596

Statement of financial position

as at 31 December 2014

R million	Notes	**2014**	2013
Property, plant and equipment	7	5,008	5,265
Forestry assets	8	2,647	2,752
Investments in subsidiaries	9	84	85
Investment in associate	10	24	24
Total non-current assets		**7,763**	**8,126**
Inventories	12	624	524
Trade and other receivables	13	1,563	1,582
Investments in subsidiaries	9	117	100
Current tax asset		-	3
Financial asset investments	11	128	127
Cash and cash equivalents	21b	21	3
Derivative financial instruments	26	10	-
Assets held for sale	20	172	-
Total current assets		**2,635**	**2,339**
Total assets		**10,398**	**10,465**
Short-term borrowings	15	(913)	(1,318)
Trade and other payables	14	(1,018)	(924)
Current income tax liability		(28)	-
Provisions	16	(76)	(61)
Derivative financial instruments	26	-	(9)
Total current liabilities		**(2,035)**	**(2,312)**
Retirement benefits liability	17	(811)	(797)
Deferred tax liability	5b	(1,437)	(1,472)
Provisions	16	(28)	(27)
Total non-current liabilities		**(2,276)**	**(2,296)**
Total liabilities		**(4,311)**	**(4,608)**
Net assets		**6,087**	**5,857**
Equity			
Stated capital	18	4,188	4,188
Retained earnings and other reserves		1,899	1,669
Total equity		**6,087**	**5,857**

Statement of changes in equity

for the year ended 31 December 2014

R million	Stated capital	Retained earnings	Other reserves	**Total equity**
At 1 January 2013	4,188	821	(85)	**4,924**
Dividends paid	-	(416)	-	**(416)**
Total comprehensive income for the year	-	476	120	**596**
Issue of Mondi Limited shares under employee share schemes[1]	-	30	(17)	**13**
Shares vested from Mondi Incentive Schemes Trust	-	(29)	-	**(29)**
Share options exercised – Anglo American share scheme	-	(1)	-	**(1)**
Transfer from Mondi plc	-	750	-	**750**
Mondi share schemes' charge	-	-	20	**20**
At 31 December 2013	4,188	1,631	38	**5,857**
Dividends paid	-	(683)	-	**(683)**
Total comprehensive income/(expense) for the year	-	965	(29)	**936**
Issue of Mondi Limited shares under employee share schemes[1]	-	20	(21)	**(1)**
Shares vested from Mondi Incentive Schemes Trust	-	(42)	-	**(42)**
Share options exercised – Anglo American share scheme	-	(1)	-	**(1)**
Mondi share schemes' charge	-	-	21	**21**
At 31 December 2014	**4,188**	**1,890**	**9**	**6,087**

Note:

[1] The net amount of R1 million (2013: R13 million) comprises a deferred tax asset for a future tax deduction available to the Company when the shares held by the Mondi Share Incentive Schemes Trust are issued to share scheme participants and the movement in the dividend equivalent bonus provision.

Other reserves

R million	Post-retirement benefit reserve	Share-based payment reserve	Available-for-sale reserve	Cash flow hedge reserve	**Total**
At 1 January 2013	(129)	29	14	1	**(85)**
Total comprehensive income/(expense) for the year	90	-	31	(1)	**120**
Mondi share schemes' charge	-	20	-	-	**20**
Issue of Mondi Limited shares under employee share schemes	-	(17)	-	-	**(17)**
At 31 December 2013	(39)	32	45	-	**38**
Total comprehensive expense for the year	(4)	-	(25)	-	**(29)**
Mondi share schemes' charge	-	21	-	-	**21**
Issue of Mondi Limited shares under employee share schemes	-	(21)	-	-	**(21)**
At 31 December 2014	**(43)**	**32**	**20**	**-**	**9**

Statement of cash flows

for the year ended 31 December 2014

R million	Notes	**2014**	2013
Cash generated from operations	21a	2,227	1,894
Dividend received from subsidiaries		4	-
Income tax paid		(369)	(248)
Net cash generated from operating activities		**1,862**	1,646
Cash flows from investing activities			
Investment in property, plant and equipment		(388)	(664)
Proceeds from the disposal of property, plant and equipment		72	78
Investment in forestry assets	8	(474)	(461)
Proceeds from disposal of forestry assets	8	189	111
Investment in subsidiaries		(1)	-
Repayment of portion of investment by subsidiaries		6	-
Investment in financial asset investments	11	(67)	(78)
Advances to related parties	21c	(21)	(8)
Loan repayments from external parties	11	-	5
Interest received		5	5
Other investing activities		1	1
Net cash used in investing activities		**(678)**	(1,011)
Cash flows from financing activities			
Repayment of short-term borrowings	21c	(77)	(674)
Interest paid		(78)	(132)
Dividends paid to shareholders	6	(683)	(416)
Transfer from Mondi plc		-	750
Net cash used in financing activities		**(838)**	(472)
Net increase in cash and cash equivalents		**346**	163
Cash and cash equivalents at beginning of year		(642)	(805)
Cash movement in the year	21c	346	163
Cash and cash equivalents at end of year	21b	**(296)**	(642)

Notes to the financial statements

for the year ended 31 December 2014

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Companies Act of South Africa 2008. There are no differences for the Company in applying IFRS as issued by the IASB. The principal accounting policies adopted are set out in note 30.

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

Critical accounting judgements and key estimates

The preparation of the Company's financial statements includes the use of estimates and assumptions which affect certain items reported in the statement of financial position and the income statement. 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 information about current circumstances and future events and actions, actual results may differ from those estimates. Such estimates relate to management's assumptions about expected future cash flows, market exposures, useful lives and discount rates, amongst others.

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:

<u>Critical accounting judgements:</u>

- Estimated impairment of property, plant and equipment – refer to note 30.

<u>Key estimates</u>

- Capitalisation of property, plant and equipment - estimated residual values and useful economic lives – refer to note 30.
- Fair value of forestry assets – refer to note 8.
- Retirement benefits – refer to note 17.

Special items

Special items are those items of financial performance that the Company believes should be separately disclosed to assist in the understanding of the underlying financial performance achieved by the Company. Such items must exceed €5 million or are material in nature in relation to the financial year's results.

Subsequent adjustments to amounts previously recognised as special items continue to be reflected as special items in future periods even if they do not exceed €5 million.

2 Special items

R million	**2014**	2013
Operating special items		
Asset impairments	-	(133)
Restructuring and closure costs:		
Restructuring and closure costs excluding related personnel costs	-	(16)
Personnel costs relating to restructuring	-	(11)
Total operating special items	**-**	(160)
Non-operating special item		
Gain on sale of land	**-**	105
Financing special item		
Impairment of loan	**-**	(100)
Total special items before tax	**-**	(155)
Tax (see note 5)	-	25
Total special items attributable to shareholders	**-**	(130)

There were no material special items in the year ended 31 December 2014.

3 Operating profit before special items

Operating profit before special items includes:

R million	**2014**	2013
Depreciation of property, plant and equipment (see note 7)	(570)	(526)
Impairment of property, plant and equipment (excluding special items)	(3)	(4)
(Loss)/profit on disposal of property, plant and equipment	(6)	2
Operating lease charges	(56)	(59)
Research and development expenditure	(5)	(10)
Increase in allowance for impairment of trade receivables (see note 13)	-	(4)
Net foreign currency gains	24	16
Fair value gains on forestry assets (see note 8)	362	98
Personnel costs	(1,048)	(1,027)
Wages and salaries	(967)	(947)
Share-based payments (see note 19)	(21)	(20)
Defined benefit post-retirement medical plan service costs (see note 17)	(1)	(1)
Defined contribution retirement plan contributions (see note 17)	(59)	(59)
Auditors' remuneration	(6)	(6)
Audit fees	(5)	(5)
Non-audit fees	(1)	(1)

4 Net finance costs

R million	**2014**	2013
Investment income		
Interest on bank deposits, loan receivables and other	6	5
Dividend received from subsidiaries	4	-
Reversal of impairment of financial assets (excluding trade receivables)	1	-
Total investment income	**11**	5
Finance costs		
Interest expense		
Interest on bank overdrafts and loans	(76)	(131)
Interest on obligations under finance leases	-	(1)
Net interest expense on retirement benefits liability (see note 17)	(66)	(66)
Total interest expense	**(142)**	(198)
Less: interest capitalised (see note 7)	-	14
Total finance costs	**(142)**	(184)
Net finance costs	**(131)**	(179)

No interest was capitalised during the year ended 31 December 2014. The weighted average interest rate applicable to capitalised interest on general borrowings for the year ended 31 December 2013 is 6.5% and was related to funding obtained for investments in Richards Bay, South Africa.

5 Taxation

(a) Analysis of tax charge for the year

The Company's effective rate of tax before special items for the year ended 31 December 2014, calculated on profit before tax before special items, is 28% (2013: 28%).

R million	**2014**	2013
South African corporation tax at 28% (2013: 28%)	406	252
Current tax	**406**	252
Deferred tax in respect of the current period	(39)	(16)
Total tax charge before special items	**367**	236
Current tax on special items	-	18
Deferred tax on special items	-	(43)
Total tax credit on special items (see note 2)	**-**	(25)
Total tax charge	**367**	211

5 Taxation (continued)

Factors affecting tax charge for the year

The Company's total tax charge for the year can be reconciled to the tax on the Company's profit before tax at the South African corporation tax rate of 28% (2013: 28%), as follows:

R million	**2014**	2013
Profit before tax	**1,332**	687
Tax on profit before tax calculated at the South African corporation tax rate of 28% (2013: 28%)	**373**	192
Tax effects of:		
Expenses not deductible for tax purposes	**5**	31
Non-qualifying depreciation	2	1
Special items not deductible	-	28
Other non-deductible expenses	3	2
Non-taxable income	**(7)**	(17)
Special items not taxable	-	(10)
Other non-taxable income	(7)	(7)
Current tax prior period adjustments	**(4)**	5
Tax charge for the year	**367**	211

(b) Deferred tax

R million	**Deferred tax liabilities 2014**	2013
At 1 January	(1,472)	(1,505)
Credited to income statement (including special items)	39	59
Credited/(charged) to statement of comprehensive income	1	(34)
(Charged)/credited to retained earnings	(5)	8
At 31 December	**(1,437)**	(1,472)

Deferred tax comprises:

R million	**Deferred tax liabilities 2014**	2013
Capital allowances in excess of depreciation	(908)	(963)
Fair value adjustments	(748)	(717)
Other temporary differences	219	208
Total	**(1,437)**	(1,472)

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

R million	**2014**	2013
Capital allowances in excess of depreciation	(55)	(60)
Fair value adjustments	31	3
Other temporary differences	(15)	(2)
Total credit	**(39)**	(59)

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

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

6 Dividends

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

R cents per share	**2014**	2013
Final dividend paid (in respect of prior year)	387.39464	225.16629
Interim dividend paid	189.93650	126.03689
Final dividend proposed for the year ended 31 December	**379.38999**	387.39464

R million	**2014**	2013
Final dividend paid (in respect of prior year)	458	266
Interim dividend paid	225	150
Final dividend proposed for the year ended 31 December	**449**	458

The final dividend proposed is subject to approval by shareholders at the annual general meeting of the Company scheduled for 13 May 2015.

7 Property, plant and equipment

2014/*R million*	Land and buildings[1]	Plant and equipment	Assets under construction	Other	**Total**
Net carrying value					
At 1 January 2013	730	4,250	276	52	**5,308**
Additions[2]	-	-	678	-	**678**
Disposal of assets	(16)	(60)	-	-	**(76)**
Transferred from assets under construction	27	660	(700)	13	**-**
Depreciation charge for the year	(33)	(473)	-	(20)	**(526)**
Impairment loss recognised	(3)	(133)	-	(1)	**(137)**
Reclassification from assets held for sale	7	10	-	-	**17**
Reclassification	1	-	-	-	**1**
At 31 December 2013	713	4,254	254	44	**5,265**
Cost	976	9,294	254	255	**10,779**
Accumulated depreciation and impairments	(263)	(5,040)	-	(211)	**(5,514)**
Additions[2]	-	-	418	1	**419**
Disposal of assets	(23)	(55)	-	-	**(78)**
Transferred from assets under construction	68	312	(391)	11	**-**
Depreciation charge for the year	(45)	(509)	-	(16)	**(570)**
Impairment loss recognised	-	(3)	-	-	**(3)**
Reclassification to assets held for sale (see note 20)	(25)	-	-	-	**(25)**
At 31 December 2014	**688**	**3,999**	**281**	**40**	**5,008**
Cost	986	9,482	281	258	11,007
Accumulated depreciation and impairments	(298)	(5,483)	-	(218)	(5,999)

Notes:
[1] The land value included in 'Land and buildings' is R590 million (2013: R593 million).
[2] Included in the additions above is Rnil million (2013: R14 million) of interest incurred on qualifying assets which has been capitalised during the year.

The carrying value and depreciation charges relating to assets held under finance leases amount to Rnil (2013: R2 million) and Rnil (2013: R4 million), respectively.

The carrying value of land and buildings comprises:

R million	**2014**	2013
Freehold	685	709
Leasehold – short (less than 50 years)	3	4
Total land and buildings	**688**	713

8 Forestry assets

R million	**2014**	2013
At 1 January	2,752	2,856
Capitalised expenditure	445	442
Acquisition of assets	29	19
Fair value gains	362	98
Felling costs	(605)	(552)
Disposal of assets	(189)	(111)
Reclassified to assets held for sale (see note 20)	(147)	-
At 31 December	**2,647**	2,752
Comprising		
Mature	1,629	1,661
Immature	1,018	1,091
	2,647	2,752

The Company has approximately 164,000 hectares of owned and leased land under afforestation, all of which is in South Africa.

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

The fair value of forestry assets is a level 3 measure in terms of the fair value measurement hierarchy (see note 26b) and this category is consistent with prior years. The fair value of forestry assets is calculated on the basis of future expected net cash flows arising on Company's owned forestry assets, discounted based on a pre tax yield on long-term bonds over the last five years.

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

- The net selling price which is defined as the selling price less the costs of transport, harvesting, extraction and loading. The net selling price is based on third party transactions and is influenced by the species, maturity profile and location of timber. In 2014, the net selling price used ranged from R140 per tonne to R497 per tonne (2013: R135 per tonne to R615 per tonne) with a weighted average of R309 per tonne (2013: R304 per tonne).
- The conversion factor used to convert hectares of land under afforestation to tonnes of standing timber, which is dependent on the species, the maturity profile of the timber, the geographic location, climate and a variety of other environmental factors. In 2014 the conversion factors ranged from 8.8 to 25.2 (2013: 6.7 to 24.8).
- The discount rate of 10.6% (2013: 11.4%) based on a pre tax yield from long-term government bonds matching the average age of the timber and adjusted for the risks associated with forestry assets.

The reported value of owned forestry assets would change as follows should there be a change in these underlying assumptions:

R million	**2014**
Effect of R10 increase in net selling price	174
Effect of 1% increase in conversion factor (hectares to tonnes)	34
Effect of 1% increase in discount rate	(34)

9 Investments in subsidiaries

R million	**2014**	2013
Unlisted		
Shares at cost	5	10
Loans advanced	196	275
Impairment	-	(100)
Total investments in subsidiaries	**201**	185
Repayable within one year classified as current asset	(117)	(100)
Total long-term investments in subsidiaries	**84**	85

Mondi Shanduka Newsprint Proprietary Limited (MSN)
The loans to MSN include a shareholder's loan with a carrying value of R28 million (2013: R28 million) and a Mezzanine loan of R51 million (2013: R47 million). The shareholder's loan is unsecured and interest free. The shareholder's loan is reflected net of an impairment of R100 million. The shareholder's loan is repayable by agreement of the MSN board from surplus cash and once the Mezzanine loan is settled in full. Should the Mezzanine loan not be repaid in January 2017, the shareholder would have the option to convert the loan into equity. The Mezzanine loan is unsecured and incurs interest at the six month JIBAR plus 300 basis points.

Mondi Zimele Proprietary Limited (Mondi Zimele)
The closing balance of the loan advanced by the Company to Mondi Zimele amounts to R70 million (2013: R53 million). This loan is unsecured, interest free and is repayable on liquidation of Mondi Zimele or earlier on demand by the Company.

Mondi Timber (Wood Products) Proprietary Limited (MTWP)
The closing balance of the loan advanced by the Company to MTWP amounts to R47 million (2013: R47 million). This loan is interest free and is repayable on demand by the Company.

Details of principal subsidiaries are set out in note 28.

10 Investment in associate

R million	**2014**	2013
Mpact Recycling Proprietary Limited		
Shares at cost	**24**	24

Details of the associate are set out in note 28.

11 Financial asset investments

	2014	2013		
R million	**Available-for-sale investments**	Loans and receivables	Available-for-sale investments	Total
At 1 January	127	5	51	56
Fair value (loss)/gain	(25)	-	31	31
Additions	67	-	78	78
Repayments	-	(5)	-	(5)
Disposals	(43)	-	(33)	(33)
Reversal of impairment	2	-	-	-
At 31 December	**128**	-	127	127

The Company advanced to the Mondi Incentive Schemes Trust (MIS) a further R67 million during 2014 (2013: R78 million) to fund the purchase of the Company's shares awarded to senior management. Shares vested during 2014 to the value of R43 million (2013: R33 million).

The fair value of available-for-sale investments is a level 1 measure in terms of the fair value measurement hierarchy contained in IAS39. The fair value is calculated on the quoted market price of Mondi Limited shares held by the MIS.

12 Inventories

R million	**2014**	2013
Valued using first-in-first-out cost formula		
Raw materials and consumables	224	189
Work in progress	100	61
Finished products	160	137
Total valued using first-in-first-out cost formula	**484**	387
Valued using the weighted average cost formula		
Raw materials and consumables	133	116
Finished products	7	21
Total valued using the weighted average cost formula	**140**	137
Total inventories	**624**	524
Of which, held at net realisable value	**8**	18
Income statement		
Cost of inventories recognised as expense	(2,857)	(2,441)
Write-down of inventories to net realisable value	(5)	(23)

13 Trade and other receivables

R million	**2014**	2013
Trade receivables	1,299	1,233
Allowance for doubtful debts	(8)	(16)
Net trade receivables	**1,291**	1,217
Other receivables	248	345
Prepayments and accrued income	24	20
Total trade and other receivables	**1,563**	1,582

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

Trade receivables: credit risk

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

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

R million	**2014**	2013
Credit risk exposure		
Gross trade receivables	1,299	1,233
Credit insurance	(842)	(834)
Total exposure to credit risk	**457**	399

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

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

13 Trade and other receivables (continued)

To the extent that recoverable amounts are estimated to be less than their associated carrying values, impairment charges have been recorded in the income statement and the carrying values have been written down to their estimated recoverable amounts. The total gross carrying value of trade receivables that were subject to impairment during the year is R8 million (2013: R16 million).

Included within the Company's aggregate trade receivables balance are specific debtor balances with customers totalling R4 million (2013: R69 million) which are past due but not impaired as at the reporting date. The Company has assessed these balances for recoverability and believes that their credit quality remains intact. An ageing analysis of net trade receivables is provided as follows:

R million	**2014**	2013
Trade receivables within terms	1,287	1,148
Past due by less than one month	-	46
Past due by one to two months	2	15
Past due by two to three months	2	6
Past due by more than three months	-	2
At 31 December	**1,291**	1,217

There are no debtor balances with customers, included within the Company's aggregate trade receivables balances, where contractual terms have been renegotiated to extend the credit period offered.

Movement in the allowance account for bad and doubtful debts

R million	**2014**	2013
At 1 January	16	21
Amounts written off or recovered during the year	(8)	(9)
Increase in allowance recognised in income statement	-	4
At 31 December	**8**	16

14 Trade and other payables

R million	**2014**	2013
Trade payables	319	273
Capital expenditure payables	31	-
Other payables	162	188
Accruals and deferred income	506	463
Total trade and other payables	**1,018**	924

The fair values of trade and other payables approximate their carrying values presented.

15 Borrowings

R million	2014 Current	2013 Current
Secured		
Obligations under finance leases	-	2
Total secured	**-**	2
Unsecured		
Bank loans and overdrafts	817	1,145
Other loans	96	171
Total unsecured	**913**	1,316
Total borrowings	**913**	1,318

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

Included in other loans of the Company is a loan of R93 million (2013: R158 million) from Siyaqhubeka Forests Proprietary Limited (SQF), a subsidiary of the Company on which a market related interest rate is payable. The loan is repayable upon request from SQF with 24 hour notice on the call amount and upon maturity of the three month fixed deposit amount.

Financing facilities

Company liquidity is provided through the following committed debt facility with the principal loan arrangements being:

R million, unless otherwise stated	Maturity	Interest rate %	2014	2013
Financing facilities				
Revolving committed bank facility	June 2015	JIBAR + margin	500	500
Total committed facilities			**500**	500
Drawn			(500)	(500)
Committed local facilities available			-	-
Undrawn group facilities (on which company is a named borrower)			5,571	10,925
Total committed facilities available			**5,571**	**10,925**

The Company does not have any individual finance lease arrangements which are considered material. The Company is entitled to receive all cash flows from these assets pledged under finance leases. Further, there is no obligation to remit these cash flows to another entity.

16 Provisions

R million	**2014**	2013
At 1 January	88	93
Charged to income statement (net of unwound discounts)	80	74
Amounts applied	(64)	(79)
At 31 December	**104**	88

Provisions are primarily for bonuses.

Maturity analysis of total provisions on a discounted basis:

R million	**2014**	2013
Current	76	61
Non-current	28	27
Total provisions	**104**	88

Non-current provisions are discounted using a discount rate based on a pre tax yield on long-term bonds over the last five years.

17 Retirement benefits

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

Defined contribution plan

The assets of the defined contribution plan are held separately in an independently administered fund. The charge in respect of this plan of R59 million (2013: R59 million) is calculated on the basis of the contribution payable by the Company in the financial year. There were no material outstanding or prepaid contributions recognised in relation to this plan as at the reporting dates presented. The expected contributions to be paid to defined contribution plans during 2015 are R62 million.

Defined benefit pension plan and post-retirement medical plan

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

The post-retirement medical plan provides health benefits to retired employees and certain of their dependants. Eligibility for cover is dependent upon certain criteria. This plan is unfunded and there are no plan assets in respect of this post-retirement medical plan. The plan has been closed to new participants since 1 January 1999.

The boards of trustees of the plans are required to act in the best interest of the plans and of all relevant stakeholders of the plans, i.e. active employees, inactive employees, retirees and employers. The boards of trustees are responsible for the investment policy with regard to the assets of the plans.

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

17 Retirement benefits (continued)

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

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

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

Actuarial assumptions

The principal assumptions used to determine the actuarial valuations of the post-retirement medical obligation are detailed below:

%	**2014**	2013
Discount rate	8.25	8.68
Rate of inflation	6.46	6.57
Rate of increase in salaries	7.46	7.57
Expected average increase of medical cost trend rates	7.96	8.07

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

Mortality assumptions

The assumed life expectancies on retirement at age 65 are:

years	**2014**	2013
Retiring today		
Males	15.99	15.94
Females	19.93	19.89
Retiring in 20 years		
Males	20.44	20.34
Females	24.74	24.64

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

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

R million	**2014**	2013
Less than a year	58	57
Between one to two years	60	59
Between two to five years	191	190
After five years	348	352

The weighted average duration of the Company's defined retirement benefits liability is 11 years.

The expected contributions to be paid to the post-retirement medical plan during 2015 are R58 million (2014: R57 million).

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

R million	**2014**	2013
Present value of unfunded obligations (Post-retirement medical plan)	**(811)**	(797)

17 Retirement benefits (continued)

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

R million	**Net liability** **2014**	2013
At 1 January	(797)	(912)
Included in income statement		
Current service cost	(1)	(1)
Interest cost	(66)	(66)
Included in statement of comprehensive income		
Remeasurement (losses)/gains	(5)	125
Benefits paid	58	57
At 31 December	**(811)**	(797)

Sensitivity analyses

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

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

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

R million	**1% increase**	**1% decrease**
Discount rate		
Effect on current service cost	-	-
Effect on net retirement benefit liability	(76)	91
Rate of inflation		
Effect on current service cost	-	-
Effect on net retirement benefit liability	87	(74)
Rate of increase in salaries		
Effect on current service cost	-	-
Effect on net retirement benefit liability	21	(21)
Medical cost trend rate		
Effect on aggregate of the current service cost and interest cost	7	(6)
Effect on net retirement benefit liability	87	(74)
	1 year increase	
Mortality rates		
Effect on current service cost	34	
Effect on net retirement benefit liability	-	

18 Stated capital

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

	2014		2013	
	Number of shares	**Called up, allotted and fully paid, Stated capital R million**	Number of shares	Called up, allotted and fully paid, Stated capital R million
Mondi Limited ordinary shares with no par value issued on the JSE	118,312,975	4,114	118,312,975	4,114
Mondi Limited special converting shares with no par value	367,240,805	74	367,240,805	74
Total shares	**485,553,780**	**4,188**	485,553,780	4,188

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

19 Share-based payments

Mondi share awards

The Company has set up its own share-based payment arrangements to incentivise employees. Full details of the Company's share schemes are set out in the Remuneration report in the Mondi Group Integrated report and financial statements 2014.

All of these schemes are settled by the award of ordinary shares in the Company. The Company has no obligation to settle the awards made under these schemes in cash. Dividends foregone on Bonus Share Plan (BSP) share awards and, for awards made in 2013 and thereafter in respect of the Long-Term Incentive Plan (LTIP), are paid in cash upon vesting.

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

Mondi Limited	**BSP 2014**	BSP 2013	BSP 2012
Date of grant	31 March 2014	25 March 2013	28 March 2012
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Grant date fair value per instrument (R)	184.91	125.55	71.29
Number of shares conditionally awarded	71,043	126,627	166,892

Mondi Limited	**LTIP 2014**	LTIP 2013	LTIP 2012
Date of grant	31 March 2014	25 March 2013	28 March 2012
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Expected outcome of meeting performance criteria (%)			
ROCE component	100	99	100
TSR component	25	25	25
Grant date fair value per instrument (R)			
ROCE component	184.91	125.55	63.60
TSR component[1]	46.23	31.39	15.90
Number of shares conditionally awarded	96,844	139,373	186,452

Note:
[1] The base fair value has been adjusted for contractually-determined market-based performance conditions.

19 Share-based payments (continued)

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

R'000	**2014**	2013
Bonus Share Plan (BSP)	12,869	11,856
Long-Term Incentive Plan (LTIP)	8,348	7,794
Total share-based payment expense	**21,217**	19,650

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

number of shares	**BSP**	**LTIP**	**Total**
At 1 January 2013	533,142	647,272	1,180,414
Shares conditionally awarded	126,627	139,373	266,000
Shares vested	(199,011)	(263,622)	(462,633)
At 31 December 2013	460,758	523,023	983,781
Shares conditionally awarded	71,043	96,844	167,887
Shares vested	(205,673)	(197,198)	(402,871)
Shares lapsed	(17,449)	(30,145)	(47,594)
At 31 December 2014	308,679	392,524	701,203

The weighted average share price of share awards that vested during the period was R192.53 (2013: R121.03).

20 Assets held for sale

R million	**2014**	2013
Property, plant and equipment	25	-
Forestry assets	147	-
Total assets classified as held for sale	**172**	-

21 Cash flow analysis

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

R million	**2014**	2013
Profit before tax	**1,332**	687
Depreciation	570	526
Impairment of property, plant and equipment (not included in special items)	3	4
Share-based payments	21	20
Share options exercised – Anglo American share scheme	(1)	(1)
Non-cash effect of special items	-	128
Net finance costs (excluding financing special item)	131	179
Increase/(decrease) in provisions	16	(5)
Decrease in retirement benefits	(57)	(56)
(Increase)/decrease in inventories	(100)	57
Decrease/(increase) in receivables	19	(102)
Increase/(decrease) in payables	63	(15)
Fair value gains on forestry assets	(362)	(98)
Felling costs	605	552
Loss/(profit) on disposal of property, plant and equipment	6	(2)
Movement in held-for-trading derivatives	(20)	16
Refund for shares purchased on behalf of group companies	1	4
Cash generated from operations	**2,227**	1,894

21 Cash flow analysis (continued)

(b) Cash and cash equivalents

R million	**2014**	2013
Cash and cash equivalents per statement of financial position	21	3
Bank overdrafts included in short-term borrowings	(317)	(645)
Net cash and cash equivalents per statement of cash flows	**(296)**	(642)

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

(c) Movement in net debt

The net debt position is as follows:

R million	Cash and cash equivalents	Debt due within one year	Debt due after one year	Current financial asset investments	Loans to related parties	**Total net debt**
At 1 January 2013	(805)	(1,345)	(2)	55	267	**(1,830)**
Cash flow	163	674	-	73	8	**918**
Impairment	-	-	-	-	(100)	**(100)**
Reclassifications	-	(2)	2	1[1]	-	**1**
Fair value gain	-	-	-	31	-	**31**
Disposals	-	-	-	(33)	-	**(33)**
At 31 December 2013	(642)	(673)	-	127	175	**(1,013)**
Cash flow	346	77	-	67	21	**511**
Fair value loss	-	-	-	(25)	-	**(25)**
Disposals	-	-	-	(43)	-	**(43)**
Impairment reversal	-	-	-	2	-	**2**
At 31 December 2014	**(296)**	**(596)**	**-**	**128**	**196**	**(568)**

Note:
[1] R1 million was reclassified from non-current financial asset investments to current financial asset investments.

22 Capital commitments

R million	**2014**	2013
Contracted for but not provided	206	88
Approved, not yet contracted for	1,343	726
Total capital commitments	**1,549**	814

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

The expected maturity of these capital commitments is:

R million	**2014**	2013
Within one year	775	617
One to two years	774	197
Total capital commitments	**1,549**	814

Capital commitments are based on capital projects approved to date and the budget approved by the board. Major capital projects still require further approval before they commence. These capital commitments are expected to be financed from existing cash resources and borrowing facilities.

23 Contingent liabilities

Contingent liabilities comprise aggregate amounts at 31 December 2014 of R77 million (2013: R80 million), in respect of loans and guarantees given to banks and other third parties.

24 Operating leases

As at 31 December, the Company had the following outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

R million	**2014**	2013
Within one year	65	65
One to two years	61	55
Two to five years	78	113
After five years	118	121
Total operating leases	**322**	354

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

25 Capital management

The Company reviews its capital employed on a regular basis and makes use of several indicative ratios which are appropriate to the nature of the Company'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 capital employed; and
- return on capital employed, defined as trailing 12 month underlying operating profit, divided by trailing 12 month average capital employed.

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

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

26 Financial instruments

(a) Financial instruments by category

2014/*R million*	**Fair value hierarchy**	**Loans and receivables**	**At fair value through profit or loss**	**Available-for-sale investments**	**Total**
Financial assets					
Trade and other receivables	Level 2	1,563	-	-	1,563
Financial asset investments	Level 2	-	-	128	128
Derivative financial instruments	Level 2	-	10	-	10
Cash and cash equivalents	Level 1	21	-	-	21
Total		**1,584**	**10**	**128**	**1,722**

2013/*R million*	Fair value hierarchy	Loans and receivables	At fair value through profit or loss	Available-for-sale investments	Total
Financial assets					
Trade and other receivables	Level 2	1,582	-	-	1,582
Financial asset investments	Level 2	-	-	127	127
Cash and cash equivalents	Level 1	3	-	-	3
Total		1,585	-	127	1,712

2014/*R million*	**Fair value hierarchy**	**At fair value through profit or loss**	**At amortised cost**	**Total**
Financial liabilities				
Borrowings	Level 2	-	(913)	(913)
Trade and other payables	Level 2	-	(1,018)	(1,018)
Total		-	(1,931)	(1,931)

2013/*R million*	Fair value hierarchy	At fair value through profit or loss	At amortised cost	Total
Financial liabilities				
Borrowings	Level 2	-	(1,318)	(1,318)
Trade and other payables	Level 2	-	(924)	(924)
Derivative financial instruments	Level 2	(9)	-	(9)
Total		(9)	(2,242)	(2,251)

26 Financial instruments (continued)

(b) Fair value measurement

Financial instruments that are measured in the statement of financial position at fair value or where the fair value of financial instruments have been disclosed in notes to the financial statements require disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

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

The Company does not hold any financial instruments categorised as level 3 financial instruments. The only assets measured at fair value on level 3 of the fair value measurement hierarchy are the Company's forestry assets as set out in note 8.

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

The fair values 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 were available and rely as little as possible on Company specific estimates.

Specific valuation methodologies used to value financial instruments include:

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

The directors consider that the carrying value amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

(c) Financial risk management

Market risk

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

Foreign exchange risk

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

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

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

Foreign exchange contracts entered into 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 naturally off-set fair value movements on related forward foreign exchange contracts.

26 Financial instruments (continued)

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

Net monetary foreign currency exposures by functional currency

R million	**2014**	2013
Euro	(8)	(2)
Pounds sterling	17	5
Swedish krona	-	1
US dollar	(41)	(37)
Total	**(32)**	(33)

Resultant impacts of reasonably possible changes to foreign exchange rates
The Company believes that for each foreign currency net monetary exposure it is reasonable to assume a 5% appreciation/depreciation of the South African rand. The total corresponding fair value impact on the Company's income statement would be +/-R2 million (2013: +/-R2 million).

The corresponding fair value impact on the Company's equity, resulting from the application of these reasonably possible changes to the valuation of the Company's foreign exchange contracts designated as cash flow hedges, would have been +/-Rnil (2013: Rnil). It has been assumed that changes in the fair value of foreign exchange contracts designated as cash flow hedges of non-monetary assets and liabilities are fully recorded in equity and that all other variables are held constant.

Interest rate risk

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

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

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

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

Net variable rate debt sensitivity analysis

The net variable rate exposure represents variable rate debt less cash and cash equivalents. Reasonably possible changes in interest rates have been applied to net variable rate exposure, in order to provide an indication of the possible impact on the Company's income statement. A 50 basis points movement in the interest rate will impact the earnings for the year by R5 million (2013: R7 million). The potential impact on the Company's equity resulting from the application of +/- 50 basis points to the interest rate swaps designated as cash flow hedges would be Rnil for the year ended 31 December 2014 (2013: Rnil).

26 Financial instruments (continued)

Credit risk

The Company's credit risk is mainly confined to the risk of customers defaulting on sales invoices raised. The Company has also provided committed loan facilities to Mondi Shanduka Newsprint Proprietary Limited.

The Company's exposure to the credit risk inherent in its trade receivables and the associated risk management techniques that the Company deploys in order to mitigate this risk are discussed in note 13.

Liquidity risk

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

The Company has fully drawn down on its committed loan facilities. The Company is a named borrower on the Mondi Group €750 million Syndicated Revolving Credit Facility (RCF). The RCF had drawings of £275 million by Mondi Finance plc at 31 December 2014 (2013: £nil). The Company also has R833 million (2013: R205 million) available to draw down on its uncommitted loan facilities.

Forecast liquidity represents the Company's expected cash inflows, principally generated from sales made to customers, less the Company's expected cash outflows, principally related to 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 Company's trade receivables and trade payables.

The matching of the cash flows that result from trade receivables and trade payables typically takes place over a period of three to four months from recognition in the statement of financial position and is managed to ensure the ongoing operating liquidity of the Company. Financing cash outflows may be longer-term in nature. The Company does not hold long-term financial assets to match against these commitments, but is significantly invested in long-term non-financial assets which generate the sustainable future cash inflows, net of future capital expenditure requirements, needed to service and repay the Company's borrowings.

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

All of the Company's non-derivative financial liabilities are current, maturing in 12 months or less.

(d) Derivative financial instruments

Derivative financial instruments are carried at fair value. At 31 December 2014 the Company recognised total derivative assets of R10 million (2013: derivative liabilities of R9 million). The full amount matures within 1 year.

The notional amount of R493 million (2013: R478 million) is the aggregate face value of all foreign exchange contracts outstanding at the reporting date. They do not indicate the contractual future cash flows of the derivative instruments held or their current fair value and therefore do not indicate the Company's exposure to credit or market risks.

Hedging

Cash flow hedges
The Company designates certain derivative financial instruments as cash flow hedges. The fair value gains/(losses) are reclassified from the cash flow hedge reserve to profit and loss in the period when the hedged transaction affects profit and loss. For non-current non-financial assets, these gains/(losses) are included in the carrying value of the asset and depreciated over the same useful life as the cost of the asset.

26 Financial instruments (continued)

The fair value gains reclassified from the cash flow hedge reserve during the year and matched against the realisation of hedged risks in the income statement were as follows:

R million	**2014**	2013
Revenue	-	2

There was no ineffectiveness recognised in profit or loss arising on cash flow hedges for both the years presented.

27 Related party transactions

In the ordinary course of business, the company enters into various sale, purchase and service transactions with its subsidiaries and others in which the Company has a material interest. These transactions are under terms that are no less favourable than those arranged with third parties.

2014/*R million*	**Mondi plc subsidiaries**	**Subsidiaries**	**Mondi Incentive Schemes Trust**
Sales to related parties	1,398	57	-
Purchases from related parties	4	259	-
Net finance expense	-	8	-
Investment in and loans to related parties	-	201	67
Receivables due from related parties	381	76	-
Payables due to related parties	5	119	-
Total borrowings from related parties	-	95	-
Shares vested	-	-	43

2013/*R million*	Mondi plc subsidiaries	Subsidiaries	Mondi Incentive Schemes Trust
Sales to related parties	1,285	87	-
Purchases from related parties	5	230	-
Net finance expense	-	6	-
Investment in and loans to related parties	-	185	78
Receivables due from related parties	319	58	-
Payables due to related parties	1	111	-
Total borrowings from related parties	-	171	-
Shares vested	-	-	33

Compensation for the board and key management

In accordance with IAS 24, ‘Related Party Disclosures’, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Mondi Limited, directly or indirectly, and includes directors (both executive and non-executive) of Mondi Limited.

The board and members of the DLC executive committee who are not directors comprise the key management personnel of the Company. The remuneration of the directors is disclosed in the Remuneration report in the Mondi Group Integrated report and financial statements 2014.

R million	**2014**	2013
Salaries and short-term employee benefits	85.4	64.4
Non-executive directors	15.9	12.9
Defined contribution retirement benefit service costs	12.4	10.6
Social security costs	14.7	12.1
Share-based payments	59.8	49.9
Total	**188.2**	149.9

Details of transactions between the Company and its pension and post-retirement medical plan are disclosed in note 17.

28 Group companies

The principal subsidiaries and associate of the Company as at the reporting dates presented, and the Company's percentage of equity owned, together with the Company's interests in its associate are presented below. All of these interests are included within the Mondi Group's combined and consolidated financial statements. The Company has restricted the information to its principal subsidiaries and associate.

	Country of incorporation	Business	Percentage equity owned and proportion of voting rights 2014	2013
Subsidiaries				
Siyaqhubeka Forests Proprietary Limited	South Africa	Forestry	51	51
Mondi Shanduka Newsprint Proprietary Limited[1]	South Africa	Newsprint	54	50
Associate				
Mpact Recycling Proprietary Limited	South Africa	Recycling	25	25

Note:
[1] Due to the contractual arrangements with the entity's employee share and community ownership trust, non-controlling interest of 42% is recognised.

These companies operate principally in the countries in which they are incorporated. Non-operating intermediate holding companies are excluded from the above table.

29 Events occurring after 31 December 2014

With the exception of the proposed final dividend for 2014, included in note 6, there have been no material reportable events since 31 December 2014.

30 Accounting policies

Basis of consolidation

Dual listed structure

The Mondi Group has two separate legal parent entities, Mondi Limited and Mondi plc, which operate under a DLC structure. The substance of the DLC structure is such that Mondi Limited and its subsidiaries, and Mondi plc and its subsidiaries, operate together as a single economic entity through a sharing agreement, with neither parent entity assuming a dominant role. The effects of this sharing agreement and the DLC structure have been ignored for the purpose of preparing these South African financial statements which have been prepared to comply with the South African Companies Act of 2008.

Subsidiaries and associates

The Company's investments in subsidiaries and associates are reflected at cost less amounts written off and accumulated impairments.

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. A sale is recognised when the significant risks and rewards of ownership have been transferred. This is when title and insurance risk has passed to the customer, and the goods have been delivered to a contractually agreed location.

Investment income

Interest income, which is derived from cash and cash equivalents, available-for-sale investments, and loans and receivables, is accrued on a time proportion basis, by reference to the principal outstanding and at the applicable effective interest rate.

Dividend income

Dividend income from investments is recognised when the Company's right to receive payment has been established.

30 Accounting policies (continued)

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

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

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

Depreciation is charged to the income statement so as to write off the cost of assets, other than land, and assets in the course of construction, over their estimated useful lives to their estimated residual values. Residual values and useful lives are reviewed at least annually. Depreciation commences when the assets are ready for their intended use. Buildings and plant and equipment 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 20 years for items of plant and equipment and to a maximum of 50 years for buildings.

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

The recoverable amount of the asset, or cash-generating unit, is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows generated by the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset, or cash-generating unit, is reduced to its recoverable amount. An impairment is recognised as an expense in the income statement. 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 a 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 income statement.

Agriculture - owned forestry assets
Owned forestry assets are measured at fair value, calculated by applying the expected selling price, less costs to harvest and deliver, to the estimated volume of timber on hand at each reporting date. The estimated volume of timber on hand is determined based on the maturity profile of the area under afforestation, the species, the geographic location and other environmental considerations and excludes future growth. The product of these is then adjusted to present value by applying a market related pre tax discount rate.

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

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

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal from the date on which these conditions are met.

Any resulting impairment is reported through the income statement. On classification as held for sale, the assets are no longer depreciated or amortised. Comparative amounts are not adjusted.

30 Accounting policies (continued)

Current non-financial assets

Inventory
Inventory is valued at the lower of cost and net realisable value. Cost is determined on the first-in-first-out (FIFO) or weighted average cost basis, as appropriate. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is defined as the selling price less any estimated costs of disposal.

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

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

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date. The carrying amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered within a reasonable period of time. Similarly, it is increased to the extent that it is probable that sufficient taxable profit will be available in the future for all or part of the deferred tax asset to be recovered within a reasonable period of time.

30 Accounting policies (continued)

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 to the income statement, except when it relates to items charged or credited directly to other comprehensive income and accumulated in equity, in which case the deferred tax is also taken directly to other comprehensive income and accumulated in equity.

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

Leases

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

Finance leases
Assets held under finance leases are recognised as assets of the Company at inception of the lease at the lower of fair value or the present value of the minimum lease payments derived by discounting lease payments using the interest rate implicit in the lease. The interest element of the rental is recognised as a finance charge in the income statement, unless it is directly attributable to qualifying assets, in which case it is capitalised in accordance with the Company's policy on borrowing costs. These assets are depreciated over the shorter of the lease term and the expected useful economic lives of the assets.

Operating leases
Rental costs under operating leases are charged to the income statement in equal annual amounts over the lease term unless another systematic basis is more representative of the pattern of use.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, which it will be required to settle. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect of discounting is material.

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 income statement and are classified as either operating or financing depending on the nature of the monetary item giving rise to them.

Share-based payments

The Company operates a number of equity-settled, share-based compensation schemes. The fair value of the employee services received in exchange for the grant of share awards is recognised concurrently as an expense and an adjustment to equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share awards granted, as adjusted for market performance conditions and non-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 Company revises its estimates of the number of share awards that are expected to vest as a result of changes in non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Financial instruments

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

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

30 Accounting policies (continued)

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

Available-for-sale investments are initially recorded at fair value. They are subsequently remeasured at each reporting date to fair value. Any unrealised gains and losses are recognised in other comprehensive income and deferred in equity until an investment is disposed of or impaired, at which time the cumulative gain or loss deferred in equity is included in the income statement.

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

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

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

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

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

Net debt
Net debt is a non-IFRS measure comprising short, medium and long-term borrowings and bank overdrafts less cash and cash equivalents, loans to related parties and current financial asset investments.

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

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

Derivative financial instruments and hedge accounting

The Company enters into forward, option and swap contracts in order to hedge its exposure to foreign exchange and interest rate risks. The Company 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 are classified as current or non-current depending on the maturity of the derivative.

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

30 Accounting policies (continued)

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 other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. 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 Company'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 a non-financial liability, amounts deferred in the Company's cash flow hedge reserve in equity are recognised in the income statement in the same period in which the hedged item affects profit and loss on a proportionate basis.

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

Ineffective, expired, sold, terminated or exercised hedging instruments
Hedge accounting is discontinued when the hedge relationship is revoked or the 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 remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss deferred in equity is included immediately in the income statement.

Equity instruments

Dividend payments
Dividend distributions to Company's ordinary shareholders are recognised as a liability in the period in which the dividends are declared and approved. Final dividends are accrued when approved by Company's ordinary shareholders at its annual general meeting and interim dividends are recognised when approved by the board.

New accounting policies, early adoption and future requirements

Standards and Interpretations early adopted by the Company

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

Standards, amendments to published Standards and Interpretation effective during 2014

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

- IFRS 2 – Share-based Payments
- IFRS 3 – Business Combinations
- IFRS 8 – Operating Segments
- IFRS 13 – Fair Value Measurement
- IAS 1 – Presentation of Financial Statements
- IAS 7 – Statement of Cash Flows
- IAS 12 – Income Taxes
- IAS 19 – Employee Benefits
- IAS 32 – Financial Instruments: Presentation
- IAS 39 – Financial Instruments
- IFRIC 21 – Levies

30 Accounting policies (continued)

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

The impact of the following Standards on the Company's results, which will become effective and be adopted for annual reporting periods beginning on or after 1 January 2017 and 2018 respectively, are:

- IFRS 15 – Revenue from Contracts with Customers – no material impact is expected on Group revenue with an offsetting movement in other net operating expenses resulting in no impact on operating profit. Additional disclosures will also be required.
- IFRS 9 – Financial Instruments - no impact is expected on the measurement of financial instruments, but additional disclosures and changes to current disclosure and presentation will be required.